

# Mossberg's Investor Digest

## From the Editor...

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

Founded in the 1950's and public since 1993, **Shiloh Industries, Inc. (Nasdaq: SHLO)** offers an eco-friendly way to invest in significant changes that are happening in the automotive industry. The Company's products help auto makers reduce the weight of vehicles, which lowers fuel consumption, increases the range of electronic vehicles, and indirectly reduces green-house gas emissions. Directly, the Company has an eco-friendly mandate internally to make all its facilities landfill free by 2020. (Currently more than half are.)

Reducing vehicle weight is in strong demand in the automotive industry for both internal combustion and electric vehicles. Light weighting trends should allow growth regardless of cyclical trends, or changes in propulsion systems. With the strength of this trend, management believes SHLO's addressable market for content per vehicle is 7x its current levels.

Specifically, SHLO makes light weight components made from steel, aluminum and magnesium for a car's body, chassis and powertrain. Importantly, Shiloh's components do not sacrifice strength, performance or safety. For example, the Company has introduced an axle carrier for a pickup truck replacing cast iron with aluminum. For a total cost that is less than cast iron, Shiloh's product reduces weight by 24 pounds, or 50%.

Current CEO, Ramzi Hermiz, joined in 2013 and has led a strategy to focus the Company on providing lightweight components. Through a combination of acquisitions and organic growth, the size of the Company has doubled over the past five years. In addition, SHLO has added new raw material expertise (aluminum & magnesium) and expanded its footprint globally.

We use an 5.5x multiple (current TTM valuation) of 2019 EBITDA to derive an enterprise value of \$514 Million for 2019. We believe an 5.5x multiple may prove to be conservative and there is room for further expansion as the Company reaches its targeted goals for margin and proves out its ability to grow despite changes in the cycle. Working backwards from enterprise value, we calculate a share price of \$12.89 per share in 2019, which represents about 50% upside from current levels.

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## October 2018

## Issue #124

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

**Semtech Corporation (Nasdaq: SMTC)** - Is a leading global supplier of analog and mixed signal semiconductor products and advanced algorithms for high-end consumer, industrial, enterprise computing, and communications end-markets. Their highly differentiated technology platforms enable today's innovative electronics, pushing the boundaries of intelligence, bandwidth, connectivity, and mobility to address some of the fastest growing markets.

**Delta Apparel, Inc. (NYSE: DLA)**- Delta Apparel specializes in selling casual and athletic products through a variety of distribution channels and distribution tiers, including specialty stores, boutiques, department stores, mid-tier and mass chains, e-retailers and the U.S. military. They design and internally manufacture the majority of their products, and have distribution facilities strategically located throughout the U.S. to better serve their customers.

**Tidewater Inc. (NYSE: TDW)**- Tidewater owns and operates one of the largest fleets of OSVs (Offshore Support Vessels) in the industry, with over 60 years of experience supporting offshore energy exploration and production activities worldwide. Tidewater has a global footprint, with over 90% of its fleet working internationally in more than 60 countries. Around the world, we stand ready to transport crews and supplies, tow and anchor mobile rigs, assist in offshore construction projects and perform a variety of specialized marine support services.

**Lands' End, Inc. (Nasdaq: LE)**- Lands' End is a leading multi-channel retailer of casual clothing, accessories, footwear and home products. They offer products through catalogs, online at [www.landsend.com](http://www.landsend.com) and affiliated specialty and international websites, and through retail locations, primarily at Lands' End Shops and standalone Lands' End Stores.

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Best Idea Profile:

Shiloh Industries, Inc. (Nasdaq: SHLO)

## DESCRIPTION:

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Reducing vehicle weight is in strong demand in the automotive industry for both internal combustion and electric vehicles. Light weighting trends should allow growth regardless of cyclical trends, or changes in propulsion systems. With the strength of this trend, management believes SHLO's addressable market for content per vehicle is 7x its current levels.

Specifically, SHLO makes light weight components made from steel, aluminum and magnesium for a car's body, chassis and powertrain. Importantly, Shiloh's components do not sacrifice strength, performance or safety. For example, the Company has introduced an axle carrier for a pickup truck replacing cast iron with aluminum. For a total cost that is less than cast iron, Shiloh's product reduces weight by 24 pounds, or 50%.

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### Shiloh Industries, Inc. (Nasdaq: SHLO) Investment Data (as of 10/29/18)

<b>Recent Price</b>	<b>\$8.59</b>
52-Week Range	\$6.45 - \$12.28
Fiscal Year End	October
Dividend	N/A
Yield	N/A
Shares Outstanding	23.4 M
Average Trading Volume (3 mos)	70,000
Market Capitalization	\$200M
Cash & Equivalents	\$17M
LT Debt	\$238M
Enterprise Value (EV)	\$421M
TTM Revenue	\$1.1B
EV/ Revenue	0.4x
2018 Adj-EBITDA (mid-point guidance)	\$74.5M
EV/ EBITDA	5.7x
Book Value/ Share	\$8.93

The Company has more than 4,200 employees with facilities in Asia, Europe and North America both from a manufacturing standpoint, as well as engineering and technical support.

Customers include all the primary auto OEMs, with no single customer making up more than 18% of revenue, and no program making up more than 10% of revenue.

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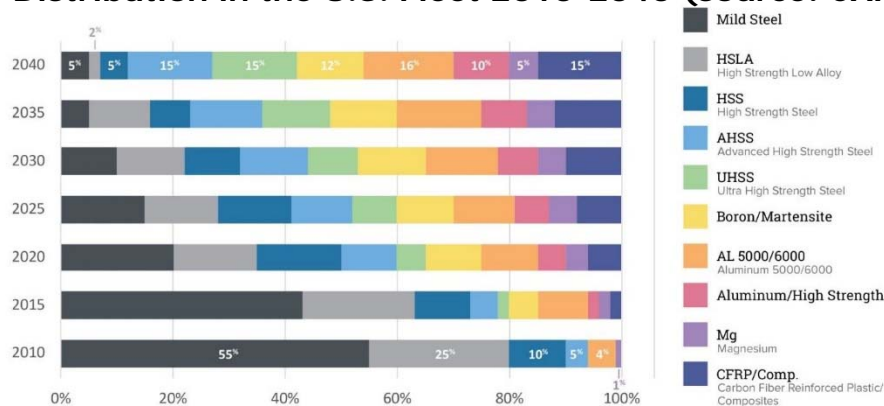
## KEY INVESTMENT CONSIDERATIONS:

### Lightweighting is key enabler in automotive mega trends

The key mega-trends in the automotive industry including autonomous vehicles, electric vehicles, hybrid electric vehicles and improved safety, all require lightweighting to enable their transition. Reducing vehicle weight is one of the most viable ways of reducing fuel consumption and conserving battery usage. According to the Department of Energy, a 10 percent reduction in vehicle mass yields approximately a 6-8 percent increase in fuel economy. Using high strength steel, magnesium, aluminum, carbon fiber and other polymer composites can reduce weight of a vehicles body and chassis by up to 50%, which equates to a 30% to 40% reduction in fuel consumption.

As the chart below shows, the use of high strength steel, magnesium and aluminum are going to become much more pervasive in automobiles use in the coming years. The global automotive lightweight materials market is expected to reach an \$110.5 billion by 2023, growing at an annual rate of 6.1%.

**Material Distribution in the U.S. Fleet 2010-2040 (source: CAR Research)**



**Increasing content per vehicle** – Shiloh’s products are used in an automobile’s body, chassis, and propulsion (both electric and internal combustion). Because of the significance of light weighting to the future of the automotive industry, SHLO’s growth is not about reaching peak cycle for autos. Instead, it will be about adding content per vehicle.

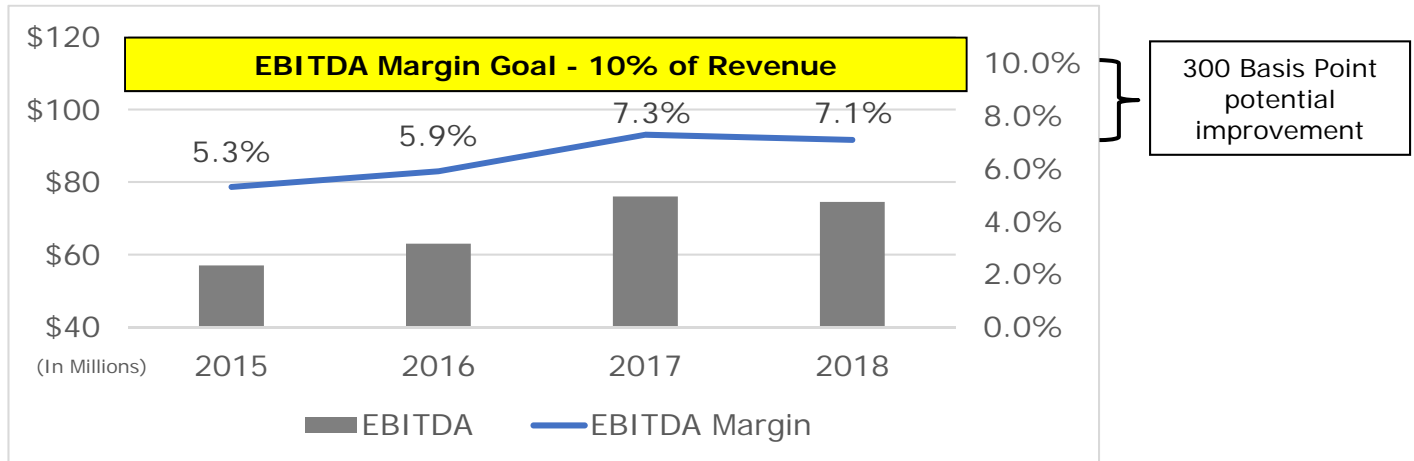
- **Up to 7x CPV** – Shiloh’s current content per vehicles is about \$200. Management believes there is a potential of \$1,500 per vehicle over time. Anecdotally, the company has already proven its ability to add CPV, with some of its content at \$600 per vehicle.
- **CPV is not much different in electric vs. internal combustion** – Below is the table of the potential content per vehicle by platform. Notice there is little difference in the three, and the hybrid electric vehicles actually have more potential content.

Body Systems			Chassis Systems			Propulsion Systems		
EV	Hybrid	ICE	EV	Hybrid	ICE	EV	Hybrid	ICE
\$580	\$600	\$580	\$390	\$425	\$430	\$395	\$475	\$405

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## KEY INVESTMENT CONSIDERATIONS:



**2020 EBITDA Margin goal of 10%** - Management has established a goal to reach 10% EBITDA margin by 2020, which will primarily be driven from a shift in revenue mix to higher margin products, as well as from a two-year restructuring plan which began at the end of 2017.

- **Mix Shift to higher value products** - In 2014, the Company initiated a strategy to exit select commodity steel products that generated little profit and focus on more value-added solutions, including products made from lightweight aluminum and magnesium. While revenue growth of higher margin products is being offset by exiting lower margin business, profitability is set to grow significantly with the change in mix. Management believes that they are approximately 2/3 through the process of exiting lower margin business. (“...we’ve kind of moved to the seventh inning on that...”). Over the last several years, the Company has built a backlog of \$3.2 billion, which is primarily comprised of orders to supply high value-added products. This business will begin to move into production in 2019 and accelerate the transition in product mix.
- **Restructuring Plan** – In late 2017, the Company began implementing a 2-year restructuring plan designed to drive fixed costs out the business and de-risk the impact from potential changes in the cycle. The Company expects to take \$17 million in charges over two years, which are primarily related to rationalizing production. Savings from the restructuring plan of \$7 million to \$10 million annually are expected to begin to be realized during 2019.

### Dealing with political and trade uncertainty

- **Supply chains support regional customers** – To help avoid cross border tariffs, the Company’s manufacturing locations and supply chain are built to support region customers. Raw material supply is sourced from within the same region that the product is manufactured, with customer delivery also completed in the same region.
- **Contracts are pass through for raw materials** – To offset increase market pricing, the company has material pass-through agreements. Increasing prices of certain raw materials, such as steel, can also create an increase in demand for light weighting. Shiloh’s technology can cut weight, reduce the amount of materials and help offset the increasing costs of the raw material.

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## Valuation

	2016	2017	2018	2019	2020
Revenue	1,066	1,042	1,050	1,100	1,150
EBITDA Margin	5.9%	7.3%	7.1%	8.5%	10.0%
EBITDA	63	76	75	94	115
Capex	28	48	50	50	50
Cash	9	9	15	15	15
Debt	133	188	235	223	197
EV/EBITDA multiple				5.5	5.5
Enterprise Value				514	632.5
Market Cap				306	450
Shares Outstanding			23.5	23.7	24.0
<b>Value</b>				<b>\$12.89</b>	<b>\$18.78</b>

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

**Revenue:** We assume \$50 million, or about 5%, of growth for each of the next two years. Our assumption reflects an acquisition made in 2018, which added approximately \$100 million in annual revenue. We expect the revenue from the acquisition will be offset by the decrease in sales from low-margin products that the Company has been exiting over the last several years.

**Adjusted EBITDA Margin:** Our 2018 EBITA margin of 7.1% reflects the mid-point of management guidance. Our model reflects a linear improvement in EBITDA for the next two years, reaching the EBITDA margin goal of 10% by 2020.

**Cash Flow:** We use EBITDA as a proxy for operating cash flow and expect that approximately 2/3rds of EBITDA, less CAPEX, will convert into cash and be used to pay down debt.

**Valuation:** We use a 5.5x multiple (current TTM valuation) of 2019 EBITDA to derive an enterprise value of \$514 Billion. We believe an 5.5x multiple may prove to be conservative and there is room for further expansion as the Company reaches its targeted goals for margin and proves out its ability to grow despite changes in the cycle. Working backwards from enterprise value, we calculate a share price of \$12.89 per share in 2019, which represents about 50% upside from current levels. As shown in our calculation for 2020, we think there is even more substantial upside longer term as growth and margin improvement continue to play out.

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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 January 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	
Dycom Industries, Inc (NYSE: DY)	31-Jan-16	\$62.18	\$69.01	11.0%	42.7%	-31.7%	
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$32.00	48.6%	42.9%	5.7%	
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$2.25	35.5%	32.6%	2.9%	
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$17.62	175.7%	30.6%	145.1%	
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$2.65	65.6%	28.4%	37.2%	
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$26.67	233.8%	28.2%	205.5%	
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$34.99	145.0%	21.1%	123.9%	
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$3.72	-66.5%	19.1%	-85.7%	
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	18.0%	26.4%	
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$17.71	34.6%	24.0%	10.6%	
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$10.99	51.5%	11.7%	39.8%	
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$0.87	-94.3%	8.9%	-103.1%	
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$14.89	156.7%	8.5%	148.2%	
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	6.5%	1.0%	
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.50	50.9%	6.6%	44.3%	
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$2.91	92.7%	5.5%	87.2%	
Treco Resources (NYSE: TREC)	31-May-17	\$10.65	\$10.91	2.4%	7.8%	-5.4%	
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$0.98	-2.4%	4.4%	-6.8%	
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$4.27	-49.0%	3.7%	-52.7%	
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$31.77	-6.0%	5.1%	-11.1%	
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$1.88	-60.7%	-0.9%	-59.8%	
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$12.57	-19.7%	-0.9%	-18.8%	
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$14.61	7.4%	-4.3%	11.8%	
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$17.05	11.0%	-3.8%	14.8%	
Team, Inc. (NYSE: TISI)	30-Jan-18	\$16.95	\$20.17	19.0%	-6.7%	25.7%	
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	\$9.85	\$5.85	-40.6%	-2.3%	-38.3%	
GSE Systems, Inc. (NYSE:GVP)	31-Mar-18	\$3.25	\$3.05	-6.2%	-3.4%	-2.7%	
Telaria, Inc. (NYSE:TLRA)	30-Apr-18	\$4.13	\$2.90	-29.8%	-4.2%	-25.6%	
Avaya Holdings Corp. (NYSE:AVYA)	31-May-18	\$21.57	\$16.46	-23.7%	-9.6%	-14.1%	
Tenneco, Inc. (NYSE:TEN)	30-Jun-18	\$43.96	\$34.63	-21.2%	-10.1%	-11.1%	
Edgewater Technology (Nasdaq:EDGW)	31-Jul-18	\$5.20	\$4.79	-7.9%	-11.6%	3.7%	
Data I/O Corporation (Nasdaq: DAIO)	30-Aug-18	\$5.37	\$4.87	-9.3%	-14.7%	5.4%	
TPI Composites Inc. (Nasdaq: TPIC)	28-Sep-18	\$28.55	\$25.33	-11.3%	-12.9%	1.6%	
				<b>Average</b>	<b>22.6%</b>	<b>8.2%</b>	<b>14.4%</b>

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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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