

Mossberg's Investor Digest

From the Editor...

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

Headquartered in Israel, 32-year-old **Caesarstone Ltd. (Nasdaq: CSTE)**, is a leading designer and producer of engineered quartz surfaces used in residential and commercial buildings. 65%-75% of revenue is related to renovation and remodeling activities in the United States, Australia and Canada, while 25% to 35% is related to new residential construction.

Because engineered quartz offers the durability and aesthetic appeal of granite, but at a lower price point, it is rapidly gaining popularity worldwide. With approximately 9% of global market share, the Company holds the #1, or #2, market position in most of the major markets it serves and is in good position to grow in the fastest growing, and relatively under-penetrated markets in North America (Canada and the U.S.), which represents about 60% of its sales. Australia represents 23%, and Europe and Israel each represent about 6% of sales.

The Company has three manufacturing facilities, two in Israel and one in Richmond-hill Georgia. Caesarstone has a global distribution platform that serves customers in approximately 45 countries globally.

The Company's financial performance has struggled in the last few years due to changes in market dynamics and operational inefficiencies. Management has initiated an improvement plan that should help partially restore growth and improved margins beginning in 2020.

Using our back-of-the envelope model, we calculated a 3-year valuation of \$27.31 per share, 56% above the current valuation.

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November 2019

Issue #137

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

Farmer Bros. Co. (NASDAQ: FARM) is a leading manufacturer, wholesaler and distributor of a variety of high-quality coffee products and a distributor of tea and culinary products to food service establishments and retailers nationwide. Their customers include restaurants, hotels, casinos, offices, quick service restaurants ("QSR's"), convenience stores, healthcare facilities and other foodservice providers, as well as private brand retailers in the QSR, grocery, drugstore, restaurant, convenience store, and independent coffee house channels.

Primo Water Corporation (NASDAQ: PRMW) is a leading provider of multi-gallon purified bottled water, self-service refill water and water dispensers sold through major retailers throughout the United States and Canada. It operates in three segments: Refill, Exchange, and Dispensers.

Grand Canyon Education, Inc. (NASDAQ: LOPE) With 30 years of proven expertise, Grand Canyon Education, Inc. (GCE) is uniquely positioned in the education services industry. GCE has developed significant technological solutions, infrastructure and operational processes to provide superior services that support the students, faculty and staff of its partner institutions. GCE's services include: marketing, strategic enrollment management, counseling services, financial services, technology, technical support, compliance, human resources, classroom operations, curriculum development, faculty recruitment and training, among others.

Photon Control Inc. (OTC: POCEF) designs, manufactures and distributes a wide range of optical sensors and systems to measure temperature and position. These products are used by the world's largest wafer fabrication equipment manufacturers and end users in the semiconductor and solid-state industries. Photon Control Inc.'s high quality products provide industry leading accuracy, speed and quality in the most extreme conditions and are backed by a team of experts providing a variety of on-site and remote services including custom design, installation, training and support.

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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	\$30.42	376.1%	43.4%	332.6%	
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$3.63	126.9%	41.0%	85.9%	
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$23.91	199.2%	40.8%	158.4%	
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$35.00	145.1%	32.9%	112.1%	
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$3.53	-68.3%	30.8%	-99.1%	
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	29.6%	14.8%	
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$33.90	157.6%	36.1%	121.5%	
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$11.15	53.8%	22.7%	31.1%	
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$1.10	-92.8%	19.5%	-112.3%	
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$18.68	222.1%	19.1%	203.0%	
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	17.0%	-9.4%	
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.50	50.9%	17.0%	33.9%	
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$3.49	131.1%	15.8%	115.3%	
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$7.95	-25.4%	18.4%	-43.7%	
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$0.53	-47.0%	14.6%	-61.6%	
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$5.48	-34.6%	13.8%	-48.4%	
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$29.15	-13.8%	15.4%	-29.2%	
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$1.36	-71.5%	8.8%	-80.3%	
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$7.19	-54.1%	8.8%	-62.8%	
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$11.50	-15.4%	5.0%	-20.5%	
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$15.94	3.8%	5.6%	-1.9%	
Team, Inc. (NYSE: TISI)	30-Jan-18	\$16.95	\$16.71	-1.4%	2.5%	-3.9%	
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	\$9.85	\$4.36	-55.7%	7.2%	-63.0%	
GSE Systems, Inc. (NYSE:GVP)	31-Mar-18	\$3.25	\$1.23	-62.2%	6.0%	-68.2%	
Telaria, Inc. (NYSE:TLRA)	30-Apr-18	\$4.13	\$8.53	106.5%	5.2%	101.3%	
Avaya Holdings Corp. (NYSE:AVYA)	31-May-18	\$21.57	\$12.55	-41.8%	-0.7%	-41.1%	
Tenneco, Inc. (NYSE:TEN)	30-Jun-18	\$43.96	\$12.37	-71.9%	-1.3%	-70.6%	
Alithya Group Inc. (Nasdaq: ALYA)	31-Jul-18	\$3.40	\$2.24	-34.1%	-2.9%	-31.2%	
Data I/O Corporation (Nasdaq: DAIO)	30-Aug-18	\$5.37	\$4.25	-20.9%	-6.4%	-14.5%	
TPI Composites Inc. (Nasdaq: TPIC)	28-Sep-18	\$28.55	\$17.41	-39.0%	-4.4%	-34.6%	
Shiloh Industries, Inc. (Nasdaq: SHLO)	31-Oct-18	\$8.59	\$4.06	-52.7%	7.3%	-60.0%	
Richardson Electronics (Nasdaq: RELL)	30-Nov-18	\$7.18	\$5.62	-21.7%	5.8%	-27.5%	
Universal Electronics Inc. (Nasdaq: UEIC)	31-Dec-18	\$24.92	\$55.70	123.5%	20.3%	103.2%	
CSS Industries, Inc. (NYSE: CSS)	31-Jan-19	\$8.91	\$4.47	-49.8%	8.2%	-58.0%	
Comtech Telecommunications Corp. (Nasdaq:CMTL)	28-Feb-19	\$26.25	\$37.40	42.5%	2.9%	39.5%	
Landec Corporation (Nasdaq:LNDL)	31-Mar-19	\$12.28	\$11.45	-6.8%	5.3%	-12.1%	
Dawson Geophysical (Nasdaq: DWSN)	30-Apr-19	\$2.46	\$2.51	2.0%	1.9%	0.1%	
Fortress Transportation and Infrastructure Investors (Nasdaq:FTAI)	31-May-19	\$15.36	\$17.55	14.3%	10.7%	3.6%	
Oil-Dri Corporation of America (NYSE:ODC)	30-Jun-19	\$34.04	\$35.75	5.0%	3.5%	1.5%	
Emmis Communications (Nasdaq:EMMS)	29-Jul-19	\$5.53	\$4.73	-14.5%	3.4%	-17.8%	
Liquidity Services, Inc. (Nasdaq: LQDT)	31-Aug-19	\$7.57	\$6.74	-11.0%	8.5%	-19.5%	
OraSure Technologies, Inc. (Nasdaq:OSUR)	30-Sep-19	\$7.35	\$8.19	11.4%	6.5%	5.0%	
Commercial Metals Company (NYSE:CMC)	31-Oct-19	\$19.08	\$21.38	12.1%	3.8%	8.2%	
				Average	21.6%	12.8%	8.8%

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

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Best Idea Profile:

Caesarstone Ltd. (Nasdaq: CSTE)

DESCRIPTION:

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Caesarstone Ltd. (Nasdaq: CSTE) Investment Data (as of 11/30/19)

Recent Price	\$15.46
52-Week Range	\$12.49 - \$17.85
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	34.4 M
Average Trading Volume (3 mos)	127,000
Market Capitalization	\$532 M
Cash & Investments	\$117 M
LT Debt	\$58 M
Enterprise Value (EV)	\$473 M
2019 Revenue*	\$550 M
EV/ Revenue	0.9x
2019 Adj-EBITDA*	\$72 M
EV/ Revenue	6.6x
Tangible Book Value/Share	\$12.99

*Represents the low end of guidance

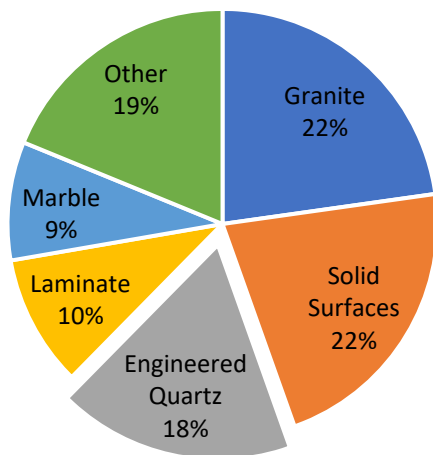
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KEY INVESTMENT CONSIDERATIONS:

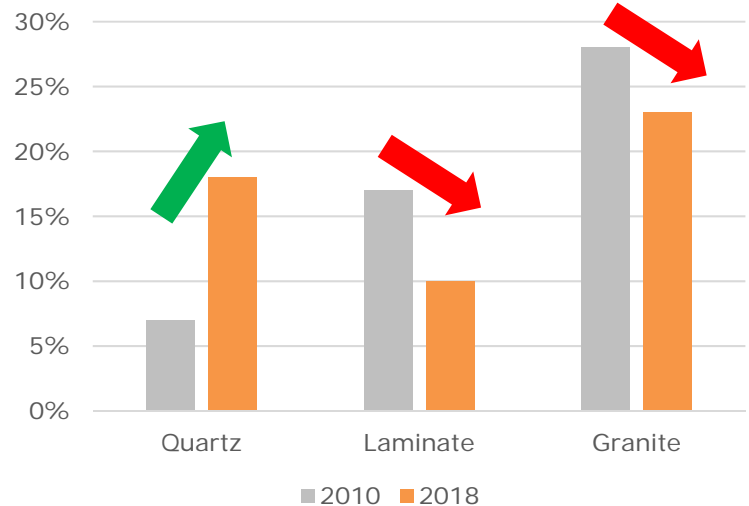
Growing Popularity of Engineered Quartz

According to Freedonia, the \$100 billion+ global market for counter-tops is expected grow at 2.6% per year for the next three years. The \$18 billion global engineered quartz market is expected to grow at 11.6% annually from 2019 to 2025, according to Market Study Report, LLC. While granite and laminates will continue to be among the most popular materials, they are expected to continue to lose market share to engineered quartz. Penetration rates have grown substantially in Australia, the U.S. and Canada during the past several years. However, penetration rates in the U.S. and Canada, two markets that represent about 60% of Caesarstone's Sales, are still relatively low, leaving plenty of room for growth in these geographies.

Global Counter-top Market by Material



Trends in Market Share by material



Engineered quartz versus other materials -

Engineered quartz offers the durability and aesthetic appeal of granite, but at a lower price point. The natural stone aggregates and resins used in engineered quartz also make it more readily available in multiple colors than granite.

China Tariffs – In the last several years, Chinese importers have taken significant market share from leading engineered quartz producers in the United States, particularly at the low end of the market, where CSTE does not compete. In 2018, China accounted for approximately 50% of the market in the U.S. Due to unfair trading practices, the U.S. began imposing steep (300%+) anti-dumping and countervailing duties on engineered quartz imported from China. As a result, imports from China have dropped significantly and CSTE's U.S revenue has been growing again during the last several quarters.

Trends in Market Share in CSTE Core Markets

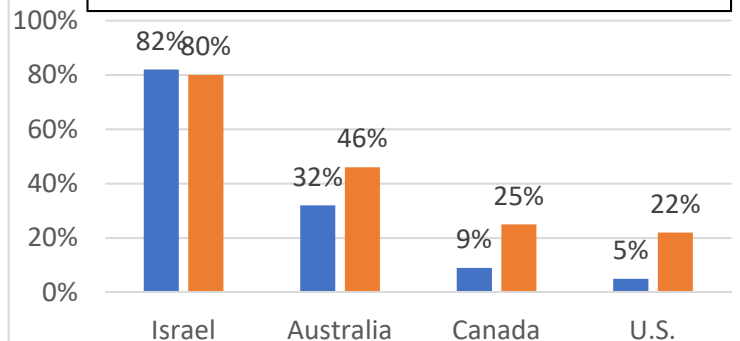
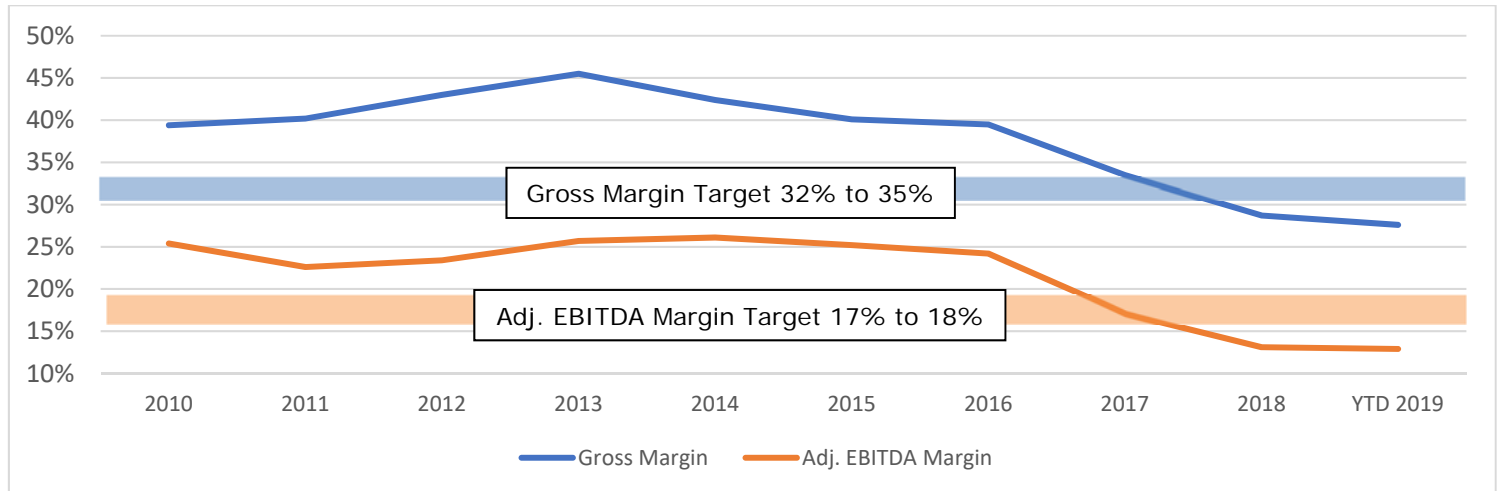


Chart Sources: Company Presentation

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Improvement Plan

Reducing Costs and improving efficiencies



As a result of more intense Chinese competition in North America, growth slowed in '17 & '18. At the same time, margins have contracted due to lower capacity utilization and increased raw material prices. While the U.S. tariffs have positively affected sales in the U.S. during 2019, Chinese product has gone into other markets negatively affecting CSTE's sales, especially in Australia and Canada. To address these issues, reignite growth and improve profitability, CSTE introduced its Global Growth Acceleration Plan in May of 2019. Thus far in 2019, margin performance appears to have stabilized and improvements are expected to begin showing results in 2020 and beyond.

- **Expand U.S. sales force by 15% to 20% (20-30 people)** to garner greater penetration in large metropolitan areas that were previously underserved.
- **Global headcount reduction of approximately 7%** (110 employees) across all business units to gain efficiencies in production, supply chain and G&A functions.
- **Temporarily reduce production capacity in the U.S. by 50%** to increase utilization, production efficiencies and lower inventory levels.
- **Invest in new systems** to drive greater operational enhancement, inventory and production management, as well as go-to market tools.
- **New leadership** including the appointment of a new Chief Marketing Officer and new Chief Information Officer.
- **Long term EBITDA target – 17% to 18%**
- **Gross Margin target - 32% to 35%**

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Valuation

(in millions)	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	500	539	588	576	550	561	572	584
Growth Rate		8%	9%	-2%	-4%	2%	2%	2%
Adjusted EBITDA Margin	25.2%	24.2%	17.1%	13.1%	13.1%	14.1%	15.1%	16.1%
Adjusted EBITDA	126	130	100	75	72	79	86	94
FCF		79	38	-5	40	40	43	47
Cash		106	139	94	116.8	156	200	246
Debt				57	58	58	58	58
Share count					34.4	34.4	34.4	34.4
EV/ EBITDA multiple						8	8	8
Enterprise Value						632	691	751
Market Cap						730	832	939
Share Price						\$21.23	\$24.18	\$27.31

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 2019, we use the low end of management's revenue guidance of \$550 million, which is consistent with the latest update. Thereafter, we conservatively assume 2% growth, which is in line with overall market growth.
- **Adjusted EBITDA and margin:** For 2019, we use the low end of management's Adjusted EBITDA guidance of \$72 million, which is consistent with the latest update. Beginning in 2020, we assume one percentage point of margin improvement for each of the next three years. Our margin improvement assumptions reflect continued growth in the U.S., as well as improved efficiencies to be garnered from managements' Global Growth Acceleration Plan. We believe our assumptions for improvement are conservative given the Company's historical performance. Also, CSTE's long-term adjusted-EBITDA target is 17% to 18%, which offers 100 to 200 basis points of potential upside to our 2022 projection.
- **Share Count** – We assume no growth in the Company's share count.
- **Cash Generation** – We assume 50% of EBITDA will translate into Free Cash Flow.

To derive our 3-year valuation, we use a multiple of EV/EBITDA multiple of 8x, which we believe is conservative relative to CSTE's attractive growth opportunities and return characteristics. Working backwards from enterprise value, our model derives a valuation of \$27.31 per share in three years, 56% above the current valuation.

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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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