

Mossberg's Investor Digest

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From the Editor...

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

It's very rare to find a category leader with an impressive management team that the investment community has not already discovered and I think I've done that with the company profiled in this month's letter. Helping pioneer the category of high performance work gloves, Ironclad Performance Wear (OTC: ICPW) is an interesting premium branded accessory company that has lost its way until recently.

After very successful stint at Walls Industries, textile and work glove industry veteran, Jeff Cordes, took the reins of ICPW in 2014, and is "getting his band back together" for a repeat performance with Ironclad. Management has also been putting their money where their mouth is and has been purchasing significant blocks of stock.

It was surprising to me to hear that the work glove market produced more than a \$1 billion in sales annually. After reading up on the industry and meeting management of ICPW, it became clear that this is a sizable and growing market. With finger and hand injuries ranking #1 in workplace accidents (according to OSHA), it's no wonder that employers are putting more emphasis on workplace safety, which is providing for a secular growth trend in this market.

The Company has a "capital light" business model, in which the major capital need is only to support working capital. By outsourcing production and utilizing established channel partners for its go to market, the Company's 30 employees already have attractive productivity of \$800,000 in annual sales per person. A significant portion of each incremental sales dollar should fall to the bottom line as the company grows and leverages its majority fixed cost structure.

Making modest assumptions for growth and earnings multiples in our back of the envelope calculation, yields approximately 40% to 60% upside in the next 2 ½ years.

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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...

Visteon Corporation (NYSE: VC) - Visteon is a global company that designs, engineers and manufactures innovative products for nearly every vehicle manufacturer worldwide. Visteon currently delivers value for its customers and shareholders through two technology-focused businesses: vehicle cockpit electronics and thermal management. Their customers include Ford, Honda, Mercedes, Mazda and many others.

VASCO Data Security International Inc. (Nasdaq: VDSI)- VASCO is the world leader in providing Two-Factor Authentication and Electronic Signature solutions to financial institutions. More than half of the Top 100 Global Banks rely on VASCO solutions to protect mobile and online transactions, and meet regulatory requirements. VASCO also secures access to data and applications in the cloud, and provides tools for application developers to easily integrate security functions into their web-based and mobile applications.

Century Casinos Inc. (Nasdaq: CNTY) - Century Casinos, Inc., a casino entertainment company, develops and operates gaming establishments worldwide. It also provides lodging, restaurant, and entertainment facilities related to gaming establishments. Century has 32 casinos with 4,500 slots and 230 tables located all over the world.

Customers Bancorp, Inc. (NYSE: CUBI) - Customers Bancorp, Inc. is a bank holding company based in Wyomissing, Pennsylvania. Customers Bank (the "Bank") is a state-chartered, full-service bank headquartered in Phoenixville, Pennsylvania. The Bank is a member of the Federal Reserve System and is insured by the Federal Deposit Insurance Corporation (FDIC). With assets of \$6.5 billion, the Bancorp provides a full range of banking services to small and medium-sized businesses, professionals, individuals and families through branch locations in Pennsylvania, New York, New Jersey and Connecticut. The Bank is focused on serving its targeted markets with a growth strategy that includes strategically placed branches throughout its market area and continually expanding its portfolio of loans to small businesses and consumers.

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Best Idea Profile:

Ironclad Performance Wear Corp. (OTC: ICPW)

DESCRIPTION:

Headquartered in Farmers Branch, Texas (a suburb of Dallas/ Fort Worth); 17-year old Ironclad Performance Wear (OTC: ICPW) provides performance work gloves specifically designed for industrial, construction, oil and gas, tactical, and consumer markets. Performance enhancements include multiple levels of protection from heat and cold, improved abilities to grip materials, impact absorption, as well as improved resistance to abrasion and/or cutting. Among others, users include oil rig workers, military personnel, automotive workers, and construction workers. Gloves are premium priced at retail between \$15 and \$65 per pair.

The Company sells gloves under its proprietary Ironclad, KONG and EXO brands and produces private-label gloves which are co-branded as "built Tough by Ironclad". Private Label and co-branded brands include 511 Tactical, Duluth Trading Company, Red Wing Tuff Chix, and Dickies.

The Company has a "capital light" business model, in which the major capital need is only to support working capital. Since production is outsourced to a dozen third-party manufacturers in China, Hong Kong, Cambodia, Dominican Republic and Indonesia, there is limited need for capex and at scale, the Company should be able to produce attractive profit margins and returns for shareholders. Already, ICPW has impressive productivity. With only 30 workers to support operations, revenue per employee is nearly \$800,000.

Instead of hiring an army of sale people, the Company also improves productivity and broadens its sales reach by leveraging leading industrial outfitters such as Grainger, Uline, Fastenal, and Orr Safety. The Company also sells to consumers through leading retailers such as Ace Hardware, True Value, Do It Best, Sam's, Dick's Sporting Goods, Auto Zone, and NAPA Auto Parts. Approximately 21% of sales are derived internationally, with the remaining in the United States.

Ironclad Performance Wear Corp. (OTC:ICPW)

Investment Data (as of 5/29/15)

Recent Price	\$0.27
52-Week Range	\$0.18 - \$0.40
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	81 M
Average Trading Volume (3 mos)	39 k
Market Capitalization	\$22 M
Cash	\$370 K
Long-term Debt	NA
Enterprise Value (EV)	\$22 M
Book Value	\$0.15
P/Book	1.8x
TTM Revenue	\$24 M
P/ Revenue	0.9 x
FY15 EPS	NA
P/ EPS	NA

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KEY INVESTMENT CONSIDERATIONS:

Work Glove Market is a \$1B + market - It was surprising to me to hear that the work glove market produced more than a \$1 billion in sales annually. After reading up on the industry and meeting management of ICPW, it became clear that this is a sizable and growing market. With finger and hand injuries ranking #1 in workplace accidents (according to OSHA), it's no wonder that employers are putting more emphasis on workplace safety, which is providing for a secular growth trend in this market. Wearing gloves has been proven to reduce the relative risk of injury by 60 percent. According to the U.S. Bureau of Labor Statistics...

- One million workers are sent to the emergency room each year for hand injuries
- There are 110,000 lost-time hand injuries annually.
- 70% of workers with hand injuries were not wearing gloves and the most of the remaining 30% of injuries were due to the wrong type, or worn out/damaged gloves
- The average hand injury claim is more than \$6,000

A Turnaround Well Underway – From 2009 until the current CEO, Jeff Cordes, took over in February 2014, the company struggled to find direction, turning over most of its board members and management, including three former chief executives. Given Mr. Cordes' extensive background and successful track record in the industry, he clearly is the right person to take the leadership position and has already added new relationships and put in place the bulk of strategic and operational changes that should accelerate growth, profits and returns for shareholders.

Management team that has been there and done that - With the appointment of Jeff Cordes as CEO in February 2014, Ironclad gained a growth-oriented leader with extensive experience in global textiles and apparel. Since taking over as CEO, Mr. Cordes has assembled a management team with experience levels that are uncommon for a company with a \$22 million market cap. The fact that these executives, who clearly have their choice in career path, have chosen to join ICPW speaks loudly to the opportunity. Several of these executives have worked with Mr. Cordes in the past.

- **Jeff Cordes, CEO** - Prior to ICPW, Mr. Cordes ran Walls Industries and helped grow that company's business from \$70 million to \$120 million in sales. Prior to that, Mr. Cordes held senior management positions in several private and public companies, including President of Pillowtex (he resigned prior to Pillowtex's ultimate chapter 11 filing).
- **William Aisenberg, CFO** – Prior to joining ICPW, Mr. Aisenberg served as finance chief of Walls Industries, and along with Mr. Cordes was responsible for the success of that business. Mr. Aisenberg has a successful 30 year career in finance, including time spent with The Brinkmann Corporation, Foster Grant and Arthur Andersen.
- **Bryan Griggs, EVP Sales and Marketing** – Mr. Griggs came to ICPW from functional apparel and accessory companies, Propper International and 511 Tactical, a long-time business partner of Ironclad. He has 15 years of experience in the apparel industry, including time spent with Otto International, Columbia, and Nike.
- **Tom Felton, SVP of Supply Chain** – Mr. Felton also joined ICPW from Walls Industries, where he was CIO. Mr. Felton has 30 years of experience in apparel, supply chain and retail including time spent with Game Stop, Blockbuster, 7-11, and Zale Cooperation.
- **Putting their money where their mouth is** – Mr. Aisenberg, and Cordes have each purchased significant amount of stock since joining the company. Mr. Aisenberg acquired 1.8 million shares at an average price of approximately \$0.23 per share (The value of purchases represents 1.8x his annual salary). Mr. Cordes has acquired 563,000 shares at an average price of \$0.23 per share.

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KEY INVESTMENT CONSIDERATIONS: (continued)

Competitive Moat – The market for work gloves is highly fragmented and has a large number of domestic and foreign competitors. In addition to Ironclad, other leading providers include: Leathercraft Manufacturing Company, Ergodyne, Hex Armour, Mechanix Wear and Ringer's. In light of the highly competitive nature of the work glove market, the key to competing effectively and creating an effective moat around the business involves the speed of innovation and patent protected innovation in materials and design.

- **Speed of Innovation** - Being able to move from "idea" to "products on shelves" quickly, as well as delivering products on time and minimizing out of stocks is critical to drive differentiation, better margin and retailer loyalty. This is particularly true in a fragmented market, like work gloves, that is highly price competitive. Under the leadership of the supply chain SVP, Tom Felton, the Company has made significant improvements to its supply chain including opening an office and staffing of an Indonesian sourcing development team, and expanding its base of qualified manufacturing partners by a factor of four. While these improvements will decrease product costs, perhaps more importantly, they should significantly improve speed to market, encourage greater cooperation among suppliers on new development, and increase dependability of materials sourcing and deliveries.
- **Intellectual Property** - The Ironclad® brand helped define the category and is synonymous with high performance work gloves. To illustrate this point, other leading brands would otherwise be unlikely to co-brand with a private label producer unless it is perceived as leader and helps to enhance the authenticity of the product. In addition to its brand strength, ICPW has six U.S. patents, one international patent, and four U.S. patents pending including:
 - **Advanced Touch® Technology** is a seamless fingertip design that places a smooth layer of material on the touch receptors of the fingers. The result is an increase in comfort and a high degree of touch sensitivity.
 - **Ironclad's Engineered Grip System** consists of a uniquely patterned, molded thermoplastic elastomer, or TPE, that is welded to a synthetic leather palm. It provides extreme grip and abrasion protection without sacrificing hand dexterity.
 - **Silicone rubber infused to the synthetic leather palm** in a specific pattern designed for optimum grip on smooth surfaces
 - **Ironclad's signature palm pattern** is found on nine popular glove styles
 - Ironclad has developed two glove styles that absorb tool impacts with a unique design of multiple gel-filled palm pads.
 - **Silicone impregnated palm pattern** specifically for use in automotive market glove products.
 - **A heat resistant, shrink resistant, oil repellent, high durability synthetic fabric** used for the palm of high temperature, high dexterity gloves. This patent is pending.
 - **Specific geometry and construction for a glove used in the oil and gas extraction industries** provides protection to the entire hand for impacts, glancing blows and pinched fingers. This patent is registered in Singapore and pending elsewhere.
 - **A glove palm material and design that provides oil resistance, heat resistance and improved grip in the presence of heavy oil saturation.** This patent is pending.
 - **A glove back of hand design for impact protection rubber pieces.** This patent is pending.

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KEY INVESTMENT CONSIDERATIONS: (continued)

Multiple shots on goal to drive growth – Management has put in place several new drivers that should drive above market growth for the next several years

- **Introduced a “Good, Better, Best” pricing/product strategy** – Historically, the company has focused on the premium segment of the work glove industry with price points from \$15 to \$65 per pair. Instead of discounting prices and diluting its brand, management is using a “good, better, best” pricing strategy to expand its addressable market and capture greater volumes especially from the casual work glove user. The Company is currently introducing its Ironclad EXO branded gloves, which will be sold primarily through retail distribution. The new brand incorporates many of the same durability, fit and function characteristics at lower price points.
- **New co-branded relationship with Williamson-Dickie Europe** – The Company announced plans to introduce a co-branded glove collection for the oil and gas market, which will be distributed through Dickies’ global industrial network. According to management, it is already a multi-million dollar program. Likewise, new co-branded work gloves are being introduced for European retail during the current quarter.
- **Consolidation among Grainger’s glove vendors should drive incremental business for ICPW** - During the fall of 2014, Grainger, a significant Ironclad customer, consolidated their glove supplier group by more than 50%. Ironclad should pick up share from those who did not survive the cut.
- **Exclusive agreement with Vibram** – Vibram, whose materials and brand are seen on the bottoms of many popular branded boots and shoes, agreed to give Ironclad an **exclusive** multi-year contract for use of the Vibram polymer technology on gloves and other select groups of products. The exclusive nature of the agreement illustrates how Ironclad is thought of as a leader in the work glove category and should provide for significant new revenue.
- **Long-term agreement with Australian channel partner expands presence in region** – The Company announced a new 10-year distribution agreement with Performance On Hand (POH), one of the largest distributors of work safety gear in Australia, New Zealand, New Guinea and surrounding regions. POH agreed to growth commitments for 10% per year and will be assisting ICPW introduce EXO and Vibram products into retailers, such as Bunnings, the largest DIY home improvement chain in Australia.

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VALUATION:

(In \$millions)	FY17		
	Scenario 1	Scenario 2	scenario 3
2014 Base Revenue	\$24	\$24	\$24
Growth Rate Assumption	12%	20%	20%
Organic Growth through 2017	\$10	\$17	\$17
Acquisitive Growth			\$10
Total Revenue 2017	\$34	\$42	\$52
Gross Margin	36%	36%	36%
EBITDA Margin	10%	9%	9%
EBITDA	\$3.3	\$3.7	\$4.7
Multiple	10	10	10
Valuation	\$33	\$37	\$47
Shares outstanding	90	90	108*
Share Price Potential	\$0.37	\$0.41	\$0.44
Current Share Price	\$0.27	\$0.27	\$0.27
Upside Potential	37%	53%	61%

*Assumes 20% dilution for acquisitive growth

The table above shows my back-of-the-envelope calculation for potential value given three scenarios of revenue and earnings for FY17. Here is an explanation of the key assumptions:

Revenue Growth - The first two scenarios assume growth rates 12% and 20%, respectively; and the third adds \$10 million in acquisitive revenue. With multiple shots on goal and management's prior track record, I think it is reasonable to assume that the average annual organic growth rate will come in at the higher end of the range. While I wouldn't normally make an investment decision based on the potential for M&A, this management team is highly connected in the work glove industry and has a successful track record of making accretive acquisitions at prior companies.

EBITDA Margin - The calculation assumes EBITDA margin of approximately 10% in scenario 1, and 9% in scenarios 2 and 3. To deliver a faster top-line growth in scenarios 2 & 3, I assume the company will make incremental investment in sales and marketing expenses, which accounts for the lower EBITDA assumption in those scenarios. I assume that about a third of the improvement in EBITDA margins will come from improved gross margins. Gross margin is assumed to improve by three percentage points to 36% of sales, from 2014 levels of 33%. In recent quarters, gross margin performance has approached these levels and continued improvements in supply chain management and raw material sourcing should allow for margin expansion. The remaining improvement in EBITDA margin comes from operating leverage. As a majority of the company's expenses, other than sales and marketing, are relatively fixed, a large portion of incremental sales dollars should fall to the bottom line. For a premium branded product company with gross margins in the low to mid 30's, it is reasonable to assume 8% to 10% EBITDA margin as the company achieves scale. I have reviewed a comp list of a half dozen premium branded product companies in similar categories with margins in the low to mid 30's that have already achieved scale. This group's average EBITDA margin was 11%.

Valuation Multiple - Due to attractive growth opportunities, capital light model with attractive return characteristics, as the Company reaches improved profit levels, it is reasonable to assume shares will command a significant multiple. Of the six companies I reviewed, the average EV/EBITDA multiple was approximately 12, with some of the larger names in the mid-teens. Due to its relatively smaller size, even after significant growth in the next few years, it's likely that ICPW shares will trade at a discount to its larger peers, hence the 10x multiple in my assumption.

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Mossberg's Investor Digest Idea Performance

The table below shows selected ideas published from April 2014 until April 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
WidePoint Corp. (NYSE MKT:WYY)	4-Apr-14	\$1.51	\$1.51	-0.2%	14.0%	-13.5%
Allied Motion Tech. Inc. (NASDAQ:AMOT)	10-Apr-14	\$12.00	\$30.58	60.8%	13.7%	47.8%
Ascent Capital Group Inc. (NASDAQ:ASCMA)	28-Apr-14	\$68.34	\$40.28	-69.7%	13.3%	-82.1%
SWK Holdings Corporation (OTCQB:SWKH)	29-Apr-14	\$1.05	\$1.56	32.7%	15.3%	18.3%
Monitise PLC (OTCPK:MONIF)	12-May-14	\$1.08	\$0.18	-493.4%	13.6%	-505.8%
Darling Ingredients Inc. (NYSE: DAR)	27-May-14	\$19.67	\$15.61	-24.5%	13.0%	-36.3%
Radiant Logistics, Inc. (NYSE MKT: RLGT)	29-May-14	\$3.09	\$5.69	46.7%	11.8%	36.0%
Willdan Group, Inc. (NASDAQ:WLDN)	31-May-14	\$6.25	\$14.29	56.3%	10.9%	46.1%
MOCON, Inc. (NASDAQ:MOCO)	9-Jun-14	\$15.25	\$16.40	8.2%	10.5%	-1.6%
Global Power Equipment Inc. (NASDAQ:GLPW)	26-Jun-14	\$16.52	\$7.50	-115.3%	10.4%	-125.0%
Primo Water Corporation (NASDAQ:PRMW)	30-Jun-14	\$4.77	\$6.31	24.4%	8.6%	16.3%
Spectra7 Microsystems Inc. (TSX.V:SEV)	30-Jun-14	\$0.44	\$0.56	21.4%	8.2%	13.4%
Maxwell Technologies, Inc. (NASDAQ:MXWL)	20-Jul-14	\$12.77	\$5.20	-145.2%	7.9%	-153.1%
Tower Semiconductor Ltd. (NASDAQ:TSEM)	23-Jul-14	\$10.90	\$15.40	28.1%	7.9%	20.2%
Schnitzer Steel Industries, Inc. (NASDAQ:SCHN)	25-Jul-14	\$27.42	\$17.87	-53.0%	7.8%	-60.3%
Vertex Energy, Inc. (NASDAQ:VTNR)	31-Jul-14	\$8.22	\$2.71	-204.4%	7.1%	-211.1%
Bolt Technology Corp. (NASDAQ:BOLT)	5-Aug-14	\$17.43	\$21.99	20.7%	7.6%	13.5%
Tribune Publishing Corp. (NYSE:TPUB)	20-Aug-14	\$19.55	\$14.80	-32.1%	10.2%	-41.9%
Interphase Corp. (NASDAQ:INPH)	29-Aug-14	\$3.27	\$0.75	-336.0%	6.0%	-342.0%
Richardson Electronics Ltd. (NASDAQ:RELL)	31-Aug-14	\$10.19	\$8.59	-18.6%	6.0%	-24.6%
Helen of Troy (NASDAQ:HELE)	15-Sep-14	\$54.62	\$86.50	36.9%	7.2%	30.1%
SMTP, Inc. (NASDAQ:SMTP)	16-Sep-14	\$6.26	\$6.40	2.2%	6.5%	-3.9%
Mandalay Digital Group, Inc. (NASDAQ:APPS)	24-Sep-14	\$4.92	\$4.19	-17.4%	6.9%	-23.5%
L.B. Foster Company (NASDAQ:FSTR)	30-Sep-14	\$45.94	\$38.40	-19.6%	8.4%	-27.1%
Chart Industries, Inc. (NASDAQ:GTLS)	13-Oct-14	\$42.06	\$33.01	-27.4%	14.3%	-40.2%
MRI Interventions, Inc. (OTC BB: MRIC)	16-Oct-14	\$1.08	\$1.02	-6.3%	14.4%	-19.8%
Franklin Electric Co., Inc. (NASDAQ:FELE)	23-Oct-14	\$36.99	\$35.05	-5.5%	9.3%	-14.4%
Avigilon Corporation (TSX:AVO.TO)	29-Oct-14	\$15.30	\$18.22	16.0%	7.6%	8.9%
Chemtura Corporation (NYSE:CHMT)	6-Nov-14	\$23.38	\$27.67	15.5%	5.0%	11.3%
Hilltop Holdings Inc. (NYSE:HTH)	11-Nov-14	\$21.14	\$21.85	3.2%	4.6%	-0.6%
Bravo Brio Restaurant Group, Inc. (NASDAQqs:BBRG)	24-Nov-14	\$13.15	\$13.43	2.1%	3.1%	-0.4%
Alamo Group (NYSE: ALG)	26-Nov-14	\$48.97	\$52.56	6.8%	2.9%	4.5%
PGT, Inc. (NASDAQ:PGTI)	12-Dec-14	\$9.00	\$11.86	24.1%	6.6%	18.3%
Unilife Corporation (NASDAQ:UNIS)	15-Dec-14	\$2.72	\$2.46	-10.8%	7.4%	-17.3%
The Dixie Group, Inc. (NASDAQ:DXYN)	19-Dec-14	\$9.21	\$9.65	4.6%	3.1%	2.1%
Points International Ltd. (NASDAQ:PCOM)	20-Dec-14	\$12.86	\$14.19	9.4%	3.1%	6.9%
Cascade Microtech Inc. (NASDAQ:CSCD)	19-Jan-15	\$14.02	\$15.55	9.8%	5.5%	5.2%
Quanex Building Products Corporation (NYSE:NX)	20-Jan-15	\$18.53	\$17.63	-5.1%	5.4%	-9.7%
Ballantyne Strong, Inc. (NYSE:BTN)	27-Jan-15	\$4.15	\$4.70	11.7%	4.7%	6.8%
InfuSystem Holdings, Inc. (NYSE:INFU)	29-Jan-15	\$2.71	\$3.16	14.2%	5.1%	9.7%
EXO U Inc. (EXO.V)	23-Feb-15	\$1.65	\$0.80	-106.3%	0.7%	-108.1%
Liquidity Services, Inc. (LQDT)	24-Feb-15	\$9.79	\$9.85	0.6%	0.4%	0.4%
Smith & Wesson Holding Corporation (NASDAQ:SWHC)	25-Feb-15	\$12.89	\$14.75	12.6%	0.5%	12.5%
Actua Corporation (NASDAQ:ACTA)	26-Feb-15	\$16.47	\$12.60	-30.7%	0.6%	-30.9%
M/A-Com Technology Solutions Holdings, Inc. (NASDAQ:MTSI)	28-Mar-15	\$35.81	\$38.27	6.4%	2.6%	3.8%
Kimball International, Inc. (NASDAQ:KBAL)	30-Apr-15	\$10.38	\$12.18	14.8%	1.8%	13.1%
Overall Performance since July 2008				72.7%	54.3%	18.4%

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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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