Mossberg's Investor Digest

From the Editor…

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

Founded in 1967 and headquartered in Long Island, NY, **Comtech Telecommunications Corp. (Nasdaq:CMTL)** is a world leader in secure wireless communications for satellite, cellular and troposcatter technologies. Shares offer a relatively low risk way of investing in the pending acceleration in satellite communications spending.

For buyers in this industry, Comtech is viewed as THE market leader, commanding as much as 70% to 100% market share in some product categories. Revenue is generated from commercial (60% of rev), as well as government customers (40% of rev). The Company is entering a phase of growth in which all its product categories should enjoy secular and cyclical tail winds.

Our back of the envelop model shows a valuation in Fiscal 21 of nearly $40 per share, approximately 50% upside from current levels. As new opportunities become a larger portion of overall sales, customer concentration may be reduced, and multiples could expand, giving further upside to valuation.

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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.

Dawson Geophysical Company (Nasdaq: DWSN) - Is a leading provider of onshore seismic data acquisition services in North America. They acquire and process 2-D, 3-D and multi-component seismic data clients that range from major oil and gas companies to independent oil and gas operators as well as providers of multi-client data libraries. Dawson Geophysical is headquartered in Midland, Texas with additional offices in Houston, Plano, Oklahoma City, Denver and Calgary, Alberta.

HyreCar Inc. (Nasdaq: HYRE) - Is a carsharing marketplace for ridesharing that allows car owners to rent their idle assets to rideshare drivers safely, securely and reliably. Their dual-sided marketplace allows vehicle owners the opportunity to earn money on their idle vehicle assets while providing access to reliable options for drivers looking to rent cars for rideshare companies like Uber and Lyft. The HyreCar platform was created to embolden entrepreneurship by leveraging technology and become the leader in automotive asset sharing.

Vicor Corporation (Nasdaq: VICR) - Designs, develops, manufactures and markets modular power components and complete power systems based upon a portfolio of patented technologies. Headquartered in Andover, Massachusetts, Vicor sells its products to the power systems market, including enterprise and high performance computing, industrial equipment and automation, telecommunications and network infrastructure, vehicles and transportation, aerospace and defense.

Hurco Companies, Inc. (NASDAQ: HURC) - Is an industrial technology company that designs and produces interactive computer controls, software and computerized machine tools for the worldwide metal cutting and metal forming industry. The end market for the Company's products consists primarily of independent job shops and short-run manufacturing operations within large corporations in industries such as aerospace, defense, medical equipment, energy, transportation and computer equipment. The Company is based in Indianapolis, Indiana, with manufacturing operations in Taiwan and China, and sells its products through direct and indirect sales forces throughout North America, Europe, and Asia.

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Best Idea Profile: **Comtech Telecommunications Corp. (Nasdaq:CMTL)**

DESCRIPTION:

Founded in 1967 and headquartered in Long Island, NY, **Comtech Telecommunications Corp. (Nasdaq:CMTL)** is a world leader in secure wireless communications for satellite, cellular and troposcatter technologies. Shares offer a relatively low risk way of investing in the pending acceleration in satellite communications spending.

For buyers in this industry, Comtech is viewed as THE market leader, commanding as much as 70% to 100% market share in some product categories. Revenue is generated from commercial (60% of rev), as well as government customers (40% of rev). The Company is entering a phase of growth in which all its product categories should enjoy secular and cyclical tail winds. Six major product lines include:

1) Satellite modems and ground station equipment – CMTL enjoys 70% market share in this product group. About 60% of revenue in this product group is sold for cellular backhaul applications. The Company has also introduced next generation, high-throughput modems named HEIGHTS.

2) 911 software technology - For more than 20 years, CMTL has provided more than 50% of the routing for all 911 calls in the U.S. Customers include Verizon & AT&T. This is an attractive business with significant barriers to entry, recurring revenue, high cash flow generation and a large revenue opportunity from the upgrade to the next generation 911, which will include location information, and the ability to send voice, video, photos and text messages.

3) Customer location mapping solutions and SMS Messaging – CMTL offers white label mapping service sold to private enterprises. For example, CMTL provides the location information used in the Verizon Navigator service. CMTL also operates about 50% of the SMS messaging for Verizon.

Comtech Telecommunications Corp. (Nasdaq:CMTL)
Investment Data (as of 2/28/19)

Recent Price	**$26.25**
52-Week Range	$22.18 - $36.94
Fiscal Year End	July
Dividend	$0.40
Yield	1.5%
Shares Outstanding*	23.9 M
Average Trading Volume (3 mos)	150,000
Market Capitalization	$630 M
Cash	$43 M
LT Debt	$196 M
Enterprise Value (EV)	$780 M
FY19 Rev Guidance*	$632.5 M
EV/ Revenue	1.2x
FY19 EBITDA Guidance*	$86M
EV/ EBITDA	9.1x
Book Value Per Share	$21.17

*Midpoint of guidance for FY 2019 (ending July)

4) Command and control Technologies – Technologies for secure satellite communications for the DOD's electronic warfare applications

5) Troposcatter technologies – CMTL is the only company in the world with working troposcatter technology, which bounces signals off the troposphere allowing broadband wireless communications over long distances (200 miles), without the need for a satellite relay. This is a new and rapidly growing product category sold to the U.S. and foreign government customers.

6) Solid state power amplifiers – These are solid state high-power broadband amplifiers designed for radar, electronic warfare, jamming, medical and aviation applications

KEY INVESTMENT CONSIDERATIONS:

Multiple secular and cyclical growth drivers across all product segments

The Company is entering a phase of growth in which all of its product categories should enjoy secular and cyclical tail winds.

Accelerating growth in satellite communications - The satellite industry is about to go through a massive transformation. There are currently about 1,500 satellites in orbit, up from about 1,000 in 2012. With significant reduction in the cost of launching satellites, the pace of adding new ones is set to accelerate dramatically. Companies such as SpaceX (backed by Elon Musk and Google), Jeff Bezo's Blue Origin (Backed by Jeff Bezos), Stratolaunch (backed by Paul Allen), among many others are planning to launch thousands of satellites in the coming few years. SpaceX alone plans to launch more than 4,000 satellites by 2024. Comtech satellite modems and ground station equipment should benefit significantly from the accelerating pace of launches.

Higher throughput satellite technologies - As new satellites are launched, there will be a need for upgraded satellite modems on the ground, particularly high bandwidth technologies. Comtech has introduced a new high throughput modem named HEIGHTS in 2017. While the pace of new communication satellites has yet to accelerate, Comtech is already beginning to see a ramp in HEIGHTS revenue contribution and has announced a win with Caribbean Cruise Lines. While contribution from this product group is still relatively small (in the double-digit millions in FY18), it is growing at a rapid pace and has the potential to be a major contributor to revenue over time.

Satellite growth for cellular backhaul - There is significant demand for cellular backhaul, particularly in the international markets, where Satellite communications is now less expensive than using fiber for backhaul. As international markets move from 3G to 4G and 5G and higher speed applications, they need upgrades to the satellite communication to backhaul that traffic.

Upgrading to next generation 911 systems - Most of the 911 systems in the U.S. need to be upgraded to handle not only voice, but also the transmission of texts, images and video. While the upgrade of these systems offers a significant growth opportunity, the sales cycle will likely be long as the decisions to upgrade are made at state, city our county level. These next generation 911 systems will generate more revenue from additional traffic going over CMTC's network and the back-end software used at the state and local agencies to support the upgrade. Today, CMTL closed the $33 million acquisition of Solacom, which is a best of breed technology for next generation 911.

KEY INVESTMENT CONSIDERATIONS:

Troposcatter communication technologies – CMTL is the only company in the world that has delivered a working troposcatter solution, giving it effectively 100% market share. With this technology, two ground-based points communicate over long distances (20 to 200 miles) by bouncing signals off of the troposphere and receiving them back on earth. The benefits of this technology are that it is very secure and can be used as a backup to satellite communications. The military has a significant need for this type of equipment due to the increasing capabilities of foreign advisories to take down communications and navigational satellites with lasers and/or missiles. CMTL currently sells approximately $20 million to $30 million per year of this equipment to oil companies, the U.S. Government, and some foreign governments. The US Government has a $300 to $400 million, multi-year RFP currently out for bid to provide troposcatter technology. CMTL expects to make announcements about this in 2019. While a successful win of this RFP would not provide meaningful revenue for FY2019, it would likely make significant contributions to revenue for the next 15+ years.

Upgrade cycle for DOD communications systems – CMTL has not been affected by the government shutdown. In fact, recent revenue trends show that the government segment is growing significantly faster than the overall company and will likely be the largest contributor to growth in FY19. This segment is exiting the bottom of the cycle in terms of funding for military communications technology spending.

- ***Updates to the SNAP program*** The U.S. Army has a need to upgrade its SNAP systems, which allow the Army to securely communicate over the internet. Comtech systems provide protected communications with resistance to cyber-attacks, resistance to jamming and defense from eavesdropped. CMTL has deployed, maintains and operates current SNAP systems (15 year old technology) generating about $25 to $30 million in annual revenue. With the next generation systems, the government is looking to reduce the footprint of the equipment and make it mobile.
- ***Updates to the Blue Force Tracking program –*** Blue Force Tracking is the U.S. military's system for tracking the location of friendly and hostile forces. In 2010, CMTL lost out to a competitor, who bid 50% less to deploy the current generation of Blue Force Tracking system. Prior to 2010, this was $400 million business for CMTL. In October of 2017, CMTL announced its first contract in 7 years to provide upgrades for the next generation system and has announced additional wins since then. CMTL is currently shipping systems and is in a good position to participate significantly in the upgrade.

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Valuation

	FY17	FY18	FY19	FY20	FY21
Total Revenue	**550**	**571**	**633**	**677**	**724**
Revenue Growth		4%	11%	7%	7%
EBITDA	71	78	86	96	109
EBITDA Margin	12.9%	13.7%	13.6%	14.3%	15.0%
Cash Flow			52	58	65
Solacom Acquistion			-33		
Cash		43.5	43.5	43.5	43.5
Debt		165.3	147	89	24
EV/ EBITDA Multiple					9
Enterprise Value					978
Market Cap					997
Sharecount	23.5	24.0	24.5	25.0	25.5
				Share Price	**$39.16**

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

Revenue: We assume a $633 million of revenue for FY19. We arrive at this number by taking the mid-point of management's guidance. We assume little if no revenue contribution from Solacom, which closed today and will have about five months of contribution to FY19 results. Limited details related to this acquisition, other than the purchase price of $33 million, have been disclosed at this point. After FY19, we assume 7% growth for the following two years. This equates to roughly $90 million of incremental revenue over the following two-year period. Given its multiple growth opportunities, we believe this assumption is conservative.

EBITDA Margin: For FY 2019, our EBITDA reflects the mid-point of management's guidance. We assume a modest improvement in EBITDA margin for the following two years, reaching 15% of revenue by FY 2021. This is consistent with the opportunity for operating leverage in the business model and management's statements.

Free Cash Flow: We assume approximately 60% of EBITDA will translate into free cash flow, which is consistent with the prior two years. The Company is likely to make additional technology acquisitions, but due to the difficulty forecasting, we assume there will be none. Instead, we assume the cash flow will be used to pay down debt

Share Count: We assume a 2% growth in share count.

Valuation: We assume CMTL will trade at an enterprise value of 9x EBITDA, which is a discount relative to publicly traded peers, and unchanged for from the current multiple of FY19 guidance. We are using a discounted multiple to reflect customer concentration with the U.S. government and Verizon (31% and 10% of FY18 revenue respectively). As new opportunities become a larger portion of overall sales, customer concentration may be reduced, and multiples could expand, giving further upside to valuation. By applying a 9x multiple to our forecasted 2021 EBITDA of $109 million, we work backwards from enterprise value to come up with a value of nearly $40 per share, approximately 50% 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 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	$27.46	329.7%	40.5%	289.2%
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	$1.60	$2.11	31.9%	38.1%	-6.2%
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	$7.99	$17.97	124.9%	37.9%	87.0%
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	$14.28	$35.00	145.1%	30.2%	114.9%
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	$11.12	$4.13	-62.9%	28.1%	-91.0%
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	$22.51	$32.50	44.4%	26.9%	17.4%
Northwest Pipe Co. (NWPX)	31-Oct-16	$13.16	$25.93	97.0%	33.4%	63.7%
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	$7.25	$11.15	53.8%	20.2%	33.6%
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	$15.25	$1.10	-92.8%	17.1%	-109.9%
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	$5.80	$13.79	137.8%	16.7%	121.1%
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	$6.60	$7.10	7.6%	14.6%	-7.0%
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	$14.25	$21.50	50.9%	14.6%	36.2%
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	$1.51	$2.68	77.5%	13.5%	64.0%
Trecora Resources (NYSE: TREC)	31-May-17	$10.65	$9.60	-9.9%	16.0%	-25.8%
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	$1.00	$0.51	-49.3%	12.3%	-61.6%
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	$8.38	$3.42	-59.2%	11.5%	-70.7%
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	$33.80	$33.25	-1.6%	13.1%	-14.7%
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	$4.78	$3.25	-32.0%	6.6%	-38.6%
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	$15.65	$7.35	-53.0%	6.6%	-59.6%
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	$13.60	$10.30	-24.3%	2.9%	-27.2%
Regis Corporation (NYSE: RGS)	30-Dec-17	$15.36	$18.09	17.7%	3.5%	14.3%
Team, Inc. (NYSE: TISI)	30-Jan-18	$16.95	$15.43	-9.0%	0.4%	-9.3%
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	$9.85	$6.27	-36.3%	5.0%	-41.4%
GSE Systems, Inc. (NYSE:GVP)	31-Mar-18	$3.25	$3.17	-2.5%	3.9%	-6.3%
Telaria, Inc. (NYSE:TLRA)	30-Apr-18	$4.13	$4.85	17.3%	3.0%	14.3%
Avaya Holdings Corp. (NYSE:AVYA)	31-May-18	$21.57	$15.79	-26.8%	-2.7%	-24.1%
Tenneco, Inc. (NYSE:TEN)	30-Jun-18	$43.96	$35.76	-18.7%	-3.3%	-15.4%
Alithya Group Inc. (Nasdaq: ALYA)	31-Jul-18	$3.40	$2.87	-15.6%	-4.9%	-10.7%
Data I/O Corporation (Nasdaq: DAIO)	30-Aug-18	$5.37	$6.25	16.4%	-8.3%	24.7%
TPI Composites Inc. (Nasdaq: TPIC)	28-Sep-18	$28.55	$31.13	9.0%	-6.4%	15.4%
Shiloh Industries, Inc. (Nasdaq: SHLO)	31-Oct-18	$8.59	$6.40	-25.5%	5.1%	-30.6%
Richardson Electronics (Nasdaq: RELL)	30-Nov-18	$7.18	$7.06	-1.7%	3.6%	-5.3%
Universal Electronics Inc. (Nasdaq: UEIC)	31-Dec-18	$24.92	$33.73	35.4%	17.8%	17.5%
CSS Industries, Inc. (NYSE: CSS)	31-Jan-19	$8.91	$7.09	-20.4%	6.0%	-26.4%
			Average	**19.3%**	**12.4%**	**6.8%**

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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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