*Ultimate* **Value Finder**

THE NUMBER ONE SOURCE FOR STOCK MARKET INVESTING IDEAS

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Dear Valued Readers,

In the November 2014 issue of the **Ultimate Value Finder**, I cover three very different companies: Oroco Resource, which is tiny but extremely cheap; SeaChange International, which is ending a three-year transformation; and Symmetry Medical, whose entry price is especially important.

*Mariusz Skonieczny*

# OROCO RESOURCE (OCO IN CANADA, ORRCF IN US) TINY, BUT I CAN'T RESIST

## INVESTMENT SUMMARY

I have never written about a company with a market cap as small as Oroco Resource's, but how can I resist? Where else can you find an investment opportunity where a double or triple is almost a certainty while a 100-bagger is a possibility?

A company like this can only be found in the most hated and despised sector on the planet. Yes, you guessed it – the mining sector. "Oh no, not again." Oh, yes, yes, yes.

Oroco Resource has a market cap of only \$2 million and has no debt. The stock price is \$0.03 per share. Over the next 12 months, the company will be receiving approximately $6 million in cash which means that you are buying it for less than 50 percent of cash, but that's not everything. The company also owns a property that other mining companies wish they could have. This property alone, for which you are not paying for a dime, could be worth as much as $200 million.

## COMPANY DESCRIPTION

Oroco Resources is a Canadian-based gold exploration company. By exploration, I mean the company has no gold production, and therefore, has no revenues – only expenses. It is highly unlikely that it will have any revenues from gold production. This is strictly an asset play.

Because I don't usually like to write about exploration companies, you might be completely unfamiliar with them. So, let me explain how they operate in plain English.

Gold is found in the ground in small quantities. Exploration companies try to find gold and define a deposit. In other words, they are trying to say, "At this property, we have X amount of gold in the ground and based on our studies, it will take you Y amount of money to extract it."

To find gold, prospectors scan the earth for possible deposits. Usually, they look in places where other discoveries have been made with the hope that certain mineralization continues farther. This is the case with Oroco – their flagship property is located in an area where millions of ounces of gold were discovered.

Once a particular property has been identified for a possible deposit exploration companies want to define the deposit through drilling. This is a stage where huge money can be made and lost. Huge money can be made because as an exploration project, no one knows if there is anything economic in the ground so the price someone would be willing to pay for it would be low. However, after a deposit has been defined through drilling and other technical studies, then people can put a certain value on it. On the other hand, money can be lost because exploration companies might plow millions of dollars into drilling holes only to find out that there is nothing economical about the deposit.

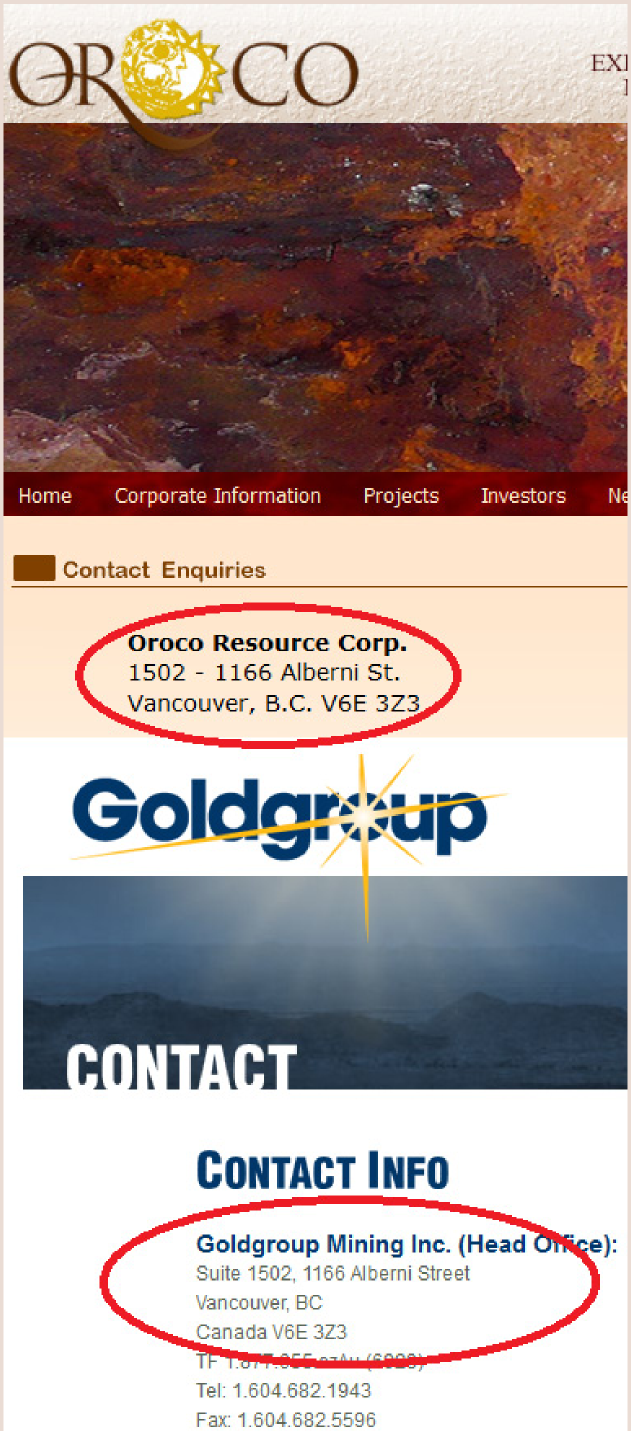
After a deposit is defined, then exploration companies look to sell it to mining companies that wish put it into production. This is what Oroco is planning to do.

Now everybody knows that gold exploration is an extremely risky business so many of you might be viewing Oroco Resource as pure speculation. Before you dismiss it completely, just hear me out a little longer.

I said that in exploration huge money can be made and lost. The same is true of playing a lottery. However, in order for you to lose anything playing lottery, you actually have to fork out the money to buy the ticket. If you receive the ticket for free, you cannot possibly lose anything, right? This is kind of how you need to view Oroco Resource. Yes, you are engaging in a high-risk exploration play, but you are not paying anything to participate. Actually, you are getting paid to play.

## BIG CASH PAYMENT COMING

I would have never heard of Oroco Resource if it wasn't for its involvement with Goldgroup Mining. These two companies are pretty tight. They own each other's shares. Also, they share the same office space to save money.




Before September 2013, Oroco owned two assets: Cerro Prieto and Xochipala projects. The company also had some debt. Because raising additional money for the development of Cerro Prieto was out of the question due to a horrible bear market in the mining sector, the management decided to sell this project in order to keep the flagship property, Xochipala.

In exchange for transferring the ownership of Cerro Prieto to Goldgroup, Oroco received:

1. $4,500,000 of cash
2. 5,500,000 shares of Goldgroup
3. A promissory note (the "First Note") in the principal amount of $1,500,000 bearing 8% simple interest and payable in six equal monthly installments of $250,000 each, commencing on the later of either January 31, 2015, or the first day of the month following the date Cerro Prieto achieves commercial production, and
4. A second promissory note (the "Second Note") in the principal amount of $4,125,000, bearing no interest. The Second Note will be repayable on the second anniversary of the transaction closing date which is September 2015. Goldgroup may elect to pay the principal of the Second Note by giving Oroco 16,500,000 of Goldgroup shares.

In addition, Oroco will be receiving a royalty when the price of gold is above $1,250 per ounce. I am ignoring the royalty completely even though it could yield another $10 million or so.

As a consequence of this sale transaction which included receiving $4.5 million in cash, Oroco Resource became debt free with a very promising property.

In January 2015, Oroco will start receiving $250,000 per month for six months totaling $1.5 million. Right here, you have more than 50 percent of the market cap. Then, in September 2015, Oroco will receive $4.1 million in cash or 16.5 million shares of Goldgroup. The reason why the payment was structured in cash or shares was to protect Goldgroup from public investors trashing the stock price. If the stock price of Goldgroup is less than $0.25 per share, it makes more sense for Goldgroup to pay with shares. If the stock price is more than $0.25 per share, then it makes more sense for Goldgroup to pay with cash.

From Oroco's point of view, it is better if it receives 16.5 million shares than cash because those shares will be worth a lot more once Goldgroup reaches certain milestones. Oroco is fully aware of how valuable these shares are going to be. They share the same office so Oroco's management knows exactly what is going on with Goldgroup on a daily basis.

The bottom line is this – within less than 12 months, Oroco will receive $1.5 million in cash and 16.5 million shares of Goldgroup. In total, Oroco will own 23 million shares of Goldgroup (16.5 + 5.5 from the Cerro Prieto sale + 1.2 from the recent debt assignment).

At various price points, those shares could be worth anywhere between $2.3 million and $23 million assuming the stock price of Goldgroup trades between $0.10 and $1 per share.

23 million x $0.10 per share = $2.3 million
23 million x $0.16 per share = $3.7 million (Goldgroup's current stock price)
23 million x $0.20 per share = $4.6 million
23 million x $0.50 per share = $11.5 million
23 million x $1.00 per share = $23 million

Obviously, this is a huge range, but remember Goldgroup has three catalysts coming up.

1. Commercial production of Cerro Prieto (working hard to achieve this)
2. Disagreement resolution of San Jose de Gracia (negotiations ongoing)
3. Permit for Caballo Blanco

If only one of these things happen, Goldgroup's stock price will jump higher from the current levels. Right now, the market is so pessimistic that it is expecting nothing. Actually, I don't even think the market is paying any attention. The volume is so low that few people actually care about what is going on.

## XOCHIPALA PROPERTY

From the information that I already provided, you don't have to know or care anything about the flagship asset, Xochipala property, because the market is so pessimistic about the mining and exploration stocks that you are literally being paid to take properties.

So, one way to invest in Oroco is to simply buy it today, wait for the payment from Goldgroup to arrive, and then, sell the stock after the market prices in the additional value. However, if you want to be more aggressive and hold on to your stock to benefit from speculative gains offered by Xochipala Property, then you can do that too. I personally do not own any stock. However, two of my clients own Oroco's stock.

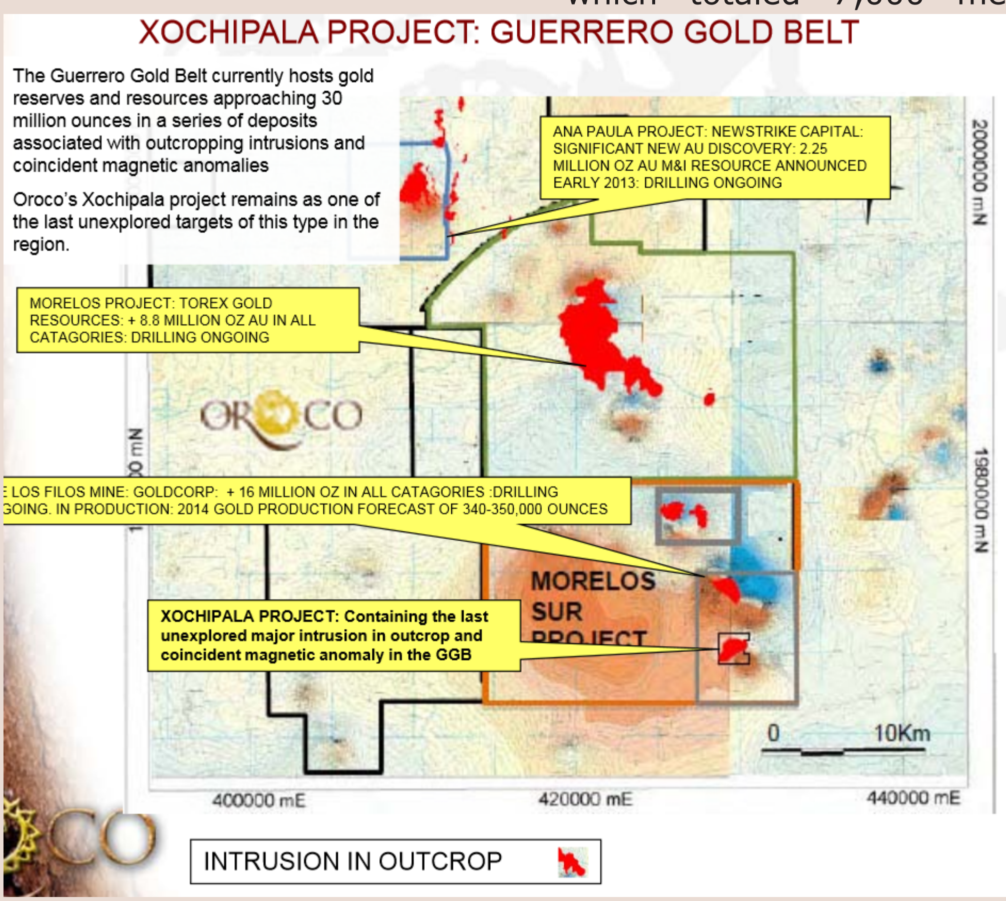
Xochipala property is located within the Guerrero Gold Belt, which is where more than 30 million ounces of gold has been discovered. This is huge. To put things in perspective, 30 million gold ounces are $360 billion, with a "b", worth of gold.

The Xochipala project was the site of the original gold discovery in the region, and hosted the region's first gold mining operations. The property is four kilometers from Goldcorp's Los Filos Mine, and the geological structures contained within the boundaries of Xochipala share important characteristics with the known gold-bearing structures in the Guerrero Gold Belt. Xochipala remains among the last, known under-explored geological structures of interest in the region.

In June 2012, the Mexican Public Registry of Mining registered Oroco's 100 percent interest in the Xochipala project. However, it wasn't until February 2014 that Oroco was able to comfortably say that it owned the entire property because other entities were fighting in court to get control over the project.

You see the crazy thing is that Goldcorp (not Goldgroup) which is a big mining company that owns 16 million gold ounces in the area thought that it owned Xochipala. Goldcorp purchased it from someone that did not own it. I kid you not.

Because Goldcorp had such success in finding a tremendous amount of gold in the area, they decided to drill Xochipola. They spent approximately $2 million on two rounds of drilling which totaled 7,000 meters. After



Goldcorp learned that Oroco owned the property, it stopped its drilling program. Oroco's management thinks that Goldcorp made a discovery because they would not have started the second round of drilling if the first round was unsuccessful.

At this point, Goldcorp is in possession of the drilling data. Technically, the drilling data belongs to the owner of the property, which means that at some point, Oroco should obtain this data.

When the news about Oroco owning 100 percent of Xochipala came out in February 2014, the stock price tripled from $0.035 per share to $0.11 per share in one day. The reason why the stock price skyrocketed like this was because investors thought that Goldcorp was going to acquire Oroco to get access to Xochipala property. Because this didn't happen, they quickly sold off the stock which is now trading for $0.03 per share.

Now, just because Goldcorp didn't acquire Oroco does not mean that it doesn't want Xochipala property or that the property is worthless. I made several phone calls and I can tell you that people want this property. The hard part is figuring out its value because the drilling data has not been made public, and also, more drilling needs to be done to define any possible resource.

If the property were to be liquidated today, it would have to be sold as an exploration project. I was told that Oroco could probably get $10 million for it as is. However, the management of Oroco has no interest in selling it as an exploration property. They want to spend $1 million, which they will get soon, to drill it more and define what is in the ground. At that point, any success will have a huge impact on the stock price. If they are unsuccessful with the $1 million drilling program, then the downside will be nonexistent because the market already assigns the property a negative value.

Even though the valuation of Xochipala is such a speculative endeavor, we still want to know what it might be worth.

I can tell you with certainty that Xochipala in its as-is condition is worth more than the market cap today. I could find a buyer myself with one phone call. If I called Keith Piggott from Goldgroup and told him that he could buy Xochipala for $2 or $3 million, the only question he would be asking is who to make the check payable to.

Actually, in the hedge fund world where money managers run mining companies with excel sheets, Goldgroup would be a perfect buyer. Goldgroup could acquire Oroco in its entirety for $2 million, cancel the First Note ($1.5 million) and Second Note ($4.1 million), and get Xochipala for free.

I already suggested the merger to both companies but this is unlikely to happen because Oroco has too much to give up. The only way Oroco would entertain merging with Goldgroup is if it lacked capital to move Xochipala forward. At this point, Oroco already owns 5.5 million shares of Goldgroup which are worth approximately $1 million. With the $5.6 million coming during the next 10 months, Oroco will have all the money it needs. Actually, it will have more than it needs. Remember, they are only looking to spend $1 million for a drilling program.

You might say, “Mariusz, you said that Xochipala is worth more than the market cap today, why?” Forget that you know anything about mining. Use common sense. From the previously presented map, you can see that a property located four kilometers north has 16 million ounces of gold. A little farther, there is another property with nine million ounces and another one with two million ounces. This tells everybody in the industry that Xochipala has a potential of being a multi-million ounce discovery.

Recently, I saw an interview with Brent Cook from Exploration Insights on Kitco and he said that it costs the mining industry $100 million to find a one million ounce deposit that is economic. So, if Xochipala has a chance to have between one and two million in the ground, you have the potential for between $100 and $200 million of valuation. If you were a mining executive playing with your investors’ money, wouldn’t you pay $2 or $3 million for something that can make you 100 times your money? Of course you would. You would pay more than $3 million. This is why someone told me that Oroco could probably sell it for $10 million today. The Guerrero Gold Belt is hot even in this awful bear market.

Now that you have a range of valuations, let me give you some examples of what other people wrote about Xochipala in the past. Because the price is so much cheaper right now, the potential for huge returns is literally off the charts.

**Goldcorp – 0, Oroco – 1 by Bob Moriarty, September 12, 2012**

http://www.321gold.com/editorials/moriarty/moriarty091212.html

“Well, there is the Guerrero Gold Belt … The Guerrero Gold Belt extends for some 55 km from the southeast to the northwest. So far, mining companies have outlined over 16 million ounces of gold. … Goldcorp has one of their most important assets in the GGB in the Los Filos Gold Mine. The mine produces about 345,000 ounces of gold a year at a cash cost of $463. … Oroco thinks they have one of those. … I bought into the Oroco story many months ago based on their Cerro Prieto project [Goldgroup owns it now] in Sonora that as of now I haven’t even seen. Their stock was $0.28 and I was quite content to pay that for that project. That would have given them a $19 million dollar market cap. Much water has passed under the bridge and as of August 14th [2012], they have a far more exciting project in the Guerrero Gold Belt. So the market now values the company at $17.5 million, go figure.” [Moriarty does not own shares anymore].

**Ellis Martin Report: Adam Smith of Oroco Resource Corp, February 10, 2012**

http://www.ellismartinreport.com/node/186

“TEMR: One more question, Adam. How does Oroco compare to your peers in the Guerroro Gold Belt at this stage?

“Adam Smith: The other junior mining companies who are making discoveries in the Guerrero Gold Belt, and they’re the nearest comparable, I think, to Oroco, have market caps ranging from

$100 million to $300 million all the way up to $825 million versus Oroco's current $20 million dollar [now $2 million] market cap. So, I think the upside potential for Oroco's share price is obvious."

**Oroco Resource Ready for Strong Progress in Mexico, September 3, 2012**

http://smallcaps.us/oroco-resource-ready-for-strong-progress-in-mexico

"Xochipala is a group of concessions within an area that's been dubbed the Guerrero Gold Belt. This is an area where over the last two decades almost 20 million ounces of gold have been discovered between five different deposits. The potential for the sixth deposit lies on Oroco's Xochipala property. … It was the site of the original gold discovery and production in the region dating back almost a hundred years and it contains the type of geology, which hosts resources and reserves at these five other deposits.

…

It carries a tremendous amount of potential and if you look at the valuation of the companies that also own those deposits in the region, they range from $200 million in the case of Newstrike up to approximately $800 million in the case of Torex and Goldcorp's large project at Los Filos mine, which is the largest gold mine in Mexico, would carry a value in the billions of dollars."

**Make Money in Gold, Look at Companies In the Guerrero Gold Belt, September 17, 2012**

http://seekingalpha.com/instablog/795513-caliche/1078781-make-money-in-gold-look-at-companies-in-the-guerrero-gold-belt

"The modern-day history of the Guerrero area commenced when gold was discovered at Xochipala in 1924 by the Franco Urias Family, who operated a small family-owned mill and mine until 1988, producing a reported total of 360,000 ounces of gold.

…

Ironically, the place where gold was first discovered in Guerrero is the least explored using modern techniques.

…

Historical workings have exposed highly oxidized mineralized zones. These were then sampled by Oroco geologists in a preliminary evaluation of the claims soon after the property was acquired. Mapping and assay results indicate that gold mineralization exists at Xochipala along the contact zone between intrusive and sedimentary rocks. Oroco represents the initial phase of speculation and thus, the opportunity for the greatest share appreciation. The exciting thing is that it displays the common trait of a GGB deposit, a contact zone with an intrusive and also has a very good address, being the closest to a producing mine. Of course the best place to look for a deposit is next to a mine!"

As you can see, all of those articles were written in 2012 when Oroco's stock was ten times higher than what it is today. Also, this is when everybody and their brother thought gold was hot. Now that $20,000 can buy you one percent of Oroco, no one is writing articles about it or any other companies that are similarly cheap. Why buy no-brainers now when you can overpay for them later? The problem is that when you buy them right now, you are completely alone. When you buy them later, meaning when they are more expensive, you will most definitely have others comforting you that Oroco is a great buy.

## CONCLUSION

Oroco Resources is a tiny company which offers great potential for sizeable investment gains at a low risk in relation to the price that you are paying. However, I need to warn you about something. Because the company is so small, it trades very few shares each day, which means that it is hard to buy them. You have to be patient and hope that the stock price will not run away from you because all you need are two individuals who want the shares for the price to easily skyrocket.

Because it is hard to buy shares, it is also hard to sell them. So, you should understand that once you own them, you can forget about selling them quickly because you will crash the price. I doubt that you can crash it much further from these levels because there are sizeable buyers wanting to get shares on the bid side. I know a few people that are hoping for sellers to unload some shares at $0.03 per share, so I will probably screw it up for them by exposing this idea to more individuals.

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# SEACHANGE INTERNATIONAL (SEAC) - ENDING A THREE-YEAR TRANSITION

## INVESTMENT SUMMARY

Changes to business models are painful. After all, it is much more comfortable to just follow the same routine. SeaChange International completely changed its business model. It sold non-core business units and poured a ton of money into developing new products.

Even though the new products are now winning many awards for excellence, investors are not satisfied. Things are not moving fast enough for them, meaning the legacy product revenues are not being transitioned smoothly enough into newly generated revenues.

## COMPANY DESCRIPTION

Many of us value investors are slow to adapt to new technology. We tend to drive old cars and live in modest places. We try to save money everywhere we go. In other words, we are cheapskates. At least, this is how we are viewed by others. The following is a photo of my television set.

As you can see, I failed to upgrade it my TV to the new and sexy flat screen TVs. One of these days, I will get around to it or someone in my family will feel so sorry for me that I might get a new TV set for Christmas or for my birthday. This is how I have acquired most of my clothing.

Anyway, the way we choose to spend our money is not how other people in society to spend theirs. People tend to be very short-term-oriented and they want to satisfy their wants and desires immediately. They even use credit cards to get things before they can earn enough money for these purchases. When it comes to consuming television, this is no exception. They want the newest TV sets with all the channels, options, and add-ons available. They also want to view the programs on demand because they no longer want to be tied to some kind of schedule. Also, because everything is on the go, they want to be able to view television programming on their laptops, smartphones, and tablets.

While having all these demands is nice and dandy, someone actually has to satisfy them and by someone I mean television service providers such as the cable companies. It costs money to build the infrastructure that can handle new services. However, cable companies are kind of like value investors – they are not quick to adapt. The reason why for many years they did not feel the need to adapt was because they didn't have to. They had cables connected straight to our houses, and therefore, they enjoyed local monopolies. However, things are finally catching up to them because they are now losing subscribers. In other words, the local monopolies are not good enough to protect them. So, they have to give subscribers what they want or they will die a slow death.

This is where Seachange International comes in. This is a company that helps television service providers offer all these bells and whistles such as video-on-demand and streaming over multiple devices. The company does it by selling software that enables the cable companies to stay competitive. The software also allows television service providers to insert advertising into their video-on-demand programming, which is a big deal considering companies like TiVo shook up the advertising industry by allowing people to fast-forward commercials.

The company's business comprises three product lines: multi-screen television, television advertising, and video gateway software.

**Multi-Screen Television**

ADRENALIN

Adrenalin is a multi-screen television platform that enables service providers to manage, monetize and deliver a seamless viewing experience to subscribers across televisions, PCs, tablets, smartphones and other IP-enabled devices.

Videos about Adrenalin

http://www.youtube.com/watch?v=m9GM8Q36lkQ

http://www.youtube.com/watch?v=SsDt8dtA9Hg&list=UUX0JT468yXw-nkFDJ3t1Tlg

**Television Advertising**


http://www.youtube.com/watch?v=N21SLxO6B6Y

Infusion is a software that allows service providers to insert advertising into programming on different devices. It allows cable providers to insert unique ads in different zip codes meaning local advertising. This kind of software is important to service providers because they need to be able to offset the cost of programming through advertising to keep their services reasonably priced.

**Video Gateway Software**


http://www.youtube.com/watch?v=liulHGsJ3GI#t=10

Nucleus is the video gateway software that ports to any set-top box. This product is a bit harder to understand. In the past, when service providers were writing applications, they were coding them for particular set-top boxes. However, if they wanted applications to work on set-top boxes produced by different manufacturers, they needed to write multiple versions of the same applications. Seachange figured out a way, through Nucleus software, to decouple the software and hardware making the devices compatible regardless of the manufacturer. With Nucleus, cable providers can release custom applications which will work on all types of hardware. This increases customer loyalty and switching costs. Subscribers get richer user experiences and access to more advanced services.

## AWARDS

Seachange's products have been received extremely well by television service providers. The following awards are proof that the company's products make a real difference to its clients.

LIBERTY GLOBAL
Vendor Awards

On September 20, 2013, Liberty Global, an international cable company, gave SeaChange the award for "Best Product & Service Quality."

http://www.libertyglobal.com/pdf/press-release/Liberty-Global-Announces-Vendor-Awards.pdf

SeaChange won three Technology & Engineering Emmy awards from the National Academy of Television Arts & Sciences (NATAS) for on-demand, advertising and video server technologies. The first Emmy award was won in 2001 for pioneering developments in shared video data storage systems. The second Emmy award was won in 2004 for development and commercialization of technologies leading to large scale deployment of video-on-demand. The third Emmy award was won in 2012 for the development and commercialization of digital infrastructure for local cable ad insertion.

telcotv2012
VISION AWARDS WINNER

On October 30, 2012, SeaChange's Nucleus Soft Box gateway was named the Best Innovation in Customer Premises Equipment in the fifth annual TelcoTV Vision Awards.

http://www.schange.com/company/press-releases/2012/vision-award-2012

On May 6, 2013, SeaChange won the Cable Europe Innovation Award at Cable Congress for VOO's innovative multi-screen video service VOOmotion.

http://www.schange.com/company/press-releases/2013/cable-europe-award

## BUSINESS MODEL CHANGE

You would think that with all these awards, investors would be fighting with each other to bid up the stock price as high as possible especially during today's bubble times. I believe that the reason why this company is priced reasonably is because of the business model change which requires one to use a brain and effort instead of a fast computer to see potential.

If you simply look at the income statement, there is nothing that will impress you.

Revenues are decreasing and profits are non-existent. You know that on Wall Street, unless you are growing, you are simply irrelevant. The hot money flows into hot stocks. It is a simple as that.

So, the only way to figure out what is going on, is to look underneath the hood. SeaChange is undergoing a major change in its business model. This change started approximately three years ago.

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| Revenues: | | | | |
| Products | $82,155 | $73,157 | $64,274 | $54,749 |
| Services | $91,500 | $91,635 | $92,914 | $91,570 |
| Total revenues | $173,655 | $164,792 | $157,188 | $146,319 |
| Cost of revenues: | | | | |
| Products | $28,278 | $20,132 | $17,397 | $10,526 |
| Services | $45,001 | $48,061 | $52,162 | $55,075 |
| Amortization of intangible assets | $1,978 | $2,487 | $2,429 | $1,269 |
| Stock-based compensation expense | $332 | $397 | $157 | $250 |
| Inventory write-down | $2,474 | $430 | $1,752 | $0 |
| Total cost of revenues | $78,063 | $71,507 | $73,897 | $67,120 |
| Gross profit | $95,592 | $93,285 | $83,291 | $79,199 |
| Operational expenses: | | | | |
| Research and development | $44,077 | $39,210 | $38,667 | $39,657 |
| Selling and marketing | $20,309 | $20,757 | $15,398 | $15,018 |
| General and administrative | $15,784 | $18,966 | $17,674 | $17,618 |
| Amortization of intangible assets | $3,073 | $3,784 | $3,966 | $3,361 |
| Stock-based compensation expense | $2,266 | $2,591 | $5,772 | $2,709 |
| Earn-outs and change in fair value of earn-outs | $764 | $3,312 | $2,435 | -$60 |
| Professional fees: acquisitions, diventitures, litigation and strategic alternatives | $2,810 | $2,770 | $1,619 | $1,614 |
| Severance and other restructuring costs | $4,523 | $3,565 | $3,106 | $911 |
| Total operating expenses | $93,606 | $94,955 | $88,637 | $80,828 |
| Income (loss) from operations | $1,986 | -$1,670 | -$5,346 | -$1,629 |

Before the transformation, SeaChange was operating in three segments: Software, Servers and Storage, and Media Services. It was selling video-on-demand hardware and software systems to large television service providers like Comcast.

Seeing the changes that were taking place in the industry, the company realized it needed to adapt to stay relevant. Consequently, the company redirected its research and development dollars into developing new generation products which include Adrenalin, Nucleus, and Infusion which I discussed at the beginning of this report. The servers and storage and media service business segments were sold to focus purely on software. In other words, the entire transformation was about becoming a software and services company.

The transformation plan was pretty simple. First, develop awesome products. Second, transition existing customers to the new products and steal customers from competitors. The development of the products was obviously successful which is evident by the numerous awards. However, the transition of existing clients had many challenges. This is understandable. SeaChange provides back-office infrastructure to cable companies and changing from one platform to another is not that simple. This is why once you have an infrastructure in place, the switching costs are high.

This transition is why revenues are declining as legacy products are being phased out and new revenue sources are being created. Obviously, transitions like this create uncertainty and you know how well stock market investors take uncertainty.

Why is it taking so long to sign up new clients?
Will the new products generate the promised profitability?
What if competitors steal the customers while they are in transition mode?
What if the new products are not working properly?

## VALUATION

In 2009, when the stock market was selling off, you could have looked at certain companies for 30 seconds and conclude, "Yes, it is so cheap that it is a no-brainer." But in this market, you cannot do that. Actually, you have to study it for hours and hours to figure out if there is any value left. SeaChange is no exception. It is not a no-brainer at all. A lot of things have to go right in order for this investment thesis to make you money which makes it more risky.

As of the date of this report, SeaChange International's stock is trading for $7.30 per share and the company has a market capitalization of $235 million. You already saw the income statement so here is the balance sheet (next page).

Because the company has $105 million in cash and marketable securities, the enterprise value is $130 million. I previously said that the income statement shows no profitability. While this is correct, the company was cash flow positive as shown in the following cash flow statement.

| | 2013 31-Jan | 2014 31-Jan | 2014 31-Jul |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $106,721 | $115,734 | $96,555 |
| Restricted cash | $938 | $0 | $0 |
| Marketable securities | $6,050 | $5,555 | $6,038 |
| Accounts receivables | $39,896 | $30,203 | $26,494 |
| Unbilled receivables | $261 | $5,511 | $5,156 |
| Inventories | $7,372 | $6,632 | $4,881 |
| Prepaid expenses and other | $9,555 | $5,449 | $6,422 |
| Assets held for sale | $465 | $0 | $0 |
| Deferred tax assets | $324 | $0 | $0 |
| Total current assets | $171,582 | $169,084 | $145,546 |
| Property and equipment, net | $18,399 | $18,530 | $16,979 |
| Marketable securities, long-term | $7,169 | $6,814 | $8,279 |
| Investments in affiliates | $2,951 | $1,051 | $3,051 |
| Intangible assets, net | $17,514 | $12,855 | $10,603 |
| Goodwill | $45,103 | $45,150 | $44,869 |
| Other assets | $1,958 | $836 | $580 |
| Total assets | $264,676 | $254,320 | $229,907 |
| **Liabilities and Stockholders' Equity** | | | |
| Current liabilities: | | | |
| Accounts payable | $7,846 | $6,640 | $4,943 |
| Other accrued expenses | $13,816 | $12,497 | $9,928 |
| Customer deposits | $4,268 | $42 | $0 |
| Deferred revenues | $28,730 | $24,030 | $22,980 |
| Total current liabilities | $54,660 | $43,209 | $37,851 |
| Deferred revenue, long-term | $1,873 | $1,598 | $1,783 |
| Other liabilities, long-term | $904 | $936 | $966 |
| Taxes payable, long-term | $2,406 | $2,503 | $2,490 |
| Deferred tax liabilities, long-term | $2,632 | $1,633 | $1,614 |
| Total liabilities | $62,475 | $49,879 | $44,704 |
| Stockholders' equity: | | | |
| Common stock | $327 | $330 | $327 |
| Additional paid-in capital | $216,359 | $221,932 | $217,829 |
| Treasury stock | -$1 | -$1 | -$1 |
| accumulated loss | -$12,658 | -$15,688 | -$30,723 |
| Accumulated other comprehensive loss | -$1,826 | -$2,132 | -$2,229 |
| Total stockholders' equity | $202,201 | $204,441 | $185,203 |
| Total liabilities and stockholders' equity | $264,676 | $254,320 | $229,907 |

**SEACHANGE INTERNATIONAL, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Amounts in thousands)**

| | For the Fiscal Years Ended January 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net loss | $ (3,030) | $ (19,165) | $ (4,014) |
| Net loss from discontinued operations | 803 | 16,366 | 611 |
| Adjustments to reconcile net loss to net cash provided by continuing operating activities: | | | |
| Depreciation of property and equipment | 4,389 | 4,671 | 5,435 |
| Amortization of intangible assets | 4,630 | 6,395 | 6,271 |
| Impairment of long-lived asset | — | 967 | 1,092 |
| Loss (gain) on sale of investment in affiliates | 363 | (885) | — |
| Stock-based compensation expense | 2,959 | 5,929 | 2,988 |
| Deferred income taxes | (684) | (132) | 6,599 |
| Change in contingent consideration related to acquisitions | (60) | 2,435 | 3,312 |
| Other | 495 | 79 | 669 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 5,420 | 1,676 | (409) |
| Unbilled receivables | (5,251) | 4,637 | (1,255) |
| Inventories | (234) | 2,563 | (852) |
| Prepaid expenses and other assets | 6,724 | (5,045) | (4,510) |
| Accounts payable | (873) | (236) | (2,596) |
| Accrued expenses | 1,080 | (347) | 3,612 |
| Customer deposits | (4,226) | 1,777 | (926) |
| Deferred revenues | (4,877) | (6,283) | (3,839) |
| Other | 539 | 568 | 519 |
| Net cash provided by operating activities from continuing operations | 8,167 | 15,970 | 12,707 |
| Net cash (used in) provided by operating activities from discontinued operations | (803) | 1,387 | 1,672 |
| Total cash provided by operating activities | 7,364 | 17,357 | 14,379 |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (2,315) | (3,972) | (1,512) |
| Purchases of marketable securities | (11,479) | (15,642) | (19,944) |
| Proceeds from sale and maturity of marketable securities | 12,237 | 14,214 | 19,523 |
| Additional proceeds from sale of equity investment | 1,128 | 885 | — |
| Acquisition of businesses and payment of contingent consideration, net of cash acquired | (4,009) | (8,175) | (4,935) |
| Decrease in restricted cash | 938 | 262 | 132 |
| Other | 20 | 190 | — |
| Net cash used in investing activities from continuing operations | (3,480) | (12,238) | (6,736) |
| Net cash provided by (used in) investing activities from discontinued operations | 4,000 | 25,232 | (1,891) |
| Total cash provided by (used in) investing activities | 520 | 12,994 | (8,627) |

If we wanted to be lazy, we could simply take the average from last three years of operating cash flows ($13 million) and conclude that the stock is cheap because the enterprise value-to-cash flow is only 10.

However, we can't do that because past cash flows are based on revenues from legacy products. Because of the business model transition, future revenues and profits are uncertain.

Case in point, the first half of Fiscal Year 2015 does not look so hot anymore (next page).

If we can't rely on the past and we don't know about the future, how do we value SeaChange? I truly have no idea. But here is what I do know.

The management thinks that after completing its transformation, the company can operate with 60 percent gross margins and 15 percent operating margins. Based on that guidance, future revenues must be at $90 million in order to support the current enterprise value of $130 million.

| | |
|---|---|
| Revenues | $90,000 |
| Gross profit (60%) | $54,000 |
| | |
| Operating profit (15%) | $13,500 |
| Taxes (35%) | $4,725 |
| Net income | $8,775 |
| | |
| Value (x 15) | $131,625 |

**SEACHANGE INTERNATIONAL, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(Unaudited, amounts in thousands)*

| | Six Months Ended July 31, 2014 | Six Months Ended July 31, 2013 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (15,035) | $ (2,200) |
| Net (income) loss from discontinued operations | (119) | 523 |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities from continuing operations: | | |
| Depreciation of property and equipment | 1,918 | 2,303 |
| Amortization of intangible assets | 2,868 | 2,297 |
| Stock-based compensation expense | 1,397 | 1,770 |
| Other | 334 | 432 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 3,568 | 1,664 |
| Unbilled receivables | 299 | (2,155) |
| Inventories | 1,235 | (995) |
| Prepaid expenses and other assets | (981) | 7,924 |
| Accounts payable | (1,070) | (273) |
| Accrued expenses | (3,278) | (4,806) |
| Deferred revenues | (784) | (1,140) |
| Other | (59) | (64) |
| Net cash (used in) provided by operating activities from continuing operations | (9,707) | 5,280 |
| Net cash provided by (used in) operating activities from discontinued operations | 119 | (523) |
| Total cash (used in) provided by operating activities | (9,588) | 4,757 |

Is $90 million in revenues doable? Considering that the company was able to generate more than $150 million in revenues servicing cable companies with legacy products, I do think that $90 million in revenue from award-winning products is doable.

With that being said, you are interested to find out whether you can make money from the current levels, not just break even on the price that you are paying today. I would say that the company needs to make $200 million in revenues in order for you to make decent returns. By that point, the company will be worth approximately $300 million, which is significantly higher than the current $130 million enterprise value.

| | |
|---|---|
| Revenues | $200,000 |
| Gross profit (60%) | $120,000 |
| | |
| Operating profit (15%) | $30,000 |
| Taxes (35%) | $10,500 |
| Net income | $19,500 |
| | |
| Value (x 15) | $292,500 |

Revenues of $200 million is totally realistic. There is no question that SeaChange has a ton of potential during a big technological shift in the television industry.

## CONCLUSION

SeaChange is a company that made a big move to transform itself from a hardware/service company into a software/service company with bigger margins and more predictable revenue streams. The products that it created to make the transition happen are award-winning successes, which are now being tested and deployed by various customers all over the world. Over the next several quarters and years, we will find out how these deployments will flow into the company's revenues.

The management is optimistic about how things are progressing so far. The board of directors authorized a $40 million share buyback out of which only a small portion has been executed.

***Disclosure: I, or persons whose accounts I manage, do not own shares of SeaChange International. This report is not a solicitation to buy or sell securities. Neither Mariusz Skonieczny nor Classic Value Investors, LLC, is responsible for any losses resulting from purchasing or disposing shares of SeaChange International. You are advised to consult your financial advisor or conduct the due diligence yourself.***

***Why Don't I Own This Stock?***

***I am asked this question on every single company that I don't own but write about so I decided to include the answer here. And, the answer is simple – I cannot own everything I write about even though I like it. I only own 8 to 10 positions and when I buy something, I commit to it for several years. I can't be changing my portfolio every week just because I found something "better." If I did this I would only be investing in potentials and never riding them. When one of my positions reaches my target, I will sell it, and then, I will go back to the ideas that I wrote about and pick one that will take its place.***

# SYMMETRY MEDICAL
# (SMA)
# THE ENTRY PRICE IS ESPECIALLY IMPORTANT

## INVESTMENT SUMMARY

When the market is expensive, it is hard to find good deals, and this is why some investors choose to go after special situations, which is exactly what this investment opportunity is all about.

Symmetry Medical is a company that houses two distinct businesses. One of the businesses is being sold for cash and the other business is being spun out into a separate entity. So, if you buy into this company right now, you are essentially buying two businesses, immediately selling one, and keeping the other. Consequently, what matters is how much you are paying for the remaining business. Keep reading to find out.

## COMPANY DESCRIPTION

Symmetry Medical is a medical device company as well as a contract manufacturing company. As a medical device company, it makes medical devices and sells them to hospitals. As a contract manufacturing company, it makes medical devices on behalf of other medical device companies.

The company is divided into two business segments: Symmetry Surgical business and OEM Solutions business segment.

### Symmetry Surgical Business Segment

Symmetry Surgical is the business segment that makes its own medical devices. This segment, headquartered in Nashville, Tennessee, was created in 2011 from the integration of three businesses: Specialty Surgical Instrumentation (founded in 1976), Codman Surgical Instruments (acquired in 2011 for $166 million), and Olsen Medical Line (acquired in 2011 for $11 million). Remember the acquisition costs because later this will give you an idea of what you are paying for this business segment versus what the company paid for it.

Symmetry Surgical offers a broad range of reusable stainless steel and titanium surgical handheld instruments, sterile disposable surgical products, and sterilization containers. These products are used in the surgical specialties of spine, orthopedics, laparoscopy, cardiovascular, thoracic and general surgery in hospitals, surgery centers, and selected physician offices.

To offer these products, Symmetry Surgical has a global supply chain team located in Switzerland that sources its products from other instrument manufacturers in Germany as well as from its own OEM Solutions business segment.

To develop these products, the company collaborates with surgeons from the conception through launch to ensure that the products meet the needs of these healthcare providers.

In the US, the products are sold through both a direct sales force and authorized distributors. Outside of the US, the products are sold primarily through authorized distributors.

In 2013, the Symmetry Surgical business segment generated 22 percent of revenues.

**OEM Solutions Business Segment**

The OEM Solutions business segment is the contract manufacturing business. This is where other medical device companies come to have their products designed and manufactured. In other words, other medical device companies come to the OEM Solutions business segment to outsource the design and manufacturing of their own medical products.

The primary products produced in the OEM Solutions segment include implants for the orthopedic device market, instruments used in the placement and removal of orthopedic implants, medical instrument cases, and other specialized products for the aerospace market.

In 2013, the OEM Solutions business segment generated 78 percent of revenues.

## SPLIT OF THE TWO BUSINESSES

Symmetry Medical has operated as a two-business company since 2011. The entire company was built on organic growth and external acquisitions. On August 4, 2014, the company announced that it will be splitting the two businesses by selling the OEM Solutions business to Tecomet and spinning off the Symmetry Surgical business as a separate entity. In other words, if you are buying the shares of Symmetry Medical, you are really buying shares of the new independent entity, which at this point is still the Symmetry Surgical business segment.

The following is a link to the press release.

http://investors.symmetrymedical.com/phoenix.zhtml?c=180415&p=irol-newsArticle&ID=1954555

It is not a secret that healthcare costs have been getting out of control over many years. As a result, the government got involved, putting pricing pressures on the companies involved in the healthcare industry. To stay competitive, these companies are consolidating or merging with each other to gain scale or to eliminate competition.

This consolidation, especially in the medical device industry, is creating risk for Symmetry Medical. For example, as a contract manufacturer (OEM Solutions segment), the company sees customers merging with other companies. Because these customers are now larger, they have more bargaining power over Symmetry Medical. Also, they might move their entire product development in house because their larger size might allow them to do so or they might use a contract manufacturer that was servicing the other company in the merger.

There are also risks on the Symmetry Surgical side. Right now, this business segment only offers surgical products that do not compete with surgical products of OEM Solutions' clients. Well, it is just a matter of time before one of the clients acquires a medical device company that competes with the Symmetry Surgical business segment. What do you do then? The client leaves OEM Solutions or you shut down Symmetry Surgical. Either way, no solution is a good solution. However, if the two companies are separate, then there is no problem.

## VALUATION

As of the date of this report, Symmetry Medical's stock is trading for $9.50 per share and the company has a market capitalization of approximately $350 million. The following is the company's balance sheet (next page).

Because the company has $170 million in debt, we have a company that has an enterprise value of $520 million. I am ignoring the cash in the bank. As the stock price fluctuates, so does the enterprise value as shown in the chart below.

I told you before that the company is selling OEM Solutions to separate the two businesses. Tecomet is buying it for $450 million or $7.50 per share. The transaction, if successfully consummated, will close by the end of the year.

If you are buying the shares of Symmetry Medical today, what you are essentially buying is the entire company including both businesses, immediately selling the OEM business segment and keeping the Symmetry Surgical business segment. Consequently, what is important is to figure out how much you are paying for the Symmetry Surgical business and what it is worth.

I have to say that it is often confusing to me to separate all the moving parts. I like to think of it in real estate terms. Think of Symmetry Medical as a house with a garage. The house is the OEM business segment and the garage is the Symmetry Surgical business segment.

Right now, you are buying the property for $520 million. You put down $350 million in equity and take out $170 million in debt. This is what you get at a stock price of $9.50 per share. Then, Tecomet comes along and offers you $450 million for the house but wants you to keep the garage.

Ok, you take the $450 million, give up the house (OEM Business), and pay off your $170 million mortgage. What you are left with is the garage and $280 million (difference between $450 million and $170 million).

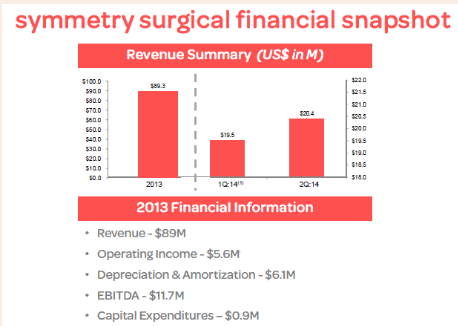
What did you essentially pay for the garage? Well, you put down $350 million in equity and you are left with $280 million. So, you paid $70 million for the garage.

| | Stock Price $7.50 | Stock Price $8.00 | Stock Price $9.00 | Stock Price $9.50 | Stock Price $10.00 |
|---|---|---|---|---|---|
| Market Cap | $274.5 | $292.8 | $329.4 | $347.7 | $366.0 |
| Debt | $170.0 | $170.0 | $170.0 | $170.0 | $170.0 |
| Enterprise Value | $444.5 | $462.8 | $499.4 | $517.7 | $536.0 |

**SYMMETRY MEDICAL INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(In Thousands)**

| | June 28, 2014 (unaudited) | December 28, 2013 |
|---|---|---|
| **ASSETS:** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 17,307 | $ 7,362 |
| Accounts receivable, net | 57,961 | 51,813 |
| Inventories | 58,386 | 58,879 |
| Refundable income taxes | 3,917 | 5,784 |
| Deferred income taxes | 5,975 | 5,439 |
| Other current assets | 5,906 | 4,900 |
| Total current assets | 149,452 | 134,177 |
| Property and equipment, net | 88,485 | 89,993 |
| Goodwill | 171,563 | 182,178 |
| Intangible assets, net of accumulated amortization | 101,249 | 105,004 |
| Other assets | 3,395 | 4,484 |
| Total Assets | $ 514,144 | $ 515,836 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY:** | | |
| Current Liabilities: | | |
| Accounts payable | $ 32,143 | $ 28,837 |
| Accrued wages and benefits | 10,896 | 9,656 |
| Other accrued expenses | 7,117 | 7,138 |
| Accrued income taxes | 293 | 53 |
| Derivative valuation liability | 434 | 283 |
| Revolving line of credit | 953 | — |
| Current portion of capital lease obligations | 500 | 465 |
| Current portion of long-term debt | — | 6,531 |
| Total current liabilities | 52,336 | 52,963 |
| Accrued income taxes | 1,524 | 2,126 |
| Deferred income taxes | 4,491 | 7,536 |
| Derivative valuation liability | 2,499 | 1,104 |
| Other liabilities | 948 | 886 |
| Capital lease obligations, less current portion | 708 | 974 |
| Long-term debt, less current portion | 170,000 | 165,450 |
| Total Liabilities | 232,506 | 231,039 |
| Commitments and contingencies | | |
| Shareholders' Equity: | | |
| Common Stock, $.0001 par value; 75,000 shares authorized; shares issued June 28, 2014-37,555; December 28, 2013-37,209 | 4 | 4 |
| Additional paid-in capital | 290,994 | 289,257 |
| Accumulated deficit | (14,828) | (9,531) |
| Accumulated other comprehensive income | 5,468 | 5,067 |
| Total Shareholders' Equity | 281,638 | 284,797 |
| Total Liabilities and Shareholders' Equity | $ 514,144 | $ 515,836 |

Whether this is cheap or not depends on what this garage (Symmetry Surgical) is worth. From the investor presentation, we learn that Symmetry Surgical generates approximately $12 million in EBITDA. After capital expenditures, the net is $11 million. The operating income is only $5.6 million because of $6 million in depreciation and amortization.




With the price tag of $70 million, you are paying six times EBITDA or 12.5 times operating income. This is a reasonable price if the management can grow this business in the future (look back at the beginning of the report to see how much the company paid for acquisitions to form this segment). But the price is not cheap enough to make me want to jump up and down. With that being said, here is the kicker.

If you can acquire shares for a little bit less than the current stock price, your eventual price for the Symmetry Surgical business segment decreases significantly as shown in the following chart.

If the stock price were to drop to $7.50 per share, you would essentially be getting the Symmetry Surgical business for free. If the stock price went to $8 per share, you would be paying one times EBITDA for this business. However, if you pay $10 or more per share, then the reverse happens – you end up paying too much for the remaining business.

The actual logistics of how the spin-off will work are as follows. For every share of Symmetry Medical that you own before the spin-off, you will receive $7.50 per share in cash plus 0.25 of a share in the new company (Symmetry Surgical).

So, if you pay $9.50 per share for Symmetry Medical today, you are really paying $2 per share for one quarter share of the new entity. If you get lucky and pay only $8.50 per share for Symmetry Medical, then you would be paying only $1 per share for one quarter share of the new company. In other words, a difference of only $1 in the share price today has a huge impact on how much you are paying for the new entity.

The ideal situation would be for Mr. Market to go insane for a day or two and sell you the Symmetry Medical stock for $7.50 per share so that you would be getting the new entity for free.

| | Stock Price $7.50 | Stock Price $8.00 | Stock Price $9.00 | Stock Price $9.50 | Stock Price $10.00 |
|---|---|---|---|---|---|
| Market Cap | $274.5 | $292.8 | $329.4 | $347.7 | $366.0 |
| Debt | $170.0 | $170.0 | $170.0 | $170.0 | $170.0 |
| Enterprise Value | $444.5 | $462.8 | $499.4 | $517.7 | $536.0 |
| | | | | | |
| OEM Sales Price | $450.0 | $450.0 | $450.0 | $450.0 | $450.0 |
| Your Price for Symmetry Surgical | -$5.5 | $12.8 | $49.4 | $67.7 | $86.0 |

Some of you might be worried about what can happen if the transaction does not go through. Well, this is definitely a risk even though there would be penalties (Tecomet's termination fee = $27 million, SMA's termination fee = $13.5 million) if the deal is broken. Also, when the company put up OEM Solutions for sale, it received several offers. The current one is the highest. If you want to know a new implied price for Symmetry Surgical, you would have to plug in a different sales price for the $450 million. Other offers ranged between $350 million and $380 million.

You can read about other offers in the following document (second paragraph on 43).

http://www.sec.gov/Archives/edgar/data/1292055/000114420414054677/v388640_prem14a.htm

"At its April 25, 2014, regularly scheduled meeting, the Board discussed the four expressions of interest received to date. In addition to the indication of interest from Tecomet, one party submitted an indication of interest to buy the assets of the OEM Solutions Business for between $350 million and $375 million, a second party submitted an indication of interest to buy the assets of the OEM Solutions Business for $380 million and a third party submitted an indication of interest to buy the common stock of SMI at its then current trading value.

…

On August 2, 2014, Mr. Sullivan informed the Board that as a result of negotiations with SMI's management and representatives of Stifel, Tecomet confirmed that it would pay an aggregate purchase price of $450 million, resulting in $7.50 per share of SMI common stock, without interest, net of cash and debt, in the proposed merger."

## CONCLUSION

Symmetry Medical investment opportunity is a special situation. As you can see, it is a bit complicated to understand all the moving parts, but when you use the analogy of buying a house with a garage, then things become clearer. If you are interested in this opportunity, then you should watch the stock price very carefully because every little bit of decrease has a big impact on the cost of Symmetry Surgical, which is what you will end up owning in the end.

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***just because I found something "better." If I did this I would only be investing in potentials and never riding them. When one of my positions reaches my target, I will sell it, and then, I will go back to the ideas that I wrote about and pick one that will take its place.***