

Mossberg's Investor Digest

From the Editor...

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Headquartered in Houston, TX, 45-year-old **Team, Inc. (NYSE: TISI)** is a leading provider of specialty industrial services including the installation, maintenance, repair, engineering assessment and inspection of high-temperature and high-pressure piping systems and vessels used in pipelines and in petrochemical, power other heavy industrial plants.

Numerous factors have led the decline in margin performance since the company's combination with Furmanite in early 2016. Clearly the company didn't realize the \$20 to \$25 million of annual costs savings contemplated at the beginning of the merger, and instead costs increased significantly. In addition, the company faced headwinds with a customer base that was delaying maintenance spending due to budget constraints. While these factors drove margin performance lower, it does not appear that there are any secular drivers of costs, or price erosion. Therefore, a refocused effort to reduce costs and efforts to improve efficiency are likely to drive margin performance back to their previous levels.

In our back of the envelope calculation, we expect modest revenue growth of 3% and EBITDA margins to improve to 10% of sales over the next three years. After paying down debt and applying an 8x EV/ EBITDA multiple we calculate a value of \$33 per share, 90% upside from current levels.

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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...

Intevac, Inc. (NASDAQ: IVAC) – Is a leader in the design and development of high productivity, thin film processing systems. Their production-proven platforms are designed for high volume manufacturing of substrates with precise thin film properties. Their technology solutions improve performance and throughput, and continue to expand into additional markets – including solar and adjacent thin film deposition applications. They are also a recognized leading developer of advanced high-sensitivity digital sensors, cameras and systems that primarily serve the defense industry. They are the sole source provider of integrated digital imaging systems for most U.S. military night vision programs.

Sportsman's Warehouse Holdings, Inc. (NASDAQ: SPWH) - Is a high-growth outdoor sporting goods retailer focused on meeting the everyday needs of every outdoor enthusiast. Their core strategies help position Sportsman's Warehouse as the "local outdoor experts" and the preferred place to both shop and share outdoor-based experiences in the communities they serve throughout western United States. They are expanding their loyal customer base in existing markets and increasing their store footprint in new markets.

Vista Outdoor Inc. (NYSE: VSTO) - Is a leading global designer, manufacturer and marketer of consumer products in the growing outdoor sports and recreation markets. Their brands include Blackhawk, Savage Arms, Bushnell, Bell, CamelBak and several other well-known brands. They are in a large addressable growing market approximately \$93B. With multiple avenues to deploy capital their balanced growth strategy and strong customer relationships will allow them to grow along the way.

The Andersons, Inc. (NASDAQ: ANDE) - Engages in the grain, ethanol, plant nutrient, railcar leasing, turf and cob products, and retailing businesses in the United States and internationally. It operates through five segments: Grain, Ethanol, Rail, Plant Nutrient, and Retail. They are value oriented and committed to a strong and aggressive pursuit of profit and shareholder value growth. They do this through extraordinary service, a deep knowledge of the market and a knack for finding new ways to add value as they have done for 70 years.

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Best Idea Profile:

Team, Inc. (NYSE: TISI)

DESCRIPTION:

Headquartered in Houston, TX, 45-year-old **Team, Inc. (NYSE: TISI)** is a leading provider of specialty industrial services including the installation, maintenance, repair, engineering assessment and inspection of high-temperature and high-pressure piping systems and vessels used in pipelines and in petrochemical, power other heavy industrial plants.

The Company has three business segments:

- 1) **TeamQualspec - Inspection and Heat Treating** (~48% of revenue) This segment includes inspection services for machined parts and industrial structures that experience extreme loads and fatigue. It also includes field heat treating services, which are used to improve the quality of welding joints, improve the strength of high pressure vessels, and other specialty purposes.
- 2) **TeamFurmanite - Maintenance** (~47% of revenue) This segment provides maintenance and repair services while a facility is operating, as well as while a facility is shut down during scheduled and/or unscheduled turnarounds. These services include leak repair, leak detection, hot tapping, field machining, valve repair and insertion, field welding and other specialized services.
- 3) **Quest Integrity - Asset Integrity and Reliability** - (~5% of revenue) provides 360-degree 100% coverage ultrasonic inspection services for serpentine coils of fired heaters, and inspection of pipelines that are considered "un-piggable", or too challenging to inspect by traditional inspection methods. This segment also offers a variety of advanced engineering assessment services using propriety software and analytical models to assess fitness-for-services, failure analysis, materials consulting and other specialized services.

The Company employs 7,400 employees in a network of 220+ locations in over 20 countries, with the bulk of revenue (74%), derived in the U.S. At 11% of revenue, Canada is the next largest area.

Team, Inc. (NYSE: TISI) Investment Data (as of 1/30/18)

Recent Price	\$16.95
52-Week Range	\$10.45 - \$18.05
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	29.9 M
Average Trading Volume (3 mos)	540,000
Market Capitalization	\$507M
Cash	\$27M
Long-term Debt	\$366M
Enterprise Value (EV)	\$875M
TTM Revenue	\$1.2B
EV/ Revenue	0.7x
FY18 EPS (consensus est.)	\$0.29
P/E	58x
Book Value Per Share	\$15.20

Following the company's acquisition of Qualspec in 2015 and merger with Furmanite in 2016, the company has struggled with integration and realizing benefits of the business combinations. To address these issues, the Company recently hired a new CEO, and has embarked on a multi-phase turnaround strategy.

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KEY INVESTMENT CONSIDERATIONS:

Management Change

New CEO – A few days ago (January 24) 47-year-old Amerino Gatti took the reigns as CEO of TEAM. Mr. Gatti is an industry veteran, serving 25 years at Schlumberger in his last position overseeing 20,000 employees in 85 countries. While, Mr. Gatti's base salary of \$850,000 is nearly 50% higher than the former CEO, it's not out of line with a company of this size. In addition, his total comp package aligns him well with that of shareholders. He was granted a one-time restricted stock grant of 350,000 shares that only vests upon the stock price reaching certain milestones during the next five years. Added up, this is \$10.5 million payday if he achieves these targets.

- 20% upon achievement of a Company stock price of \$20
- 20% upon achievement of a Company stock price of \$25
- 20% upon achievement of a Company stock price of \$30
- 20% upon achievement of a Company stock price of \$35
- 20% upon achievement of a Company stock price of \$40

Cost Cutting

	2010	2011	2012	2013	2014	2015	2016	2017e
Revenue	454	508	624	714	750	842	1,197	1,200
Adjusted EBITDA	46.004	63	79	79	78	99	86	48
EBITDA Margin	10%	12%	13%	11%	10%	12%	7%	4%

Numerous factors have led the decline in margin performance since the company's combination with Furmanite in early 2016. As shown in the table above, TISI's reported EBITDA margins were consistently in the 10% to 12% range, and then fell to mid-single digit over the past two years. Clearly the company didn't realize the \$20 to \$25 million of annual costs savings contemplated at the beginning of the merger, and instead costs increased significantly. In addition, the company faced headwinds with a customer base that was delaying maintenance spending due to budget constraints. While these factors drove margin performance lower, it does not appear that there are any secular drivers of costs, or price erosion. Therefore, a refocused effort to reduce costs and efforts to improve efficiency are likely to drive margin performance back to their previous levels.

Phase I Cost Reductions: The company articulated \$30 million in cost cutting which began in Q3 2017 and is expected to be fully implemented by the end 2017. These cost cuts included a reduction in temporary labor and enhance coordination to share full-time resources between business units.

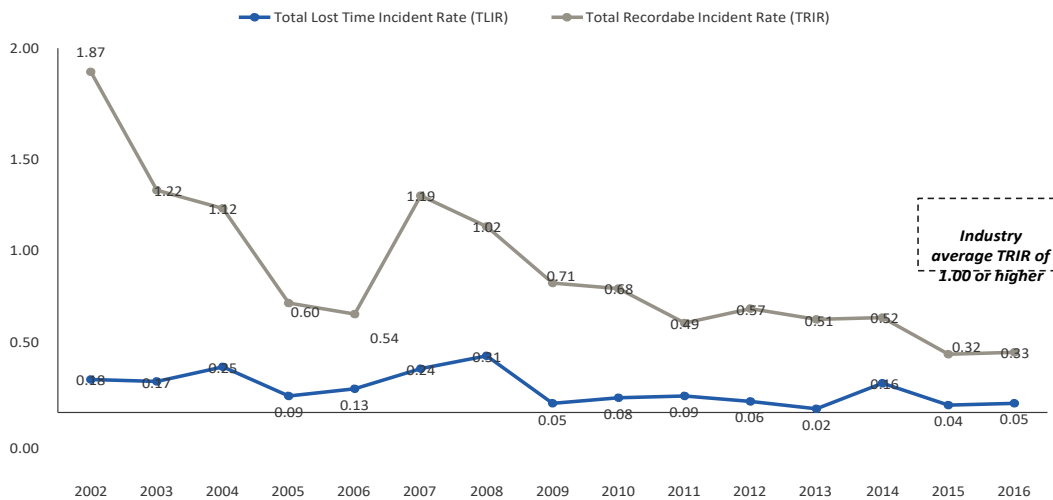
Phase II Efficiency improvements: The company has implemented a new ERP system and recently engaged outside consulting firm Alvarez & Marshall to evaluate and help improve business development and other business processes to improve efficiency, as well as searching for additional cost reduction opportunities without negatively impacting service capabilities or performance.

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Market Leader with Strong Value proposition

Services are Mission Critical to Customers - Being one of the largest providers in the U.S. with a large footprint and a breadth of product offering is very important for customers that rely on Team's services to help minimize the downtime of revenue generating assets. As such the company has a reputation for consistently delivering on time and has built long term customer relationships. TISI's top 20 customers have had a relationship with Team for 10+ years.

High Standards for Safety – Team also has one of the best track records of injury rates in the industry, which is also a key differentiator for customers. The chart below shows the company's track record of incident rates over the past 15 years, which is far below the industry rate of 1.00.



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Valuation

	2018	2019	2020
Revenue	1,236	1,273	1,311
Growth Rate	3%	3%	3%
Adjusted EBITDA	74	108	131
EBITDA Margin	6.0%	8.5%	10.0%
Cash Flow Generation	67	97	118
Cash	27	27	27
Debt	299	202	84
Enterprise Value			1049
EV/ EBITDA			8
Market Cap			992
Shares Outstanding			30
Share Price			\$33.07

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

- **Revenue growth** – We expect revenue for the next three years will grow in the low-single digits (3%). Our assumption is supported by pent up demand from deferred maintenance spending across the industry driven by capital budget cuts since 2014. In combination with an aging infrastructure, we believe 3% could prove to be conservative.
- **EBITDA margin** – Our model assumes EBITDA margins will grow to approximately 10% of sales, which is consistent with historical rates, as well as the cost reductions and efficiency plans the company has put in place.
- **Cash Flow** – We estimate cash generation will be approximately 90% of EBITDA. We assume that all cash flow will be used to pay down debt resulting in a substantial reduction in debt levels over each of the next three years.
- **90%+ upside in the next three years.** We use an enterprise value to EBITDA multiple of 8x the model's 2020 estimated EBITDA and work backwards from enterprise value to yield a valuation of \$33 in three years, which equates to 90%+ upside from current levels.

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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	\$15.05	79.4%	43.8%	35.6%
New Gold (NYSE: NGD).	31-Oct-15	\$2.47	\$3.01	21.7%	36.2%	-14.6%
Townsquare Media (NYSE: TSQ)	30-Nov-15	\$11.43	\$7.42	-35.1%	32.1%	-67.2%
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	\$11.72	\$8.65	-26.2%	39.3%	-65.5%
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$117.67	89.2%	52.9%	36.4%
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$32.00	48.6%	53.1%	-4.5%
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$3.41	105.4%	42.1%	63.3%
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$8.66	35.5%	40.0%	-4.4%
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$3.35	109.4%	37.6%	71.8%
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$28.42	255.6%	37.4%	218.2%
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$34.60	142.3%	29.7%	112.6%
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$14.15	27.2%	27.7%	-0.4%
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	26.5%	17.9%
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$19.69	49.6%	32.9%	16.8%
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$9.10	25.5%	19.7%	5.8%
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$3.60	-76.4%	16.6%	-93.0%
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$10.23	76.3%	16.2%	60.1%
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	14.1%	-6.6%
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.30	49.5%	14.2%	35.3%
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$2.38	57.6%	13.0%	44.6%
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$13.55	27.2%	15.5%	11.7%
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$1.26	26.0%	11.8%	14.2%
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$8.23	-1.8%	11.1%	-12.9%
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$39.20	16.0%	12.6%	3.3%
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$3.14	-34.3%	6.2%	-40.5%
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$18.68	19.3%	6.2%	13.2%
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$15.35	12.9%	2.5%	10.4%
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$15.93	3.7%	3.1%	0.6%
				Average	41.3%	24.8%
						16.5%

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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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