

# Mossberg's Investor Digest

## From the Editor...

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

Founded in 1968 as a boat manufacturer, over the course of the past decade **TPI Composites Inc. (Nasdaq: TPIC)** has transformed into a rapidly growing, \$1 billion wind turbine blade manufacturer. From 2014 to 2017 the Company delivered 44% growth in revenue and 86% growth in Adjusted EBITDA.

The Company is the only independent blade manufacturer with a global footprint, which gives it significant efficiencies of scale and scope. It has 9,000 employees and nine plants in the U.S., Mexico, China and Turkey.

Customers include the top 6 wind turbine manufacturers (excluding those in China), which includes GE Wind, Vestas, Siemens Gamesa, Nordex Acciona and Senvion. According to research firm MAKE, TPIC's customers represent approximately 45% of global onshore wind energy market and 99.8% of the U.S. onshore wind turbine market.

The company is also leveraging its composite technology to introduce new applications in transportation, including bodies for electronic vehicles.

In April of 2017, TPIC's largest customer, GE (44% of 2017 revenue), completed its acquisition of LM Wind Power, TPIC's largest competitor. Since buying LM Wind, seven manufacturing lines dedicated to GE were not renewed, but GE has renewed and extended several lines with TPIC. In addition, several of the existing GE production lines have supply agreements that extend into 2020, which should give TPIC time to reposition its production capacity.

Clearly changes at GE have affected TPIC's revenue growth and profitability during 2018, but with \$6.4 billion (\$4.5 billion take or pay) of revenue under contract, the Company has clear visibility to resuming 36% revenue growth for 2019 and 20%+ revenue growth thereafter. As well, EBITDA margin is expected to return to levels above 10% in 2019, from 7.5% in 2018, and should approach 12% over the next several years.

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## September 2018

Issue #123

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

**Century Casinos, Inc. (Nasdaq: CNTY)**- Century Casinos, Inc., founded in 1992, is an international casino entertainment company. Century Casinos focuses on investing in, developing and operating regional mid-size casinos in any well regulated market world-wide. They aim at full ownership but partnerships are always an option. Furthermore, Century Casinos provides management services ranging from design development and equipment selection to full development and operational services.

**NCS Multistage Holdings, Inc. (Nasdaq: NCSM)** - Is a leading provider of highly engineered products and support services that enable oil-and-gas operators to optimize oil and natural gas well completions and field development strategies. They provide products and services primarily to exploration and production companies for use in onshore wells, predominantly wells that have been drilled with horizontal laterals in unconventional oil and natural gas formations. Their products and services are utilized in oil and natural gas basins throughout North America and in selected international markets, including Argentina, China and Russia.

**BBX Capital Corporation (NYSE: BBX)** - Is a diversified holding company whose activities include an approximate 90% ownership of Bluegreen Vacations Corporation (NYSE: BXG) and, through its Real Estate and Middle Market Divisions, the acquisition, ownership and management of joint ventures and investments in real estate and real estate development projects and middle market operating businesses. Bluegreen is a leading vacation ownership company that markets and sells vacation ownership interests (VOIs) and manages resorts in top leisure and urban destinations.

**Golden Entertainment, Inc. (Nasdaq: GDEN)** - Owns and operates gaming properties across two divisions – resort and casino operations and distributed gaming. They operate 16,000 gaming devices, 114 table games, 5,162 hotel rooms. GEI owns eight casino resorts – seven in Nevada and one in Maryland. Through its distributed gaming business in Nevada and Montana, Golden operates video gaming devices at nearly 1,000 locations and owns nearly 60 traditional taverns. Golden Entertainment is focused on maximizing the value of its portfolio by leveraging its scale, leadership position and proven management capabilities across its two divisions.

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Best Idea Profile:

TPI Composites, Inc. (Nasdaq: TPIC)

## DESCRIPTION:

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The Company is the only independent blade manufacturer with a global footprint, which gives it significant efficiencies of scale and scope. It has 9,000 employees and nine plants in the U.S., Mexico, China and Turkey.

Customers include the top 6 wind turbine manufacturers (excluding those in China), which includes GE Wind, Vestas, Siemens Gamesa, Nordex Acciona and Senvion. According to research firm MAKE, TPIC's customers represent approximately 45% of global onshore wind energy market and 99.8% of the U.S. onshore wind turbine market.

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In April of 2017, TPIC's largest customer, GE (44% of 2017 revenue), completed its acquisition of LM Wind Power, TPIC's largest competitor. Since buying LM Wind, seven manufacturing lines dedicated to GE were not renewed, but GE has renewed and extended several lines with TPIC. In addition, several of the existing GE production lines have supply agreements that extend into 2020, which should give TPIC time to reposition its production capacity.

### TPI Composites, Inc. (Nasdaq: TPIC) Investment Data (as of 9/28/18)

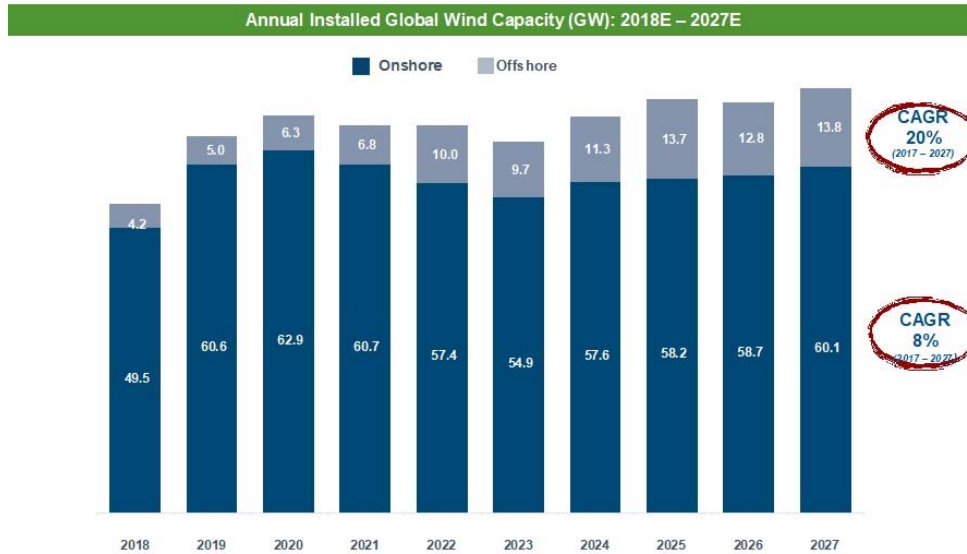
<b>Recent Price</b>	<b>\$28.55</b>
52-Week Range	\$16.35 - \$32.22
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	34.4 M
Average Trading Volume (3 mos)	330,000
Market Capitalization	\$982M
Cash & Equivalents	\$114M
LT Debt	\$130M
Enterprise Value (EV)	\$1.0B
TTM Revenue	\$967M
EV/ Revenue	1.0x
2019 Adjusted EBITDA	\$145M
EV/ EBITDA	6.9x
Book Value/ Share	\$6.84

Clearly changes at GE have affected TPIC's revenue growth and profitability during 2018, but with \$6.4 billion (\$4.5 billion take or pay) of revenue under contract, the Company has clear visibility to resuming 36% revenue growth for 2019 and 20%+ revenue growth thereafter. As well, EBITDA margin is expected to return to levels above 10% in 2019, from 7.5% in 2018, and should approach 12% over the next several years.

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## KEY INVESTMENT CONSIDERATIONS:

### Market for Wind Power is very strong

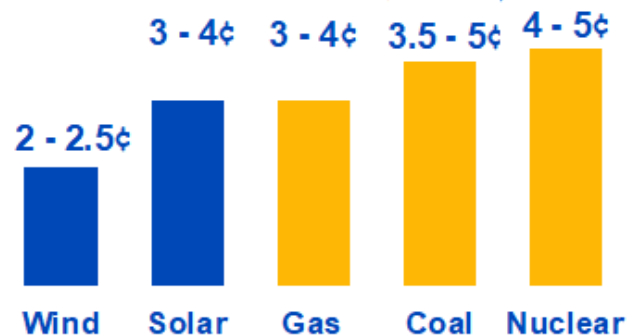


Source: Company Presentation

**Growth Market** – According to Research firm MAKE, the average growth of wind capacity from 2018 to 2027 will be 67GW per year. For onshore and offshore, this represents annual growth rates of 8% and 20%, respectively. In developing markets, such as Mexico, Turkey, Chile and Argentina, growth is expected to be 27% per year.

**Growth to be driven by economics and customer preference, NOT subsidies** – The U.S. market has been subsidized by tax credits, which will be reduced beginning in 2020 and the slowly phased out during the subsequent years. The key to continued growth in the U.S. and elsewhere in the world is that the dramatic decline in the cost of Wind Power Generation. Without Subsidies, wind power technologies being developed will put costs on par or even lower than Natural Gas, Coal and/or other power generation sources. When combined with improvements in battery storage (for use when the wind is not blowing) wind power is going to be a long term viable source of energy. The chart to the right shows Nextera's estimate for the unsubsidized cost of wind power in 2020, excluding the tax subsidies.

### Potential Cost per kWh Post-2020<sup>(1)</sup> (¢/kWh)



Source: Nextera Investor Presentation

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## KEY INVESTMENT CONSIDERATIONS:

### **Clear visibility for multiple years of 20%+ annual growth**

The Company has a dedicated supplier model in which customers are incentivized to maximize the volume of wind blades purchased through lower pricing at higher purchase volumes.

- **Volume guarantees reduce risk of new capital deployment** – Before building new capacity, TPIC contracts with customers to dedicate production for five years, and in exchange receives guaranteeing volume levels. In the first couple of years, TPIC is guaranteed 100% of what they can make and in years 3-5 that may drop to 75% to 50%. As a result, the risk of deploying new capital is substantially reduced.
- **Limited Capital investment** – TPI's model requires the customer pay for the tooling, which gives the customer skin in the game and makes its relationships more stable. As such TPIC's required capital investment is also substantially reduced. For example, from 2014 to 2017, revenue increased by more than \$600 million from \$320 million to \$950 million, which only required capital spending of just over \$100 million during those three years.
- **Model to drive attractive returns** – The Company's targeted financial model is expected to produce 15% gross margin, 12% EBITDA margin and 30%-35% ROIC.
- **Significant pipeline** – The contracted model leads to significant revenue visibility. TPIC currently has \$6.4 billion of revenue under contract, with a minimum take or pay of \$4.5 billion. The Company has given guidance of \$1.4 billion in sales and \$145 million in EBITDA for 2019.
- **New applications offer an additional growth driver and diversification** - The Company is leveraging their expertise in lightweight and durable composite and is entering the market for electronic vehicles. TPIC has an exclusive arrangement to manufacture a composite bus body for EV bus manufacturer, Proterra. There is no steel/ aluminum in the bus chassis, which saves thousands of pounds of weight and equates to added miles of range. The company also has development agreements with Navistar and others in the electronic vehicle space. The first bus body for Proterra shipped in July. While the timing of the revenue ramp is uncertain and not currently included in expectations, the company expects that over time, this could grow to a \$500 million business segment.

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## Valuation

	2017	2018	2019	2020	2021
Revenue	955	1,025	1,400	1,680	2,016
Rev Growth		7%	37%	20%	20%
Adjusted EBITDA	100	68	145	185	232
Adjusted EBITDA Margin	10%	6.6%	10.4%	11.0%	11.5%
Cash Flow			87	111	139
Cash	148	120	120	231	370
LT Debt	86	90	3	3	3
Enterprise Value			1,160	1,478	1,855
EV/ EBITDA Multiple			8	8	8
Market Cap			1,277	1,706	2,222
Share Count	34.9	34.2	34.9	35.6	36.3
<b>Share Price</b>			<b>\$36.61</b>	<b>\$47.95</b>	<b>\$61.22</b>

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

**Revenue:** Our 2018 and 2019 revenue assumptions reflect the Company's expectations. Thereafter we assume 20% growth, which is at the lower end of the targeted range.

**Adjusted EBITDA Margin:** Our 2018 and 2019 EBITDA numbers, also reflect the Company's expectations. Thereafter, we expect the company can add 50 basis points of margin improvement per year as incremental sales are leverage over fixed costs.

**Cash Flow:** We use EBITDA as a proxy for operating cash flow and expect that approximately 60% of EBITDA will convert into free cash flow generation.

**Valuation:** We use an 8x multiple of 2019 EBITDA to derive an enterprise value of \$1.2 Billion. We believe an 8x multiple may prove to be conservative and there is room for further expansion as the Company reaches its targeted goals for margins and returns. Working backwards from enterprise value, we calculate a share price of \$36.60 per share in 2019, which represents about 30% upside from current levels. As show in our calculations for 2020 and 2021, 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	\$84.72	36.2%	63.3%	-27.0%	
Rackspace Hosting, Inc. (NYSE: RAX)	29-Feb-16	\$21.54	\$32.00	48.6%	63.5%	-14.9%	
Kopin Corporation (Nasdaq:KOPN)	31-Mar-16	\$1.66	\$2.43	46.4%	51.7%	-5.4%	
PAR Technology Group (NYSE: PAR)	30-Apr-16	\$6.39	\$22.21	247.6%	49.5%	198.1%	
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$2.93	83.1%	46.9%	36.2%	
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$34.32	329.5%	46.8%	282.8%	
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$33.90	137.4%	38.6%	98.8%	
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$5.85	-47.4%	36.3%	-83.7%	
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	35.1%	9.3%	
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$19.85	50.8%	41.9%	8.9%	
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$11.02	51.9%	27.8%	24.1%	
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$1.03	-93.2%	24.6%	-117.8%	
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$15.05	159.5%	24.1%	135.3%	
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	21.9%	-14.3%	
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.50	50.9%	22.0%	28.9%	
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$3.12	106.6%	20.7%	85.9%	
Treco Resources (NYSE: TREC)	31-May-17	\$10.65	\$14.00	31.5%	23.4%	8.1%	
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$1.16	15.5%	19.4%	-3.9%	
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$4.61	-45.0%	18.6%	-63.6%	
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$28.25	-16.4%	20.3%	-36.7%	
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$3.05	-36.2%	13.4%	-49.6%	
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$15.15	-3.2%	13.4%	-16.6%	
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$14.30	5.1%	9.5%	-4.3%	
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$20.40	32.8%	10.1%	22.7%	
Team, Inc. (NYSE: TISI)	30-Jan-18	\$16.95	\$22.50	32.7%	6.8%	25.9%	
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	\$9.85	\$7.67	-22.1%	11.8%	-33.9%	
GSE Systems, Inc. (NYSE:GVP)	31-Mar-18	\$3.25	\$3.65	12.3%	10.5%	1.8%	
Telaria, Inc. (NYSE:TLRA)	30-Apr-18	\$4.13	\$3.78	-8.5%	9.6%	-18.1%	
Avaya Holdings Corp. (NYSE:AVYA)	31-May-18	\$21.57	\$22.14	2.6%	3.5%	-0.8%	
Tenneco, Inc. (NYSE:TEN)	30-Jun-18	\$43.96	\$42.11	-4.2%	2.9%	-7.1%	
Edgewater Technology (Nasdaq:EDGW)	31-Jul-18	\$5.20	\$5.15	-1.0%	1.2%	-2.1%	
Data I/O Corporation (Nasdaq: DAIO)	30-Aug-18	\$5.37	\$5.24	-2.4%	-2.4%	0.0%	
				<b>Average</b>	<b>39.2%</b>	<b>24.6%</b>	<b>14.6%</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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