Mossberg's Investor Digest

July 2014
Issue #73

From the Editor…

When speaking with investors over the past month, I have clearly picked up a note of caution. Many investors I have told me that they are holding more cash than normal and preparing for a market downturn.

Market Valuation – The S&P 500 is now trading at 19.2x trailing twelve months reported earnings and 16.2x expected earnings, which is approaching the higher end of the normalized range of multiples for the past 10 years. S&P earnings have grown 14% in the past year and are projected to grow 18% during the next twelve months. With that type of growth, a higher multiple is certainly warranted, but could estimates be too aggressive? S&P earnings are expected to be $131.70 per share next year, which is a record high, 20% higher than the projected number for 2014, and approximately 60% increase from the peak of the last cycle in 2007.

Equity Flows – U.S. equity outflows turned negative year to date with three consecutive months of outflows. In July, outflows were $17.3 billion, which was the highest outflow in 19 months.

With multiples at the higher end of the range and what could be aggressive targets for S&P earnings, I can see why investors are cautious.

Thank you for your interest in Mossberg's Investor Digest,

Dave Mossberg

July 2014 Issue

Vertex Energy, Inc. (NASDAQ:VTNR) - *$8.25, July 31, 2014, Page 3 –*: Vertex Energy recycles used motor oil and other feedstocks and processes them into higher value products. It also acts as a broker of used oil to strategically control its used oil supply. The valuation has more than doubled since the beginning of the year. Despite the increase, shares still look attractive for long-term investors. Assuming management is able to fill its potential capacity, the company has $0.70 to $1.10 in earnings power, which would yield a high single digit earnings multiple.

Schnitzer Steel Industries (NASDAQ:SCHN) - *$27.35, July 28, 2014, Page 4 –:* Schnitzer Steel Industries collects, processes and sells steel, which is the world's most recycled product. This stock has a lot of upward potential as it benefits from efforts of productivity improvements, more synergies between its businesses, and improved global economic growth and outlook. The almost 3% yield is an attractive incentive to wait on this revival.

Tower Semiconductor Ltd. (NASDAQ:TSEM) - *$11.07, July 23, 2014, Page 5 –:* Tower Semiconductor Ltd. manufactures integrated circuits for customers worldwide. Tower Semiconductor's earnings power, estimated at approximately $3 per share, makes it an attractive investment, despite the fact that its shares have doubled year to date. It is trading at six times 2014 earnings and less than 10 times analysts' 2015 earnings projection of $2.46 per share. The stock has recently risen in anticipation of a positive earnings release set for August 4.

Maxwell Technologies, Inc. (NASDAQ:MXWL) - *$12.75, July 21, 2014, Page 6 –:* Maxwell is a global leader in the development and manufacture of cost-effective energy storage and power delivery solutions. Maxwell's ultracapacitors are used in multiple industries, including transportation. Management has indicated that revenue for the second quarter should be similar to that of the first quarter of 2014. The business has tremendous earnings leverage with Analysts EPS estimates expected to double next year on just a 15% increase in revenue.

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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 January 2014 and the Russell 3000. ***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
Spark Networks, Inc. (NYSE MKT:LOV)	15-Jan-14	$6.07	$5.95	-2.0%	4.1%	-5.4%
News Corporation (NASDAQ:NWSA)	21-Jan-14	$16.76	$17.67	5.4%	4.3%	1.7%
Emmis Communications Corp. (NASDAQ:EMMS)	27-Jan-14	$2.98	$2.48	-16.8%	8.0%	-24.2%
Brunswick Corporation (NYSE:BC)	30-Jan-14	$41.23	$40.36	-2.1%	7.1%	-9.0%
A.H. Belo Corporation (NYSE:AHC)	5-Feb-14	$7.90	$10.48	32.7%	9.9%	23.1%
O2Micro International (NASDAQ:OIIM)	12-Feb-14	$3.36	$3.08	-8.3%	5.8%	-14.0%
DEQ Systems Corp. (TSX:DEQ.V)	25-Feb-14	$0.24	$0.25	2.1%	3.9%	-2.0%
Dresser-Rand (NYSE:DRC)	28-Feb-14	$54.30	$60.01	10.5%	3.1%	7.3%
Arcos Dorados (NYSE:ARCO)	7-Mar-14	$9.25	$10.35	11.9%	2.1%	9.6%
Cimatron Ltd.(NASDAQ:CIMT)	21-Mar-14	$7.85	$5.73	-27.0%	2.8%	-30.0%
Unisys (NYSE:UIS)	26-Mar-14	$29.64	$21.43	-27.7%	4.0%	-31.5%
Mueller Industries (NYSE:MLI)	28-Mar-14	$29.27	$27.88	-4.7%	3.7%	-8.2%
WidePoint Corp. (NYSE MKT:WYY)	4-Apr-14	$1.51	$1.48	-2.0%	3.3%	-5.0%
Allied Motion Tech. Inc. (NASDAQ:AMOT)	10-Apr-14	$11.99	$12.30	2.6%	5.2%	-2.2%
Ascent Capital Group Inc. (NASDAQ:ASCMA)	28-Apr-14	$68.34	$62.81	-8.1%	3.6%	-11.0%
SWK Holdings Corporation (OTCQB:SWKH)	29-Apr-14	$1.05	$1.15	9.5%	3.1%	7.1%
Monitise PLC (OTCPK:MONIF)	12-May-14	$1.10	$0.77	-30.5%	2.0%	-31.9%
Darling Ingredients Inc. (NYSE: DAR)	27-May-14	$19.43	$18.79	-3.3%	1.2%	-4.2%
Radiant Logistics, Inc. (NYSE MKT: RLGT)	29-May-14	$3.03	$3.12	3.0%	0.8%	2.4%
Willdan Group, Inc. (NASDAQ:WLDN)	31-May-14	$6.25	$7.76	24.2%	0.7%	23.7%
MOCON, Inc. (NASDAQ:MOCO)	9-Jun-14	$15.14	$15.59	3.0%	-0.9%	4.0%
Global Power Equipment Inc. (NASDAQ:GLPW)	26-Jun-14	$16.52	$16.60	0.5%	-1.3%	1.5%
Primo Water Corporation (NASDAQ:PRMW)	30-Jun-14	$4.77	$4.74	-0.6%	-1.6%	0.5%
Spectra7 Microsystems Inc. (TSX.V:SEV)	30-Jun-14	$0.44	$0.42	-4.5%	-1.6%	-3.4%
				-1.3%	**3.1%**	**-4.2%**

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Best Idea Profile: **Vertex Energy, Inc. (NASDAQ:VTNR)**

DESCRIPTION:

Vertex Energy recycles used motor oil and other feedstocks and processes them into higher value products. It also acts as a broker of used oil to strategically control its used oil supply. Primarily it collects feedstock, such as used motor oil from Jiffy Lube, co-product from industrial chemical manufacturing plants, and unwanted petroleum co-products from oil refineries. It then refines and sells this product. Its vertical business units include Black Oil Division, which is a third party aggregator and logistics manager that supplies the feedstock to re-refineries. The Refining and Marketing Division purchases byproducts that come out of refineries and chemical plants that can be used as feedstock. Vertex offers its services in 13 states, most prominently including the Gulf Coast and Central Midwest regions. It is based in Houston, with 205 employees.

KEY INVESTMENT CONSIDERATIONS:

Big Business – Used motor oil recycling in the U.S. is almost a $3 billion industry. With the increase in crude prices, as well as a conscious effort to lessen the negative environmental impact from the improper disposal of used motor oil, the market for used oil collectors, recyclers, and re-refiners has burgeoned. Used motor oil, industrial lubricants, or process oil, can be successfully recycled to a higher quality product. Roughly 70% of the used oil collected is sold as recycled fuel oil (RFO) and burned as an industrial fuel. But even industrial burners are switching to cheap natural gas, which creates a need for more re-refinement and processors like Vertex.

Recycling a Better Environment Choice – More than a billion gallons of used oil is generated annually, less than 35% of which is re-refined, with the rest burned or improperly disposed. Vertex's mission is to re-refine distressed hydrocarbon-based streams into viable commodity products that reduce dependency on foreign crude oil in a safe manner that complies with environmental regulations.

Higher Margin – Vertex developed and patented a used motor oil re-refining process technology called TCEP. TCEP technology generates a refined product from used motor oil. The impact of increasing contribution from TCEP has driven revenue growth at higher margins. It has allowed the company to more vertically integrate its business model.

Growth Opportunities – The business model can be scaled upward efficiently because of the company's internal feedstock collection and refining capabilities, as well as its ability to leverage third-party collectors and refineries. Its goal is to replicate its success into other geographic regions.

Significant Growth Trajectory – During the March quarter, revenue grew 42% on a 41% increase in volumes. With a recent acquisition, the company's has expanded it's a capacity by 80 million gallons to 110 million gallons of used motor oil. At capacity, this means the company is capable of producing nearly $500 million in revenue, which is 3x its current run rate.

VALUATION:

The valuation has more than doubled since the beginning of the year. Despite the increase, shares still look attractive for long-term investors. Assuming management is able to fill its potential capacity, the company has $0.70 to $1.10 in earnings power, which would yield a high single digit earnings multiple. In addition, with the significant increase in market cap it is now investable for a much larger audience of potential institutional investors. For example, it was added to the Russell 3000 index last month. If the company continues to deliver on its growth trajectory, larger investors will notice and shares should appreciate.

Vertex Energy, Inc. (NASDAQ:VTNR)
Investment Data (as of 7/31/14)

Recent Price	**$8.25**
52-Week Range	$2.35 - $11.25
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	22.5 M
Average Trading Volume (3 mos)	440k
Market Capitalization	$185 M
Cash	$5 M
Long-term Debt	$9 M
Enterprise Value (EV)	$189 M
Book Value	$1.80
TTM Revenue	$176 M
P/ Revenue	1.1x
TTM EPS	$0.37
P/ EPS	22.3
TTM EBITDA	$7.7 M
EV/ EBITDA	24.5x

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Best Idea Profile: **Schnitzer Steel Industries (NASDAQ:SCHN)**

DESCRIPTION:

Schnitzer Steel Industries collects, processes and sells steel, which is the world's most recycled product. The metals recycling business collects and recycles vehicles, rail cars, home appliances, industrial machinery, manufacturing scrap, and construction and demolition materials. The auto parts business buys used vehicles and sells parts to retail and wholesale customers before supplying the remaining auto bodies to its metals recycling business. This then supplies nearly 100% of the metal used in the steel manufacturing business to produce high-quality reinforcing steel and wire rod used in new construction. Schnitzer was founded in 1906. It operates 116 recycling facilities, including seven deep-water ports. Its corporate headquarters are in Portland, Oregon

KEY INVESTMENT CONSIDERATIONS:

Synergistic Business Model – Schnitzer has one of the largest salvage auto parts providers in the U.S., as well as one of the largest recyclers of scrap metal. It collects used auto parts and scrap metal through 120 facilities located primarily on deep-water ports such as along the east and west coasts of the U.S., Hawaii and Alaska. Schnitzer's own auto parts business is its largest supplier, as it purchases 350,000 cars per year. It sells usable parts, from engine components to windshields and tires, through retail stores that charge an entry fee to the scrap yard. Schnitzer then recycles nonferrous parts and crushes the car body to send to Schnitzer's metals recycling facilities to be sent to customers. It recycles more than four million tons of ferrous metal and more than 500 million pounds of nonferrous metal annually.

Emerging Demand – The U.S. is the largest source of supply for unprocessed scrap metal, yet the largest demand for processed scrap metal comes from emerging economies and industrial hubs, such as China, South Korea, Taiwan, and Turkey. The growing but fluctuating demand is easily accommodated by Schnitzer's broad geographic reach. It can respond to the region with the greatest current demand because of its global footprint. Demand from emerging countries will continue to fuel the need for metal.

Balance Offsets Cyclicality – Higher volumes in operating income in auto parts and steel manufacturing, which is Schnitzer's third line of business, partially offset the impact that declining commodity prices and volumes had on metal recycling. Steel manufacturing is experiencing its highest utilization since 2008 and the company is beginning to benefit from productivity initiatives, cost reductions, and execution of synergies between its auto parts and metal recycling businesses. Management estimates that capital expenditures for fiscal 2014 will be 50% lower than fiscal 2013.

Return to Shareholders – Schnitzer has paid a dividend every quarter since it went public in 1993. It significantly increased the dividend in 2013 and is currently yielding approximately 2.9%

Supply Trends Favorable – Several economic factors in the U.S. point to a good supply of steel: strong domestic auto sales, increasing appliance shipments, recovering consumer spending, and higher construction spending

VALUATION:

This stock has a lot of upward potential as it benefits from efforts of productivity improvements, more synergies between its businesses, and improved global economic growth and outlook. The almost 3% yield is an attractive incentive to wait on this revival.

Schnitzer Steel Industries (NASDAQ:SCHN)
Investment Data (as of 7/25/14)

Recent Price	**$27.35**
52-Week Range	$24.13 - $33.32
Fiscal Year End	Aug 31
Dividend	$0.75
Yield	2.9%
Shares Outstanding	27 M
Average Trading Volume (3 mos)	264k
Market Capitalization	$734 M
Cash	$29 M
Long-term Debt	$376M
Enterprise Value (EV)	$1.1 B
Book Value	$28.51
TTM Revenue	$2.5 B
P/ Revenue	0.3x
TTM EPS	$(10.95)
P/ EPS	NA
TTM EBITDA	$71 M
EV/ EBITDA	15x

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Best Idea Profile: **Tower Semiconductor Ltd. (NASDAQ:TSEM)**

DESCRIPTION:

Tower Semiconductor Ltd. operates collectively with its subsidiaries under the brand name TowerJazz. It manufactures integrated circuits for customers worldwide in markets including RF, high-performance analog, power, imaging, consumer, automotive, medical, industrial, and aerospace and defense. It operates seven manufacturing facilities on three continents. It owns two of these in Israel, one in California and one in Japan. Three additional facilities are in Japan and are a joint venture with Panasonic Corporation. Tower Semiconductor began in 1993 by acquiring a wafer fabrication facility in Israel from National Semiconductor. It went public in 1994, and is headquartered in Israel.

KEY INVESTMENT CONSIDERATIONS:

Benefiting from Megatrends – TowerJazz is benefiting from major megatrends: green everything, wireless everything and smart everything. Emphasis on energy efficiency, seamless connectivity and embedded systems favors its leading edge RF and analog mixed signal technologies. Analog and RF chipsets also tent to have long life cycles and provide a more defensible competitive position. (Versus digital)

Superior Joint Venture – The April 2014 joint venture with Panasonic Corporation was a brilliant move. It gives the company expanded offerings, and state-of-the-art facilities that can sustain its rapid organic growth. The joint venture, of which TowerJazz holds 51%, includes three semiconductor factories in Japan, and manufacturing of Panasonic and additional products. Panasonic has committed to acquire its products from the joint venture for a minimum of five years. The deal cost TowerJazz 800,000 shares, or less than $10 million, generating incremental revenues of $400 million annually, with substantial capacity for additional foundry business growth. In addition, it will allow Tower to consolidate its Japanese operations that will result in savings to the company of $130 million per year. Results from the venture will be included for the first time in second quarter earnings.

Growth Exceeding Industry – Pure play foundry revenues in the first quarter grew 10% for the pure play foundry industry. Tower's year-over-year growth was 18%, with organic growth of 27%. EBITDA is growing even faster at 84% year over year.

Large Customer Base – Tower's 200 customers include an impressive list of companies: DMB Technologies, Entropic Communications, eSilicon, Fairchild Semiconductor, Ikanos, Marvell, Medigus, Micron, Mindspeed, NXP, On Semiconductor, Panavision, Raytheon, RF Micro Devices, Samsung, Semtech, Skyworks, Teledyne Scientific and Imaging, Texas Instruments. Only two customers exceeded 4% of total revenue.

VALUATION:

Tower Semiconductor's earnings power, estimated at approximately $3 per share, makes it an attractive investment, despite the fact that its shares have doubled year to date. It is trading at six times 2014 earnings and less than 10 times analysts' 2015 earnings projection of $2.46 per share. The stock has recently risen in anticipation of a positive earnings release set for August 4.

Tower Semiconductor Ltd. (NASDAQ:TSEM)
Investment Data (as of 7/23/14)

Recent Price	**$11.07**
52-Week Range	$3.85 - $11.78
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	48 M
Average Trading Volume (3 mos)	367k
Market Capitalization	$532 M
Cash	$183 M
Long-term Debt	$433 M
Enterprise Value (EV)	$791 M
Book Value	$4.16
TTM Revenue	$525 M
P/ Revenue	1.0x
TTM EPS	$(0.54)
P/ EPS	NA
TTM EBITDA	$118 M
EV/ EBITDA	6.7x

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Best Idea Profile: **Maxwell Technologies, Inc. (NASDAQ:MXWL)**

DESCRIPTION:

Maxwell is a global leader in the development and manufacture of cost-effective energy storage and power delivery solutions. Maxwell's ultracapacitors are used in multiple industries, including transportation. For rail operations, it captures braking energy and propels the trains with recycled energy therefore, it yields significant energy and infrastructure savings. Maxwell also saves fuel and reduces emissions in all types of urban buses, including hybrid, plug-ins, and electrics. It provides truckers a reliable engine start, extends battery life, saves fuel and reduces emissions. The forces driving adoption for automobiles are cost reductions, intensified emissions standards, and higher power requirements. Maxwell ultracapacitors also improve the consistency of power from renewable energy such as solar and wind, and for cell tower back-up and high volume manufacturing. Its ultracapacitors are also used in industrial applications, such as cranes, mining and heavy equipment; and electronics. Maxwell is based in San Diego.

KEY INVESTMENT CONSIDERATIONS:

Ultracapacitor Fuels Growth – The benefit of an ultracapacitor is that it quickly captures electrical energy that would otherwise be lost, and can release it rapidly. Unlike batteries, which produce and store energy by means of a chemical reaction, ultracapacitors store energy in an electric field. Combining ultracapacitors with batteries provides superior performance, operating range and life. The demand for Maxwell's ultracapacitor solution is propelled by the growing global demand for more power, coupled with the mandate to reduce harmful emissions created by burning fossil fuel. Maxwell leads the markets it serves in the growing ultracapacitor field. Compound annual growth since 2007 for overall revenue is 22.5%, but is 41% for ultracapacitors.

Recent Rail Success – Maxwell is well positioned in the rapidly growing billion-dollar market for ultracapacitors in the rail market. This is driven by the fact that it can help operators achieve 20% energy savings and reduce costly infrastructure requirements. Earlier this year, Maxwell proved its superiority in this market through major customer wins: it is supplying ultracapacitors to ABB to use in upgrading Philadelphia-area rail lines. The Korean subway system continues to expand its reach and each installation employs up to 200 of Maxwell's 48–volt ultracapacitor modules.

Momentum in Revenues – Revenues were $46 million for the first quarter of 2014, which is up 18% from revenues of $39 million reported in Q4 2013. Revenues for its ultracapacitor products were $32 million for the first quarter of 2014 compared with $26.3 million for the fourth quarter of 2013. This increase was primarily driven by the ramping demand for plug-in hybrid transit buses in China that began late last year as well as increased sales to wind energy applications.

Huge China Market – Many investors have been closely watching the momentum in the Chinese plug-in hybrid bus market, as this could trigger tremendous growth for Maxwell. However, this market continues to offer limited visibility because of the uncertainties involved with the Chinese government.

Leadership – In May, Maxwell appointed a new president and chief executive officer with background and leadership that should provide stability and momentum.

VALUATION:

Second quarter financial results will be reported on July 31. Management has indicated that revenue for the second quarter should be similar to that of the first quarter of 2014. The business has tremendous earnings leverage with Analysts EPS estimates expected to double next year on just a 15% increase in revenue.

Maxwell Technologies, Inc. (NASDAQ:MXWL)
Investment Data (as of 7/20/14)

Recent Price	**$12.75**
52-Week Range	$6.75 - $18.43
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	29 M
Average Trading Volume (3 mos)	661k
Market Capitalization	$374 M
Cash	$32 M
Long-term Debt	$11 M
Enterprise Value (EV)	$350 M
Book Value	$4.92
TTM Revenue	$192 M
P/ Revenue	1.9x
TTM EPS	$0.24
P/ EPS	53 x
TTM EBITDA	$18 M
EV/ EBITDA	19 x

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12 Monthly Compilation Issues

Access to Past Compilation Issues

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The value proposition of the digest is essentially an "Idea Generator". During the course of my 17-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 describe all of relevant investment merits and risks of a company in one page. It is not intended to be an exhaustive report including every detail of a company. 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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