Mossberg's Investor Digest

From the Editor…

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

For 65 years, **Dawson Geophysical (Nasdaq: DWSN)** has been providing onshore seismic data to E&P companies in the Unites States and Canada. In 2015, the company combined with TGC industries, which made it the largest seismic provider in North America in terms of number of active field crews and largest channel counts. (more channel counts = higher resolution images)

Demand for DWSN's services is highly cyclical and has experienced significant fluctuations based on changes in oil prices, drilling activity and the capital spending of its customers. While the company suffers losses during the bottom of the cycle, it has a strong balance sheet and is positioned to survive and gain market share when the demand improves.

Given the rapid changes in oil & gas and capital spending and the strong correlation to DWSN's financial performance, we expect there to be significant volatility in the price assigned to shares. The near-term outlook for E&P upstream capex remains weak and we expect shares are likely to remain near recent levels until the spending outlook improves. Nevertheless, shares are currently trading at about half of tangible book value, which should provide a downside support level. Based on our model, we generate a valuation of nearly $8 per share at some point during the next three years. We derive this valuation by applying an 7x multiple to our 2021 projected EBITDA to derive an enterprise value of $144 million. Working backwards from EV, we derive a valuation that is $7.83 per share.

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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.

IDT Corporation (NYSE: IDT)- Provides retail communications, payment and money transfer services primarily under its flagship Boss RevolutionTM brand, and cloud-based telecommunications services to businesses through its Net2Phone offerings. IDT's wholesale telecommunications business is a leading global carrier of international long distance voice calls. IDT Telecom is a pioneer in Prepaid and VoIP telephony. They employ over 1000 people across 20+ countries and have revenues in excess of $1.5 billion. IDT Telecom's Retail flagship service is BOSS Revolution. BOSS Revolution helps immigrants and the under-banked to conveniently and affordably communicate and share resources around the world. BOSS Revolution is a collection of communication and payment services, fulfilled through a network of participating retailers around the world or directly online.

ARC Document Solutions, Inc. (NYSE: ARC) - is a leading document solutions company serving businesses of all types, with an emphasis on the nonresidential segment of the architecture, engineering and construction industries. The Company helps more than 90,000 customers reduce costs and increase efficiency in the use of their documents, improve document access and control, and offers a wide variety of ways to print, produce, and store documents. ARC provides its solutions onsite in more than 8,500 of its customers' offices, offsite in service centers around the world, and digitally in the form of proprietary software and web applications.

pdvWireless, Inc. (Nasdaq: PDVW)- Is the largest holder of nationwide 900MHz spectrum in the United States and is the only licensee of spectrum implementing a dispatch network dedicated solely to businesses. They are a recognized leader in mobile workforce communications and location-based solutions that increase the productivity of field-based workers and the efficiency of their dispatch and call center operations. Their patented and industry-validated technology improves team communication and field documentation across a wide array of industries including transportation, distribution, construction, hospitality, waste management and field service.

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Best Idea Profile: **Dawson Geophysical (Nasdaq: DWSN)**

DESCRIPTION:

For 65 years, **Dawson Geophysical (Nasdaq: DWSN)** has been providing onshore seismic data to E&P companies in the Unites States and Canada. In 2015, the company combined with TGC industries, which made it the largest seismic provider in North America in terms of number of active field crews and largest channel counts. (more channel counts = higher resolution images)

As of December 2018, Dawson had 18 central recording systems, 184 vibrator energy source units, and approximately 334,000 recording channels. Dawson's field crews acquire 2-D, 3D and multi-component data for onshore Oil & Gas exploration companies of all sizes, as well as multi-client data libraries.

Demand for DWSN's services is highly cyclical and has experienced significant fluctuations based on changes in oil prices, drilling activity and the capital spending of its customers. While the company suffers losses during the bottom of the cycle, it has a strong balance sheet and is positioned to survive and gain market share when the demand improves.

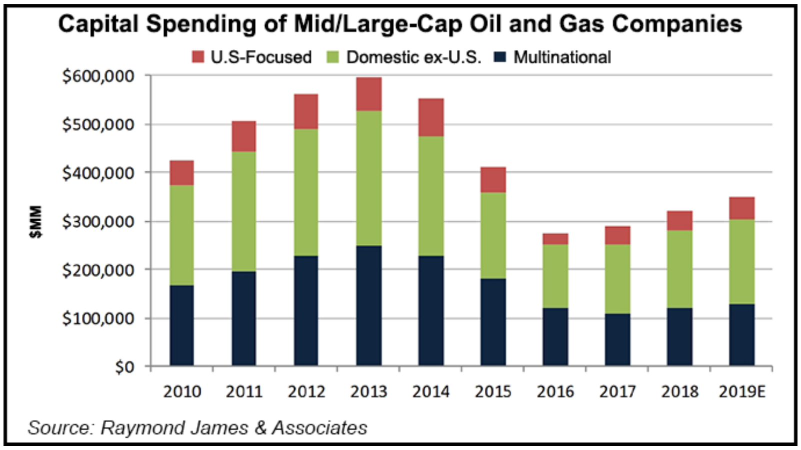
Headquartered in Mid-land Texas, the Company has offices in Denison, Houston, Plano, Oklahoma City, Denver and Calgary. Dawson employs approximately 580 people.

Dawson Geophysical (Nasdaq: DWSN)
Investment Data (as of 4/29/19)

Recent Price	**$2.46**
52-Week Range	$2.44 - $8.40
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding*	23.1 M
Average Trading Volume (3 mos)	93,000
Market Capitalization	$58 M
Cash	$39 M
LT Debt	$13 M
Enterprise Value (EV)	$32 M
2018 Revenue	$154 M
EV/ Revenue	0.2x
2018 EBITDA	$4.8
EV/EBITDA	6.7x
Book Value Per Share	$5.09

KEY INVESTMENT CONSIDERATIONS:

Surviving and Thriving in a highly cyclical industry



The market demand for seismic data services is very unpredictable. According to Raymond James, the annual global capital spend for 50 mid to large cap companies peaked in 2013 at $595 billion. Three years later, capex had fallen cumulatively by 54% to $275 billion. While spending has increased modestly since bottoming out, 2018 capex overall was still 44% below the 2013 peak.

Controlling Variable Costs

	2015	2016	2017	2018
Revenue (in $millions)	235	138	157	154
EBITDA	7	-2	2.0	4.8
EBITDA Margin	3%	-1%	1%	3%
Year-end employee count*	**1,125**	814	851	**582**
Average # of Employees	1,125	970	833	717
Rev per Employee (in $,000s)	**209**	142	188	**215**

*Average employee headcount is not available for 2015

Over the last three years the company has cut its headcount by nearly 50%, to the point where revenue per employee is now roughly in line with levels achieved several years ago. The company does not disclose specific utilization rates, but management has stated that staff utilization remain well below peak levels, which should provide for some operating leverage when spending recovers and utilization improves.

KEY INVESTMENT CONSIDERATIONS:

Surviving and Thriving in a highly cyclical industry (continued)

Maintaining a strong Balance Sheet

Since so much of DWSN's ultimate success is driven by significant swings in spending, the company has maintained a strong balance sheet, which should allow it to survive during an extended downturn in spending. During this recent downturn, there have been some bankruptcies among DWSN's peers and opportunities to buy assets at reduced office price. Below is a snapshot of the key balance sheet metrics.

Cash and Debt: The company has a significant cash balance of $39 million, limited debt and $20 million line of credit with zero drawn. With cost cutting measures and a cut back in internal capital spending to approximately $10 million during 2019, the company should be able to maintain its cash balance during the bottom of this cycle.

- Cash Balance: $39.3 million
- Debt: Notes payable of $7.6 million @ interest rates of 3.8% to 5%
- Line of Credit: $0 drawn on $20 million asset-based Line of credit
- Current Ratio: 2.8x
- Tangible Book Value Per Share: $5.09

Significant Asset Base: At December 31, the company had $293 million of property and equipment with a depreciated value of $71.5 million. Most of the assets are owned with capital and operating leases representing only 20% of the depreciated value.

- Capital Leases: $5.1 million
- Operating Leases: $9.8 million
- Property & Equipment gross value: $293.9 million
- Property & Equipment net value: $71.5 million
- Total Assets: $150.7 million

Valuation

Back-of-the-envelope valuation:

(in $millions)	2017	2018	2021
Revenue	157	154	205
Annual Growth			10%
EBITDA	**2.0**	**4.8**	**20.5**
EBITDA Margin	1.3%	3.1%	10.0%
Cash		39.3	51.7
Debt		12.5	12.5
EV/ EBITA Multiple			7.0
Enterprise Value			**143.6**
Market Cap			182.8
Share Count		22.9	23.4
Price Per Share			**$ 7.83**

Our back-of-the-envelope model uses reasonable assumptions for what the financial performance and valuation could look like during the next three years. We do not show the annual numbers in our model, as we believe predicting the timing of a market recovery, particularly in any linear fashion, would very likely be proven wrong. We are using a time horizon of three years, which mirrors what we consider to be a reasonable duration for making an investment in a micro/ small cap stock at what appears to be the bottom of a cyclical. Our model above makes the following assumptions regarding valuation:

Revenue: Over the next three years, we chose to model 10% growth annually. While the timing of and pace of a recovery and increased spending are difficult to predict, we expect that to the sustain oil supply growth at recent rates will ultimately require the industry to increase spending. Our model produces $205 million of revenue three years from now, which is still about 2/3rds of the revenue performance reached at the peak capex spending rates in 2013.

EBITDA Margin: We assume 10% EBITDA margin in three years, which reflects the operating leverage in the business that the company should achieve as a larger portion of increased revenue are spread across fixed costs. A 10% EBITDA margin reflects a rate that is about half of the 19% achieved during the peak of the cycle in 2013.

(in $millions)	2013*	2014*	2015	2016	2017	2018
Revenue	305	262	235	138	157	154
Annual Growth						
EBITDA	**57**	**23**	**7**	**-2**	**2.0**	**4.8**
EBITDA Margin	19%	9%	3%	-1.5%	1.3%	3.1%

*FY ended in September

Valuation

Back of the envelope Valuation: (cont'd)

CAPEX and Cash Generation: We assume $10 million of capex for 2019, which is consistent with management's guidance. We assume no changes in Capex spending for 2020 and 2021. Our model assumes cash generation of approximately $12 million during the next three years, most of which will occur during the 2021. We use linear improvement in EBITDA minus capex as a proxy for cash flow generation.

Share Count: We assume an increase of 150,000 shares per year for share based compensation, which is consistent with trends in recent years.

Valuation: Given the rapid changes in oil & gas and capital spending and the strong correlation to DWSN's financial performance, we expect there to be significant volatility in the price assigned to shares. The near-term outlook for E&P upstream capex remains weak and we expect shares are likely to remain near recent levels until the spending outlook improves. Nevertheless, shares are currently trading at about half of tangible book value, which should provide a downside support level. Based on our model, we generate a valuation of nearly $8 per share at some point during the next three years. We derive this valuation by applying an 7x multiple to 2021 projected EBITDA to derive an enterprise value of $144 million. Working backwards from EV, we derive a valuation that is $7.83 per share.

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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 April 2016 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
PAR Technology Group (NYSE: PAR)	30-Apr-16	$6.39	$23.49	267.6%	41.3%	226.3%
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	$1.60	$2.43	51.9%	38.9%	12.9%
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	$7.99	$17.40	117.8%	38.8%	79.0%
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	$14.28	$35.00	145.1%	31.0%	114.1%
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	$11.12	$3.08	-72.3%	28.9%	-101.2%
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	$22.51	$32.50	44.4%	27.7%	16.7%
Northwest Pipe Co. (NWPX)	31-Oct-16	$13.16	$23.66	79.8%	34.2%	45.6%
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	$7.25	$11.15	53.8%	20.9%	32.9%
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	$15.25	$1.10	-92.8%	17.8%	-110.6%
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	$5.80	$12.03	107.4%	17.4%	90.0%
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	$6.60	$7.10	7.6%	15.3%	-7.7%
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	$14.25	$21.50	50.9%	15.3%	35.5%
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	$1.51	$3.09	104.6%	14.1%	90.5%
Trecora Resources (NYSE: TREC)	31-May-17	$10.65	$9.38	-11.9%	16.7%	-28.6%
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	$1.00	$0.38	-62.0%	12.9%	-74.9%
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	$8.38	$3.38	-59.7%	12.2%	-71.8%
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	$33.80	$29.89	-11.6%	13.7%	-25.3%
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	$4.78	$2.60	-45.6%	7.2%	-52.8%
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	$15.65	$5.75	-63.3%	7.2%	-70.5%
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	$13.60	$10.30	-24.3%	3.5%	-27.8%
Regis Corporation (NYSE: RGS)	30-Dec-17	$15.36	$18.67	21.5%	4.1%	17.5%
Team, Inc. (NYSE: TISI)	30-Jan-18	$16.95	$16.76	-1.1%	1.0%	-2.1%
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	$9.85	$4.83	-51.0%	5.7%	-56.6%
GSE Systems, Inc. (NYSE:GVP)	31-Mar-18	$3.25	$2.64	-18.8%	4.5%	-23.3%
Telaria, Inc. (NYSE:TLRA)	30-Apr-18	$4.13	$7.18	73.8%	3.7%	70.2%
Avaya Holdings Corp. (NYSE:AVYA)	31-May-18	$21.57	$19.07	-11.6%	-2.2%	-9.4%
Tenneco, Inc. (NYSE:TEN)	30-Jun-18	$43.96	$22.02	-49.9%	-2.7%	-47.2%
Alithya Group Inc. (Nasdaq: ALYA)	31-Jul-18	$3.40	$3.25	-4.4%	-4.3%	-0.1%
Data I/O Corporation (Nasdaq: DAIO)	30-Aug-18	$5.37	$5.02	-6.5%	-7.7%	1.2%
TPI Composites Inc. (Nasdaq: TPIC)	28-Sep-18	$28.55	$30.89	8.2%	-5.8%	14.0%
Shiloh Industries, Inc. (Nasdaq: SHLO)	31-Oct-18	$8.59	$5.76	-32.9%	5.8%	-38.7%
Richardson Electronics (Nasdaq: RELL)	30-Nov-18	$7.18	$5.85	-18.5%	4.2%	-22.8%
Universal Electronics Inc. (Nasdaq: UEIC)	31-Dec-18	$24.92	$38.10	52.9%	18.5%	34.4%
CSS Industries, Inc. (NYSE: CSS)	31-Jan-19	$8.91	$7.02	-21.2%	6.6%	-27.8%
Comtech Telecommunications Corp. (Nasdaq:CMTL)	28-Feb-19	$26.25	$23.50	-10.5%	1.4%	-11.9%
Landec Corporation (Nasdaq:LNDC)	31-Mar-19	$12.28	$10.52	-14.3%	3.8%	-18.1%
			Average	**14.0%**	**12.5%**	**1.4%**

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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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