

Mossberg's Investor Digest

From the Editor...

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

Formed in 2011 as a separate holding company of Fortress Investment Group, **Fortress Transportation and Infrastructure Investors (Nasdaq:FTAI)** came public in May of 2015.

The company has two primary businesses:

1) Equipment Leasing (2/3rds of book value). With 219 aircraft and aircraft engines, FTAI is a leading lessor to commercial airlines. The value of the Company's \$1.2 billion of assets are 90% related to engines, and 10% related to aircraft. This business generates a significant amount of contracted cash flow (approximately \$300MM/year) and has substantial opportunities for growth.

2) Infrastructure – FTAI owns four North American infrastructure assets.

- Jefferson terminal, which is in Beaumont, Texas, provides storage for crude oil and refined products for two of the largest oil refineries in North America.
- Central Maine and Quebec Railway (CMQR) was bought out of bankruptcy and is now likely to be sold. With an investment of approximately \$20 million, a sale will likely yield a \$100 million+ gain.
- Repauno Port & Rail Terminal is on the Delaware river, across from the Philadelphia airport. This facility will provide a shorter route to export liquid natural gas from the U.S. to Europe
- Long Ridge Energy Terminal in Eastern Ohio is being developed into a 485 MW combined cycle powerplant. Currently the site provides dry bulk storage and natural gas loading.

There is significant investment and development work being done on three of the four infrastructure assets. While this work will take time and could be delayed or disrupted, over the next 3-5 years we expect these assets could appreciate significantly. Our back of the envelope calculation values the combined present value of the businesses at \$28 per share. Given the current valuation, it appears that not all of the projects have to work out as planned to make this an attractive investment. Patient investors will also receive an attractive 7% dividend yield while they wait.

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Issue #131

Every month we hear ideas suggested from our large network of professional investors. Here are a few of the ideas we heard this month.

Matthews International Corporation (Nasdaq: MATW)- is a global provider of brand solutions, memorialization products and industrial technologies. The SGK Brand Solutions segment is a leader in providing brand development, deployment and delivery services that help build clients' brands and consumers' desire. The Memorialization segment is a leading provider of memorialization products, including memorials, caskets and cremation equipment, primarily to cemetery and funeral home customers that help families move from grief to remembrance. The Industrial Technologies segment designs, manufactures and distributes marking, coding and industrial automation technologies and solutions.

Pitney Bowes Inc. (NYSE: PBI)- Offers customer information management, location intelligence, and customer engagement products and solutions. The company operates in three segments: Commerce Services; Small & Medium Business Solutions; and Software Solutions. Pitney Bowes Inc. has a strategic partnership with Shyplite to develop a multicarrier shipping platform for small businesses that simplifies office shipping; and has collaboration with Accenture plc.

Aircastle Limited (NYSE: AYR) - Owns and manages on behalf of their joint ventures 274 aircraft leased to 86 lessees located in 47 countries. Aircastle employs a balanced approach to investment and capitalization, factoring in industry cyclicality and other global and regional market dynamics. They focus on a long-term investment horizon. Their business is managed by a team of aviation professionals with extensive industry experience.

L.B. Foster Company (Nasdaq: FSTR) - Is dedicated to sustainable profitable growth via its commitment to providing quality products and services to its customers and treating their customers, suppliers and employees as partners. Approximately one third of their revenues are derived from markets and products that they did not operate in as recently as eleven years ago. Their corporate culture embodies change management and they view well-planned change as a necessity for improvement in everything we do and in our operating results.

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Best Idea Profile: **Fortress Transportation and Infrastructure Investors (Nasdaq:FTAI)**

DESCRIPTION:

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With 219 aircraft and aircraft engines, FTAI is a leading lessor to commercial airlines. The value of the Company's \$1.2 billion of assets are 90% related to engines, and 10% related to aircraft. This business generates a significant amount of contracted cash flow (approximately \$300MM/year) and has substantial opportunities for growth.

2) Infrastructure – FTAI owns four North American infrastructure assets.

- **Jefferson terminal**, which is located in Beaumont, Texas, provides storage for crude oil and refined products for two of the largest oil refineries in North America.
- **Central Maine and Quebec Railway (CMQR)** was bought out of bankruptcy and is now likely to be sold. With an investment of approximately \$20 million, a sale will likely yield a \$100 million+ gain.
- **Repauno Port & Rail Terminal** is on the Delaware river, across from the Philadelphia airport. This facility will provide a shorter route to export liquid natural gas from the U.S. to Europe
- **Long Ridge Energy Terminal** in Eastern Ohio, is being developed into a 485 MW combined cycle powerplant. Currently the site provides dry bulk storage and natural gas loading.

With the exception of the CMQR, there is significant investment and development work being done on the four infrastructure assets. Once completed, the work should yield significant expansion in the valuations of these terminals.

Fortress Transportation and Infrastructure Investors (Nasdaq:FTAI)

Investment Data (as of 5/30/19)

Recent Price	\$15.61
52-Week Range	\$12.84 - \$19.35
Fiscal Year End	December
Dividend	\$1.32
Yield	7.7%
Shares Outstanding	84.7 M
Average Trading Volume (3 mos)	180,000
Market Capitalization	\$1.3 B
Cash	\$121 M
LT Debt	\$1.6 B
Enterprise Value (EV)	\$2.8 B
TTM Revenue	\$435 M
EV/ Revenue	6.7x
TTM EBITDA	\$208
EV/EBITDA	13.9x
Book Value Per Share	\$10.89

The Company has a significant amount of contracted cash flow and pays a dividend that currently yields an attractive 7.7%.

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KEY INVESTMENT CONSIDERATIONS:

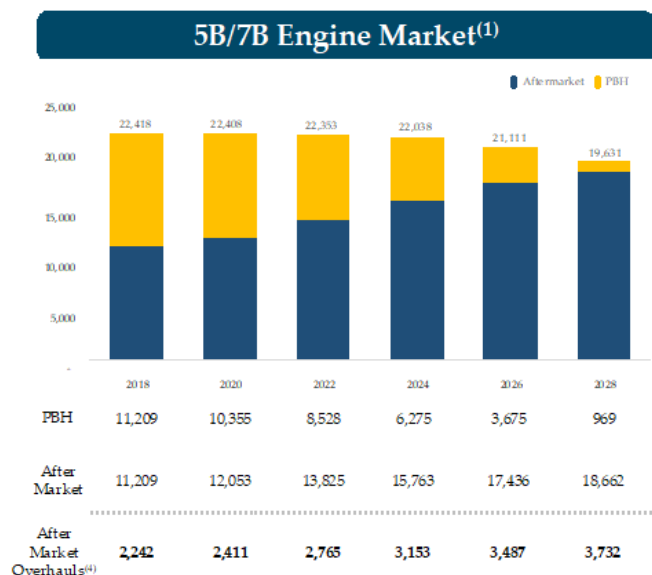
A rapidly growing and attractive aviation leasing business.

FTAI owns approximately 73 passenger aircraft with engines, as well as 146 standalone commercial jet engines. This makes the Company one of the largest players in this space.

Why leasing aircraft engines is better – The Company is principally focused on leasing aircraft engines, as opposed to aircraft. The value of the Company's \$1.2 billion of assets are 90% related to engines and 10% related to aircraft. Every 5 years aircraft engines are completely overhauled and essentially become brand new. The cost of the parts and labor that is put into the overhaul continues to increase, which means the value of the engine actually appreciates over time. On the other hand, aircraft have finite useful lives and tend to go down in value over time. On average this business produces an average EBITDA return of 25% and a 15% ROE (unlevered)

How do you differentiate in this business? Two years ago, the Company formed a joint venture to begin offering engine repair services. FTAI believes the joint venture can offer these services at a substantially lower costs, which will give it a sustainable competitive advantage over the leasing companies that may only compete based on access to capital. The average costs of a shop visit today is \$5 million and FTAI believes the joint venture will be able to lower the average cost to \$3.5 million. Due to the scale of the Company's portfolio, the joint venture will lower costs by sourcing its own spare parts, conducting module swaps, and using buying power to lower the labor cost of maintenance services. Importantly, the joint venture has developed a proprietary and exclusive replacement for an advanced engine part, which cuts the cost of these parts by a third. The joint venture is 2+ years into a 3-year FAA approval process and is expected to commercially launch service next year.

Competitive advantage in a market that is expected to double in the next 10 years - Over the next 10 years, the number of aftermarket engines will surpass those under Power-By-Hour (PBH) contracts. 90% of current engines will exit their initial PBH contracts (PBH are OEM service contracts). This means that the addressable market for the joint venture will almost double in the next ten years. With a significant cost advantage, the joint venture is well positioned to capture a large share of this opportunity.



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KEY INVESTMENT CONSIDERATIONS:

Infrastructure Investments

While FTAI is still at the early innings of the development work with three of its four infrastructure investments, the Company has reached several important milestones, which have incrementally de-risked execution risk.

Central Maine and Quebec Railway (CMQR) - FTAI acquired CMQR out of bankruptcy for \$14 million, invested an additional \$6 million of capital and replaced the management team. The railway is operating profitably now, producing about \$10 million in annual EBITDA. Management has made clear their intention to sell the railway, which should yield a valuation of more than \$120 million (12x EBTIDA) and use the proceeds to lower debt and/or finance other projects.

Jefferson Terminal is in Beaumont TX, a highly advantageous area for investment in refining assets. Two of the largest oil refiners in North America are located nearby this location. The Exxon refinery, which is located across the river, currently has refining capacity of 360,000 barrels/ day. Exxon has plans to expand the capacity to more than 600,000 per day, which will make it the largest refiner in North America. Just 13 miles down the river is Motiva, a comparable large oil refiner. FTAI has plans to install pipelines that will run directly to both the Motiva and Exxon plants. Currently, Jefferson Terminal has 2 million barrels of storage. By the end of the year, management expects to have 3 million barrels of storage with room to grow to more than 20 million. Each million barrels of storage costs approximately \$50M and is expected to generate approximately \$15M annually.

Repauno Port & Rail Terminal is a brownfield site that was previously a Dupont facility on the Delaware river. The terminal has access to deep water, as well as connectivity with Conrail. FTAI is building a facility to liquify natural gas sourced from the Marcellus and ultimately ship it to European chemical companies. It is much easier and more cost effective to ship LNG from the East Coast than from the Gulf, which should give this facility a significant advantage.

Long Ridge Energy Terminal is located on the Ohio River in the Utica Region, which means it is near lots of cheap gas. The site was originally an aluminum smelter and had 500 Megawatts of transmission lines that fed into the property. The Company recently decided to build natural gas-fired 485 MW combined cycle powerplant on this location. To secure a supply of natural gas, the Company also has a joint venture in the area. With the ability to produce gas under its ownership, FTAI has offered fixed-price electricity to large industrial users and has already been able to secure under contract 100% of the plant's capacity for the next 8-10 years. Once fully operational with a cost basis of \$250 million, the plant is expected to generate approximately \$120 million of EBITDA annually. FTAI is planning to sell a 50% ownership interest in the powerplant in exchange for approximately \$200 million to \$250 million in proceeds. If successful, the company will get all of its equity back and still own half of the plant, as well as the rest of the terminal, which includes frac sand and natural gas loading.

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Valuation

Aviation Valuation

The tables below show our back of the envelop calculation for the Aviation assets over the next five years. We make the following assumptions in our model:

- **Leased Assets:** We expect leased assets to grow by approximately \$200 million per year.
- **Capital investment:** We assume that growth in assets will be funded from EBITDA, which we use as a proxy for cash flow.
- **EBITDA Multiple:** We use a 10x multiple of forecasted EBITDA for the leasing business as well as the overhaul service business. This multiple is likely conservative, especially for the overhaul business, which should have significant competitive differentiation, as well as opportunities for growth beyond what we show in the model.

	2019	2020	2021	2022	2023
Aviation					
Leased Assets	1,200	1,400	1,600	1,800	2,000
EBITDA Return	25%	25%	25%	25%	25%
Leasing EBITDA	300	350	400	450	500
			EBITDA Multiple		10
			Valuation		5,000
Engine Overhaul Service					
Engine Overhauls		25	50	100	150
EBITDA/ Overhaul		0.3	0.3	0.3	0.3
Service EBITDA	0	7.5	15	30	45
			EBITDA Multiple		10
			Valuation		450

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Valuation

Infrastructure Valuation

The tables below show our back of the envelop calculation for the infrastructure projects over the next five years. We make the following assumptions in our model:

- **Capital investment:** We assume that capital investments will be partially funded from EBITDA, which we use as a proxy for cash flow.
- **EBITDA Multiple:** We use a 10x multiple of forecasted EBITDA. This multiple is likely conservative.

	2019	2020	2021	2022	2023
Jefferson Terminal					
Capital Investment		200	250	200	200
Net Debt		129	256	293	289
Oil Storage Capacity (millions of barrels)	3	7	12	16	20
EBITDA/ 1M barrels	15	15	15	15	15
Total EBITDA	45	105	180	240	300
Non Contoling Interest	-14	-34	-58	-77	-96
EBITDA to FTAI	31	71	122	163	204
			EBITDA Multiple		10
			Valuation		3,000
			Net Debt		289
			Equity Value to FTAI		2,711
Repauno Port					
Capital Investment	30	30	250	250	
Net Debt	30	40	270	350	180
EBITDA		20	20	170	170
			EBITDA Multiple		10
			Valuation		1,700
			Net Debt		180
			Equity Value		1,520
Long Ridge					
Capital Investment		300	300		
Net Debt	0	300	540	420	300
EBITDA			60	120	120
			EBITDA Multiple		10
			Valuation		1,200
			Net Debt		300
			Equity Value		900

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Valuation

The table below shows our sum of the parts valuation for the combined aviation and infrastructure assets. We assume the sale of CMQR and the sale of a 50% stake in the Long Ridge terminal at today's dollars. We discount the 5-year valuation of the remaining businesses to present value using a 20% discount rate. We use an aggressive discount rate to reflect the still relatively early stages of development at the three infrastructure plays. As FTAI reaches additional milestones, we believe the market will apply more certainty to the potential cash flows of these projects and apply a lower discount rate. This leaves significant upside to the valuation, from what already appears to be an attractive entry point. Investors will likely have to be patient as inevitably projects may be delayed or hit disruption before they reach maturity. Nevertheless, at the current valuation, it appears that not all of the projects have to work out as planned and patient investors will receive an attractive 7% dividend yield while they wait.

	Present Value	5 Year Value
Discount Rate	20%	
Proceeds from sale of CMQR	125	125
Present Value of Aviation (20% discount)	2,009	5,000
Present Value of Engine Overhaul Service Business (20% discount)	181	450
Present Value of Jefferson Terminal to FTAI (20% discount)	741	1,843
Present Value of Repauno Port	611	1,520
Proceeds from 50% stake in Long Ridge	200	200
Present Value of remaining interest in Long Ridge (20% discount)	181	450
Cash	0.1	0.1
Debt	-1,600	-2,277
Market Cap	2,448	7,312
Shares Outstanding	84.7	85.7
Valuation	\$ 28.90	\$ 85.32

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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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