Mossberg's Investor Digest

March 2015

Issue #81

From the Editor…

Thank you for your subscription to Mossberg's Investor Digest.

You will notice that this month, I have made changes to the newsletter. Subscribers have suggested that due to time constraints, they would prefer to have fewer ideas in each issue with more analysis. Therefore, instead of doing brief profiles of four ideas each month, I will do a more in-depth analysis and commentary of one idea each month. Immediate Access Annual subscribers will receive that month's issue during the month and annual subscribers will receive that month's issue two weeks later.

This month's issue highlights high performance semiconductor company M/A-Com Technology Solutions (NASDAQ: MTSI). This is a great business with excellent and sustainable long-term growth opportunities. M/A-Com has an experienced management team and strategies that are allowing it to earn attractive returns in the specialized high-performance semiconductor industry. Street estimates do not currently reflect the significant contribution from a recent acquisition and are likely to be revised upward. My "back of the envelope" calculation yields $2.70 in earnings for fiscal 2016 (ending September), versus the consensus estimate of $2.08.

As always, I appreciate your feedback.

Dave Mossberg
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March 2015 Issue

Every month we hear ideas suggested from our large network of professional investors. Here are four of the ideas we heard this month, but have not reviewed in detail…

Trecora Resources (NYSE: TREC) - Trecora owns and operates a petrochemical facility located in southeast Texas, just north of Beaumont which specializes in high purity petrochemical solvents and other solvent type manufacturing. The Company is also the original developer and a 35% owner of Al Masane Al Kobra Mining Co., a Saudi Arabian joint stock company.

Cinedigm Corp. (NASDAQ: CIDM) - Cinedigm is the leading independent content distributor in the United States, with direct relationships with over 60,000 physical and digital retailers. Cinedigm Corp. distributes independent movie, television, and other short form content in the Unites States. It manages a library of distribution rights to approximately 52,000 titles and episodes released across theatrical, digital, physical, home, and mobile entertainment platforms, as well as services digital cinema assets on approximately 12,000 movies screens.

TravelCenters of America LLC (NYSE: TA) - TravelCenters of America is the largest publicly-traded operator/franchisor of full-service travel centers in the United States. As of December 31, 2014, the Company's business included 250 travel centers, 174 of which were operated under the "TA" brand name and 76 of which were operated under the "Petro Stopping Centers" brand name. TA and Petro Stopping Centers have the largest sites on average, with full-service offerings.

Rogers Corporation (NYSE: ROG) - Rogers Corporation is a global technology leader in specialty materials and components that enable high performance and reliability of consumer electronics, power electronics, mass transit, clean technology, and telecommunications infrastructure. Rogers' products include advanced circuit materials for wireless infrastructure, power amplifiers, radar systems, high speed digital; power electronics for high-voltage rail traction, hybrid-electric vehicles, wind and solar power conversion; and high performance foams for sealing and energy management in smartphones, aircraft and rail interiors, automobiles and apparel; and other advanced materials for diverse markets including defense and consumer products.

Best Idea Profile: **M/A-Com Technology Solutions (NASDAQ: MTSI)**

DESCRIPTION:

M/A-Com Technology Solutions (NASDAQ: MTSI) was founded in the 1950's as Microwave Associates" providing electronic components to the U.S. military. Throughout the course of the last 60 years, dozens of acquisitions/divestitures and ownership changes, the company has been a leading pioneer in the development of high-performance semiconductors. During most of the 90's the company was owned by Tyco, which under-invested in R&D and did not adequately invest in key new technologies. In 2009, successful entrepreneur and private equity investor John Ocampo (current Chairman) acquired the company, ramped investment in new technologies both through R&D and M&A and established the company as a leader in several new markets and technologies such as 100G devices, millimeter wave radios and GaN. In March of 2012 the company held its IPO. The Company breaks out revenue segmented into four primary markets:

I. Networks (44% of Revenue) - This is the highest growth (120% increase in FY14) segment of the business and includes components used in wired broadband, cellular backhaul, cellular infrastructure, enterprise networking, broadcast video transmission and optical communications applications. The company's opto-electronics products allow carriers and data centers to cost-effectively increase their network capacity by a factor of four to ten times over earlier generation solutions. ***Key Secular Growth Drivers:*** 1) Proliferation of wireless and wired devices from smartphones and tablets 2) Growth of data-rich applications…. mobile internet, cloud computing, video-on-demand, social media, global positioning functionality and location based services.

II. Aerospace & Defense (21% of Revenue) - Includes components used in military and commercial radar, RF jammers, unmanned aerial vehicles (UAVs), electronic countermeasures, and communication data links. The company's "trusted foundry" designation by the Department of Defense and many A&D customer requirements for domestic supply chain, give MTSI competitive advantage in this market. ***Key Secular Growth Drivers*** 1) Mapping and targeting radar systems transitioning from mechanically-scanned to active electronically-scanned array commonly based on GaAs and GaN technologies. 2) Growth of UAVs.

III. Multi-Market (16% of Revenue) – Includes components used in industrial, medical, test and scientific applications. In the medical industry certain MTSI's components are used in MRI applications.

IV. Automotive (19% of Revenue) – This is the lowest margin business and includes sales of GPS modules to Ford Motor Company. ***Secular Growth Drivers*** 1) Growth of Advanced Driver Assistance Systems (ADAS) such as telematics, active cruise control, vision systems, collision avoidance and hybrid energy management systems.

M/A-Com Technology Solutions (Nasdaq: MTSI)
Investment Data (as of 3/28/14)

Recent Price	**$37.00**
52-Week Range	$15.76 - $39.52
Fiscal Year End	Sep
Dividend	NA
Yield	NA
Shares Outstanding	54 M
Average Trading Volume (3 mos)	460 k
Market Capitalization	$2.0 B
Cash	$183 M
Long-term Debt	$447 M
Enterprise Value (EV)	$2.3 M
Book Value	$4.76
TTM Revenue	$450 M
P/ Revenue	4.4 x
FY15 EPS (consensus)	$1.64
P/ EPS	23x
TTM EBITDA	$97 M
EV/ EBITDA	23x

KEY INVESTMENT CONSIDERATIONS:

The keys to earning attractive returns in specialized high performance semiconductors - To earn an adequate return on the significant investment in R&D required to make high-end, lower volume specialized semiconductors, requires an attractive gross margin and/or long product lifecycles.

- ***Maintain the dominant position in near monopoly markets –*** MTSI sustains high margins because it competes in markets in which only two suppliers make up the majority of the market. Beyond the majority and minority market leaders, smaller players are marginalized, as they cannot sustain long-term investments necessary to build or sustain a market position.
- **Compete in markets with low unit volumes and low customer concentration –** Unit volumes in MTSI's markets are smaller and not of sufficient size or customer concentration to attract low-cost competitors with low financial targets.
- ***Focus on markets with long product life cycles -*** Many of MTSI's products have long lifecycles ranging from five to ten years, and some have been shipping for over 20 years. In the markets that MTSI competes products have very high non-recurring development costs, and as such, once suppliers are qualified, customers rarely go back and redesign and requalify in order to drive down component costs.
- ***Be the first to identify and invest in key new technologies*** – While dominant players can maintain leadership in MTSI's targeted markets for years and even decades, periodically there are significant technology transitions that allow new entrants to displace the market share leader. For example, the transition from mechanically scanned to active antennas for radar and satellite communications and the move from 10G & 40G to 100G optical networking gear. In recent years, MTSI invested in new technologies and is in great position to retain/ displace the leadership position in its markets.
- ***Spread the risk through diversification -*** MTSI has a diverse portfolio of high-performance semiconductors that address a large number of small to medium sized markets that range from $50 million to $200 million. The Company also has a diversified offering with over 3,500 custom and standard electronic component products across 42 product lines.

Experienced Management Team - The Company has an experienced and proven management team of experienced industry professionals.

- **Chairman John Ocampo** who was acquired the company back in 2009, was previously the co-founder of Sirenza Microdevices, which was sold to RF Micro Devices for $900 million. At the time of the sale, Mr. Ocampo owned 23% of the Sirenza, clearing $200+ million in the transaction. Post MTSI's recent secondary offering, in which Ocampo sold 1.65 million shares, Mr. Ocampo continues to own a sizable stake in the company of 44%.

- **CEO John Croteau** - John has nearly 30 years of global semiconductor experience in various operational and management positions at NXP semiconductors and Analog Devices.

- **CFO, Robert McMullan,** has an extensive background in investment banking and CEO/CFO rolls of public companies.

KEY INVESTMENT CONSIDERATIONS: (continued)

Focused on High Growth Opportunities – MTSI is well positioned to participate and take market share in several high-growth markets that should drive double digit top line growth over a long period of time.

- **Hyper growth opportunity with a 10-year upgrade cycle for 100G Optical in data networks** – The increase in data traffic from the proliferation of IPTV, Big Data, wireless LTE is well known. A recent Bell Labs study expects mobile traffic will increase by 13x between 2012 and 2017 and metro traffic will increase by more than 560 percent during the same period. This puts tremendous strain on data networks and over the past two years carriers have begun to rapidly deploy of 100G optical switching to replace 10G and 40G optical gear in long haul and metro networks, as well as in data centers. Ovum estimates that the 100G transceiver market is expected to triple from $1.5 billion to $4.5 billion in the next four years. 100G is now mainstream and all carriers worldwide have begun deploying 100G in their networks. As evidence, Ciena, a leading provider of 100G optical equipment, grew related revenue 56% during the fourth quarter. Given the continued growth in network traffic, it is expected to take another decade to fully deploy 100G optical. MTSI's expertise in certain high performance materials including Gallium arsenide, Indium Phosphide and Silicon-Germanium, allows them to provide lower power, smaller size and low costs for its components used in 100G networks.

- ***Foundational Patents in Gallium Nitride (GaN) on Silicon (Si), should drive $billion+ opportunity for MTSI –*** Based on breakthroughs being led by MTSI, the $2.5 billion market for high performance RF semiconductors is at the cusp of a major technology transition in materials. Many high performance devices for RF applications will transition to GaN on Si as MTSI has a clear path to drive superior performance and cost. Today GaN, which represents only 6% of the high performance RF market, is manufactured on very expensive silicon carbide. By moving to a lower cost substrate (silicon), the company has achieved a 5x reduction in costs over silicon carbide. The company expects to reduce costs even further 5x by using a more efficient supply chain and another 4x by using large scale manufacturing. In total, the company expects a 100x cost reduction in GaN on Si, which will result in products that have a cost structure 3-6x lower than incumbent technologies, but with much higher performance. GaN performance relative to existing high volume technologies provides as much as 8x greater power density and is 2x more efficient. As a result of these factors, MTSI can create smaller devices, which produce more RF power, consume less energy and perform over wider frequency ranges. MTSI has foundational IP in the area of GaN on Si, which is provides it with a profound barrier to entry and a great opportunity to capture a very large portion of the $2.5 billion high performance market.

- ***Secular growth in active antennas drives secular growth of 11%*** – Actively Electronically Scanned Array (AESA) technology is driving significant secular growth in active antennas used in radar for the aerospace and defense markets. AESA radar will replace traditional dish radar that has a single RF transmit receive channel, with 1,000 to 10,000 transmit and receive channels per systems, resulting in more accurate and longer range detection, as well as smaller and lighter footprints. It is important to point out that the market for active antenna components is very mature with significant barriers to entry. With its breakthroughs in GaN on Si technology, the company provides significant cost per channel advantage giving MTSI a leadership position in this market and the potential to take significant market share from its peers.

KEY INVESTMENT CONSIDERATIONS: (CONTINUED)

Proven Acquisition strategy – Various studies indicate that 50% or more of acquisitions fail. As such, I'm generally not a fan of acquisitive companies unless they have a clearly articulated M&A strategy, the ability to execute and a track record of doing so. Management has made several acquisitions in the past several years and has clearly proven their ability to increase shareholder value. These acquisitions have allowed the company to transition from a follower to an active technology leader and backfilled for the lack of investment during Tyco's ownership period. Management emphasizes that this is a core competency of their management team and that they have a disciplined criteria in which an acquisition will only be undertaken if it can deliver accretion in the first year. The company will continue to be an active acquirer and is focused on companies with technologies that have adjacent opportunities to MTSI's core competencies.

- ***2010 Mimix Broadband:*** Acquired a leadership position in millimeter wave products for wireless backhaul and satellite datalinks.
- ***2011 Optomai:*** Leadership position in 100G optical for long haul and metro applications.
- ***2013 Mindspeed:*** $272 million purchase price. With Mindspeed, MTSI became the preeminent supplier of 100G optical devices for long haul and metro applications, as well as data center networks. The acquisition also broadened the technology base to include Silicon Germanium, strengthened the Company's sales channel in Asia pacific, which is a critical region for MTSI moving forward. This acquisition was the largest and most complex thus far. The company divested two low margin, cash consuming businesses and within the first quarter of combined operations, the Company delivered 7 cents of EPS accretion, which was a 28% increase.
- ***2014 Nitronex*** – $26 million purchase price. This acquisition brought MTSI its foundational IP in the area of GaN on Si.
- ***2014 BinOptics –*** $230 million purchase price. This acquisition expanded the Company's addressable market in optical components with the addition of Phosphide lasers for data centers, mobile backhaul, silicon photonics and Access Networks. The acquisition is expected to be accretive in the first quarter of combined operations.

Financial Results and Targets – The company is focused on markets that have strong secular growth of at least 2x to 3x the overall semiconductor marketing. MTSI's investments in transformational technologies, will allow it to take market share in these markets, further compounding its revenue growth opportunity and allowing for a positive shift in its gross margin profile.

- ***Revenue Growth:*** Revenue increased by 33% last year (fiscal year Sep) to $420 million fueled by both acquisitive and organic growth. Consensus numbers are calling for $500 million (20% growth) in FY15 and $575 million (15% growth) in revenue in FY16. With the acquisition of BinOptics it appears there may be significantly larger upside to revenue growth than what the consensus number indicates. The market for indium phosphide lasers is capacity constrained and the company intends to expand its capacity by 4X over the next year. Due to demand exceeding capacity, management believes they can sell all of their new supply as soon as the capacity comes on line, which is expected before the end of the fiscal year. Based on BinOptics' $45 million run rate ion FY14, quadrupling capacity/ sales equals incremental revenue of approximately $180 million in FY16.
- ***Gross Margin:*** The Company has already shown a significant improvement in gross margin and is well on its way to reach targeted blended gross margin of 60%. Gross margin improved 870 basis points last year to 54.1% of sales. The improvement has largely been due to a shift in revenue mix to include a greater portion of higher margin products. New products are expected to deliver 70% incremental gross margin.

- ***Operating Margin:*** In the past year, operating margin has improved by two percentage points to 23.3%, and reflects the improvement in gross margin, offset by increased investment in R&D. During FY14, R&D increased by 65% to $74 million. Long term, the company is targeting operating margin of 30%.

VALUATION:

	FY16	Long Term Targets
2014 Base Revenue	$ 420	
12% compound organic growth	$ 100	
BinOptics Contribution	$ 180	
Total Revenue	$ 700	
Gross Margin	57%	60%
Operating Margin	26%	30%
Operating Income	$ 182	
20% Tax Rate	$ 36.4	
Net Income	$ 146	
Shares outstanding	54	
EPS	$ 2.70	

The table above shows our back-of-the-envelope calculation for revenue and earnings for FY16. The calculation assumes approximately 12% organic growth and $180 million in incremental contribution from BinOptics. Gross and operating margins consider an incremental 2 to 3 points of incremental improvement, which are largely to be derived from the continued shift in revenue mix to higher margin products. Our calculation yields EPS of $2.70 per share in FY16, which is more than double FY 14 earnings. With strategies designed to continue to deliver long term growth rates 2-3x that of the overall semiconductor market, MTSI should easily be able to command a premium earnings multiple in the mid 20's. This gives upside of 80% relative to the current valuation.

Comparatively, it appears that the Street consensus estimate of $2.08 does not include the potential impact of the incremental benefit of the BinOptics acquisition. As such it likely that we will see positive earnings revisions, which should also support higher valuations.

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Mossberg's Investor Digest Idea Performance

The table below shows selected ideas published from February 2014 until February 2015. The overall performance number includes all ideas published since July 2008, including those not shown. **Performance data quoted represents past performance and does not guarantee future results.** Current performance of ideas may be lower or higher than the performance quoted.

Company	Pub. Date	Original Price	Recent Price	Change	Russell 3000 Change Since Pub. Date	Relative Perf. vs. Russell 3000
A.H. Belo Corporation (NYSE:AHC)	5-Feb-14	$7.82	$8.17	4.5%	18.8%	-13.4%
O2Micro International (NASDAQ:OIIM)	12-Feb-14	$3.36	$2.51	-25.3%	14.4%	-39.0%
DEQ Systems Corp. (TSX:DEQ.V)	25-Feb-14	$0.23	$0.18	-21.7%	12.4%	-33.7%
Dresser-Rand (NYSE:DRC)	28-Feb-14	$54.33	$80.24	47.7%	11.6%	36.6%
Arcos Dorados (NYSE:ARCO)	7-Mar-14	$9.38	$4.95	-47.2%	10.4%	-57.3%
Cimatron Ltd.(NASDAQ:CIMT)	21-Mar-14	$7.85	$8.97	14.3%	10.4%	3.7%
Unisys (NYSE:UIS)	26-Mar-14	$29.63	$23.26	-21.5%	12.5%	-33.1%
Mueller Industries (NYSE:MLI)	28-Mar-14	$29.34	$35.87	22.3%	12.2%	11.0%
WidePoint Corp. (NYSE MKT:WYY)	4-Apr-14	$1.51	$1.33	-11.9%	11.8%	-22.7%
Allied Motion Tech. Inc. (NASDAQ:AMOT)	10-Apr-14	$12.00	$33.08	175.7%	13.8%	163.0%
Ascent Capital Group Inc. (NASDAQ:ASCMA)	28-Apr-14	$68.34	$40.08	-41.4%	12.1%	-52.1%
SWK Holdings Corporation (OTCQB:SWKH)	29-Apr-14	$1.05	$1.58	50.5%	11.5%	40.3%
Monitise PLC (OTCPK:MONIF)	12-May-14	$1.08	$0.20	-81.3%	10.3%	-90.4%
Darling Ingredients Inc. (NYSE: DAR)	27-May-14	$19.67	$14.03	-28.7%	9.5%	-37.2%
Radiant Logistics, Inc. (NYSE MKT: RLGT)	29-May-14	$3.09	$5.28	70.9%	9.1%	62.6%
Willdan Group, Inc. (NASDAQ:WLDN)	31-May-14	$6.25	$15.36	145.8%	9.0%	137.7%
MOCON, Inc. (NASDAQ:MOCO)	9-Jun-14	$15.25	$16.60	8.9%	7.2%	2.3%
Global Power Equipment Inc. (NASDAQ:GLPW)	26-Jun-14	$16.52	$12.96	-21.5%	6.8%	-28.0%
Primo Water Corporation (NASDAQ:PRMW)	30-Jun-14	$4.77	$5.25	10.1%	6.5%	3.7%
Spectra7 Microsystems Inc. (TSX.V:SEV)	30-Jun-14	$0.44	$0.74	68.2%	6.5%	61.8%
Maxwell Technologies, Inc. (NASDAQ:MXWL)	20-Jul-14	$12.77	$8.06	-36.9%	6.2%	-42.2%
Tower Semiconductor Ltd. (NASDAQ:TSEM)	23-Jul-14	$10.90	$16.90	55.0%	5.7%	50.0%
Schnitzer Steel Industries, Inc. (NASDAQ:SCHN)	25-Jul-14	$27.42	$15.64	-43.0%	6.2%	-48.6%
Vertex Energy, Inc. (NASDAQ:VTNR)	31-Jul-14	$8.22	$3.54	-56.9%	8.8%	-65.2%
Bolt Technology Corp. (NASDAQ:BOLT)	5-Aug-14	$17.43	$22.00	26.2%	9.2%	17.4%
Tribune Publishing Corp. (NYSE:TPUB)	20-Aug-14	$19.55	$19.24	-1.6%	5.6%	-6.8%
Interphase Corp. (NASDAQ:INPH)	29-Aug-14	$3.27	$1.47	-55.0%	4.6%	-59.4%
Richardson Electronics Ltd. (NASDAQ:RELL)	31-Aug-14	$10.19	$9.13	-10.4%	4.6%	-14.8%
Helen of Troy (NASDAQ:HELE)	15-Sep-14	$54.62	$82.46	51.0%	5.8%	45.7%
SMTP, Inc. (NASDAQ:SMTP)	16-Sep-14	$6.26	$5.30	-15.3%	5.1%	-19.9%
Mandalay Digital Group, Inc. (NASDAQ:APPS)	24-Sep-14	$4.92	$3.20	-35.0%	5.5%	-39.5%
L.B. Foster Company (NASDAQ:FSTR)	30-Sep-14	$45.94	$46.74	1.7%	7.0%	-4.1%
Chart Industries, Inc. (NASDAQ:GTLS)	13-Oct-14	$42.06	$34.71	-17.5%	12.8%	-28.7%
MRI Interventions, Inc. (OTC BB: MRIC)	16-Oct-14	$1.08	$1.06	-2.2%	12.9%	-14.1%
Franklin Electric Co., Inc. (NASDAQ:FELE)	23-Oct-14	$36.99	$38.33	3.6%	7.9%	-3.7%
Avigilon Corporation (TSX:AVO.TO)	29-Oct-14	$15.30	$21.10	37.9%	6.1%	32.4%
Chemtura Corporation (NYSE:CHMT)	6-Nov-14	$23.38	$26.86	14.9%	3.7%	12.2%
Hilltop Holdings Inc. (NYSE:HTH)	11-Nov-14	$21.14	$19.22	-9.1%	3.2%	-11.4%
Bravo Brio Restaurant Group, Inc. (NASDAQgs:BBRG)	24-Nov-14	$13.15	$14.75	12.2%	1.8%	11.2%
Alamo Group (NYSE: ALG)	26-Nov-14	$48.97	$62.45	27.5%	1.6%	26.7%
PGT, Inc. (NASDAQ:PGTI)	12-Dec-14	$9.00	$11.08	23.1%	5.2%	18.8%
Unilife Corporation (NASDAQ:UNIS)	15-Dec-14	$2.72	$4.01	47.4%	6.0%	42.5%
The Dixie Group, Inc. (NASDAQ:DXYN)	19-Dec-14	$9.21	$8.99	-2.4%	1.8%	-3.3%
Points International Ltd. (NASDAQ:PCOM)	20-Dec-14	$12.86	$10.22	-20.5%	1.8%	-21.5%
Cascade Microtech Inc. (NASDAQ:CSCD)	19-Jan-15	$14.02	$13.65	-2.6%	4.1%	-5.8%
Quanex Building Products Corporation (NYSE:NX)	20-Jan-15	$18.53	$20.04	8.1%	4.0%	5.1%
Ballantyne Strong, Inc. (NYSE:BTN)	27-Jan-15	$4.15	$4.58	10.4%	3.3%	7.4%
InfuSystem Holdings, Inc. (NYSE:INFU)	29-Jan-15	$2.71	$2.76	1.8%	3.7%	-1.3%
EXO U Inc. (EXO.V)	23-Feb-15	$1.65	$1.40	-15.2%	-0.6%	-14.1%
Liquidity Services, Inc. (LQDT)	24-Feb-15	$9.79	$9.82	0.3%	-0.9%	1.7%
Smith & Wesson Holding Corporation (NASDAQ:SWHC)	25-Feb-15	$12.89	$12.90	0.1%	-0.8%	1.5%
Actua Corporation (NASDAQ:ACTA)	26-Feb-15	$16.47	$15.42	-6.4%	-0.7%	-5.1%
			Overall Performance since July 2008	**75.9%**	**56.3%**	**19.6%**

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The value proposition of the digest is essentially an "Idea Generator". During the course of my 18-year career in capital markets, I've had the chance to meet and work closely with some very smart professional investors who have consistent track records of outperforming the market indexes. Some of these investors, which include mutual fund managers, hedge fund managers, and other professional investors, are kind enough to share their best ideas with me. I conduct my own analysis of their ideas and publish summaries of those ideas I think represent timely investment opportunities. Over time, I trust the majority of these ideas will pan out and help subscribers generate index-beating returns.

The goal of the Best Idea Profiles in this newsletter is to briefly describe the most relevant investment merits and risks of a company. It is not intended to be an exhaustive report including every detail. With limited space available, I am forced to include only those data points that I feel are most important for subscribers to know before they begin their own due diligence. Thank you for your interest in Mossberg's Investor Digest.

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