

Mossberg's Investor Digest

From the Editor...

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

Headquartered in Indianapolis, **Emmis Communications (Nasdaq:EMMS)**, is undergoing the biggest corporate transformation in its 40-year history.

Emmis (the Hebrew word for "truth") is reinventing itself, transitioning away from its historical focus of owning and operating media assets (radio stations and magazines). In the past few years, the Company has divested, or is in the process of divesting, 19 radio stations and 4 magazines. Management plans to use proceeds, after paying down debt, to invest in a new, as yet undisclosed, growth business.

After announced divestitures are completed, the company will have approximately \$88 million in cash, \$13 million worth of debt, and the following assets:

- Radio Station WEPN-FM (98.7FM in New York)
- Radio Station WLIB-AM (1190AM in New York)
- Four radio stations in Indianapolis
- Indianapolis Monthly magazine
- 84% ownership of Digonex, a dynamic pricing business
- Corporate headquarters building in downtown Indianapolis
- 70 acres of land in Whitestown, Indiana.
- 24% ownership interest in Mediaco Holding, a newly publicly traded company created by the transaction of involving the sale of two of EMMS' New York radio stations, (WBLS 107.5) & (WQHT "Hot 97").

Because the company has \$56 million in non-recourse debt, it does not screen as a "Net-Net" However, if we exclude non-recourse debt, on a proforma basis the company has a negative enterprise value. In fact, we value the remaining assets and net cash position at roughly \$141 million, or \$10.76 per share.

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Issue #133

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

Lookers (LSE: LOOK.L) - Is a leading UK motor retail and aftersales service group. The Group's operations cover all four UK countries and the Republic of Ireland where it operates through the sale of new and used cars and aftersales services. The Group has grown organically and through acquisitions to its current position of 154 franchise dealerships. As a whole, the Group offers an extensive choice of new and used cars, motorcycles, commercial vehicles and leasing services as well as aftersales services. Through its "For You, For Life" program, the Group is committed to providing unrivalled service, offering advice, support and expertise from purchase to after sales care.

Tuesday Morning Corporation (Nasdaq: TUES)- Is one of the original off-price retailers specializing in name-brand, high-quality products for the home, including upscale home textiles, home furnishings, housewares, gourmet food, toys and seasonal décor, at prices generally below those found in boutique, specialty and department stores, catalogs and on-line retailers.

Trinity Biotech plc (Nasdaq: TRIB) - Specialising in the development, manufacture and marketing of diagnostic test kits, Trinity's continued success is based on the fact that as a company it consistently achieves standards of excellence in the quality of all it does. The test kits manufactured by Trinity Biotech are used in the clinical laboratory and point-of-care segments of the diagnostic market to detect infectious diseases, sexually transmitted diseases, autoimmune, cardiac arrest and haemoglobin disorders, and detect, monitor and control diabetes. The company is also a significant provider of raw materials to the life sciences industry.

Utah Medical Products, Inc. (UTMD) - Utah Medical Products Inc®, established in 1978, develops, manufactures and markets specialty medical devices recognized by healthcare professionals in Critical Care, Gynecology, Neonatology, Obstetrics, Surgery and Urology as the standard for obtaining optimal long term outcomes for their patients. UTMD is dedicated to a sustained substantial increase in shareholder value by focusing financially on earnings per share growth and a high return on shareholder equity; and by focusing functionally on developing, manufacturing and marketing specialty medical devices that provide a real improvement in quality, safety and overall cost of care.

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Best Idea Profile:

Emmis Communications Corporation (Nasdaq:EMMS)

DESCRIPTION:

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Emmis Communications Corporation (Nasdaq:EMMS)

Investment Data (as of 7/29/19)

Recent Price	\$5.53
52-Week Range	\$3.13 - \$6.75
Fiscal Year End	Feb
Dividend	N/A
Yield	N/A
Shares Outstanding*	13.1 M
Average Trading Volume (3 mos)	44,000
Market Capitalization	\$72 M
Cash**	\$88 M
LT Debt***	\$13 M
Enterprise Value (EV)***	(\$3) M
Book Value Per Share	\$5.97
*includes class A & B shares	
** proforma estimate following transitions	
*** proforma, excluding non-recourse debt	

The Company has an A/B share structure, in which both classes have equal economic interest, but the B shares have 10 to 1 voting rights. All of the class B shares are owned by Jeffrey H. Smulyan, Chairman and Chief Executive Officer. Combined with his ownership of 2.6% of Class A shares, Mr Smulyan owns an approximate 13% economic interest in Emmis.

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KEY INVESTMENT CONSIDERATIONS:

Sum of the parts is greater than the whole

Radio Station WEPN-FM (98.7FM in New York) – Approximate Value: \$1 million (\$47 million fair value less \$46 million of non-recourse debt)

Emmis entered into a 12-year local programming and marketing agreement (LMA) with Disney that gives Disney the right to broadcast ESPN radio Emmis' WEPN (98.7FM). Under the terms of the agreement, which expires in August of 2024, Emmis retains ownership of the radio station and Disney pays Emmis about \$10 million per year. There is approximately \$46 million worth of non-recourse debt associated with the LMA, which is guaranteed by Disney. The Company expects that proceeds from the Disney agreement are sufficient enough to pay all debt related to 98.7FM. In the latest 10K, Emmis assigns a fair value of \$47.1 million to 98.7FM. Our valuation of \$1 million, assumes that the station is sold today and the proceeds are used to pay down the related debt. However, if EMMS retains ownership through the end of the agreement, there could be significant value. Even if we assume the fair value of the station decreases by 10% per year for the next five years, the present value of the station, using a 12% discount rate, would be more than \$15 million.

Radio Station WLIB-AM (1190AM in New York) - Approximate Value: \$6 million

Emmis owns WLIB-AM (1190AM), an urban gospel station in New York. A recent transaction of a similar AM station in New York was valued at \$12.5 million. We conservatively apply a 50% discount to this valuation yielding a value of \$6 million for WLIB.

Four radio stations in Indianapolis: Approximate Value \$18 million.

Emmis owns 4 radio stations in Indianapolis: WFNI-AM – Sports Talk; WYXB-FM – Soft Adult Contemporary; WLHK-FM – Country; and WIBC-FM – News/Talk. In the latest 10K, Emmis assigns a fair value to its Indianapolis stations of \$17.8 million.

Indianapolis Monthly magazine: Approximate Value \$1 million.

Emmis owns Indianapolis Monthly Magazine, a monthly publication with an online and print circulation of approximately 300,000 readers. The magazine is currently generating operating losses, so we used a comparable transaction to determine its valuation. In 2017, the company sold of four similar magazines (Los Angeles Magazine, Atlanta Magazine, Cincinnati Magazine and Orange Coast Magazine) for \$6.5 million, representing a value of approximately \$4 per reader. We derive a rough valuation of Indianapolis Monthly of \$1 million by using a value per reader of \$3.20 (20% discount to the 2017 transaction).

84% ownership of Digonex, a dynamic pricing business: Approximate Value Zero

Digonex provides a dynamic pricing service to attractions, live event producers and other customers. While Emmis does not own Digonex stock outright, it reports it as a consolidated entity because the Company owns convertible preferred stock and debt, which gives it control of the board of directors and rights that are convertible into 84% ownership of the company. In the latest 10K, the Company's discounted cash flow analysis indicated a nominal enterprise value. Digonex has federal NOLs of \$49 million and state NOLs of \$49 million, of which at least \$20 million of federal NOLs and \$20 million of state NOLs will be fully available to offset future taxable income. For our purposes we are assigning zero value to Digonex.

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KEY INVESTMENT CONSIDERATIONS:

Sum of the parts is greater than the whole (continued)

Corporate headquarters building in downtown Indianapolis – Approx. value: \$15 million

The Company owns its headquarters location at 40 Monument Circle, Indianapolis, Indiana 46204. The Building includes 115,000 square feet of owned office space. The current tax assessed value is \$15.4 million.

70 acres of land in Whitestown, Indiana – Approximate Value \$10 million

Emmis owns 70 acres of land, near Whitestone Indiana, where six of its radio transmission towers stand. The land is located adjacent to an ongoing large retail development project, which is expected to include nearly 1 million square feet of higher-end retail. In the Indianapolis Business Journal, Emmis CEO, Jeff Smulyan, is quoted, "The land's estimated value is \$150,000 to \$400,000 per acre." We used the lower end of the lands value to derive a value of \$10 million.

24% ownership interest in Mediaco – Approximate Value \$15 million

In connection with the pending sale of its two biggest radio stations, Emmis will receive a 24% stake in Mediaco, which will be a newly created company, co-owned by \$1 billion hedge fund Standard General. Mediaco is expected to be listed on the Nasdaq and will be used as a consolidation vehicle for other media assets. We are assigning a \$15 million value on this asset. To derive this valuation, we simply take the \$120 million transaction value (implied value of 10x TTM cash flow of \$12 million), and subtract \$91.5 million of cash, a \$5 million note, and \$9 million of working capital. Longer term, the stake in Mediaco could be worth significantly more. CEO, Smulyan, is quoted in an Inside Radio article "a 24% stake (in Mediaco) that could be worth \$30-\$50 million".

Asset	Valuation
70 acres of Land	10
Headquarters Building	15
Indianapolis Monthly magazine	1
Radio Stations in Indianapolis	18
WEPN- FM - New York	1
WLIB-AM - New York	6
23.7% interest in Mediaco	15
Debt	-13
Cash	88
Total Value	141
Shares Outstanding	13.1
Value Per Share	\$10.76

Valuation

The table above shows our back-of-the-envelope calculation for Emmis' enterprise value following its most recently announced transaction.

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KEY INVESTMENT CONSIDERATIONS:

What to do with \$88 million?

After completing the latest divestiture, Emmis will have approximately \$13 million in debt, and \$88 million in cash. Management has not given specifics on its plans for cash, other than to say that it plans to buy growth business(es) producing attractive margins. This may or may not include a companies in the media industry.

Management indicated that they have done a fair amount of legwork, but have not lined up specific targets. Post transaction, the company will be generating an operating loss of approximately \$8 million per year. With its substantial asset base, management should have plenty of time to make a disciplined decision regarding entering a new business.

The Market is assigning shares a value that is half of the sum of the parts. The size of the discount is most likely due to a combination of declining value of radio stations, as well as a general lack of interest in microcap stocks. We believe a discount is warranted due to the A/B share structure and the lack of certainty in how assets will be re-deployed. However, we believe the size of the discount is unwarranted and presents an attractive opportunity at 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	\$26.14	309.1%	39.6%	269.4%
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$1.77	10.6%	37.2%	-26.6%
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$23.86	198.6%	37.1%	161.6%
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$35.00	145.1%	29.4%	115.7%
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$3.60	-67.6%	27.3%	-95.0%
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	26.2%	18.2%
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$23.64	79.6%	32.5%	47.1%
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$11.15	53.8%	19.4%	34.4%
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$1.10	-92.8%	16.3%	-109.1%
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$14.80	155.2%	15.9%	139.2%
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	13.9%	-6.3%
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.50	50.9%	13.9%	36.9%
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$4.13	173.5%	12.7%	160.8%
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$9.60	-9.9%	15.2%	-25.1%
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$0.45	-55.2%	11.6%	-66.7%
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$3.69	-56.0%	10.8%	-66.8%
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$27.55	-18.5%	12.4%	-30.9%
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$1.61	-66.3%	5.9%	-72.2%
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$5.72	-63.5%	5.9%	-69.4%
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$11.50	-15.4%	2.3%	-17.7%
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$18.22	18.6%	2.8%	15.8%
Team, Inc. (NYSE: TISI)	30-Jan-18	\$16.95	\$16.00	-5.6%	-0.2%	-5.4%
Andina Acquisition Corp II (Nasdaq: ANDA)	28-Feb-18	\$9.85	\$5.25	-46.7%	4.4%	-51.1%
GSE Systems, Inc. (NYSE: GVP)	31-Mar-18	\$3.25	\$2.18	-33.1%	3.2%	-36.3%
Telaria, Inc. (NYSE: TLRA)	30-Apr-18	\$4.13	\$8.16	97.6%	2.4%	95.2%
Avaya Holdings Corp. (NYSE: AVYA)	31-May-18	\$21.57	\$11.42	-47.1%	-3.3%	-43.7%
Tenneco, Inc. (NYSE: TEN)	30-Jun-18	\$43.96	\$9.02	-79.5%	-3.9%	-75.6%
Alithya Group Inc. (Nasdaq: ALYA)	31-Jul-18	\$3.40	\$2.95	-13.2%	-5.5%	-7.7%
Data I/O Corporation (Nasdaq: DAIO)	30-Aug-18	\$5.37	\$4.49	-16.4%	-8.9%	-7.5%
TPI Composites Inc. (Nasdaq: TPIC)	28-Sep-18	\$28.55	\$25.98	-9.0%	-6.9%	-2.1%
Shiloh Industries, Inc. (Nasdaq: SHLO)	31-Oct-18	\$8.59	\$5.09	-40.7%	4.5%	-45.2%
Richardson Electronics (Nasdaq: RELL)	30-Nov-18	\$7.18	\$5.65	-21.3%	3.0%	-24.3%
Universal Electronics Inc. (Nasdaq: UEIC)	31-Dec-18	\$24.92	\$41.13	65.0%	17.1%	48.0%
CSS Industries, Inc. (NYSE: CSS)	31-Jan-19	\$8.91	\$5.10	-42.8%	5.3%	-48.1%
Comtech Telecommunications Corp. (Nasdaq: CMTL)	28-Feb-19	\$26.25	\$29.20	11.2%	0.2%	11.0%
Landec Corporation (Nasdaq: LNDG)	31-Mar-19	\$12.28	\$10.65	-13.3%	2.5%	-15.8%
Dawson Geophysical (Nasdaq: DWSN)	30-Apr-19	\$2.46	\$2.25	-8.5%	-0.8%	-7.8%
Fortress Transportation and Infrastructure Investors (Nasdaq: FTAI)	31-May-19	\$15.61	\$15.00	-3.9%	7.7%	-11.7%
Oil-Dri Corporation of America (NYSE: ODC)	30-Jun-19	\$34.04	\$35.18	3.3%	0.8%	2.6%
				Average	15.3%	10.5%
						4.8%

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About Mossberg's Investor Digest

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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