

# Mossberg's Investor Digest

## From the Editor...

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**Telaria, Inc. (NYSE:TLRA)** provides software that enables publishers of TV shows and movies delivered via internet-connected screens and devices (HULU for example), to automate the process of selling advertising. The automation allows publishers to maximize the revenue received, while allowing both publishers and advertisers to ensure the right advertising runs along with the right programming. The software also provides real time reporting, analytics that leverage billions of historical data points and diagnostic tools that enable publishers to discover and resolve issues. In total, the company provides service to 90 of the ComScore top 100 publishers including HULU, FOX, Sling, BBC, WB, and others, as well as connectivity to all of the leading video buyers. The retention rate of both buyers and sellers is 95%. Formerly Tremor Video, the Company changed its name in September of 2017, following a change in senior management and shift in strategy. New management realigned the business to focus on its "seller platform" to directly align it with the interest of publishers, and in August of 2017 divested a business that helped advertisers buy advertising time on publishers' networks. This "buying platform" had inherent conflicts of interest with the selling platform. With the transaction complete the Company is now directly aligned with sellers (publishers) and well positioned to take market share from competitors who still offer both buy and sell side platforms. While the valuations of many high-growth, recurring software companies are based on EV/Sales, we have never given much credence to this valuation method. It seems like the only reason these companies use revenue is because most of them are not profitable and there isn't any other way to value them. It is also important to note that the way many high growth companies generate 30% growth is by hiring an army of sales people and hope that at some point profitability will catch up. In contrast, TLRA has already turned the corner on profitability and appears well-positioned to show 30%+ growth with minimal increases in costs. As such it should generate significant operating leverage in the coming quarters and years, which should translate into a market premium over time. We are using a more traditional valuation metric, EV/EBITDA to value the company. Based on our model, we expect \$25 million in EBITDA in 2020. Applying a 12x multiple and working backwards from the cash balance, we derive a stock value of \$8.26 by the end of 2020. We believe our multiple assumption is conservative and expect the company could command a multiple in the mid- to- high-teens as long as it continues to deliver significant growth, profitability and increase awareness.

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## April 2018

Issue #118

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...

**Great Lakes Dredge & Dock Corporation (Nasdaq: GLDD)** - is the largest provider of dredging services in the United States and the only U.S. dredging company with significant international operations. The Company is also a significant provider of environmental and remediation services on land and water. In its 125-year history, Great Lakes has never failed to complete a marine project Great Lakes also owns and operates the largest and most diverse fleet in the U.S. dredging industry, comprised of over 200 specialized vessels. GLDD has been a leader in the building and maintenance of the nation's navigation system, the protection of shorelines, the restoration of sensitive habitats, and the creation of critical aquatic infrastructure.

**UFP Technologies, Inc. (Nasdaq: UFPT)** - Is a producer of innovative custom-engineered components, products, and specialty packaging. Using foams, plastics, composites, and natural fiber materials, they design and manufacture a vast range of solutions primarily for the medical, automotive, aerospace & defense, electronics, consumer, and industrial markets. Their team acts as an extension of customers' in-house research, engineering and manufacturing groups, working closely with them to solve their most complex product and packaging challenges.

**Avaya Holdings Corp. (NYSE: AVYA)** - Avaya enables the mission critical, real-time communication applications of the world's most important operations. Avaya is a global leader in digital communications software, services and devices for businesses of all sizes. Their open, intelligent and customizable solutions for contact centers and unified communications offer the flexibility of Cloud, on-premises and hybrid deployments.

**Luna Innovations Incorporated (Nasdaq: LUNA)** - develops and manufactures new-generation products for the healthcare, telecommunications, energy and defense markets. Luna's products are used to measure, monitor, protect and improve critical processes in the markets it serves. Through its disciplined commercialization business model, Luna has become a recognized leader in transitioning science to solutions.

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Best Idea Profile:

Telaria, Inc. (NYSE:TLRA)

## DESCRIPTION:

**Telaria, Inc. (NYSE:TLRA)** provides software that enables publishers of TV shows and movies delivered via internet-connected screens and devices (HULU for example), to automate the process of selling advertising. The automation allows publishers to maximize the revenue received, while allowing both publishers and advertisers to ensure the right advertising runs along with the right programming. The software also provides real time reporting, analytics that leverage billions of historical data points and diagnostic tools that enable publishers to discover and resolve issues. In total, the company provides service to 90 of the ComScore top 100 publishers including HULU, FOX, Sling, BBC, WB, and others, as well as connectivity to all of the leading video buyers. The retention rate of both buyers and sellers is 95%.

Formerly Tremor Video, the Company changed its name in September of 2017, following a change in senior management and shift in strategy. New management realigned the business to focus on its "seller platform" to directly align it with the interest of publishers, and in August of 2017 divested a business that helped advertisers buy advertising time on publishers' networks. This "buying platform" had inherent conflicts of interest with the selling platform. With the transaction complete the Company is now directly aligned with sellers (publishers) and well positioned to take market share from competitors who still offer both buy and sell side platforms.

The revenue model is highly recurring with the Company receiving payment every time a transaction occurs. Growth should come from multiple drivers including secular trends in "cutting the cord", as well as taking market share from other players who are less focused and less independent.

### Telaria, Inc. (NYSE:TLRA) Investment Data (as of 4/29/18)

<b>Recent Price</b>	<b>\$4.13</b>
52-Week Range	\$2.01 - \$5.30
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding*	52 M
Average Trading Volume (3 mos)	223,000
Market Capitalization	\$215 M
Cash	\$76 M
LT Debt	N/A
Enterprise Value (EV)	\$139 M
2018 Revenue Guidance	\$58-62 M
EV/ Revenue	2.3x
2018 EBITDA	\$5-8 M
EV/ EBITDA	28-17x
Book Value Per Share	\$1.62

The Company has a relatively fixed cost structure with approximately 140 employees in 10 offices around the globe. Because growth does not require a significant increase in headcount, or investments in capital (about \$500k of Capex per year), there should be significant operating leverage as the revenue base continues to grow.

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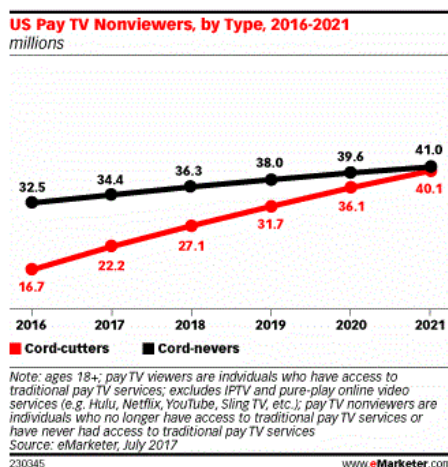
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## KEY INVESTMENT CONSIDERATIONS:

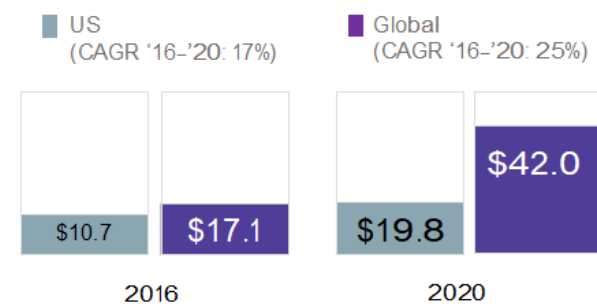
### Secular Growth Drivers

There are multiple secular growth drivers that should benefit TLRA's revenue growth including significant changes in how people watch TV and changes in the way companies choose to monetize those viewers (advertising versus subscription).

**"Cord Cutters" and "Cord Nevers"** – People are not watching less TV, they are just changing the way they watch it. According to eMarketer, during 2017, there was a 33% increase in cord cutting. Twenty-two million people have cancelled their cable subscriptions since streaming TV became available. Also according to eMarketer, there are 34 million "Cord-Nevers", or people who never choose to subscribe to traditional cable or satellite TV.



### Digital Video Ad Spend



Source: eMarketer (August 2017)

**Advertisers are shifting their spending to Over-The-Top platforms (OTT)** - U.S. television advertising spending shrunk by \$1 billion, or 1.5% to \$70 billion during 2017. These advertising dollars are increasingly shifting to digital advertising market, which is expected to grow 19% to \$107 billion in 2018. As shown in the chart above, the digital video ad subset of the market will become an increasingly large part of the overall market, growing from \$17 billion in 2016 to \$42 billion in 2020. A big chunk of that expected growth is moving from traditional short-form (YouTube), to OTT Long-form (Hulu). Global ad spending on OTT is expected to grow from \$12 billion in 2016 to \$29 billion by 2022. This is being driven by programmatic selling (automated), that is enabled by TLRA's software. According to marketer, almost three quarters of digital video ad spending will be programmatic during 2018, up from 69% in 2017.

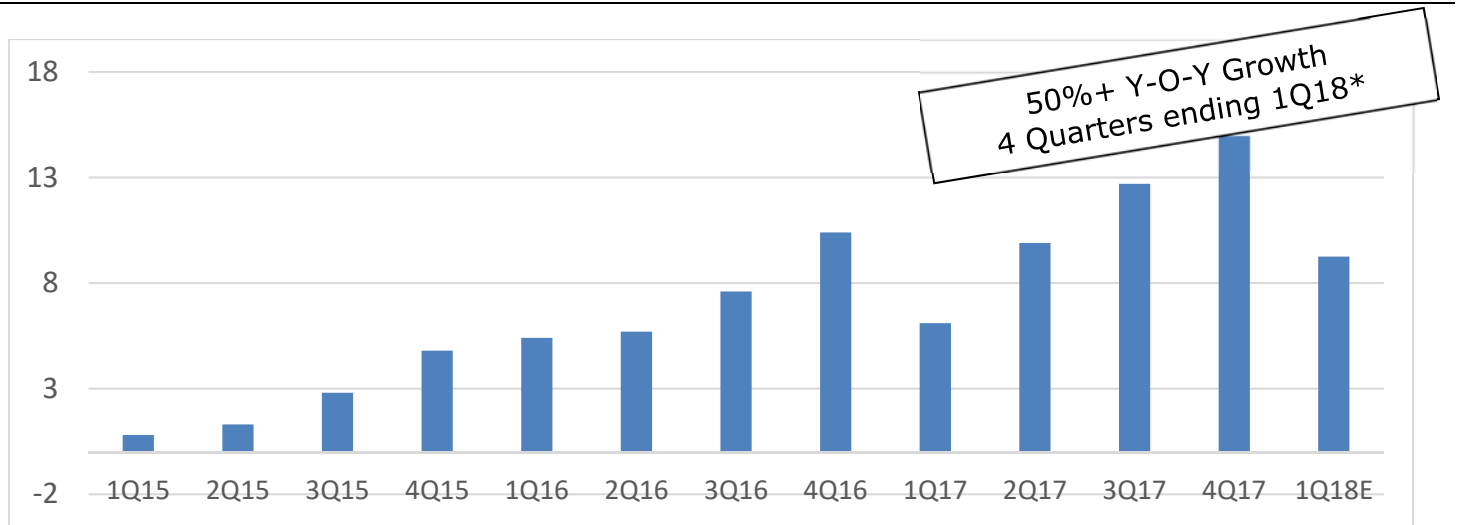
**Ad revenue may grow faster than subscriptions** – There is also a change in how publishers make money from these mediums. While the first successful OTT models, like Netflix, were subscription based, there is likely a limit to the number of subscriptions consumers will purchase. As a result, the next wave of OTT players are likely to use advertising-supported business models. HULU has been very successful with a mixed model surpassing \$1 billion in advertising revenue during '17 and is expected to grow advertising revenue 13% this year according to eMarketer. Another example is Roku, which is expected to surpass \$293MM in ad revenue in '18.

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## KEY INVESTMENT CONSIDERATIONS:

### Significant growth in past three years



\*1Q18 represents the midpoint of management's guidance

The Company has grown at an impressive pace since introducing its technology in 2015, growing at an impressive 50% clip for the past four quarters and poised to grow at the same pace in 1Q2018. Management's guidance for first quarter reflects the sequential decline in revenue that correlates to normal seasonality in the advertising spending. This was a clearly evident trend last year and will be a normal driver of revenue trends going forward.

### Why do they win?

**Built and optimized exclusively for video** - Unlike competitive offerings that were originally built to monetize display advertising and then modified for video, Telaria's platform was built exclusively for online video running on mobile or internet connected TVs.

**Fully aligned with the interest of the publishers** - Because the company sold and no longer offers a buyer (advertiser) solution, its interests are fully aligned with the sellers (publishers). Other competitors also own content, which puts them in direct competition with the publishers.

**Transparent pricing** - The Company generates a fee each time a transaction occurs, allowing publishers to have a transparent view of the value of their inventory. Some competitors purchase and re-sell inventory from publishers and also collect fees directly from buyers, which creates opacity and makes it difficult for publishers to understand the real value of their programming.

**Premium unique inventory** - The company has significant scale, providing service to 90 of the ComScore top 100 publishers. Telaria has access to a significant amount of premium content that is highly sought after by video ad buyers, which makes Telaria an important partner and platform that all buyers want and need to connect with.

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## Valuation

	2017	2018	2019	2020
<b>Revenue</b>	<b>43.8</b>	<b>59.1</b>	<b>76.9</b>	<b>99.9</b>
Growth		35%	30%	30%
<b>Gross Profit</b>		<b>53.2</b>	<b>69.2</b>	<b>89.9</b>
Gross Margin	92%	90%	90%	90%
<b>EBITDA</b>	<b>-6.5</b>	<b>5.9</b>	<b>13.5</b>	<b>25.0</b>
EBITDA Margin	-15%	10%	18%	25%
Free Cash Flow		5	12	24
Cash	76	81	93	117
Valuation Multiple				12
Enterprise Value				300
Market Cap				417
Shares Outstanding				50.5
			<b>Share Price</b>	<b>\$8.26</b>

Our back of the envelop model above makes the following assumptions:

**Revenue:** We assume a 35% revenue growth for 2018, which yields \$59.1 million for the full year. This is within management's guidance of \$58 to \$62 million. Thereafter, we assume a 30% annual growth rate, which is at the lower end of management's three-year target of 30% to 35%. Based on these assumptions the company should reach approximately \$100 million in sales by 2020.

**EBITDA Margin:** For 2018, we use an EBITDA margin of 10%, which is also within the range of management's guidance of 9% to 13%. For the next two years, our model assumes a linear path of improvement to the lower end of management's 3-year targeted margin of 25% to 30%. Due to the high gross margin levels and relatively fixed cost nature of the business model, a significant portion of incremental sales should fall to the bottom line. In our model, 30% annual revenue growth will translate into more than 100% growth in profits as 50% of each incremental dollar of revenue will fall to the EBITDA line.

**Free Cash Flow:** We assume all but \$1 million per year of EBITDA will convert into free cash flow.

**Valuation:** While the valuations of many high-growth, recurring software companies are based on EV/Sales, we have never given much credence to this valuation method. It seems like the only reason these companies use revenue is because most of them are not profitable and there isn't any other way to value them. It is also important to note that the way many high growth companies generate 30% growth is by hiring an army of sales people and hope that at some point profitability will catch up. In contrast, TLRA has already turned the corner on profitability and appears well-positioned to show 30%+ growth with minimal increases in costs. As such it should generate significant operating leverage in the coming quarters and years, which should translate into a market premium over time. We are using a more traditional valuation metric, EV/EBITDA to value the company. Based on our model, we expect \$25 million in EBITDA in 2020. Applying a 12x multiple and working backwards from the cash balance, we derive a stock value of \$8.26 by the end of 2020. We believe our multiple assumption is conservative and expect the company could command a multiple in the mid- to- high-teens as long as it continues to deliver significant growth, profitability and increase awareness.

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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. Date	Relative Perf. vs. Russell 2000	
Calloway Golf Company (NYSE: ELY).	30-Sep-15	\$8.39	\$17.29	106.1%	41.4%	64.7%	
New Gold (NYSE: NGD).	31-Oct-15	\$2.47	\$2.36	-4.5%	33.9%	-38.4%	
Townsquare Media (NYSE: TSQ)	30-Nov-15	\$11.43	\$7.42	-35.1%	29.9%	-65.0%	
Build-A-Bear Workshop (NYSE: BBW)	31-Dec-15	\$11.72	\$9.40	-19.8%	37.0%	-56.8%	
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$106.77	71.7%	50.3%	21.4%	
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$32.00	48.6%	50.5%	-2.0%	
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$3.34	101.2%	39.7%	61.5%	
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$14.47	126.4%	37.6%	88.8%	
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$3.22	101.3%	35.3%	66.0%	
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$21.32	166.8%	35.1%	131.7%	
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$34.49	141.5%	27.6%	114.0%	
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$10.50	-5.6%	25.5%	-31.1%	
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	24.3%	20.0%	
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$19.95	51.6%	30.6%	21.0%	
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$11.17	54.1%	17.7%	36.4%	
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$2.05	-86.6%	14.7%	-101.2%	
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$13.35	130.2%	14.3%	115.9%	
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	12.2%	-4.7%	
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.50	50.9%	12.3%	38.6%	
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$2.36	56.3%	11.1%	45.2%	
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$13.30	24.9%	13.6%	11.3%	
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$1.15	15.0%	10.0%	5.0%	
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$5.83	-30.4%	9.2%	-39.6%	
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$23.15	-31.5%	10.7%	-42.3%	
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$3.60	-24.7%	4.4%	-29.1%	
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$17.68	12.9%	4.4%	8.6%	
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$12.30	-9.6%	0.8%	-10.3%	
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$15.28	-0.5%	1.4%	-1.9%	
Team, Inc. (NYSE: TISI)	30-Jan-18	\$16.95	\$17.40	2.7%	-1.7%	4.3%	
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	\$9.85	\$9.50	-3.6%	2.9%	-6.4%	
GSE Systems, Inc. (NYSE:GVP)	30-Apr-18	\$3.25	\$3.20	-1.5%	0.0%	-1.5%	
				<b>Average</b>	<b>34.2%</b>	<b>20.5%</b>	<b>13.7%</b>

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## **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.

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\* As of April 30, 2018, the publisher owns shares in AP, CUBI, DSNY, EVLV, FLL, GVP, LAZY, MITL, RGS, RNWK, TACT, TISI, TREC.

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