

Mossberg's Investor Digest

From the Editor...

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

Headquartered just outside of Baltimore, 40-year old **GSE Systems, Inc. (NYSE:GVP)** is a world leader in technical engineering and consulting services for the power industry, initially focused on nuclear power plants. The Company has expertise in simulation, visualization, engineering and training to reduced risk, enhance employee performance and improve technical engineering and design.

The current management team took control of the company in Mid-2015 and have led a successful turnaround that has returned the company to profitability and positioned it to be an active consolidator. The revenue run rate of \$100 million at the end of 2017 is nearly twice that of revenue levels at the beginning of the turn around, and EBITDA and earnings have gone from significant losses to positive. During 2017, the company posted \$5.8 million in EBITDA, a margin of 8.5%, which is within the targeted range of profitability. The future is bright enough that that management expects it will be earning sufficient taxable income to justify adding back a portion of its \$20 million in NOLs. The Company has identified more than 150 companies that service the nuclear power ecosystem and has highlighted a strategic plan to be an active consolidator in the space. The Company expects to reach \$300 million in revenue and \$20 to \$30 million in EBITDA by 2020, primarily through acquisitive growth.

Publicly traded peers have historically traded in the 10x to 12x range, so we believe it is reasonable to assume that the valuation multiple will expand to at least 10x, especially as the company grows revenue and market cap. By applying a 10x multiple to our forecasted 2020 EBITDA of \$22 million, we work backwards from enterprise value to come up with a value north of 3X the current value.

Dave Mossberg
Dave@mossbergid.com

March 2018

Issue #117

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...

Global Brass and Copper Holdings, Inc. (NYSE: BRSS)- is a leading, value-added converter, fabricator, processor and distributor of specialized non-ferrous products in North America. They engage in metal melting and casting, rolling, drawing, extruding and stamping to fabricate finished and semi-finished alloy products from processed scrap, copper cathode and other refined metals. Their products include a wide range of sheet, strip, foil, rod, tube and fabricated metal component products that we sell under the Olin Brass, A.J. Oster and Chase Brass brand names. Their products are used in various markets, including the building and housing, munitions, automotive, transportation, coinage, electronics/electrical components, industrial machinery and equipment and general consumer markets.

U.S. Concrete, Inc. (Nasdaq: USCR)- Operates and sells its products and services in the United States. Through their operating companies, U.S. Concrete serves major construction markets in the United States in two business segments: ready-mixed concrete and aggregate products. The Company provides its products and services from its operating companies in Texas, Northern California, Oklahoma, New Jersey, New York, Washington, D.C., Philadelphia and British Columbia.

Data I/O Corporation (Nasdaq: DAI0)- Is the world's leading provider of manual and automated security provisioning and device programming systems for Flash, Microcontroller and Logic devices. Since 1972 Data I/O has developed innovative solutions to enable the design and manufacture of electronic products for automotive, Internet-of-Things, medical, wireless, consumer electronics, industrial controls and other markets.

Aspen Aerogels, Inc. (NYSE: ASPN)- Is a leading energy technology company providing innovative thermal management solutions to the \$2.8 billion energy insulation market. Aspen's aerogel insulation is up to five times more effective than traditional insulation materials, while being industrially robust across a broad temperature range in a space-saving, easy-to-use form, making it the most efficient industrial insulation on the market.

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

www.mossbergid.com

Mossberg's Investor Digest

Best Idea Profile:

GSE Systems, Inc. (NYSE:GVP)

DESCRIPTION:

Headquartered just outside of Baltimore, 40-year old **GSE Systems, Inc. (NYSE:GVP)** is a world leader in technical engineering and consulting services for the power industry, initially focused on nuclear power plants. The Company has expertise in simulation, visualization, engineering and training to reduced risk, enhance employee performance and improve technical engineering and design.

The Company is considered as a thought leader in the industry and has a successful 40-year track record of servicing well-known leaders in the energy space including Southern, Company, TVA, Exelon, Duke Energy, Emerson, ABB among many others.

GSE has approximately 450 employees who work from offices in the U.S., China and at client sites in various locations around the world.

The current management team took control of the company in August-2015 and have led a successful turnaround that has returned the company to profitability and positioned it to be an active consolidator. The Company has identified more than 150 companies that service the nuclear power ecosystem and has highlighted a strategic plan to be an active consolidator in the space. The Company expects to reach \$300 million in revenue and \$20 to \$30 million in EBITDA by 2020, primarily through acquisitive growth.

GSE Systems, Inc. (NYSE:GVP)

Investment Data (as of 3/29/18)

Recent Price	\$3.25
52-Week Range	\$2.35 - \$3.85
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding*	19.4 M
Average Trading Volume (3 mos)	15,000
Market Capitalization	\$63 M
Cash	\$20 M
LT Debt	N/A
Enterprise Value (EV)	\$43 M
2017 Proforma * EV/ Revenue	\$100 M 0.4x
2017 Proforma EBITDA* EV/ EBITDA	\$7 M 6.1x
Book Value Per Share	\$1.53
*proforma based on full year contribution from acquisition completed in September '17	

Mossberg's Investor Digest

KEY INVESTMENT CONSIDERATIONS:

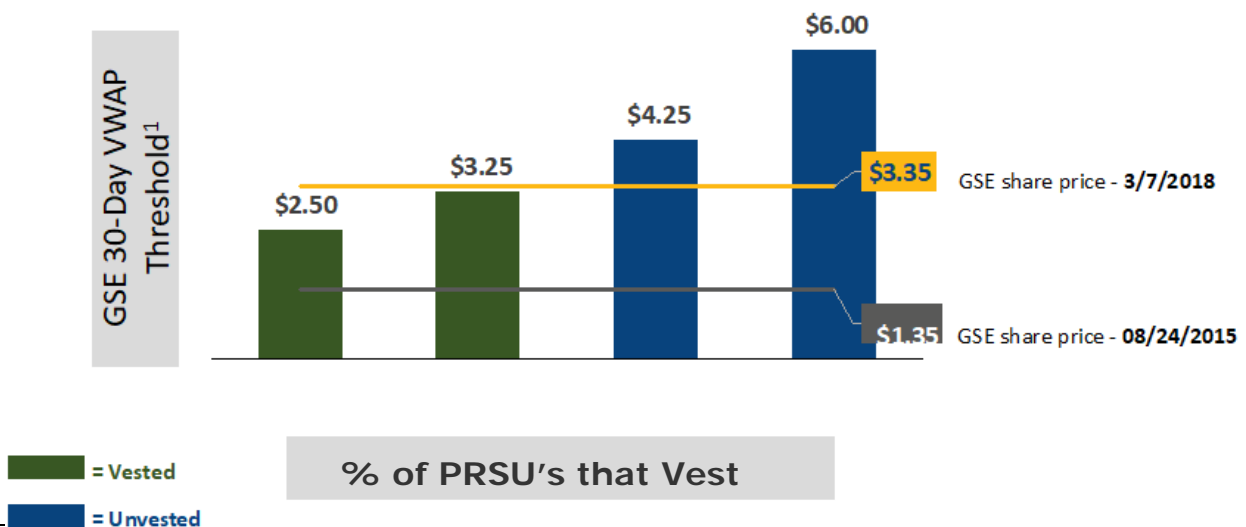
Successful Turn-around

The current management team took control of the company in August-2015 and have led a successful turnaround that has returned the company to profitability and positioned it to be an active consolidator. The revenue run rate of \$100 million at the end of 2017 is nearly twice that of revenue levels at the beginning of the turn around, and EBITDA and earnings have gone from significant losses to positive. During 2017, the company posted \$5.8 million in EBITDA, a margin of 8.5%, which is within the targeted range of profitability. Average return on equity* for the past two years is above 10%. (*Using an average of 2017 and 2016 adjusted net income). The future is bright enough that that management expects it will be earning sufficient taxable income to justify adding back a portion of its \$20 million in NOLs. At the end of last year, the company added \$9 million (gross) in deferred tax assets to the balance sheet.

Experienced management team aligned with shareholder interests

- **Kyle Loudermilk** assumed the position of CEO and President of August of 2015 and has extensive experience in successfully growing companies both organically and through M&A. He has 20+ years of experience, including leadership positions at private equity backed companies including Datatel/Ellucian (backed by Hellman & Friedman), as well as executive positions with public companies, AspenTech and MicroStrategy.
- **Chris Sorrells** took the role of Chief Operating Officer in August 2015 and has served on the board since March of 2012. Prior to this, Mr. Sorrells was Managing Director and Operating Partner at an affiliated fund of NGP Energy Capital, GVP's largest shareholder (13.5% of shares outstanding). Sorrells has 20+ years of experience creating growth strategies for companies that are at the intersection of energy and technology industries and is highly experienced utilizing M&A to grow platform businesses.

Loudermilk and Sorrells have run and built businesses that are far larger than GSE is today. They also have a significant stake in the company and their incentives are in line with shareholders. In total, executive officers own approximately one million shares (5% of the company) and the majority of stock compensation is in PRSU (Performance-Restricted Stock Units). The chart below is from the most recent investor presentation



We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

Mossberg's Investor Digest

KEY INVESTMENT CONSIDERATIONS:

Consolidating a Fragmented Market

Highly fragmented \$4 billion market opportunity – The Company has identified more than 150 companies that service the nuclear power ecosystem and has highlighted a strategic plan to be an active consolidator among the four major categories as shown in the chart below. The Company expects to reach \$300 million in revenue and \$20 to \$30 million in EBITDA by 2020, primarily through acquisitive growth. At that size, the company stands to gain significant efficiencies of scale.

Recent acquisition - In September of 2017, the company completed the acquisition of Absolute Consulting for approximately \$9 million in cash, which equates to a valuation of 9x EBITDA pre-acquisition, and 4.5x EBITDA post-acquisition cost synergies. Absolute brings approximately \$40 million in revenue and \$1 million in EBITDA, excluding cost synergies. The Company has identified approximately \$1 million in cost synergies between the two organizations.

Market Size:	\$1 billion+	\$1.2 billion+	\$700 Million+	\$1 billion+
	Technical Engineering	Staffing & Training	Simulation / Software	Value Added Components / Services
Typical Rev. Range:	\$10-50M	\$10-80M	\$5-15M	\$10-60M
Gross Margin:	30-40%	12-15%	75-85%	30-40%
# of Opportunities:	70+	100+	30+	30+
Business Model:	Fixed price, and time and material contracts	Time and material contracts	Sale of perpetual license with recurring MX, or SaaS annual subscription	Sale of parts and equipment; time and materials for services

Source: Company Presentation

Mossberg's Investor Digest

KEY INVESTMENT CONSIDERATIONS:

Favorable Industry Drivers

Nuclear as a power source isn't going away– Nuclear Power is a stable and reliable source of energy operating in more than 30 countries around the world. In the U.S., 20% of electricity is generated from nuclear reactors. Sixteen countries depend on at least one quarter of their electricity from nuclear power. In these countries there is no other choice but to continue to use nuclear power. In fact, nuclear power is growing worldwide. According to the World Nuclear Association, around 11% of the world's electricity is generated by about 450 nuclear power reactors. About 60 more reactors are under construction, equivalent to 16% of existing capacity. There are additional 150-160 reactors planned, equivalent to nearly half of existing capacity.

Aging workforce crisis – According to NEI, 39% of the nuclear workforce will be eligible for retirement by 2018, which means the industry must hire 20,000 new workers over the next four years to replace those retiring workers. This means the demand should be high for GSE services to train new workers to fill those positions.

Rising demand for carbon-free electricity – According to NEI, nuclear energy is America's top source of carbon-free electricity and avoids more than 1/2 billion tons of carbon emissions each year.

State subsidies for nuclear power are gaining momentum – Illinois and New York have recently passed subsidies for nuclear power generation and more states are coming. Connecticut is planning a subsidy and other states with pending legislation include New Jersey, Ohio, Pennsylvania, and Minnesota

Mossberg's Investor Digest

Valuation

	2017	2018	2019	2020
Revenue Run Rate	100	150	218	294
Organic Growth		3%	3%	3%
Acquisitive Growth		50%	45%	35%
Organic Growth		3	5	7
Acquisitive Growth		25	34	38
Revenue	71	128	188	262
EBITDA Margin	8.2%	8.5%	8.5%	8.5%
EBITDA	6	11	16	22
Free Cash Flow		5	8	11
Acquisition Price		-21	-29	-32
Debt Financing		10	10	10
Cash	20	14	12	11
Debt	0	10	20	30
EV/ EBITDA Multiple				10
Enterprise Value				223
Market Capitalization				204
Shares Outstanding				19.4
Share Value				\$10.53

Our back of the envelop valuation above makes the following assumptions regarding valuation:

Revenue: We assume a 3% organic revenue growth rate annually over the next three years. We assume roughly \$200MM in acquired revenue, which is consistent with the GSE's plans for a \$300MM run rate by the end of 2020. In our model, we assume that acquisitions are completed and begin contributing revenue during the mid-point of each year. We normally don't try to forecast acquisitive revenue due to the obvious uncertainties. Nevertheless, this will clearly be part of the GSE's strategy.

EBITDA Margin: We use an EBITDA margin of 8.5%, which is approximately 30 basis points higher than GSE's 2017 performance and within the management's targeted range of 7% to 10%.

Free Cash Flow: We assume approximately 50% EBITDA as proxy for free cash flow, which will be used to partially finance acquisitions.

Financing: It is possible if the stock were to move to much higher valuations GSE could use equity to finance acquisitions, however, our model assumes financing from cash flow and debt. Even at the peak of \$30 million in our model, there should be more than enough liquidity to safely carry this amount of leverage at that point.

Acquisitions: Our model assumes acquisitions can be made at approximately 4x to 6x acquired-company EBITDA and assume acquired companies historically produce EBITDA margin that is slightly less than GSE. Post-acquisition, we assume acquired revenue will generate company-average EBITDA margin of 8.5%.

Valuation: Publicly traded peers have historically traded in the 10x to 12x range, so we believe it is reasonable to assume that the valuation multiple will expand to at least 10x, especially as the GSE grows revenue and market cap. Applying a 10x multiple to forecasted 2020 EBITDA of \$22 million, we work backwards from enterprise value to come up with a value north of 3X the current value.

Mossberg's Investor Digest

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. Date	Relative Perf. vs. Russell 2000
Calloway Golf Company (NYSE: ELY).	30-Sep-15	\$8.39	\$16.38	95.2%	37.5%	57.7%
New Gold (NYSE: NGD).	31-Oct-15	\$2.47	\$2.60	5.1%	30.2%	-25.2%
Townsquare Media (NYSE: TSQ)	30-Nov-15	\$11.43	\$7.98	-30.2%	26.3%	-56.5%
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	\$11.72	\$9.10	-22.4%	33.2%	-55.6%
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$107.71	73.2%	46.1%	27.1%
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$32.00	48.6%	46.3%	2.2%
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$3.11	87.3%	35.8%	51.5%
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$14.06	120.0%	33.8%	86.2%
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$3.24	102.5%	31.5%	71.0%
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$21.48	168.8%	31.3%	137.5%
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$34.32	140.3%	24.0%	116.3%
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$9.00	-19.1%	22.0%	-41.1%
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	20.9%	23.5%
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$17.34	31.8%	27.0%	4.8%
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$9.28	27.9%	14.4%	13.5%
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$2.00	-86.9%	11.5%	-98.4%
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$14.40	148.3%	11.1%	137.2%
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	9.1%	-1.5%
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.50	50.9%	9.2%	41.7%
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$2.30	52.3%	8.0%	44.3%
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$13.63	27.9%	10.4%	17.5%
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$1.02	2.0%	6.9%	-4.9%
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$8.10	-3.3%	6.2%	-9.5%
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$29.35	-13.2%	7.7%	-20.8%
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$3.07	-35.9%	1.5%	-37.4%
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$17.70	13.1%	1.5%	11.6%
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$13.20	-2.9%	-2.0%	-0.9%
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$15.14	-1.4%	-1.5%	0.0%
Team, Inc. (NYSE: TISI)	30-Jan-18	\$16.95	\$13.80	-18.6%	-4.4%	-14.2%
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	\$9.85	\$10.29	4.5%	0.0%	4.5%
				Average	34.9%	16.3%
						18.6%

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

Mossberg's Investor Digest

Subscription Information

Subscribe to Mossberg's Investor Digest at <http://midresearch.com/subscribe/>

12 New IDEAS per year

Immediate Access Annual Subscription: \$295/ year

Immediate Access Annual subscribers will receive that month's issue during or before the end of each month.

Annual Subscription: \$245/ year

Annual subscribers will receive that month's issue two weeks later than Immediate Access Subscribers

About Mossberg's Investor Digest

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.

Disclosures

Not Investment Advice: Investors should consult a financial advisor before investing in any securities highlighted in the Digest or subscribing to any newsletter service. We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea Profiles highlighted in Mossberg's Investor Digest are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Mossberg's Investor Digest is not suitable for people seeking low to moderate risk investments.

It is the policy of the publisher to follow the CFA Institute's "Standards of Practice" regarding disclosure of potential conflicts of interest. The publisher's policy is to avoid conflicts of interest when possible. However, when potential conflicts are unavoidable, the publisher's policy is to disclose material business relationships between it and issuers of securities highlighted in the letter. In addition, the publisher's ownership in securities highlighted in the letter is disclosed. By disclosing potential conflicts of interest, subscribers and prospective subscribers will have additional information to evaluate the objectivity of ideas highlighted in the newsletter.

*There are no material business relationships between the publisher and the securities highlighted in this issue.

*As of March 2018, the publisher owns shares of CUBI, TREC, EVLV, MITL, KOPN, FLL, and DSNY.