

Mossberg's Investor Digest

June 2016

Issue #96

From the Editor...

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

With installations in 240,000 homes in 80 countries, **Control4 Corporation (Nasdaq: CTRL)** holds a leadership position in the Do-it-For-Me (DIFM) segment of the home automation market.

The Company provides controllers (hardware, software, cloud) that function essentially like an operating system for the connected home. Controllers allow customers to control, automate and customize lighting, music, video, temperature, communications and security. Controllers interoperate with 9,500 third party products and allow devices to work together on a single centralized platform.

The stock offers a great way to invest in IoT (Internet of Things) theme, but without having to pay sky-high multiples, and with less risk of competing in an over-crowded Do-it-Yourself (DIY) market.

Based on our back-of-the-envelope calculation, the Company could earn \$1.10 per share by 2018. Applying a multiple of 15x would yield a price of \$16 per share, 2x the current share price. 15x multiple seems very conservative considering control's leadership position in the category and earnings growth.

As always, I appreciate your feedback.

Dave Mossberg
Dave@mossbergid.com

June 2016 Issue

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...

AstroNova (Nasdaq: ALOT)- AstroNova makes color label printers and consumables sold under the QuickLabel brand for product identification. The company also manufactures ruggedized and networking products for the aerospace/ defense markets applications, as well as test and measurement systems.

Ampco-Pittsburg (NYSE: AP) – Founded in 1929, Ampco-Pittsburgh is a manufacture of forged and cast engineered steel products, as well as air and liquid processing handlers. The company is a few years into a well-orchestrated turn-around strategy and should benefit from an emerging recovery in the U.S. steel market.

PCTel (Nasdaq: PCTI) – PCTEL is a leading provider of specialized antennas and test and measurement equipment used to test cellular, wifi and various radio networks and user experiences with those networks. With the growth of wireless connections in the Internet of Things, smart phone penetration, and upcoming 5G wireless, there are plenty of secular growth themes to drive growth for the company over the next several years.

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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	\$32.98	-7.9%	-7.1%	-0.8%	
Kimball International, Inc. (NASDAQ:KBAL)	30-Apr-15	\$9.97	\$11.38	14.1%	-5.6%	19.7%	
Ironclad Performance Wear Corp. (OTC:ICPW)	30-May-15	\$0.27	\$0.23	-14.8%	-7.6%	-7.2%	
Customers Bancorp, Inc. (NYSE: CUBI)	30-Jun-15	\$26.87	\$25.13	-6.5%	-8.1%	1.7%	
Potbelly Corporation (NASDAQ: PBPB)	30-Jul-15	\$13.43	\$12.54	-6.6%	-6.5%	-0.1%	
Cosi Inc. (NASDAQ:COSI)	31-Aug-15	\$1.17	\$0.50	-57.3%	-0.6%	-56.6%	
Calloway Golf Company (NYSE: ELY)	30-Sep-15	\$8.39	\$10.24	22.1%	4.7%	17.4%	
New Gold (NYSE: NGD)	31-Oct-15	\$2.47	\$4.38	77.3%	-0.9%	78.2%	
Townsquare Media (NYSE: TSQ)	30-Nov-15	\$11.43	\$7.89	-31.0%	-3.9%	-27.1%	
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	\$11.72	\$13.42	14.5%	1.4%	13.1%	
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$89.76	44.4%	11.3%	33.1%	
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$20.86	-3.2%	11.4%	-14.6%	
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$2.22	33.7%	3.4%	30.3%	
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$4.79	-25.0%	1.9%	-26.9%	
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$2.02	26.3%	-0.2%	26.5%	
				Average	5.3%	-0.4%	5.8%

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Best Idea Profile:

Control4 Corporation (Nasdaq: CTRL)

DESCRIPTION:

With installations in 240,000 homes in 80 countries, **Control4 Corporation (Nasdaq: CTRL)** holds a leadership position in the Do-it-For-Me (DIFM) segment of the home automation market.

The Company provides controllers (hardware, software, cloud) that function essentially like an operating system for the connected home. Controllers allow customers to control, automate and customize lighting, music, video, temperature, communications and security. Controllers interoperate with 9,500 third party products. and allow devices to work together on a single centralized platform.

The stock offers a great way to invest in IoT (Internet of Things) theme, but without having to pay sky-high multiples, and with less risk of competing in an over-crowded Do-it-Yourself (DIY) market.

The Company sells outside the United States in approximately 80 countries, with international sales making up 23% of revenue.

Headquartered in Salt Lake City, the company employs 540 people. The Company was founded in 2003 and held its IPO in 2013.

Based on our back-of-the-envelope calculation, the company could earn \$1.10 per share by 2018. Applying a multiple of 15x would yield a price of \$16 per share, 2x the current share price. A 15x multiple seems very conservative considering control4's leadership position in the category and earnings growth.

Control4 Corporation (Nasdaq: CTRL) Investment Data (as of 6/30/16)

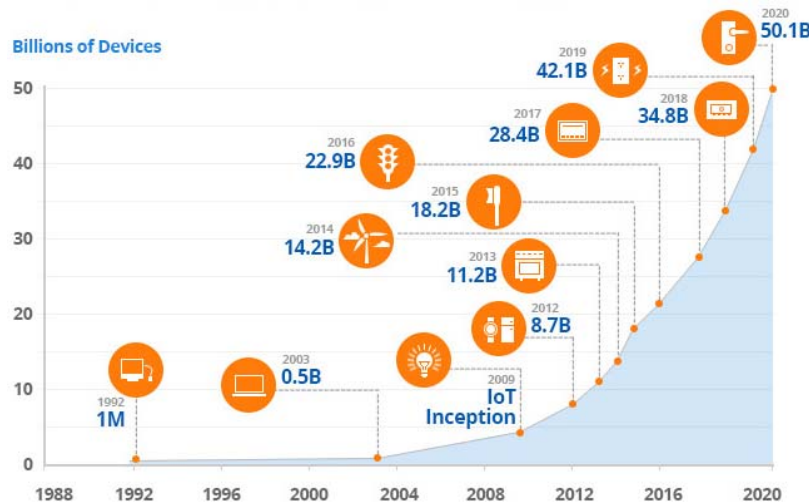
Recent Price	\$7.99
52-Week Range	\$5.41 - \$10.15
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	23.2 M
Average Trading Volume (3 mos)	100,000
Market Capitalization	\$187 M
Cash	\$41 M
Long-term Debt	\$6 M
Enterprise Value (EV)	\$152 M
Book Value	\$5.29
P/ Book	1.5 x
TTM Revenue	\$174 M
EV/ Revenue	0.9 x
2016 EPS Consensus Est. P/2016E	\$0.69 10.1x

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KEY INVESTMENT CONSIDERATIONS:

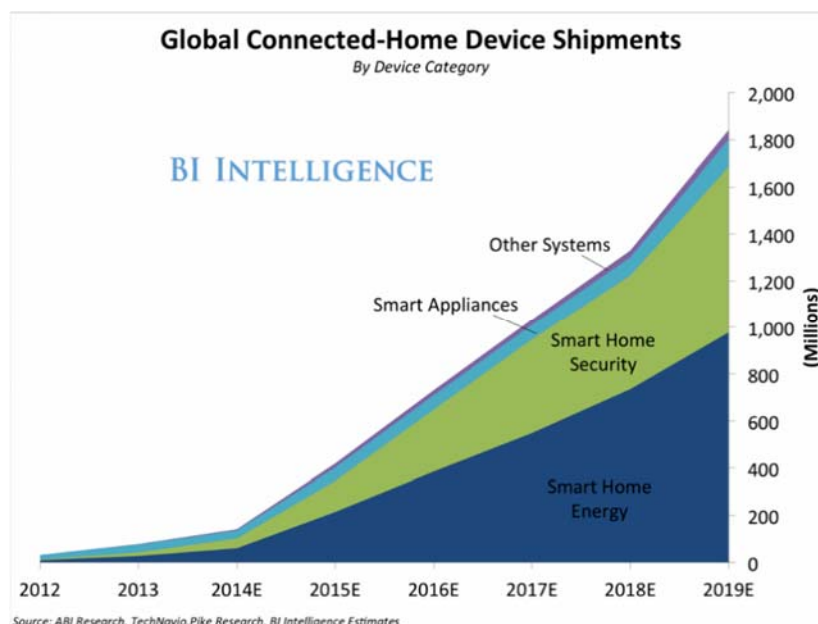
A great way to invest in the growth of the Internet of Things

Internet Connected Devices grow from 10 Billion to 50 billion— Today there are about 1.5 devices connected to the internet per person on earth. The number of connections is expected to grow dramatically over the next 5 years. According to Cisco, the number of devices is expected to grow to 50 billion by 2020 and to 500 billion by 2030.



Source: Cisco

Home Connected devices to grow by 40%+ for next three years - Home automation is one of the key segments driving growth in the internet of things. According to Business Intelligence, the connected-home category will grow to \$1.8 billion by 2019 and make up about 25% of total shipments of IOT devices. Connected-home devices include lighting, home entertainment, appliances, safety and security systems, and thermostats.



Source: ABI Research, TechNavio, Pike Research, BI Intelligence Estimates

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Plenty of room to grow and prosper in the Pro-Installed Segment



The illustration above is from the Company's investor presentation and shows the major players in each of three home automation market segments. Larger players, such as Google (Nest), Amazon, Samsung and Apple are making significant investments in the Home Automation market and certainly will command a large share, as the market continues to grow and develop. Control4's bears suggest that Control4 will not be able to compete effectively with the entrance of these larger players. We believe they will for the following reasons.

Targeting the high-end of the market – Control4 is not competing head-to-head with the large players. Instead, it is targeting the wealthier household segment of the market. There are 14 million U.S. households with income greater than \$150k per year (the opportunity internationally is even greater). Wealthier customers have the financial resources and are more likely to prefer professional installation. Customization, as well as privacy and security issues are also more important to this segment of the market, areas where Control4 has competitive advantage. Control4's U.S. installed base of 200k represents a 1.4% market penetration, which leaves plenty of room for growth in this segment.

Established and growing go-to-market channel with 4,800 active dealers – Control4 has 2,800 Dealers in the U.S. and 840 dealers internationally. With the acquisition of Pakedge, the company added 1,200 new dealers that do not currently carry the Control4 solution. During the most recent quarter, the company added 99 dealers in North America, the most in a single quarter since 2013.

DIFM scores high marks with Privacy and Security concerns – According to a survey of 1,600 consumers done by Icontrol Networks, the number one concern about the smart home is the possibility of a data breach. The other top concern was that homeowners data would be collected and sold for marketing purposes. According to the survey, respondents were more concerned about these factors than they were about the cost of the technology. There is a perception among DIFM customers that their systems are less likely to be accessed illegally, or have their data used for marketing purposes. According to another survey done by Icontrol, 97% of DIFM respondents strongly agreed that their systems would not be accessed illegally and 91% strongly agreed that their data would not be used for marketing purposes.

Customization – Control4 offers consumers a significant degree of customization. Its controllers are interoperable with 9,300 third-party devices. The technology has open architecture and allows dealers, programmers and device manufactures to independently develop support for a new device, or customize the control of an existing device.

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Pakedge acquisition expands go to market reach and expands product portfolio

In January, CTRL completed the acquisition of Pakedge Device and Software for \$33 million in cash at a valuation of about 1.5x revenue. The acquisition adds several benefits to Control4:

- **Broader Product Line** – Pakedge's advanced home networking and cloud network management solutions are a natural extension to CTRL's existing controller products. Networking capabilities are a critical part of any home automation installation and now Control4's offering will include a tightly integrated controller/networking solution, which will be better for both the dealer channel and consumers.
- **30%+ growth in distribution channel** – There are approximately 1,200 Pakedge dealers that are not currently distributors of CTRL's controllers. Convincing these dealers to begin selling Control4 products represents a significant opportunity for CTRL to accelerate growth.
- **Cross-selling opportunities** – The Company plans to expand sales of Pakedge products through its 3,600 dealers and sell Control4 products through the Pakege dealers what who have previously sold Control4 product. So far this appears to be working very well. In the first 12 weeks since the acquisition, there were 370 Control4 dealers who purchased Pakedge product for the very first time.

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Valuation

	Targets	2016	2017	2018
(In \$Millions)				
Revenue		200	220	242
Revenue Growth	10%			
Non- GAAP Gross Margin	52%-54%	51.5%	52.0%	52.0%
Non-GAAP Gross Profit		103	114	126
Operating Expenses		85	90	96
Operating Profit		18.5	24	30
Tax Rate		8%	8%	8%
Non-GAAP Net Income		17.0	22.4	27.4
Share Count		24.0	24.5	25.0
Earnings Per Share		0.71	0.91	1.10

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

- **Revenue Growth** – 2016 revenue of \$200 million reflects the mid-point of managements guidance. From 2016, we assume 10% organic growth. Given that the market is growing at a much faster pace, this should be a conservative assumption.
- **Non-GAAP Gross Margin** – We assume Gross margin will improve by 50 basis points in each of the next two years, reaching the lower end of management's target by 2017
- **Operating Expenses** – Consistent with management guidance, we assume 2016 operating expenses will be relatively flat in comparison with 2015. From 2016, we assume that operating expenses will grow at two thirds the pace of revenue growth.
- **Tax Rate** – Our tax rate reflects a \$78 million NOL carryforward.
- **Share Count** – We assume an increase of 500,000 shares per year for the next several years, to reflect stock based compensation.

Based on these assumptions, the company could earn \$1.10 per share by 2018. Applying a multiple of 15x would yield a price of \$16 per share, 2x the current share price. 15x multiple seems very conservative considering control4's leadership position in the category and earnings growth.

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The value proposition of the digest is essentially an "Idea Generator". During the course of my 20-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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