

Mossberg's Investor Digest

May 2016

Issue #95

From the Editor...

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

Full House Resorts (Nasdaq: FLL) is an owner and operator of five casinos and related resorts/hotels in niche regional markets. Well-known and successful casino executive, Daniel Lee, along with activist investors, took control of Full House at the end of 2014, and are now six quarters into what is likely to be a very successful turnaround story. The former CEO and Chairman of Pinnacle Entertainment and decade-long CFO of Steve Wynn's Mirage Resorts, Daniel Lee is well known casino leader. During his time at Pinnacle (2002 to 2009), revenue grew from \$500 million to \$1.0 billion and EBITDA expanded from \$43 million to \$220 million.

FLL's EBITDA Margins have just begun to expand due to development, marketing and financial initiatives. During the trailing twelve months, EBITDA margins increased 350 basis points from 8.6% to 12.1% of sales. It is not unreasonable to assume that EBITA Margins can eventually expand to more than 20%, which leaves lots of room for continued improvement.

Despite de-risking the balance sheet, posting five quarters of improving financial results, and articulating a game plan to show significant growth and further improvement in profitability, shares are trading at the same level they were when new management took control of the company, which creates an opportunity for investors who are just hearing the story. Using conservative assumptions that require the experienced management team to continue to "block and tackle" for the next three years, our back of the envelop calculation yields a valuation that is four times current levels.

As always, I appreciate your feedback.

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

Vishay Precision Group, Inc. (NYSE: VPG)- VPG is an internationally recognized designer, manufacturer and marketer of resistive foil technology, sensors, and sensor-based systems to niche, industrial applications. Our products, systems and solutions are marketed under a variety of brand names that have a very high level of precision and quality. The precision sensor market is influenced by the significant increase in intelligent products across many end markets, including medical, agricultural, transportation, industrial, avionics, military, and space applications.

AgroFresh Solutions, Inc. (Nasdaq: AGFS) - Provides data-driven specialty solutions worldwide. Its solutions enable growers and packers of fresh produce to preserve and enhance the freshness, quality, and value of fresh produce, including apples, pears, kiwifruit, avocados, and bananas, as well as flowers. The company's principal product includes SmartFresh Quality System that regulates the post-harvest ripening effects of ethylene to preserve the texture, firmness, taste, and appearance of produce during storage, transportation, and retail display.

America's Car-Mart Inc. (Nasdaq: CRMT) – America's Car-Mart operates 143 automotive dealerships in eleven states and is the largest publicly held automotive retailer in the United States focused exclusively on the "Buy Here/Pay Here" segment of the used car market. The Company operates its dealerships primarily in small cities throughout the South-Central United States, selling quality used vehicles and providing financing for substantially all of its customers.

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Best Idea Profile:

Full House Resorts Inc. (Nasdaq: FLL)

DESCRIPTION:

Well-known and successful casino executive, Daniel Lee, along with activist investors, took control of **Full House Resorts (Nasdaq: FLL)** at the end of 2014, and are now six quarters into what is likely to be a very successful turnaround story.

Full House Resorts is an owner and operator of five casinos and related resorts/hotels in niche regional markets.

Silver Slipper Casino & Hotel – Located one hour from New Orleans with 955 slot machines, 29 table games and 129 hotel rooms.

Rising Star Casino Resort – Located 50 minutes from Cincinnati with 944 slot machines, 25 table games and 294 hotel rooms.

Stockman's Casino – Located one-hour drive from Reno with 235 slot machines, 4 table games and no hotel rooms.

Grand Lodge Casino – Located on Lake Tahoe two miles from Diamond Peak Ski Resort with 255 slot machines, 20 table games and part of the Hyatt Regency Lake Tahoe resort.

Bronco Billy's Casino – (newly acquired) Located one hour from Colorado Springs with 803 slot machines, 13 game tables and 24 hotel rooms.

Headquartered in Las Vegas, the Company has more than 1,000 full time employees.

Despite de-risking the balance sheet, posting five quarters of improving financial results, and articulating a game plan to show significant growth and further improvement in profitability, shares are trading at the same level they were when new management took control of the company, which creates an opportunity for investors who are just hearing the story. Using conservative assumptions that require the experienced management team to continue to "block and tackle" for the next three years, our back of the envelop calculation yields a valuation that is four times current levels.

Full House Resorts Inc. (Nasdaq: FLL)

Investment Data (as of 5/31/16)

Recent Price	\$1.60
52-Week Range	\$1.18 - \$1.79
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	19 M
Average Trading Volume (3 mos)	17,000
Market Capitalization	\$32 M
Cash	\$13 M
Long-term Debt*	\$100 M
Enterprise Value (EV)	\$119 M
Book Value	\$2.97
P/ Book	0.6 x
TTM Revenue	\$128 M
EV/ Revenue	0.7 x
EBITDA run rate*	\$20 M
EV/ EBITDA	6.0 x

*Reflects Bronco Billy's acquisition

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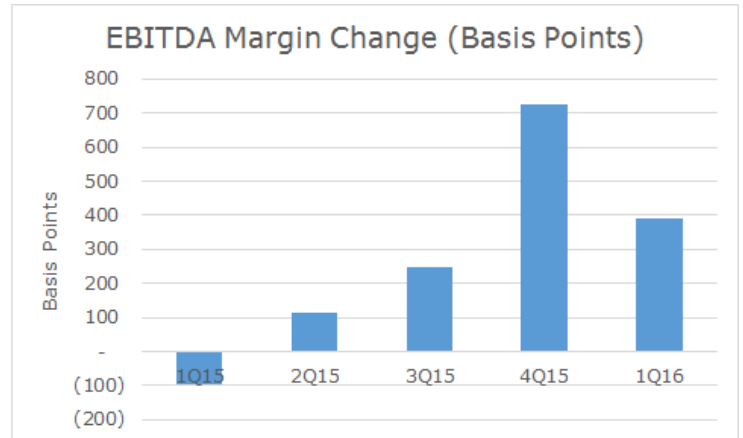
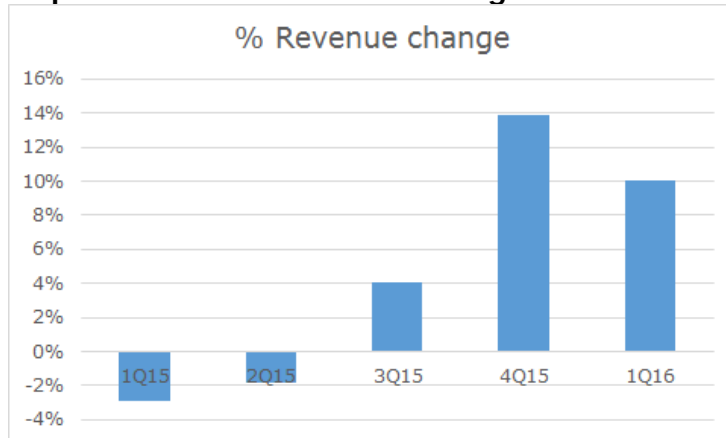
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KEY INVESTMENT CONSIDERATIONS:

Betting on the jockey

Activist Takeover – After sustaining significant losses, amassing significant debt, and a 60% decrease in share price, the former board of directors put FLL up for sale in October 2014. Around the same time shareholders, including well-known casino operator Daniel Lee, put up a short proxy battle and won control two months later. Since taking over, new management has made several changes to re-ignite growth and improve profitability of the company.

5-quarter score card since taking over



A \$30 million market cap run by a \$1 Billion CEO – CEO, Daniel Lee took the reins in 2014 and has led significant improvements in operations in just 5 quarters. The former CEO and Chairman of Pinnacle Entertainment and decade-long CFO of Steve Wynn's Mirage Resorts, Daniel Lee is well known casino leader. During his time at Pinnacle (2002 to 2009), revenue grew from \$500 million to \$1.0 billion and EBITDA expanded from \$43 million to \$220 million. Mr. Lee is also Wall Street savvy, having been an analyst with stints at Drexel and CS First Boston prior to his career in Gaming.

Financially aligned and incentivized – During his last two years as CEO of Pinnacle, Mr. Lee's salary was \$1 million with all in compensation averaging more than \$3 million per year. So why would he come to work for a \$30 million market cap company and be willing to take a base salary of \$350,000? He owns 233k shares of FLL stock and has options to buy another 944k shares at \$1.25 per share. After full vesting, the equity stake would equal about 6.5% of the total shares outstanding.

Getting the band back together – Mr. Lee hired two of his former colleagues both whom have significant experience in the gaming industry.

- **Lewis Fanger, CFO** – Financial background at Wynn Resorts and other Casinos. He and Mr. Lee worked together at Pinnacle
- **Alex Stolyar, Chief Development Officer** – Development background at Penn National and other casinos, including Pinnacle, where he worked with Mr. Lee.

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KEY INVESTMENT CONSIDERATIONS:

Turn around well under way

EBITDA Margins have just begun to expand due to development, marketing and financial initiatives. During the trailing twelve months, EBITDA margins increased 350 basis points from 8.6% to 12.1% of sales. Based on comparable companies (MCRI & ISLE) and the experienced management team, it is not unreasonable to assume that EBITA Margins can eventually expand to north of 20%, which leaves lots of room for continued improvement.

	Revenue			Adjusted EBITDA			EBITDA Margin		
	TTM	TTM	Change	TTM	TTM	Change	TTM	TTM	Basis Points
	1Q15	1Q16		1Q15	1Q16		1Q15	1Q16	
Silver Slipper	49.4	58.0	17%	8.1	9.9	23%	16.3%	17.1%	76

Adding the first hotel to the Silver Slipper – The Silver Slipper the largest financial contributor to FLL, but still has plenty of room for near-term and long-term growth and improved profitability. Management took over a project to add the first hotel to the Silver Slipper, a project that was behind schedule and had a design flaw, in that it did not have high-roller suites. Management brought in additional construction oversight and redesigned the hotel to include nine high-roller suites. Construction was completed in phases from May until September last year for a total cost of \$20.5 million. Hotel occupancy is already north of 90%. The 129-room hotel overlooks ocean waterfront and is on one end of a 7-mile white sand beach. This is the closest beach to the cities of New Orleans and Baton Rouge. Slot machine and table game revenue increased 15% and 24% respectively last year, which only reflects partial contribution from the hotel and should allow for strong comparisons at least through the first three quarters of 2016.

	Revenue			Adjusted EBITDA			EBITDA Margin		
	TTM	TTM	Change	TTM	TTM	Change	TTM	TTM	Basis Points
	1Q15	1Q16		1Q15	1Q16		1Q15	1Q16	
Northern Nevada Casinos	21.1	20.9	-1%	4.5	4.3	-4%	21.2%	20.5%	(66)

Returning growth to the Northern Nevada Casinos - The Company reports the results of its Stockman's Casino and Grand Lodge casino combined as "Northern Nevada Casinos". While on a combined basis, these casinos generate less than half of the revenue of the other locations, they produce an attractive EBITDA Margin contribution greater than 20%. Renovations planned for both of these properties should allow for expanded revenue and margin levels.

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KEY INVESTMENT CONSIDERATIONS:

Rising Star*	Revenue			Adjusted EBITDA			EBITDA Margin		
	TTM	TTM	Change	TTM	TTM	Change	TTM	TTM	Basis Points
	1Q15	1Q16		1Q15	1Q16*		1Q15	1Q16*	
	49.0	48.7	-1%	1.8	3.7	108%	3.6%	7.6%	397

* excludes a onetime \$1.4 million property tax refund

Fixing the Rising Star – While recent EBITDA margin performance from the Rising Star improved nearly four percentage points to 7.6% of sales, this property offers the biggest opportunity for improvement in financial performance. The Rising Star is within one hour of Cincinnati and two hours of Louisville and Indianapolis. Once operating at more than three times its current revenue run rate, the Rising Star has faced increased competition from new casinos opened in Ohio and Indiana, which are closer to population centers. Case in point, there were six casinos opened in Southern Ohio between 2012 and 2014. Competitive pressures seem to have stabilized with no new casinos opening in the past 18 months. Based on historical performance this property is operating at less than one third of its capacity, which means a significant portion of incremental revenue will fall to the bottom line. The key will be to drive incremental traffic to the property.

The “Christmas Casino” - Last year, management trademarked the name “Christmas Casino” for the Rising Star and implemented an annual marketing campaign, which included live reindeer, Christmas decorations, waving teddy bears, and flying fairies. Employees were dressed as elves, Mrs. Claus and Santa’s helpers. The restaurant names were changed to Mrs. Claus’ Kitchen and the Yuletide Inn with menu items including roast goose, mincemeat pie and figgy pudding. In total the \$500,000 investment drove an 18% increase in visitor counts during November and December.

Reinvesting lease and tax savings in projects designed to drive traffic – As the largest employer in Rising Sun, Ohio, management has established a good relationship with the local community and renegotiated a lower tax and financing costs for the Rising Star. One of the hotels on the Rising Star property was financed by a local non-profit development fund at a rate that escalates up to 4.5%. In March, management and the note holder agreed to defer up to \$5 million in payments over the next four years. In addition, management negotiated a decrease in real estate taxes that resulted in \$500,000 in annual savings and a one-time refund of \$1.4 million. These savings are expected to be reinvested in projects that drive traffic and have a very rapid payback.

- **Adding a RV Park** – RV Parks are common at many casinos and help drive incremental traffic. Despite this, no casinos in the region have a RV park. Management plans to invest \$1 million to convert an unused parking lot into a state-of-the-art RV park for up to 50 vehicles. Management expects the RV park to pay for itself in two years.
- **Adding ferry boat service** – Management plans to invest \$1 million to \$1.5 million in land, roads and a ferry boat to open ferry boat service on the Ohio River from between the Rising Star on the Indiana side and Boone County on the Kentucky side of the river. Rising Star sits mid-way in a 40-mile stretch of the Ohio River where there are no bridges. While the Kentucky side of the river is mostly a rural area, it is 15 miles from the Cincinnati/ Northern Kentucky regional International airport, which includes significant and growing development.

A hidden asset – The Rising Star also has a hidden asset in that it is permitted to operate 1,500 gambling games, which is more than twice the amount needed to accommodate at the current location. In effect 750 (more or less) of the games permitted at the Rising Star could be re-allocated to new casinos. While this would require legislative approval, it should be much more politically viable to the state’s conservative legislature as it would help to offset declining tax receipts, but would not be considered an expansion of gaming in the state. Management is pursuing the development of a large lifestyle complex near the Indianapolis airport, and if that falls through, has numerous other alternatives, each of which could provide significant upside long term.

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KEY INVESTMENT CONSIDERATIONS:

Bronco Billy's Acquisition to add new geography and \$5 million+ in EBITDA

This past month, FLL completed the acquisition of Bronco Billy's Casino in Cripple Creek, Colorado, which is an hour drive outside of Colorado Springs. The Company paid \$30 million for the property, which is producing approximately \$5 million in EBITDA. With 22-23% market share in the town, Bronco Billy's performs well, but there are opportunities for growth with the planned addition of hotel rooms.

Significant barrier to entry in Colorado – Approximately 20 years ago, Colorado legalized gaming in three small towns, Black Hawk, Central City and Cripple Creek, all of which were formerly gold mining towns in the mountains west of Denver and Colorado Springs. Despite efforts to legalize gaming in other areas of the state, such as at the Denver racetrack in 2014, voters have repeatedly turned down proposals by a wide margin. There are only two small Indian reservations in the state of Colorado, both in the southwestern portion of the state. Each reservations sports a small casino; both are more than 5-hour drive from Colorado Springs. The market for gaming at Cripple Creek has matured in the past 20 years and is stable with three players (Bronco Billy's included) making up the majority of the market share.

Refinancing – removing covenant and duration risk at a near-term high cost

High Cost of debt - In conjunction with the acquisition of Bronco Billy's, the company refinanced its existing debt and added \$30 million of acquisition related debt. The financing was done in two tiers with senior lenders providing \$45 million at 4.7% percent and junior lenders proving the remaining \$55 million at a relatively expensive 13.5% plus warrants to purchase 5% of the company's outstanding shares at approximately \$1.65 per share. As EBITDA continues to grow and overall leverage ratio improves to 4x, the company should be able to refinance the second tier at much more reasonable rates in the mid to high single digits. For perspective, a 4.5% drop in borrowing costs would reduce interest expense by approximately \$2.5 million, or \$0.08 per share after tax. It is important to note that the refinancing/ financing discussions were ongoing during the second half of last year and the beginning of this year at a time when high-yield bond market experienced significant turmoil, so it is encouraging that management was capable of completing the financing, while still meeting the deadline to complete the Bronco Billy's acquisition.

De-risking the balance sheet – Despite the high cost of financing for the junior lender, the re-financing extended the debt maturity to 2019 for the senior debt and up to 2022 for the junior debt. Also, based on the improvements in profitability, the company is well under the financial covenants of its debt.

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Valuation

	Revenue			EBITDA Margin			2018 EBITDA
	TTM 1Q16	Annual Growth Rates	Revenue 2018	TTM 1Q16	Basis Point change		
Silver Slipper	58	5%	67	17.1%	150	18.6%	12
Rising Star	49	5%	57	7.6%	300	10.6%	6
Northern Nevada	21	5%	24	20.5%	100	21.5%	5
Bronco Billy's	25	5%	29	20%	100	21.0%	6
Corporate Overhead							-5
Total			177			14.0%	25
					EBITDA Multiple		8
					Enterprise Value		198
					Debt		100
					Cash		13
					Warrant Exercise		2
					Free Cash Flow		25
					Market Cap		135
					Shares		20
					Price Per Share		\$6.75

In our back of the envelop calculation above we make the following assumptions for growth and improvement in profitability:

- **Revenue Growth** – 5% across all properties.
- **EBITDA Margin** – We expect modest improvements in EBITDA margin from the Silver Slipper, Northern Nevada and Bronco Billy's casinos and a more significant improvement of 300 basis points from the Rising Star. On a combined basis, this would equal a 16.8% EBITDA margin in three years. Given the experience of the management team, we believe an EBTIDA margin of 20%+ is achievable, which leaves room for another 300 to 400 basis points of improvement over time.
- **EV/ EBITDA Multiple** – We assume that the valuation multiple remains unchanged at approximately 6x, which may prove to be too conservative.
- **Free Cash Flow** – We estimate that cash flow generation will be approximately one third of EBITDA over each of the next three years.
- **Share Count** – We assume the exercise of the 5% warrant from the recent financing.

Based on these assumptions, we believe the company could be worth \$6.75 in the three years, more than 4x its current valuation.

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Mossberg's Investor Digest Idea Performance

The table below shows the relative change in the value of the ideas published since March 2015 and the Russell 2000. **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 2000 Change Since Pub.	Relative Perf. vs. Russell 2000
M/A-Com Technology Solutions Holdings, Inc. (NASDAQ:MTSI)	28-Mar-15	\$35.81	\$35.40	-1.1%	-8.1%	7.0%
Kimball International, Inc. (NASDAQ:KBAL)	30-Apr-15	\$9.97	\$11.58	16.1%	-6.6%	22.7%
Ironclad Performance Wear Corp. (OTC:ICPW)	30-May-15	\$0.27	\$0.25	-7.4%	-8.6%	1.2%
Customers Bancorp, Inc. (NYSE: CUBI)	30-Jun-15	\$26.87	\$26.49	-1.4%	-9.1%	7.7%
Potbelly Corporation (NASDAQ: PBPB)	30-Jul-15	\$13.43	\$13.10	-2.5%	-7.5%	5.0%
Cosi Inc. (NASDAQ:COSI)	31-Aug-15	\$1.17	\$0.53	-54.3%	-1.7%	-52.6%
Calloway Golf Company (NYSE: ELY)	30-Sep-15	\$8.39	\$9.95	18.6%	3.5%	15.0%
New Gold (NYSE: NGD)	31-Oct-15	\$2.47	\$3.79	53.2%	-1.9%	55.1%
Townsquare Media (NYSE: TSQ)	30-Nov-15	\$11.43	\$8.52	-25.5%	-4.9%	-20.6%
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	\$11.72	\$14.32	22.2%	0.3%	21.8%
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$83.59	34.4%	10.1%	24.4%
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$25.03	16.2%	10.2%	6.0%
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$2.04	22.9%	2.3%	20.6%
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$4.56	-28.6%	0.8%	-29.4%
Average				4.5%	-1.5%	6.0%

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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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