

Mossberg's Investor Digest

From the Editor...

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Headquartered in Minneapolis, 27-year-old **EVINE Live Inc. (Nasdaq: EVLV)** is the third largest television shopping network with reach into more than 87 million cable and satellite homes and \$666 million in annual revenue. By comparison, the two largest players QVC and the Home Shopping Network (HSN) generate about \$9 billion and \$2.5 billion in revenue, respectively.

The Company product mix is...

- 41% jewelry & watches
- 25% home & consumer electronics
- 16% beauty
- 18% fashion & accessories

Revenue generation is split roughly 50/50 between its live, 24-hour shopping network, and its website, evine.com, which sells products that appear on the TV shopping network, as well as online-only merchandise.

In recent years, the company has undergone several strategic and management changes including changing its corporate name from ValueVision Media, as well as rebranding its operating entities to Evine Live. Current CEO, Bob Rosenblatt, took charge in early 2016, coming to the position after serving as non-Executive Chairman. Mr. Rosenblatt and several other board members joined the company following a fight in 2014 with activist investors The Clinton Group and Cannell Capital.

Management, the Board, and an impressive group of strategic investors all have substantial experience and successful track records in retail and media fields, which is uncommon for a company EVLV's size. In addition, all in a position of leadership, or influence, have been buyers of the stock.

We believe the company should be able to command and enterprise value equivalent to 8x EBITDA. When applied to our modeled improvement in EBITDA, we derive valuations in the next 12 and 24 months of 90% and 180%, respectively above current levels.

Dave Mossberg
Dave@mossbergid.com

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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...

DSP Group, Inc. (Nasdaq: DSPG) - is a leading global provider of wireless chipset solutions for converged communications. Delivering semiconductor system solutions with software and hardware reference designs, DSP Group enables OEMs/ODMs, consumer electronics (CE) manufacturers and service providers to cost-effectively develop new revenue-generating products with fast time to market. They enable converged voice, audio, video and data connectivity across diverse mobile, consumer and enterprise products – from mobile devices, connected multimedia screens, and home automation & security to cordless phones, VoIP systems, and home gateways. Leveraging industry-leading experience and expertise, DSP Group partners with CE manufacturers and service providers to shape the future of converged communications at home, office and on the go.

AXT, Inc. (Nasdaq: AXTI) - AXT designs, develops, manufactures and distributes high-performance compound and single element semiconductor substrates comprising gallium arsenide (GaAs), indium phosphide (InP) and germanium (Ge). Their substrate products are used primarily in lighting display applications, wireless communications, and fiber optic communications. Their vertical gradient freeze (VGF) technique for manufacturing semiconductor substrates provides significant benefits over other methods and enabled AXT to become a leading manufacturer of such substrates, particularly in LED applications.

BofI Holding, Inc. (Nasdaq: BOFI) – BofI Holding, Inc. is the holding company for BofI Federal Bank, a nationwide bank that, among other financial products and services, provides financing for single and multifamily residential properties, small-to-medium size businesses in target sectors, and selected specialty finance receivables. With approximately \$8.2 billion in assets, BofI Federal Bank provides consumer and business banking products directly and through third-party channels.

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Best Idea Profile:

EVINE Live Inc. (Nasdaq: EVLV)

DESCRIPTION:

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Management, the Board, and an impressive group of strategic investors all have substantial experience and successful track records in retail and media fields, which is uncommon for a company EVLV's size. In addition, all in a position of leadership, or influence, have been buyers of the stock well in excess of the recent prices.

EVINE Live Inc. (Nasdaq: EVLV) Investment Data (as of 6/30/17)

Recent Price	\$1.00
52-Week Range	\$0.99 - \$2.40
Fiscal Year End	Jan
Dividend	N/A
Yield	N/A
Shares Outstanding	65 M
Average Trading Volume (3 mos)	210,000
Market Capitalization	\$65 M
Cash	\$26 M
Long-term Debt	\$75 M
Enterprise Value (EV)	\$127 M
TTM Revenue	\$656 M
EV/ Revenue	0.2x
FY19 EPS (consensus est.)	\$0.09
P/E	11.1x
TTM adjusted-EBITDA	\$15.9 M
EV/EBITDA	8.0x
Tangible Book Value/ Share	\$1.14
Book Value Per Share	\$6.85

At its 209,000 sq. ft. headquarters facility in Minneapolis and 600,000 sq. ft. warehouse/ fulfillment facility in Bowling Green, EVINE employs 1,300 people, who primarily work in customer service, order fulfillment and television production.

The Company also owns WWDP TV, a television station in Boston, which is carried on the books at a \$12 million valuation. Management is currently reviewing several channel share proposals, which would allow them to monetize a portion of the Boston Channel spectrum, while preserving the ability to distribute EVINE programming in Boston.

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KEY INVESTMENT CONSIDERATIONS:

Jockeys and the Horse

New Leadership has been there and done that – Joining the company in June of 2014, 59-year-old Bob Rosenblatt was nominated by activist investors and appointed to the board as Non-Executive Chairman. Mr. Rosenblatt assumed the role of CEO August in 2016, following failed attempts at turnarounds under two previous CEOs. Rosenblatt brings substantial experience to the leadership role, as well as a successful track record. He spent 14 years at Bloomingdales leaving the CFO position there to become CFO and ultimately COO of HSN. While at HSN, revenue increased from \$1 billion to \$1.9 billion and adjusted-EBITDA increased from \$250 million to \$350 million. He left HSN to become President of Tommy Hilfiger until it was sold to APAX in 2006. Since taking over EVLV, Rosenblatt has delivered significant improvements including an increase in adjusted-EBITDA from \$9.2 million to \$16.2 million last year, and estimated increase to \$18 to \$22 million in the current year. The balance sheet has also improved with the partial paydown of high-interest debt and the company has repurchased 60%, or 4.4 million shares Comcast's stock.

Getting the band back together - There have been positive changes in management roles in recent years including a new Chief Merchandising Officer, Michael Henry, who worked with Rosenblatt at HSN. A new Chief Digital Officer, Sunil Verma worked with Rosenblatt at Ideeli.com, which was one of first flash sale sites (now owned by Groupon). The new Chief Marketing Officer, Nicole Ostoya, previously worked for Nordstrom, LVMH, and QVC.

Uncommon board for a sub \$100 million market cap company – It is uncommon for a company of EVLV's size to have such an experienced, as well as financially aligned board. All of the board members have been substantial buyers of the stock in recent years, at higher valuations than today's price.

- **Marc Holdsworth** was the co-founder of alternative investment management firm, Tennenbaum Capital with \$6B+ of assets of under management.
- **Neal Grabell** was General Counsel of QVC from 1987-2008.
- **Lisa Letizo** was Chief Human Resource officer at HSN from 1998-2014.
- **Thomas Beers** was CEO of Fremantle Media North America. He produced the Emmy-nominated TV show *Deadliest Catch*, as well as other successful TV shows including *Monster Garage*, *Storage Wars* and others.
- **Fred Siegel** was Chief Marketing officer at QVC from 1993-1998 and oversaw all marketing activities for Excite and Excite @ Home.
- **Chairman Landel Hobbs** was COO at Time Warner Cable from 2005-2010 and CFO from 2001-2005.
- **Lowell Robinson** was CFO of online advertising network MIVA

Friends in high places – In Sept 2016, the Company raised \$10 million from five strategic investors. Shares were priced at \$1.68 and included a warrant to purchase another \$8.8 million at \$2.90 per share. This group of investors is connected in high places among the fashion, entertainment, and media industries and is providing management with relationships, and strategic ideas. These connections could prove to be exceptionally valuable, especially in the area of creating and building brand value. On the most recent earnings call management said that this group gives "Evine a competitive advantage in securing the types of brands we seek. In addition, it enables us to build our product pipeline faster than the traditional approaches."

- **Tommy Hilfiger** - Mr. Hilfiger's investment is an endorsement of current CEO Bob Rosenblatt, who worked for Hilfiger as COO and President.
- **Tommy Mottola** - Mr. Mottola is well connected in the entertainment industry, having served as CEO of Sony Music for 15 years.
- **Morris Goldfarb & Sammy Aaron** are Chairman and CEO, and Vice Chairman, respectively, of G-III Apparel, the manufacture and distributor of apparel and accessories with a deep portfolio of forty brands.
- **Daniel Tisch** is the General Partner and President of Towerview, an investment fund of the Tisch Family.

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KEY INVESTMENT CONSIDERATIONS: (continued)

One of three players in an oligopoly

Key 2016 Metrics	QVC*	HSN*	Evine
Total U.S. Net Revenue	\$6,120 million	\$2,475 million	\$666 million
Number of TV households	104 million	91 million	87+ million
Revenue per Home	\$59/HH	\$27/HH	\$8/HH
Cable Fees and Rate Structure*	5% of TV rev (Est. ~ \$2.50/HH)	Blended (Est. ~ \$2.30/HH)	Fixed fee (Avg. \$1.13HH)
HD Presence	80 million	55 million	25 million
Second Network	QVC Plus/ Beauty IQ 94 million	HSN 2 48 million	Evine Too 8.4 million

Source (Company Presentation)

Ample opportunity for growth - The chart above is taken from EVLV's investor presentation and shows comparisons in the key metrics between the three major television shopping players. EVLV's \$8 per Home represents only 30% and 14% of the performance of what HSN and QVC have achieved, respectively. The company has 1.4 million active 12-month customers, compared to 5 million at HSN and 8 million at QVC. There is plenty of room to grow by selling more to each customer and growing the size of the active customer base, which requires the right marketing and merchandising strategies, clearly skill sets that this management and advisory team have in spades.

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KEY INVESTMENT CONSIDERATIONS: (continued)

Growth and financial performance drivers

Adding channels per home – Evine is available in 87 million homes across the United States. While this number is unchanged from the prior year, Evine has grown in the number of channels per home, which is far less costly and one of the keys to its growth strategy. In addition to making both HD and non-HD versions available in existing homes, the Company has launched Evine Too, a secondary network channel which has grown from 2.8 million homes to 8.4 million homes in the last year.

Expand HD Broadcasting – The Company was significantly behind in making investments in HD and has spent the past two years upgrading its cameras so that by September 1, they will all be in full HD. The upgrade will improve the customer viewing experience and is expected to result in incremental sales.

Other ways to connect with customers – Already 50% of revenue is derived from the company's website evine.com which is accessible from PC's as well as mobile devices. To further diversify its distribution, the Company is investing in interactivity on large social platforms such as Facebook, Instagram, Pinterest and YouTube, as well as over the top platforms like AppleTV, Roku and Amazon Fire. For example, Evine launched its Backstage Boutique concept, a fully-produced hour-long beauty show that streamed live on Facebook and YouTube. In another example, the company conducted its first warehouse sale in January, streaming live on Facebook live and YouTube and offering customers limited time only deals inside of Evine's warehouse.

Improvements to warehouse and fulfillment – During 2016, the company completed a project to significantly expand its warehousing capacity and upgrade systems and processes at its Bowling Green distribution facility. The company expanded the its facility by nearly to 600,000 square feet, nearly doubling its capacity. The updated facilities and technology upgrade included a new high-speed parcel shipping and item sortation system coupled with a new warehouse management system to support increased level of shipments. The upgrade is lowering per unit warehouse costs by 10%.

New proprietary and exclusive brands - One of the keys to Evine's growth strategy is to focus on an assortment proprietary, exclusive and name brand products. Having unique merchandise is a key to driving customer loyalty and differentiating from the competition. In the first quarter of 2017, the company launched 17 new brands and plans to continue to accelerate the development of new brands on its platform.

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Valuation

FYE = January	FY17	FY18	FY19	FY20	FY21
In \$milions					
# of Homes	87	87	87	87	87
Rev per Home	\$7.7	\$7.8	\$8.1	\$8.4	\$8.8
Revenue	666	679	706	735	764
Revenue Growth		2%	4%	4%	4%
Adjusted-EBITDA		20	25	29	34
Adjusted-EBITDA Margin		2.9%	3.5%	4.0%	4.5%
Non-Maintenance Capex		-5	-5	-5	-5
Cash Flow		15	20	24	29
Cash	33	33	33	33	40
Debt	82	67	47	23	0
EV/ EBITDA Multiple		8	8	8	8
EV		160	198	235	275
Market Cap		126	183	245	315
Shares Outstanding		64.9	64.9	64.9	64.9
Value Per Share		\$1.94	\$2.82	\$3.77	\$4.86

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

- **Revenue Growth** – We forecast 2% growth in Fiscal 2018, reflecting management guidance. We forecast 4% growth thereafter, which translates to nearly \$1 incremental revenue per home over the next four years. Considering QVC's & HSN's considerably higher revenue per home numbers, we believe our revenue forecast could prove to be conservative.
- **Adjusted-EBITDA Margin** – We estimate approximately 50 basis points of improvement in each the next several years, which reflects the mid-point of management's guidance for FY18 and continued incremental improvement over the next several. Given the inherent operating leverage in the Company's business model it is reasonable to assume that a significant portion of incremental sales will fall to the bottom line. In our model, this equates to 35% incremental contribution over the next 4 years.
- **Cash generation** – We use adjusted-EBITDA as a proxy for free cash flow and assume that the company will invest \$5 million per year incrementally to further enhance operations. We assume excess cash will be used to repay debt.

We believe the company should be able to command an enterprise value equivalent to 8x EBITDA. When applied to our modeled improvement in adjusted-EBITDA, we derive valuations in the next 12 and 24 months of 90% and 180%, respectively above current levels.

Other Valuation Considerations

- The Company has a federal NOL of \$325 million
- The stock is currently trading at less than 90% of tangible book value

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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 September 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	
Calloway Golf Company (NYSE: ELY)	30-Sep-15	\$8.39	\$12.87	53.4%	28.7%	24.7%	
New Gold (NYSE: NGD)	31-Oct-15	\$2.47	\$3.22	30.4%	21.9%	8.5%	
Townsquare Media (NYSE: TSQ)	30-Nov-15	\$11.43	\$10.32	-9.7%	18.2%	-27.9%	
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	\$11.72	\$10.40	-11.3%	24.7%	-35.9%	
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$90.50	45.5%	36.8%	8.8%	
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$32.00	48.6%	37.0%	11.6%	
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$3.52	112.0%	27.1%	84.9%	
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$8.74	36.8%	25.2%	11.5%	
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$2.36	47.5%	23.1%	24.4%	
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$19.58	145.1%	22.9%	122.1%	
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$20.61	44.3%	16.1%	28.2%	
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$14.65	31.7%	14.2%	17.5%	
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$35.52	57.8%	13.1%	44.6%	
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$16.42	24.8%	18.9%	5.9%	
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$7.47	3.0%	7.1%	-4.1%	
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$8.55	-43.9%	4.4%	-48.3%	
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$7.75	33.6%	4.0%	29.6%	
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$6.62	0.3%	2.1%	-1.8%	
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$15.05	5.6%	2.2%	3.4%	
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$1.62	7.3%	1.1%	6.2%	
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$11.15	4.7%	3.4%	1.3%	
				Average	31.8%	16.8%	15.0%

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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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