

# Mossberg's Investor Digest

## From the Editor...

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

Headquartered in Raleigh, NC; 17-year-old **BioDelivery Sciences International, Inc. (Nasdaq: BDSI)**, is a commercial stage specialty pharmaceutical company. BDSI's lead drug, BELBUCA, is a very differentiated drug used for the treatment of chronic pain. Because BELBUCA is safer and less addictive than other opioids, it is rapidly growing... nearly doubling revenue during the past year and expected to grow 50%+ in 2020.

The Company recently licensed a drug, Symproic, to treat the opioid induced constipation, which is a widespread issue among chronic pain patients. The new drug can be sold using BDSI's existing go-to-market infrastructure (about 115 direct sales reps) that sell to the same doctors that prescribe for chronic pain conditions.

Management believes the long-term potential for its current drugs are approximately \$425 to \$500 million, leaving plenty of room for growth from the \$105 million to \$110 million expected for 2019.

The Company is turning the corner on profitability and positive cash flow generation. Management expects to be cash flow positive in the fourth quarter of 2019 and should have no further need for additional capital to support its organic growth.

Using our back-of-the envelope model that shows average annual revenue growth of 40% and significant earnings contribution, we derive \$0.86 of earnings power by 2022. Using a P/E multiple of 20x, which we believe is conservative relative to BDSI's attractive growth opportunities, we derive a valuation that is more than 2x the current stock price.

Dave Mossberg  
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## December 2019

## Issue #138

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

**SMTC Corporation (Nasdaq: SMTX)** is a mid-size provider of end-to-end electronics manufacturing services (EMS) including PCBA production, systems integration and comprehensive testing services, enclosure fabrication, as well as product design, sustaining engineering and supply chain management services. SMTC offers fully integrated contract manufacturing services with a distinctive approach to global original equipment manufacturers (OEMs) and emerging technology companies.

**SeaChange International, Inc. (Nasdaq: SEAC)** is a leading supplier of Video Delivery Software Solutions. Their solution powers hundreds of cloud and on-premise video delivery platforms, servicing over 50 million subscribers worldwide. SeaChange offers value-based engagement which provides content and service providers with a complete software delivery platform for linear, VOD and TSTV over managed and unmanaged networks. The SeaChange Framework solution includes video back-office, media asset management, targeted advertising management, analytics and the client interface for STBs, Smart-TVs and mobile devices. Their solutions are available as a product or managed service deployed on-premises, in the cloud or as a hybrid.

**JELD-WEN Holding, Inc. (NYSE: JELD)** Is one of the world's largest door and window manufacturers and hold the #1 position by net revenues in the majority of the countries and markets the company serves. The company designs, produces, and distributes an extensive range of interior and exterior doors, wood, vinyl, and aluminum windows, and related products for use in the new construction and repair and remodeling, or "R&R", of residential homes and, to a lesser extent, non-residential buildings. The company markets products globally under the JELD-WEN brand, along with several market-leading regional brands such as Swedoor and DANA in Europe and Corinthian, Stegbar, and Trend in Australia. The company has invested significant capital to build a business platform that they believe is unique among competitors. The company operates manufacturing facilities in 20 countries, located primarily in North America, Europe, and Australia. The company's global manufacturing footprint is strategically sized and located to meet the delivery requirements of our customers.

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Best Idea Profile:

BioDelivery Sciences International, Inc. (Nasdaq: BDSI)

## DESCRIPTION:

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### BioDelivery Sciences International, Inc. (Nasdaq: BDSI)

Investment Data (as of 12/31/19)

<b>Recent Price</b>	<b>\$6.34</b>
52-Week Range	\$2.89 - \$7.21
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	98.6 M
Average Trading Volume (3 mos)	1.3 M
Market Capitalization	\$625 M
Cash & Investments	\$55 M
LT Debt	\$59 M
Enterprise Value (EV)	\$629 M
2020 Revenue guidance*	\$170 M
EV/ Revenue	3.7x
2020 Revenue Growth*	57%
2020 EPS (consensus)	\$0.31
P/E	20.5x

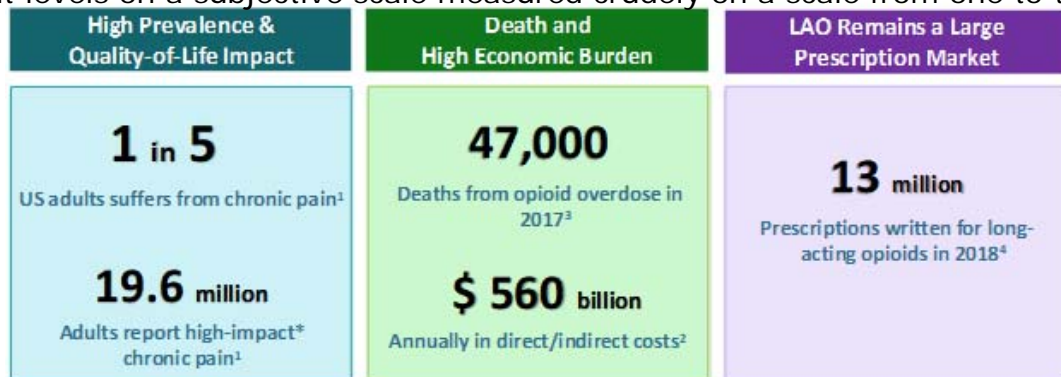
\* Represents midpoint of \$165M - \$175M guidance

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## KEY INVESTMENT CONSIDERATIONS:

### A better alternative to chronic pain treatment.

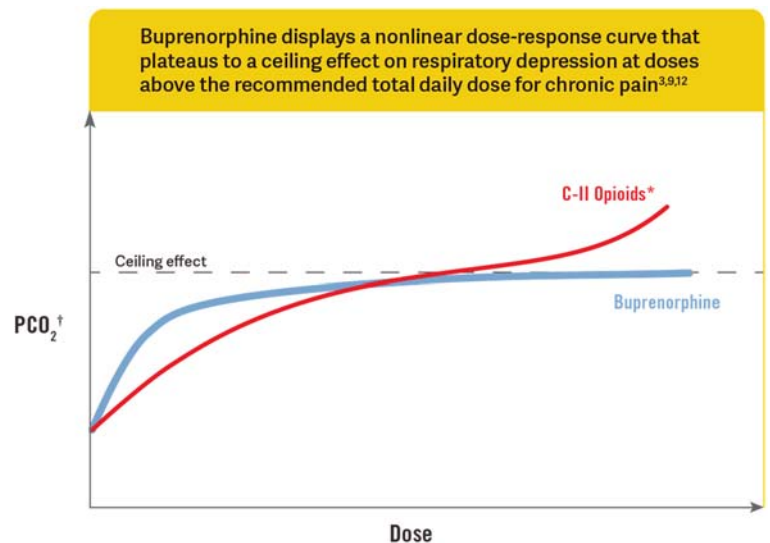
**Chronic pain: a very large issue without a good solution** – As shown in the chart below, chronic pain affects a diverse and large population of patients in the United States and the consequence of overdose are causing a well-known epidemic. Chronic pain management is also very difficult to manage, as the population of patients with chronic pain is very diverse with individuals being able to function at different levels on a subjective scale measured crudely on a scale from one to ten.



Source: Company Presentation

**BELBUCA offers a unique solution to pain management** – Belbuca can deliver pain relief without addictive qualities of other opioids and with less chance of causing respiratory failure.

- **Proven efficacy** – buprenorphine is the active molecule in BDSI's Belbuca product. buprenorphine was introduced in the U.S. primarily for opioid use disorder and it is known worldwide to be a highly effective agent for pain reduction.
- **Propriety delivery technology** – BDSI's delivers buprenorphine using a proprietary film technology. BELBUCA comes in the form of a small, thin square film. Patients put the film in their mouth and press it against the inside of their cheeks. Within a few seconds, BELBUCA adheres to the inside of the cheek and is dissolved within about 30 minutes. The film technology allows the drug to be absorbed into your bloodstream more efficiently because, unlike a tablet, it doesn't have to go through your digestive system first. Because it avoids the digestive system is also has limited if any affect on constipation, a common issue with other opioids.
- **Reduced dependency versus Schedule II** – buprenorphine is a schedule III opioid product versus a schedule II. The reason is it under a different classification is that it has less potential for dependency and abuse. buprenorphine has a different mechanism of action in which it uses a targeted approach that does not overwhelm the pain receptors.
- **It is safer** – buprenorphine causes limited respiratory depression with a ceiling effect at higher doses. In contrast, schedule II opioids are well known to create respiratory failure and death by overdosing.

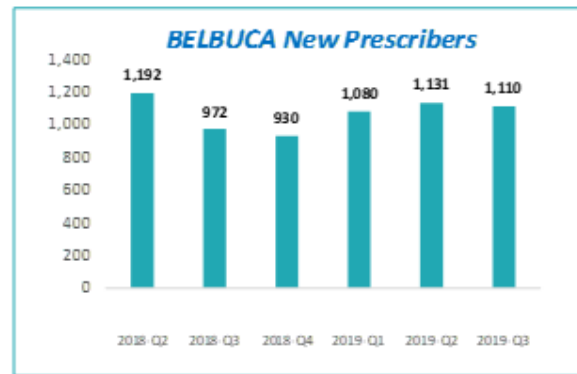
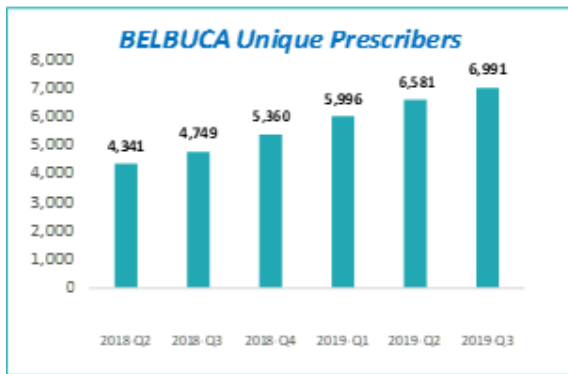


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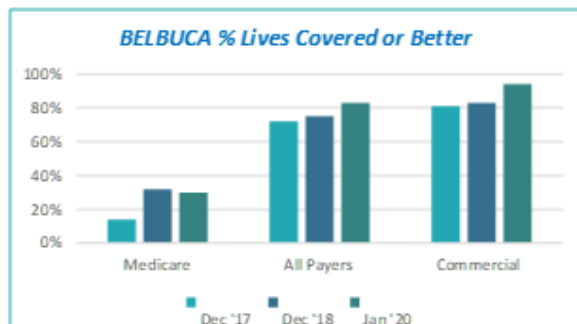
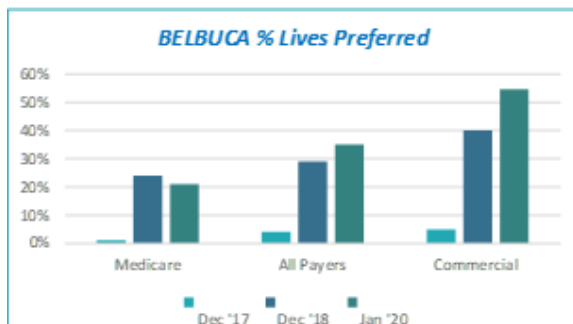
## Growth Drivers

**Growth in Prescribers** – As the charts below illustrate the number of unique prescribers and the number of new prescribers continues to grow every quarter for the last several quarters. In the most recent quarter, unique prescribers increased 47% year over year and the number of new prescribers grows about 1,000 each quarter.



Source: Company Presentation

**Insurance coverage for BELBUCA** - 2018 was a significant inflection point in the number of insured lives having access to BELBUCA. The company entered 2018 with 8 million lives having preferred access to the BELBUCA and exited 2018 with more than 100 million lives. As shown in the chart below, the number of covered lives and the number of lives with preferred access has continued to grow in 2019. Currently, more than 90% of commercial lives have open access to BELBUCA, and with more than half of those lives, BELBUCA is the preferred buprenorphine product.



Source: Company Presentation

**Favorable tailwinds from Washington** – As shown in the chart above, currently approximately 30% of Medicare lives have access to BELBUCA, which provides a significant opportunity for BDSI. The misuse of opioids has caused a well-known epidemic in the United States. As such, government entities formed an Inter-Agency Task Force that issued a final report on the best practices for managing chronic and acute pain in May of 2019. <https://www.hhs.gov/sites/default/files/pmtf-final-report-2019-05-23.pdf> The report calls for payors to provide more access and more reimbursement for buprenorphine in the management of chronic pain. The report also encouraged physicians to consider buprenorphine in the primary usage of chronic pain and reiterated the reasons why buprenorphine is better particularly on the safety front. A number of other federal agencies have taken upon that report and are issuing new and revised guidelines on the optimal usage and management of opioids. Changes to these guidelines could lead to changes in Medicare coverage for BELBUCA.

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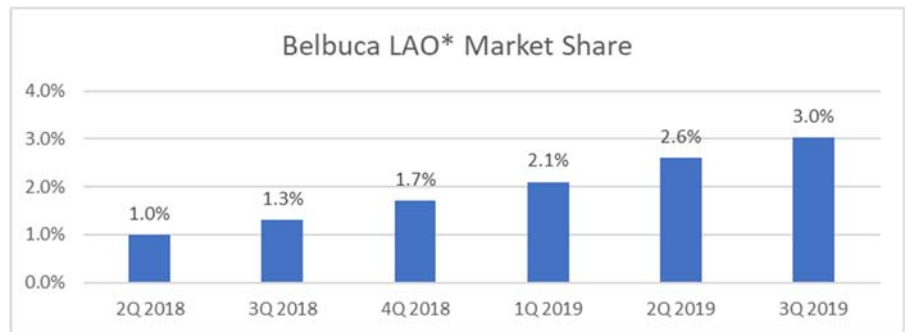
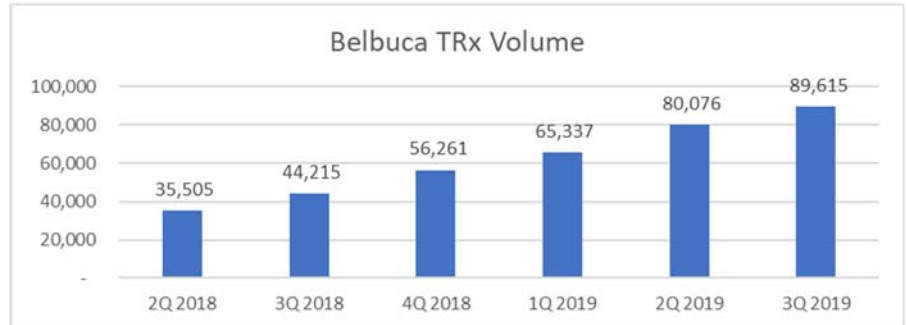
## Rapid Growth is just getting started

While BELBUCA has been growing at a fast pace, (100% year over year during the last reported quarter), it is just beginning to gain market share over other long acting opioids (LAO). As of 3Q19, BELBUCA has a 3% market share, which is relatively small compared to schedule II opioids.

### Opioid      Market Share

Oxycontin	15.7%
Fentanyl	20.2%
Morphine	38.7%

Management expects that BELBUCA and Symproic have an annual long-term revenue opportunity of \$425 million to \$500 million (about \$350 to \$400 million of BELBUCA sales). This translates into a low double-digit market share for BELBUCA.



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## Valuation

	2019	2020	2021	2022
Total Revenue (In \$MM)	108	170	230	290
Growth Rate	94%	57%	35%	26%
Net Income Margin		18%	22%	24%
Net Income (In \$MM)		30	50	70
Shares Outstanding	99	101	103	105
EPS		0.30	0.49	0.67
EPS Multiple		20	20	20
<b>Stock Valuation</b>				<b>\$13.38</b>

## Valuation

The table above shows our back of the envelop calculation for the next three years. We make the following assumptions in our calculation:

- **Revenue:** For 2020, we use the midpoint of management's guidance of \$165 million to \$175 million, which equates to about \$60 million of incremental revenue. To keep things simple, we assume about \$60 million of new growth each year for the next five years. This is consistent with the expected growth guided in 2020. In addition, at that pace of dollar growth, revenue levels will reach the mid-point of management's stated opportunity of \$425 million to \$500 million annual sales in approximately 5 years (2025).
- **Net Income:** We used the midpoint of the consensus estimates to derive an estimate of \$30 million in net income during 2020. Thereafter, incremental contribution should be significant given that the infrastructure is already in place to bring these drugs to market. At 85% gross margin, we assume that about a third of the incremental sales will fall to the bottom line. (i.e. \$60 million in incremental sales, results in \$20 million in incremental net income.)
- **Share Count:** We assume 2 million shares of growth per year to reflect the conversion warrants/options, as well as share-based compensation.

To derive our 3-year valuation, we use a P/E multiple of 20x on our forecasted 2022 earnings of \$0.86, which we believe is conservative relative to BDSI's attractive growth opportunities. The resulting valuation is more than 2x the current stock price.

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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	\$30.74	381.1%	47.8%	333.2%
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$3.43	114.4%	45.3%	69.0%
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$23.91	199.2%	45.1%	154.1%
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$35.00	145.1%	37.0%	108.1%
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$3.04	-72.7%	34.8%	-107.5%
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	33.6%	10.8%
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$32.50	147.0%	40.3%	106.6%
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$11.15	53.8%	26.4%	27.4%
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$1.10	-92.8%	23.2%	-116.0%
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$19.58	237.6%	22.8%	214.8%
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	20.6%	-13.0%
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.50	50.9%	20.6%	30.2%
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$3.06	102.6%	19.4%	83.3%
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$7.02	-34.1%	22.0%	-56.1%
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$3.74	274.0%	18.1%	255.9%
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$6.14	-26.7%	17.3%	-44.0%
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$28.19	-16.6%	19.0%	-35.6%
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$1.31	-72.6%	12.1%	-84.7%
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$8.57	-45.2%	12.1%	-57.4%
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$10.62	-21.9%	8.3%	-30.2%
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$17.68	15.1%	8.9%	6.2%
Team, Inc. (NYSE: TISI)	30-Jan-18	\$16.95	\$15.90	-6.2%	5.6%	-11.8%
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	\$9.85	\$4.42	-55.1%	10.5%	-65.7%
GSE Systems, Inc. (NYSE:GVP)	31-Mar-18	\$3.25	\$1.48	-54.5%	9.3%	-63.8%
Telaria, Inc. (NYSE:TLRA)	30-Apr-18	\$4.13	\$9.36	126.6%	8.4%	118.2%
Avaya Holdings Corp. (NYSE:AVYA)	31-May-18	\$21.57	\$12.80	-40.7%	2.3%	-43.0%
Tenneco, Inc. (NYSE:TEN)	30-Jun-18	\$43.96	\$13.56	-69.2%	1.8%	-70.9%
Alithya Group Inc. (Nasdaq: ALYA)	31-Jul-18	\$3.40	\$2.95	-13.2%	0.1%	-13.3%
Data I/O Corporation (Nasdaq: DAIO)	30-Aug-18	\$5.37	\$4.16	-22.5%	-3.5%	-19.0%
TPI Composites Inc. (Nasdaq: TPIC)	28-Sep-18	\$28.55	\$18.83	-34.0%	-1.5%	-32.6%
Shiloh Industries, Inc. (Nasdaq: SHLO)	31-Oct-18	\$8.59	\$3.85	-55.2%	10.6%	-65.8%
Richardson Electronics (Nasdaq: RELL)	30-Nov-18	\$7.18	\$5.75	-19.9%	9.0%	-29.0%
Universal Electronics Inc. (Nasdaq: UEIC)	31-Dec-18	\$24.92	\$53.95	116.5%	24.0%	92.5%
CSS Industries, Inc. (NYSE: CSS)	31-Jan-19	\$8.91	\$4.59	-48.5%	11.5%	-60.0%
Comtech Telecommunications Corp. (Nasdaq:CMTL)	28-Feb-19	\$26.25	\$35.95	37.0%	6.1%	30.8%
Landec Corporation (Nasdaq:LNDC)	31-Mar-19	\$12.28	\$11.35	-7.6%	8.6%	-16.2%
Dawson Geophysical (Nasdaq: DWSN)	30-Apr-19	\$2.46	\$2.47	0.4%	5.1%	-4.7%
Fortress Transportation and Infrastructure Investors (Nasdaq:FTAI)	31-May-19	\$15.36	\$19.89	29.5%	14.1%	15.4%
Oil-Dri Corporation of America (NYSE:ODC)	30-Jun-19	\$34.04	\$36.85	8.3%	6.7%	1.5%
Emmis Communications (Nasdaq:EMMS)	29-Jul-19	\$5.53	\$3.94	-28.8%	6.6%	-35.3%
Liquidity Services, Inc. (Nasdaq: LQDT)	31-Aug-19	\$7.57	\$5.74	-24.2%	11.8%	-36.0%
OraSure Technologies, Inc. (Nasdaq:OSUR)	30-Sep-19	\$7.35	\$8.38	14.0%	9.8%	4.3%
Commercial Metals Company (NYSE:CMC)	31-Oct-19	\$19.08	\$22.23	16.5%	7.0%	9.5%
Caesarstone Ltd. (Nasdaq: CSTE)	30-Nov-19	\$15.46	\$14.98	-3.1%	2.9%	-6.0%
			<b>Average</b>	<b>28.6%</b>	<b>16.0%</b>	<b>12.6%</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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