

Mossberg's Investor Digest

From the Editor...

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

Headquartered in Dallas, TX, **Commercial Metals Company (NYSE:CMC)** is the largest producer of rebar in the United States. In addition to rebar, the company has steel recycling and metal fabrication operations.

The Company operates coast-to-coast in the United States and also has operations in Poland. Revenue is split into four categories

1) Americas Recycling (16% of revenue) operates 34 scrap metal processing facilities. CMC is one of the largest processors of nonferrous scrap metals in the United States, supplying about half of the ferrous scrap needs for U.S. mini mills.

2) Americas Mills (42% of revenue) segment operates seven electric arc furnace ("EAF") mini mills, two EAF micro mills and a rerolling mill and scrap metal processing facilities that directly support the mills. The mills produce reinforcing bar, angles, flats, rounds, channels, fence post sections and other shapes.

3) Americas Fabrication (31% of revenue) is comprised of fabrication plants that bend, weld, cut and fabricate steel, primarily rebar.

4) International Mill (11% of revenue) is an integrated business comprised of an EAF mini mill, scrap processing facilities, a shredder, and fabrication facilities in Poland. The Polish mill is considered one of the largest producers of merchant bars, rebar and wire rod in Poland.

To derive our valuation, we use a multiple of EV/EBITDA of 7x of our projected 3-year EBITDA. Working backwards from enterprise value, our model derives a valuation of \$33.26 per share in three years, approximately 75% higher than the current valuation.

Dave Mossberg

Dave@mossbergid.com

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

Esquire Financial Holdings, Inc. (Nasdaq: ESQ) is a registered bank holding company and the parent company of Esquire Bank, National Association (the "Bank"). The Bank is an independent, full-service national bank that serves the banking needs of law professionals, professional service firms, small to mid-sized businesses and individuals. While the Bank is a full-service institution available to all potential customers, the focus is marketing to law firms and other professional service firms, small to mid-sized businesses and individuals in the local community surrounding the branch office and New York boroughs in order to grow the deposit base.

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Best Idea Profile:

Commercial Metals Company (NYSE:CMC)

DESCRIPTION:

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The Company operates coast-to-coast in the United States and has operations in Poland. Revenue is split into four categories

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Commercial Metals Company (NYSE:CMC) Investment Data (as of 10/31/19)

Recent Price	\$19.08
52-Week Range	\$13.27 - \$21.05
Fiscal Year End	August
Dividend	\$0.48
Yield	2.5%
Shares Outstanding	117.9 M
Average Trading Volume (3 mos)	1.5 M
Market Capitalization	\$2.3 B
Cash & Investments***	\$192 M
LT Debt	\$1.2 B
Enterprise Value (EV)	\$3.3 B
2020 Revenue (estimate)	\$6.0 B
EV/ Revenue	0.6x
2020 EPS (estimate)	\$2.04
P/EPS	9.5x
Book Value Per Share	\$13.77

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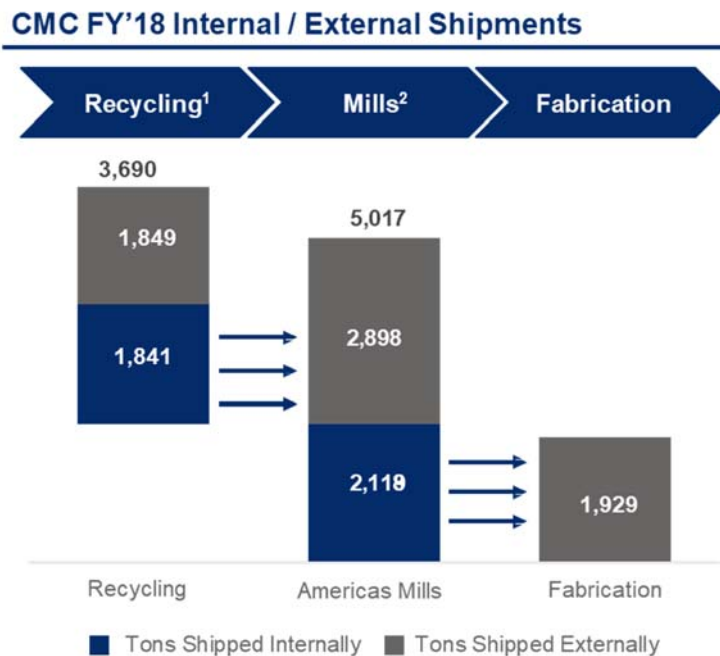
KEY INVESTMENT CONSIDERATIONS:

Being the low-cost provider

In a commodity business, such as rebar, the key to success is being the low-cost provider.

Efficiencies of scale - With about 50% of the U.S. capacity, CMC is the largest manufacturer of rebar in the United States. This scale affords CMC a lower per unit cost structure than competitors. CMC is also one of the largest recyclers, and fabricators in the U.S.

Cutting out the middle man - CMC gains cost advantage by vertically integrating its businesses. As shown in the chart below from the Company's investor presentation, the recycling operations provide about 37% of the mills production and the mill operations supply all of the fabrication operation's needs.



Innovation in production - Having scale has allowed the company to invest in new production technologies, as well as develop new differentiated products.

- **Unique micro-mill continuous process technology** - CMC has developed micro-mills, which utilize a unique continuous process, in which metal flows uninterrupted from melting to casting to rolling. The facilities are more compact than existing, larger capacity steel mini mills, and production is dedicated to a limited product range.
- **Spooled rebar** - CMC's two EAF micro mills are the only facilities in the U.S. capable of producing spooled rebar. Versus traditional loose-wound coiled rebar, spooled rebar can be shipped in much larger spools, which increases productivity by reducing change-out time, improves safety, and minimizes costs of shipping and handling. Spooled rebar can be de-coiled tangle free, which reduces waste from fewer twisted bar rejects and improves safety.

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Getting zero credit for an attractive acquisition

At the end of 2018, CMC closed on the largest acquisition in its history, acquiring four rebar mills and 33 fabrications facilities from Gerdau S.A for approximately \$700 million. The transaction increased rolling capacity by more than 70% and increased the fabrication capacity by 50%. The acquisition contributed \$1.4 billion of net sales during FY19 (ending in August). We anticipate that the acquired assets could produce \$150 million+ of EBITDA, which yields an attractive purchase price of just 4.5x.

This acquisition secures CMC position as the largest producer of rebar in the United States and is expected to provide \$70 million of operational and marketing synergies. The company paid an attractive price and integration work is proceeding ahead of plan. All of this should add up to a significant value add for CMC, yet the stock is trading at the same level it was when the deal was closed late last year.

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Valuation

	FY18	FY19	FY20	FY21	FY22
Total Revenue	4,644	5,829	6,062	6,183	6,307
Revenue Growth		26%	4%	2%	2%
Adjusted EBITDA	176	501	546	587	631
EBITDA Margin	3.8%	8.6%	9.0%	9.5%	10.0%
Cash	622	192	192	192	192
Debt	1,139	1,227	1,047	853	645
Free Cash Flow			180	194	208
EV/ EBITDA Multiple				7	7
Enterprise Value				4,112	4,415
Market Cap				3,451	3,962
Shares Outstanding				119.1	119.1
Share Price				28.97	33.26

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 FY20, our back our model shows \$6.1 billion in revenue, which is in line with the consensus of analysts' estimates and reflects a full 12 months contribution from the Gerdau assets. (Gerdau assets contributed to 10 months of FY19 revenue). After FY20, we estimate revenue growth of 2%, which is in line with GDP growth.
- **Adjusted EBITDA & EBITDA Margin:** We assume an adjusted EBITDA margin to expand by 50 basis points per year for each of the next three years. After severe losses in the last two years, management said they expect profitability to be restored for the fabrication segment in 2020. We expect operations efficiencies will also contribute to profit improvement.
- **Share Count** – We assume no growth in the Company's share count.
- **Cash Generation** – We assume 30% of EBITDA will convert into cash flow, and assume cash will be used to pay down debt.

To derive our valuation, we use a multiple of EV/EBITDA of 7x, which is a discount compared to peers. Working backwards from enterprise value, our model derives a valuation of \$33.26 per share in three years, approximately 75% higher than the current valuation.

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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	\$24.73	287.0%	39.1%	247.9%
Full House Resorts Inc. (Nasdaq: FLL)	30-May-16	\$1.60	\$2.47	54.4%	36.7%	17.7%
Control4 Corporation (Nasdaq: CTRL)	30-Jun-16	\$7.99	\$23.91	199.2%	36.5%	162.7%
KapStone Paper and Packaging Corporation (NYSE: KS)	31-Jul-16	\$14.28	\$35.00	145.1%	28.9%	116.2%
Ampco-Pittsburgh Corp. (NYSE: AP)	31-Aug-16	\$11.12	\$3.90	-65.0%	26.9%	-91.8%
Select Comfort Corporation (Nasdaq: SCSS)	30-Sep-16	\$22.51	\$32.50	44.4%	25.7%	18.7%
Northwest Pipe Co. (NWPX)	31-Oct-16	\$13.16	\$30.84	134.3%	32.0%	102.3%
Mitel Networks Corporation (Nasdaq: MITL)	30-Nov-16	\$7.25	\$11.15	53.8%	18.9%	34.8%
Black Box Corporation (Nasdaq: BBOX)	31-Dec-16	\$15.25	\$1.10	-92.8%	15.9%	-108.7%
RadNet, Inc. (Nasdaq: RDNT)	31-Jan-17	\$5.80	\$15.76	171.7%	15.5%	156.2%
Guidance Software, Inc. (Nasdaq: GUID)	28-Feb-17	\$6.60	\$7.10	7.6%	13.4%	-5.8%
Calgon Carbon Corporation (NYSE: CCC)	31-Mar-17	\$14.25	\$21.50	50.9%	13.5%	37.4%
LRAD Corporation (Nasdaq: LRAD)	30-Apr-17	\$1.51	\$3.36	122.5%	12.3%	110.2%
Trecora Resources (NYSE: TREC)	31-May-17	\$10.65	\$8.64	-18.9%	14.8%	-33.7%
EVINE Live Inc. (Nasdaq: EVLV)	30-Jun-17	\$1.00	\$0.55	-45.0%	11.1%	-56.1%
LSI Industries Inc. (Nasdaq: LYTS)	31-Jul-17	\$8.38	\$5.11	-39.0%	10.4%	-49.4%
Cooper Tire & Rubber Company (NYSE: CTB)	31-Aug-17	\$33.80	\$28.46	-15.8%	11.9%	-27.7%
RealNetworks, Inc. (Nasdaq: RNWK)	30-Sep-17	\$4.78	\$1.57	-67.2%	5.5%	-72.7%
NCI Building Systems, Inc. (NYSE: NCS)	30-Oct-17	\$15.65	\$6.20	-60.4%	5.5%	-65.9%
TransAct Technologies, Inc. (Nasdaq: TACT)	30-Nov-17	\$13.60	\$12.22	-10.1%	1.9%	-12.0%
Regis Corporation (NYSE: RGS)	30-Dec-17	\$15.36	\$20.02	30.3%	2.4%	27.9%
Team, Inc. (NYSE: TISI)	30-Jan-18	\$16.95	\$17.98	6.1%	-0.6%	6.7%
Andina Acquisition Corp II (Nasdaq:ANDA)	28-Feb-18	\$9.85	\$4.04	-59.0%	4.0%	-63.0%
GSE Systems, Inc. (NYSE:GVP)	31-Mar-18	\$3.25	\$1.46	-55.1%	2.8%	-57.9%
Telaria, Inc. (NYSE:TLRA)	30-Apr-18	\$4.13	\$7.72	86.9%	2.0%	84.9%
Avaya Holdings Corp. (NYSE:AVYA)	31-May-18	\$21.57	\$11.95	-44.6%	-3.7%	-40.9%
Tenneco, Inc. (NYSE:TEN)	30-Jun-18	\$43.96	\$13.24	-69.9%	-4.3%	-65.6%
Alithya Group Inc. (Nasdaq: ALYA)	31-Jul-18	\$3.40	\$2.79	-17.9%	-5.9%	-12.1%
Data I/O Corporation (Nasdaq: DAIO)	30-Aug-18	\$5.37	\$3.76	-30.0%	-9.2%	-20.8%
TPI Composites Inc. (Nasdaq: TPIC)	28-Sep-18	\$28.55	\$20.29	-28.9%	-7.3%	-21.6%
Shiloh Industries, Inc. (Nasdaq: SHLO)	31-Oct-18	\$8.59	\$3.70	-56.9%	4.1%	-61.0%
Richardson Electronics (Nasdaq: RELL)	30-Nov-18	\$7.18	\$5.75	-19.9%	2.6%	-22.5%
Universal Electronics Inc. (Nasdaq: UEIC)	31-Dec-18	\$24.92	\$51.22	105.5%	16.6%	88.9%
CSS Industries, Inc. (NYSE: CSS)	31-Jan-19	\$8.91	\$4.46	-49.9%	4.9%	-54.8%
Comtech Telecommunications Corp. (Nasdaq:CMTL)	28-Feb-19	\$26.25	\$34.39	31.0%	-0.2%	31.2%
Landec Corporation (Nasdaq:LNDL)	31-Mar-19	\$12.28	\$9.67	-21.3%	2.2%	-23.4%
Dawson Geophysical (Nasdaq: DWSN)	30-Apr-19	\$2.46	\$2.28	-7.3%	-1.2%	-6.2%
Fortress Transportation and Infrastructure Investors (Nasdaq:FTAI)	31-May-19	\$15.36	\$15.84	3.1%	7.3%	-4.2%
Oil-Dri Corporation of America (NYSE:ODC)	30-Jun-19	\$34.04	\$34.37	1.0%	0.4%	0.6%
Emmis Communications (Nasdaq:EMMS)	29-Jul-19	\$5.53	\$4.71	-14.8%	0.2%	-15.1%
Liquidity Services, Inc. (Nasdaq: LQDT)	31-Aug-19	\$7.57	\$6.56	-13.3%	5.2%	-18.6%
OraSure Technologies, Inc. (Nasdaq:OSUR)	30-Sep-19	\$7.35	\$8.37	13.9%	3.2%	10.6%
Average				15.4%	9.6%	5.8%

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