

Mossberg's Investor Digest

November 2015

From the Editor...

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

In the past 5 years, **Townsquare Media (NYSE: TSQ)** has made a dozen transactions to become the 3rd largest owner of radio stations in the U.S, with 309 radio stations reaching a combined audience of 12 million. Its stations have the #1 or #2 market share in 65 of 66 small to mid-sized markets, such as Temple, Texas; St. Cloud, Minnesota; El Paso, Texas; Flint, Michigan; Owensboro, Kentucky; Lafayette, Louisiana, etc.

In addition to its radio stations, Townsquare offers advertisers several other channels to reach businesses and consumers in small towns, including streaming internet radio websites, other music and entertainment websites, and live events.

Despite what some may view obsolete technology, radio remains a strong platform for advertisers, with 93% of Americans listening to approximately 2 hours of radio each day. According to a recent Nielsen study, radio is still is one of the most cost-effective ways for local advertisers to reach a large audience and generates an 8x return on advertising spend. By having the #1 or #2 market share in smaller markets, about half of its communities listen to TSQ radio stations in those markets where it competes. With this position of sufficient scale, it is easier to leverage other distribution channels (websites and events) and is large enough to be meaningful to local, as well as to national advertisers that want to reach a local audience.

Currently trading at 8.6x EV/ EBITDA, TSQ has an attractive multiple for a market leader. Assuming very modest assumptions, the equity value should increase more than 2 fold, as the company continues to pay down debt. Longer term, lower leverage ratios and the resulting reduced risk should allow for multiple expansion.

As always, I appreciate your feedback.

Dave Mossberg
Dave@mossbergid.com

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Every month we hear ideas suggested from our large network of professional investors. Here are three of the ideas we heard this month, but have not reviewed in detail...

Inteliquent, Inc. (Nasdaq: IQNT) - Inteliquent provides a comprehensive suite of innovative voice services. They established their strong market presence by creating a competitive tandem network that is used by the largest wireless, cable, CLEC and long distance carriers in the U.S. Inteliquent's voice services include streamlined SIP interconnection for domestic and international long distance traffic. They also offer terminating and originating access that supports billions of minutes of traffic each month. And their Access Homing Tandem and Gateway Tandem Services are among the best in the industry.

II-VI Incorporated (Nasdaq: IIVI) - II-VI Incorporated, a global leader in engineered materials and opto-electronic components is a vertically integrated manufacturing company that develops innovative products for diversified applications in the industrial, optical communications, military, life sciences, semiconductor equipment, and consumer markets. Headquartered in Saxonburg, Pennsylvania, with research and development, manufacturing, sales, service, and distribution facilities worldwide, the Company produces a wide variety of application-specific photonic and electronic materials and components, and deploys them in various forms including integrated with advanced software to enable our customers.

1-800-Flowers.com Inc. (Nasdaq: FLWS) – 1-800-FLOWERS.COM, Inc. operates a florist and gift shop in the United States. The company operates in three segments: Consumer Floral, Gourmet Food and Gift Baskets, and BloomNet Wire Service. It offers various products, such as fresh-cut flowers, floral and fruit arrangements and plants, gifts, popcorn, gourmet foods and gift baskets, cookies, chocolates, candies, wine, candles, balloons, and plush stuffed animals. They are the Gourmet and Floral Gift Leader with a multi-brand gifting strategy driving solid top and bottom-line growth. They have a strong balance sheet with proven ability to grow margins and reduce operating expenses.

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Best Idea Profile:

Townsquare Media, Inc. (NYSE: TSQ)

DESCRIPTION:

In the past 5 years, Townsquare Media has made a dozen transactions to become the 3rd largest owner of radio stations in the U.S, with 309 radio stations reaching a combined audience of 12 million. Its stations have the #1 or #2 market share in 65 of 66 small to mid-sized markets, such as Temple, Texas; St. Cloud, Minnesota; El Paso, Texas; Flint, Michigan; Owensboro, Kentucky; Lafayette, Louisiana, etc.

In addition to its radio stations, Townsquare offers advertisers several other channels to reach businesses and consumers in small towns, including streaming internet radio websites, other music and entertainment websites, and live events.

Websites include 300+ local streaming radio stations and 325+ companion sites that generate 10+ million unique visitors monthly. The Company also has one of the largest digital advertising networks focused on music content, with 16 owned and 150 affiliated websites reaching 26 million and 38 million unique visitors monthly.

Townsquare's live events business includes 650 live music and non-music branded events, which attract over 16 million attendees annually. Events include beer festivals, 5k racing events, music festivals etc. This segment of the business also includes a recently acquired business that is the #1 provider of rides, games and food concessions to fairs and festivals in North America.

In addition to offering multiple channels for advertisers, the Company also leverages its portfolio of media assets and competencies to offer value added services such as turnkey websites for SMB customers.

The Company, which came public in mid-2014, is headquartered in Greenwich, Connecticut and has about 3,000 employees.

Townsquare Media, Inc. (NYSE: TSQ)

Investment Data (as of 11/30/15)

Recent Price	\$11.43
52-Week Range	\$8.60 - \$14.35
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	27.4 M
Average Trading Volume (3 mos)	45,000
Market Capitalization	\$313 M
Cash	\$28 M
Long-term Debt	\$599 M
Enterprise Value (EV)	884 M
Book Value	\$20.20
P/ Book	0.6 x
TTM Revenue	\$422 M
EV/ Revenue	1.8 x
FY15 EPS (consensus)	\$1.36
P/ EPS	8.4
FY15 EBITDA (Estimate)	\$103 M
EV/ EBITDA	8.6x

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KEY INVESTMENT CONSIDERATIONS:

How Timesquare competes in a market that is transitioning to digital media.

- **Terrestrial radio is still relevant** - Clearly there is disruption in the way that we consume media. Increasingly services like Pandora and Netflix, have negatively impacted traditional media distribution platforms like newspapers, radio and TV. Despite disruptive technologies, radio remains strong, with 93% of Americans listening to approximately 2 hours of radio each day. According to PWC, the radio advertising spend is expected to increase by 1.8% per year from 2014 through 2019. During that same time period, radio's share of total advertising spend is expected to decline by one percentage point, versus a four percentage point drop for newspapers. The reason radio is expected to maintain its relevance in advertising is due to localized content (traffic, weather, and entertainment); as well as its large reach (9x greater than Pandora, 17x greater than Spotify). According to a recent Nielsen study, radio is still is one of the most cost-effective ways for local advertisers to reach a large audience and generates an 8x return on advertising spend.
- **Do you want fries with that?** – By leveraging sales forces of multiple media distribution channels, TSQ can offer customers a bundled offering, significantly reducing the customer acquisition costs for its incremental services. Having a full service offering also allows TSQ to maintain a sales force that can cater in local markets creating better and longer lasting customer relationships.
- **Be a big fish in a small pond** - By having the #1 or #2 market share in smaller markets, about half of its communities listen to TSQ radio stations in those markets where it competes. With this position of sufficient scale, it is easier to leverage other distribution channels (websites and events) and is large enough to be meaningful to local, as well as to national advertisers that want to reach a local audience. Smaller ponds are also less competitive, as they are overlooked by larger media and digital companies, who tend to focus on national accounts.
- **Think Local, Act Local** – Most media companies think global, but fail to act local. In other words, they have content that is not “localized”. The key to having loyal local listeners is to have great local content that is relevant to local people. “If you have great live, and local content, people will want to find it.”

Deleveraging reduces risk – Given the relative stability of revenues, it is not uncommon for a media company to carry 2x to 4x Debt/EBITDA on its balance sheet. While, TSQ carries a significant amount of leverage with a net leverage ratio of 5.7x, the Company is currently producing approximately \$100 million of annual Adjusted EBITDA and barring further acquisitions, should easily be able to reach its targeted goal of 4x over the next three years. It is important to note that debt is priced attractively and maturities are due in 2022 and 2023. In addition, the Company maintains more than adequate liquidity with a \$50 million revolver that it has not drawn against.

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KEY INVESTMENT CONSIDERATIONS: (cont.)

A management team that is financial aligned and “has been there and done that”

- **CEO Steven Price** has a successful track record of acquiring assets in secondary and tertiary markets both as an operator and as a private equity investor. Notably, he led PriCellular Corporation, a rural cellular service provider that was sold in 1998 for \$1.4 billion. Mr. Price owned 3.47 million shares, or \$50 million at the time of the acquisition.
- **CFO Stuart Rosenstein** worked with Mr. Price at PriCellular as CFO and also has experience in private equity and Big Four (E&Y) accounting firms.
- **Insider Ownership** - Insiders own approximately 16% of the company and have been buying shares. In late summer, Mr. Rosenstein and Price bought \$170,000 worth of stock at prices near current levels.

Multiple Avenues for Growth

- **Acquisitive Growth** – Acquisitions are clearly a part of the Company’s growth strategy. Management has articulated interest in buying more radio stations as well as event businesses. In recent presentations management has said they do not have an interest in overpaying for radio stations and have found it difficult to find properties that fit their criteria and fall within their valuation parameters. Instead, M&A has been more active on the event side of the business with the recent acquisition of North American Midway Entertainment (NAME), the #1 provider of rides, games and food concessions to fairs and festivals in North America. Although it appears this acquisition was not well-received by investors (the stock fell 15% the week after it was announced), it seems like a deal that very much in line with the articulated strategy. This business is expected to be accretive to 2015 earnings and has multiple opportunities to drive incremental revenue and cost synergies, not to mention the deal was struck at a very reasonable valuation (6.7x EBITDA).
- **Taking market share** – Due to the differentiated strategy and market position of its radio stations, TSQ is well positioned to continue to gain market share. For example in the most recent quarter in the markets where data is available TSQ radio station revenue increased 4.3% in markets where its peers saw a 1.2% decrease in revenue.
- **Organic Growth** – The Company has plenty of runway to grow its digital and events business and has demonstrated success in both areas. The Company continues to roll out new digital products and increased the number and contribution from events. Live events increased 14% year to date and Other Media and Entertainment revenue increased 31% over last year.

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Valuation:

	2015 Revenue	2018	Annual Growth Rate
Local Advertising	327	358	3%
Live Events	49	75	15%
Other	33	50	15%
NAME	95	107	4%
Total Revenue	504	589	6%
EBITDA Margin	20%	21%	
EBITDA	103	124	12%
Cash	28	28	
Debt	600	463	
Enterprise Value	885	1,187	
Market Cap	313	752	
Shares	27.4	28	
Multiple of EBITDA	8.6	9.6	
Share Price	\$11.42	\$26.85	

The Table above shows our back of the envelop calculation for a blended revenue growth rate of approximately 6% and EBITDA Margin expansion of approximately one percentage point over the next three years. As a result of margin expansion, EBITDA should grow at a rate approximately twice as fast as the top line.

We further assume the company uses approximately \$140 million in cash flow generation over the next three years to repay debt and that the multiple will expand by one turn to 9.6x.

Currently trading at 8.6x EV/ EBITDA, TSQ has an attractive multiple for a market leader. Assuming very modest assumptions described above, the equity value should increase more than 2 fold, as the company continues to pay down debt. Longer term, lower leverage ratios and the resulting reduced risk should allow for multiple expansion.

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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 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.	Relative Perf. vs. Russell 3000
M/A-Com Technology Solutions Holdings, Inc. (NASDAQ:MTSI)	28-Mar-15	\$35.81	\$36.95	3.2%	-5.9%	9.1%
Kimball International, Inc. (NASDAQ:KBAL)	30-Apr-15	\$10.38	\$12.37	19.2%	-6.7%	25.8%
Ironclad Performance Wear Corp. (OTC:ICPW)	30-May-15	\$0.27	\$0.31	14.8%	-7.7%	22.5%
Customers Bancorp, Inc. (NYSE: CUBI)	30-Jun-15	\$26.87	\$31.00	15.4%	-6.0%	21.4%
Potbelly Corporation (NASDAQ: PBPB)	30-Jul-15	\$13.43	\$12.47	-7.1%	-7.6%	0.4%
Cosi Inc. (NASDAQ:COSI)	31-Aug-15	\$1.17	\$0.48	-58.7%	-1.3%	-57.4%
Calloway Golf Company (NYSE: ELY).	30-Sep-15	\$8.39	\$10.08	20.1%	1.8%	18.3%
New Gold (NYSE: NGD).	31-Oct-15	\$2.47	\$2.21	-10.5%	0.3%	-10.9%
				Average	-0.5%	3.7%

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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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