Mossberg's Investor Digest

From the Editor…

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Headquartered in Sugar Land, Texas (outside of Houston), **Trecora Resources (NYSE: TREC)** manufactures specialty chemicals at its two production plants located on the Texas Gulf coast. The Company also owns a third interest in a Saudi Arabian zinc/copper mine.

At its South Hampton facility near Silsbee, Texas the Company manufactures ***high-purity hydrocarbons,*** (pentane, iso-pentane, hexane, and iso-hexane), which are primarily used in the process of manufacturing plastics, as well as processing Canadian Oil Sands. Approx. 80% of revenue is derived from the sale of these high-purity hydrocarbons. The remaining 20% of revenue is split almost evenly between ***specialty waxes*** and providing ***custom processing*** services on behalf of customers.

Trecora will be a direct beneficiary from the resurgence in the U.S. specialty chemical business, which his being driven by low cost natural gas, the primary feedstock and energy source in the production of plastics. Trecora has nearly completed $100 million investment in capital projects that will expand capacity and add new capabilities. By 2021, these projects are expected to produce an incremental $30 million in annual EBITDA, 2x the 2016 run rate. In addition, within 18-24 months the company is likely to monetize its investment in the Mine, which could yield more than $100 million in cash.

In our back of the envelop calculation above, we calculate 75% upside in value in two years.

Dave Mossberg
Dave@mossbergid.com

May 2017 **Issue #107**

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…

Black Diamond, Inc. (Nasdaq: BDE) - Black Diamond, Inc. is a global leader in designing, manufacturing and marketing innovative active outdoor performance equipment and apparel for climbing, mountaineering, backpacking, skiing and a wide range of other year-round outdoor recreation activities. The Company's principal brands, Black Diamond® and PIEPS™, are iconic in the active outdoor and ski industries, and linked intrinsically with the modern history of these sports. Black Diamond is synonymous with performance, innovation, durability and safety that the outdoor and action sport communities rely on and embrace in their active lifestyle.

Fortress Transportation and Infrastructure Investors LLC (NYSE: FTAI)- owns and acquires high quality infrastructure and equipment that is essential for the transportation of goods and people globally. FTAI currently invests across four market sectors: aviation, energy, intermodal transport and rail. FTAI targets assets that, on a combined basis, generate strong and stable cash flows with the potential for earnings growth and asset appreciation. The Company's existing mix of assets provides significant cash flows as well as organic growth potential through identified projects. The Company intends to pay regular quarterly dividends from cash available for distribution.

Paratek Pharmaceuticals, Inc. (Nasdaq: PRTK)– Paratek is developing and commercializing innovative antibacterial therapeutics based upon tetracycline chemistry. Paratek has used its expertise in microbial biology and tetracycline chemistry to create chemically diverse and biologically distinct small molecules derived from the tetracycline class of molecules. Paratek's two lead antibacterial product candidates are omadacycline and sarecycline. Omadacycline entered Phase 3 clinical development in June 2015. Sarecycline entered Phase 3 clinical development in December 2014.

Best Idea Profile: **Trecora Resources (NYSE: TREC)**

DESCRIPTION:

Headquartered in Sugar Land, Texas (outside of Houston), **Trecora Resources (NYSE: TREC)** manufactures specialty chemicals at its two production plants located on the Texas Gulf coast. The Company also owns a third interest in a Saudi Arabian zinc/copper mine.

At its South Hampton facility near Silsbee, Texas the Company manufactures ***high-purity hydrocarbons***, (pentane, iso-pentane, hexane, and iso-hexane), which are primarily used in the process of manufacturing plastics, as well as processing Canadian Oil Sands. Approx. 80% of revenue is derived from the sale of these high-purity hydrocarbons. The remaining 20% of revenue is split almost evenly between ***specialty waxes*** and providing ***custom processing*** services on behalf of customers.

Specialty waxes, which are produced at the Trecora Chemical facility located in Pasadena, Texas, are used in paints, inks, adhesives, coatings, and PVC lubricants. One large and growing end-market application is hot melt adhesives, which are used to hold cardboard boxes together. This business was acquired by TREC in 2014 and is starting to turn the corner in terms of growth and returns. The Company acquired an adjacent plant in 2016 for $2 million, which is expected to produce an incremental $5 million in annual EBITDA by 2018.

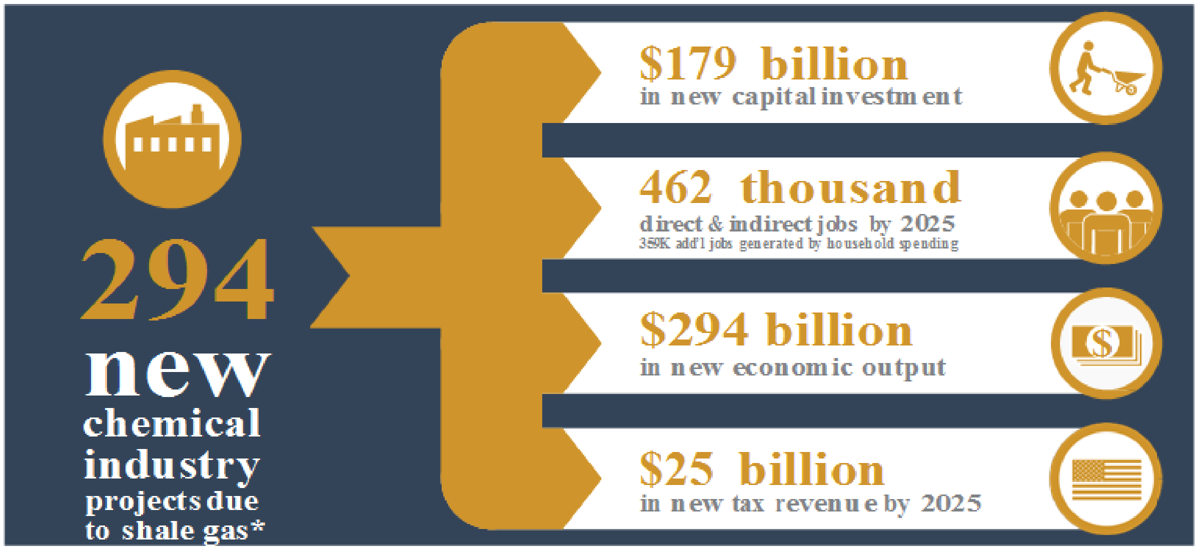
TREC provides ***custom processing*** services at both manufacturing facilities. By outsourcing manufacturing to Trecora, customers can run lower-volume specialized product grades, or develop new products without interrupting their normal production. For Trecora, custom processing provides more attractive margin and greater asset utilization. In addition, because there is no investment in raw materials (customers provide inputs), incremental profit provides an even greater return on investment. Since revenue from this business does not reflect the value of the raw materials, it does not reflect the real size of this business. If the raw material were included the business, it would be 3x to 4x larger.

Trecora Resources (NYSE: TREC)
Investment Data (as of 5/31/17)

Recent Price	**$10.65**
52-Week Range	$9.75 - $14.80
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	24 M
Average Trading Volume (3 mos)	52,000
Market Capitalization	$258 M
Cash	$4 M
Long-term Debt	$76M
Enterprise Value (EV)	$330 M
TTM Revenue	$216 M
EV/ Revenue	1.5x
FY18 EPS (consensus est.)	$0.75
P/E	14x
TTM EBITDA	$26.7 M
EV/EBITDA	12.4x
Book Value Per Share	$6.85

KEY INVESTMENT CONSIDERATIONS:

"One Word: Plastics" – The resurgence in the U.S. specialty chemical business



(Source: American Chemistry Council March 2017)

With the plentiful shale gas in North America, the U.S. has traded positions as one of the highest cost to one of the lowest cost regions in the world. With low-cost gas as a feedstock and fuel source (energy resources account for up to 70% of total costs for plastic resin producers), the United States now has a significant competitive advantage in producing basic petrochemicals. As such, there are 294 new expanded-production projects worth a total investment of $179 billion that have been public announced. Of these projects, which are expected to be completed during the next 8 years, about half are currently under way and the other half are in planning phases.

What does this mean for Trecora?

- **Strong secular growth in the largest end-market.** – Polyethylene is the most common plastic with annual production around 80 million tons. It is primarily used in plastic bags, films, bottles etc. In North America, expansion plans call for adding 8 million tons of capacity per year by 2020. This represents about 10% growth per year for Trecora's largest end-market.
- **Important role in producing polyethylene** - While pentane only represents 1% of the cost of making polyethylene, it plays an important role as a process agent. Essentially, pentane helps polyethylene manufactures optimize their throughput rates and the quality of the product. With this important role, manufactures are less likely to shift back and forth between pentane suppliers.
- **Market share leader in pentane -** There are only two major suppliers of pentanes in North America, TREC (60% market share) and Phillips 66. Phillips manufactures pentane as a byproduct from converting crude oil into jet fuel, which makes TREC is the only North American manufacturer of pentane "on purpose". As such, the company is well positioned to maintain its leadership position by being more responsive and focused.
- **Polyurethane foam market to grow 8.4% annually –** Pentane should also benefit from its use as a process agent in polyurethane foam. Per MarketsandMarkets research, polyurethane foam is poised to grow at a high-single digit rate annually for the through 2021, primarily due to its use in energy conservation.

KEY INVESTMENT CONSIDERATIONS: (continued)

Other growth drivers

New Canadian Oil Sands customer – Pentane is used as a solvent that helps removes impurities from oil derived from oil sands. After removing the impurities, the purified oil product does not require specialized processing and can be shipped and processed by any refinery in North America. Sales to oil sands customers have decreased significantly in the past two years, dropping 30% in 2016 and 15% the year before. Sales have been impacted by customer outages, forest fires and a fatal explosion at one facility, as well as customers improving the efficiency in which they use pentanes. A new major oil sands customer is expected to come on line in early 2018, which should provide for a significant bump in volumes and allow this end-market application to no longer be a drag on overall volumes.

New product introduction - The company is working to introduce four new ultra-high purity hydrocarbon products. The first new product has received an order for 80,000 gallons from one customer with the potential for 3-4 more customers to soon follow. The second product is being tested in customer labs and the third and fourth are still in the development stages.

International growth – Approximately 25% of the company's revenue is derived from outside of the U.S. With the strong competitive advantage provided by low cost feedstock and energy costs, Trecora should increasingly be able to economically export products outside of the United States.

Major investment projects near completion… expand capacity and drive margin expansion

Trecora has nearly completed $100 million investment in capital projects that will expand capacity and add new capabilities. By 2021, these projects are expected to produce an incremental $30 million in annual EBITDA, 2x the 2016 run rate.

1) **Advanced Reformer Project –** This is a $50 million project that is expected to start up in 4Q17. It involves the installation of equipment that will improve the quality of the byproduct that comes from the production of high-purity hydrocarbons. This new equipment will convert the byproduct to more chemical-grade products and gain $0.45 per gallon margin on byproducts sold. That is nearly $9 million of additional EBTIDA based on today's volume. As high-purity hydrocarbon volumes grow, the Company estimates this project could add $12 to $14 million in EBITDA in the 2019/2020 timeframe.
2) **D-Train capacity expansion project –** This was a $30 million project that was completed in December of 2015 and designed to increase the production capacity of high-purity hydrocarbons by 4,000 barrels per day. This project was completed on time and under budget and expanded the production capacity by 6,000 barrels per day, 50% greater throughput than anticipated. As volume ramps, the company' expects to sell 15 to 20 million more gallons/year by 2021/2022, which is 35% above 2016 levels. This project is expected to produce $7 million in additional EBITDA in the time frame of 2019/2020
3) **Capacity expansion of custom processing** – This was a $20 million project that will effectively double the Company's custom processing capability at its Trecora chemical plant. The distillation unit is on-line and revenue generating and the hydrogenation unit is expected to start up during the current quarter. This project is expected to add $7 million in EBITDA in the 2018 time frame.
4) **Purchase of adjacent plant –** In 2016, TREC acquired the plant that was on the 6.5 acres adjacent to its Trecora Chemical plant for a bargain price of $2 million. The acquisition broadens the Company's capabilities and potential end-markets, as well as improved operating efficiencies. The assets will primarily be used for custom processing services and are expected to generate an additional $5 million in EBITDA beginning in 2018.

A $140 million ownership interest in the Al Masane Al Kobra Mining Company (AMAK)

Trecora was founded 50 years ago as Arabian American Development Company to develop a zinc and copper mine in Saudi Arabia. The company diversified into specialty chemicals year ago, but still maintains a 33.4% interest in Al Masane Al Kobra Mining Company (AMAK), a Saudi Arabian joint stock company.

- **Restarting the Mine –** In late 2015, AMAK terminated the prior contractor due to poor performance and shut down mine. After refurbishing the equipment and extensive renovation work to improve operating efficiencies, the mine was re-opened in December of 2016 and is expected to be fully ramped up in production by the end of 2017.
- **Significant increase in metal prices** – Now that the mine is operating again, the price of Zinc increased from $1,400/ ton to $2,700/ ton.
- **Plans to exit –** The Company could exit its ownership of the mine as early as 2018. Possible exit alternatives include a sale of their interest, or a public offering. With increased pricing and improved efficiencies, the mine is more likely to become profitable and be capable of an IPO. Under Saudi Arabian law, AMAK must sell a portion of its equity to the public once it has been profitable for two years.
- **$420 million valuation at the last financing –** The last financing for AMAK was done in July of 2016 at a valuation of $5.33 per share. The purchaser was the Arab Mining Company (ARMICO), which is an experienced mine investor with 11 investments in the Middle East. Applying that same valuation to TREC's 26.1 million shares would make the Company's stake worth $140 million.

Valuation

(in Millions)	2016	2017	2018	2019	2020	2021
Current EBITDA	31	31	31	31	31	31
Advanced Reformer Project			8	9	11	12
D-Train capacity expansion project			2	3	5	6
Capacity expansion of custom processing			4	5	6	7
Purchase of adjacent plant			3	5	5	5
Total EBITDA	**31**	**31**	**47**	**53**	**57**	**60**
Maintenance Capex		-10	-12	-12	-12	-12
Free Cash Flow		**21**	**35**	**41**	**45**	**48**
Incremental Project Spend		-25	0	0	0	0
Change in Cash		**-4**	**35**	**41**	**45**	**48**
Sale/ Exit from Mine				100		
Cash	8	8	8	89	134	182
Debt	83	87	52	0	0	0
EV/EBITDA Multiple				7	7	7
Enterprise Value				369	396	422
Market Capitalization				458	529	604
Shares Outstanding				24.5	24.5	24.5
Value Per Share				**$18.70**	**$21.59**	**$24.63**

In our back of the envelop calculation above we calculate 75% upside in value over the next two years. We make the following assumptions:

- **Base EBITDA Run Rate –** We assume that the base EBITDA run rate will remain unchanged from 2016 to 2017, as continued pressure from low oil sands volumes is offset by incremental contribution from projects and new revenue opportunities.
- **EBITDA Growth –** We assume EBITDA contribution articulated by management will ramp over several years beginning in 2018.
- **Free Cash Flow –** Expect the company will begin to generate significant cash beginning in 2018, which will first be used to pay down debt balances.
- **Exit from Mine –** We expect and IPO, or sale of the Company's interest in the AMAK could yield $100 million at some point in the next two years.
- **Valuation Multiple –** We are using a 7x EV/EBITDA multiple in our valuation model, which reflects the historic revenue multiple of specialty chemical companies. This multiple may prove to be conservative as investors may be willing to pay more for the attractive growth prospects that lay ahead for North American producers.

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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	$12.76	52.1%	24.6%	27.5%
New Gold (NYSE: NGD).	31-Oct-15	$2.47	$2.85	15.2%	18.0%	-2.8%
Townsquare Media (NYSE: TSQ)	30-Nov-15	$11.43	$9.98	-12.7%	14.4%	-27.1%
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	$11.72	$11.10	-5.3%	20.7%	-26.0%
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	$62.18	$82.01	31.9%	32.4%	-0.5%
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	$21.54	$32.00	48.6%	32.6%	15.9%
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	$1.66	$3.50	110.8%	23.1%	87.8%
PAR Technology Group (NYSE: PAR)	30-Apr-16	$6.39	$8.59	34.4%	21.3%	13.2%
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	$1.60	$2.24	40.0%	19.2%	20.8%
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	$7.99	$18.36	129.8%	19.0%	110.8%
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	$14.28	$21.15	48.1%	12.4%	35.7%
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	$11.12	$15.45	38.9%	10.6%	28.4%
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	$22.51	$28.58	27.0%	9.6%	17.4%
Northwest Pipe Co. (NWPX)	31-Oct-16	$13.16	$14.68	11.6%	15.1%	-3.5%
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	$7.25	$6.97	-3.9%	3.7%	-7.6%
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	$15.25	$8.30	-45.6%	1.0%	-46.6%
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	$5.80	$7.20	24.1%	0.7%	23.4%
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	$6.60	$6.45	-2.3%	-1.1%	-1.2%
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	$14.25	$14.25	0.0%	-1.1%	1.1%
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	$1.51	$1.68	11.3%	-2.1%	13.3%
			Average	**27.7%**	**13.7%**	**14.0%**

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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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