

Mossberg's Investor Digest

From the Editor...

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Headquartered in Hamden, CT, 21-year-old **TransAct Technologies, Inc. (Nasdaq: TACT)** is a global provider of thermal, inkjet, and impact printing solutions (software and hardware) for multiple end-markets including: casino and gaming, lottery, restaurants, food safety, banking, point-of-sale, hospitality, oil and gas, and medical and mobile.

This is a stable and attractive business that is at the early stages of significant growth in selling terminals into the restaurant industry. Growth in this segment will be driven food service providers realizing that there are significant efficiencies to be gained by using cloud based technologies through a unified terminal in the back of the house operations, as well as increased regulations on food safety.

We expect that most growth will come from the restaurant solution segment and assume more than 30% annual growth in this segment over the next three years. Profits will grow faster than the bottom line as the company benefits from improving gross margin and fixed costs leverage. Our back of the envelope calculation yields \$0.94 to \$1.14 in EPS during the next 2-3 years. Applying a 20x multiple would yield a \$19 and \$23 valuation respectively.

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Issue #113

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...

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Best Idea Profile:

TransAct Technologies Incorporated (Nasdaq: TACT)

DESCRIPTION:

Headquartered in Hamden, CT, 21-year-old **TransAct Technologies, Inc. (Nasdaq: TACT)** is a global provider of thermal, inkjet, and impact printing solutions (software and hardware) for multiple end-markets including: casino and gaming, lottery, restaurants, food safety, banking, point-of-sale, hospitality, oil and gas, and medical and mobile.

The Company reports revenue in six categories:

1) Restaurant solutions (8% of rev) - Hardware and software solutions that print easy-to-read labels for prepared foods to help restaurants effectively manage food spoilage and automate and manage back-of-the-restaurant operations. These printers also play an important role in helping food preparers manage food safety risk.

2) POS automation and banking (15% of rev) - POS thermal and impact printing used primarily by restaurants to print receipts for consumers or print on linerless labels. This category also includes inkjet printers that are primarily used by banks to print deposit or withdrawal receipts and/or validate checks at bank teller stations.

3) Casino and gaming (33% of rev) - Thermal printers used in slot machines and video lottery terminals and other gaming machines that print tickets or receipts instead of issuing coins. This category also includes thermal printer for use in non-gambling applications which include amusement games with prizes, and other applications

4) Lottery (18% of rev) - High-volume, high-speed printers used to produce lottery tickets. TACT is the primarily supplier of lottery printers to IGT (NYSE:IGT), the world's largest provider of lottery terminals.

5) Printrex (2% of rev) - Wide format thermal printers used by oil & gas customers to log and plot drilling data. This category also includes a wide-format vehicle-based thermal printers for use for fire, police, EMS, insurance, public utilities, and delivery vehicles

TransAct Technologies Inc. (Nasdaq: TACT)

Investment Data (as of 11/30/17)

Recent Price	\$13.60
52-Week Range	\$6.00 - \$14.20
Fiscal Year End	December
Dividend	\$0.33
Yield	2.3%
Shares Outstanding	7.4 M
Average Trading Volume (3 mos)	30,000
Market Capitalization	\$97M
Cash	\$5 M
Long-term Debt	-
Enterprise Value (EV)	\$92M
TTM Revenue	\$56M
EV/ Revenue	1.6x
FY17 EPS (consensus est.)	\$0.63
P/E	20.9x
TTM EBITDA	\$9 M
EV/EBITDA	10.2x
Book Value Per Share	\$3.39

6) TransAct Services Group (24% of rev) - This category includes the sale of consumable products (including inkjet cartridges, ribbons, receipt paper, and other printing supplies), replacement parts, maintenance and repair services and testing services.

The Company employs approximately 120 people.

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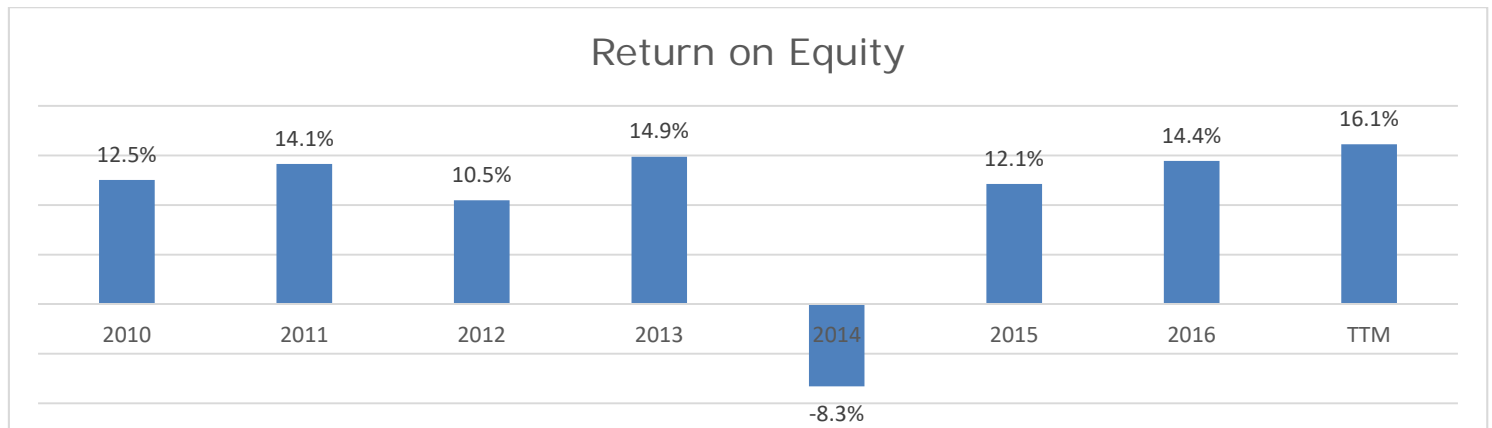
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KEY INVESTMENT CONSIDERATIONS:

Why is this a good business?

- 1) **Strong returns on capital** – The ultimate value of any company should be determined by the return that it makes for its shareholders. The chart below shows the historical track record of TACT's ROE since 2010. With the exception of 2010, which included \$5 million of legal fees to settle patent litigation, the company has consistently delivered double-digit return on equity. With expanding profitability on the horizon, returns could approach the high teens/ low 20's in the next several years.

Asset light business Model – Because the company outsources its manufacturing, the primary investment requirements are in working capital. The Company has fairly efficient working capital metrics, turning inventory more than 3x per year and days sales outstanding in the mid 60's. Essentially this means there is less investment required to generate growth and profit. With this model, for every one percentage point improvement in profitability, returns expand at 1½ to 2 percentage points.



- 2) **Growing base of recurring revenue** – Approximately 24% of year-to-date revenue was derived from the TransAct Services Group, which include the recurring sale of consumable products, replacement parts, and maintenance and repair services. This part of the business is highly recurring in nature and is also among the fastest growing segments of the business, increasing 34% year to date. There is also a recurring nature to a large portion of sales that are made to OEM customers, who incorporate TACT's technology into their products. Once "designed in" to these manufacturers, there is recurring nature can last for several years.

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KEY INVESTMENT CONSIDERATIONS:

3) Strong secular growth theme in the restaurant vertical

- **Back-of-the-house restaurant terminals** – The Company's AccuDate product line offers terminals that combine operating systems, touch screens and thermal printers to help food service establishments print easy-to-read food rotation labels, grab and go labels for prepared foods, and "enjoy by" date labels. Integration with management software from Crunchtime and Jolt allows the terminal to be a central hub in the back of the house for collecting and managing a variety of other back-of-the-house operations including the following:
 - Manage Food Spoilage
 - Food Cost Management
 - Inventory Management
 - Labor Management
 - Forecasting and Planning
 - Temperature monitoring
 - Menu Management
 - Supply chain and vendor management
 - Enterprise reporting
 - Many other tasks
- **Compelling value proposition to drive adoption** Restaurants and food service operators are increasingly seeking in-kitchen technology solutions that drive enhanced operating efficiency.
 - **Printing labels allows systems to capture data** – Traditionally, back of the house labels were written on tape or labels, which is time intensive, and prone to human error. Incorrect or ineligible hand written labels can lead to food waste and/or improper hold times. The process of printing not only significantly reduces issues related to human error, it also allows data to be captured in the system in an easy to use way. In turn, this data can be used to drive a variety of efficiencies, as well as reporting and comparative analysis.
 - **Payback measured in months** – About one quarter to one third of restaurant costs are food, so reducing food waste, even by a few percentage points can translate into big time savings for the company. According to management, customers trialing TACT's terminals were able to achieve a payback in "a couple of months".
- **Food Safety Modernization Act to drive adoption** - Passage of Food Safety Modernization Act in 2010 is a key catalyst behind the development of electronic terminal solutions.
 - **Outbreaks of foodborne illness are shockingly high** – While hurting your brand, or your making your customers sick should be reason enough for food retailers and restaurants to follow food safety guidelines, the reality is that these reasons are not enough. An estimated 1 in 6 Americans get sick from foodborne illness every year, resulting in 128,000 hospitalizations and 3,000 deaths. Young children, the elderly, pregnant women and their expected children are especially susceptible to foodborne pathogens such as Salmonella, E. coli and Listeria.
 - **Strong Selling Tool.... We can help you NOT go to jail** - The Food Safety Modernization Act (FSMA) is putting pressure on food retailers and restaurants. FSMA was signed into law in 2011, but has just begun to be implemented over the past year. Among a long list of other rules related to Food, the Act essentially mandates continuous monitoring of food handling and preparation in compliance with Hazard Analysis and Critical Control Point (HACCP) guidelines. Basically the "guidelines" are now "the law" and not following the law offers serious consequences not only in terms of civil liability, but also criminal liability. Under Supreme Court case law, the "Park Doctrine" provides that corporate officials can be held criminally liable (second time offense is a felony) and there does not have to be proof that the corporate official acted with intent, or even negligence. The number of criminal prosecutions is just beginning to increase, and as we start to see food industry executives in orange jump suits, food safety will become the top priority for every industry executive.

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Valuation

		2016	2017	2018	2019	2020
	Growth Rate					
Restaurant solutions	30%	5.2	5.5	7.1	9.2	12.0
POS automation and banking	0%	10.5	8.1	8.1	8.1	8.1
Casino & Gaming	0%	21.0	18.7	18.7	18.7	18.7
Lottery Printer	0%	9.9	10.1	10.1	10.1	10.1
Printrex	0%	0.3	1.2	1.2	1.2	1.2
TSG	5%	10.1	13.8	14.5	15.2	15.9
Total Revenue		57.0	57.3	59.7	62.5	66.0
Revenue Growth			1%	4%	5%	6%
Gross Profit		23.8	26.4	28.0	30.0	32.4
Gross Margin		41.8%	46.0%	47.0%	48.0%	49.0%
SG&A	50% of rev growth	18.6	19.2	19.6	20.1	20.7
Operating Income		5.2	7.1	8.4	9.9	11.7
Net Income		3.6	4.9	5.7	6.7	8.0
Share Count			7.5	7.4	7.2	7.0
EPS		\$0.47	\$0.65	\$0.78	\$0.94	\$1.14

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

- **Overall Revenue growth** – Our revenue line shows modest single-digit growth beginning in 2018 and accelerating at approximately one percentage point per year.
- **Restaurant Growth** – We expect that most growth will come from the restaurant solution segment and assume a 30% growth pace over the next three years. There are 600,000+ food service locations worldwide with potential for multi-terminal installation and according to management, the market opportunity is in excess of \$500 million annually. Growth in the restaurant solutions group has accelerated recently with revenue growth of 86% during the most recent quarter. Given the size of the revenue opportunity and relatively small segment size, we believe 30% growth could prove to be very conservative.
- **TSG Revenue Growth** – This is the segment that includes consumables and services related to the installed base. We conservatively estimate 5% annual revenue growth in this segment to reflect the growth in the restaurant terminals, which are required to use TACT's labels in order to validate the warranty.
- **Other Revenue Categories** – We did not try to forecast the other revenue categories. To determine our 2017 base line, we used a revenue run rate based on year-to-date and third quarter revenue and then assumed zero growth afterwards. Given the recovery of the Casino/ Gaming market, we believe this may also prove to be conservative.
- **Gross margin** – Gross Margin has already improved more than four percentage points this year. Given the mix shift, we expect margins could approach 50% over the next several years and have assumed a one percentage point improvement each year.
- **SG&A** – We expect SG&A costs to grow at approximately 50% of the pace of sales, which reflects the operating leverage in the business.
- **Share Repurchases** – We assume the company will continue to reduce share count at a pace of 200k per year. During the past six years the company has repurchased more than 2 million shares, or 20% of the share base.
- **Significant upside potential** - Our back of the envelope calculation yields \$0.94 to \$1.14 in EPS during the next 2-3 years. Applying a 20x multiple would yield a \$19 and \$23 valuation respectively.

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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	\$14.51	72.9%	40.1%	32.8%	
New Gold (NYSE: NGD)	31-Oct-15	\$2.47	\$3.13	26.5%	32.7%	-6.2%	
Townsquare Media (NYSE: TSQ)	30-Nov-15	\$11.43	\$7.93	-30.6%	28.7%	-59.3%	
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	\$11.72	\$8.20	-30.0%	35.8%	-65.8%	
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$107.31	72.6%	49.0%	23.6%	
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$32.00	48.6%	49.2%	-0.6%	
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$3.22	94.0%	38.4%	55.5%	
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$8.75	36.9%	36.4%	0.5%	
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$3.66	128.8%	34.1%	94.7%	
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$33.22	315.8%	33.9%	281.9%	
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$22.24	55.7%	26.4%	29.3%	
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$14.80	33.1%	24.4%	8.7%	
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	23.2%	21.2%	
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$18.23	38.5%	29.5%	9.1%	
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$7.83	8.0%	16.6%	-8.6%	
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$3.60	-76.4%	13.6%	-90.0%	
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$10.45	80.2%	13.3%	66.9%	
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	11.2%	-3.6%	
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.60	51.6%	11.3%	40.3%	
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$2.15	42.4%	10.1%	32.3%	
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$12.55	17.8%	12.6%	5.3%	
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$1.45	45.0%	9.0%	36.0%	
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$7.00	-16.5%	8.2%	-24.7%	
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$36.80	8.9%	9.8%	-0.9%	
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$4.20	-12.1%	3.5%	-15.6%	
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$16.75	7.0%	3.4%	3.6%	
				Average	41.2%	23.2%	17.9%

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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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