ValueInvestor INSIGHT
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# Zig or Zagg?

*Growth investors are prone to shoot first and ask questions later when it comes to the stocks of companies whose heady-growth days show signs of waning. That's when value investors like Jim Roumell often step in to have a look.*

Here's a common value-investing narrative: A company succeeds with a unique, advantaged product or service and reinvests along the way in expanding its franchise. But then the traditional business shows signs of flagging and the market slams the stock. If the core business is no longer as important as the market seems to think – or even better, it isn't as challenged as feared – that can provide bargain-hunting investors with an opportunity.

That neatly describes what Jim Roumell of Roumell Asset Management sees today in Zagg, Inc. The Utah-based company makes InvisibleShield smartphone screen protectors, by far the U.S. leader with a 45%-plus market share. It also through acquisition has added other phone accessories such as mophie battery cases, Gear4 protective cases and Halo portable power products. Roumell estimates that screen protectors, which accounted for two-thirds of the company's revenue in 2015, will account for close to 40% this year.

There are things to worry about with screen protectors. Phone replacement cycles are getting longer. Original-equipment screens continue to get stronger and more resistant to damage. Cheaper alternatives to the premium InvisibleShield brand proliferate. Roumell counters those potential negatives with a number of positives. Zagg is a valued supplier to phone sellers like Verizon, AT&T and Best Buy, offering unmatched reliability and speed-to-market around phone launches, as well as products on which retailers earn high margins. Screens have gotten stronger for years, but the percentage of new phones sold with protective screens has increased from around 15% five years ago to 25% today, in no small part due to the ever-increasing price of new phones. Though the timing isn't clear, he says, the coming replacement cycle should get a strong boost from the rollout of 5G-enabled phones.

Roumell also expects the company's new products to make up for slowing screen-protector sales. Its strong retail ties have driven added distribution, to the particular benefit of the Halo and Gear4 brands, each of which earn above-company-average gross margins and he believes grew revenues by at least 50% in 2019.

Even with flattish screen-protector sales growth over last year, he estimates Zagg can earn $80 million in EBITDA on

## INVESTMENT SNAPSHOT

**Zagg Inc.**
(Nasdaq: ZAGG)

**Business**: Design, production and sale of smartphone accessories such as screen protectors, protective cases and external power.

**Share Information** (@1/30/20):

| | |
|---|---|
| **Price** | **8.17** |
| 52-Week Range | 5.26 – 12.43 |
| Dividend Yield | 0.0% |
| Market Cap | $237.7 million |

**Financials** (TTM):

| | |
|---|---|
| Revenue | $498.5 million |
| Operating Profit Margin | 2.2% |
| Net Profit Margin | 0.6% |

**Valuation Metrics**
(@1/30/20):

| | ZAGG | S&P 500 |
|---|---|---|
| P/E (TTM) | 72.3 | 25.9 |
| Forward P/E (Est.) | 8.1 | 19.2 |

**Largest Institutional Owners**
(@9/30/19):

| Company | % Owned |
|---|---|
| Fidelity Mgmt & Research | 7.7% |
| RBC Global Asset Mgmt | 7.7% |
| Arex Capital | 7.5% |

**Short Interest** (as of 1/15/20):

| | |
|---|---|
| Shares Short/Float | 19.5% |

**ZAGG PRICE HISTORY**


**THE BOTTOM LINE**

The market is both overestimating the challenges facing the company's core business and underestimating the potential of its new ones, says Jim Roumell. At 7x EV/EBITDA on his 2020 estimates, the shares would trade at around $16.50, double their current level.

Sources: Company reports, other publicly available information

$610 million in revenue in 2020. Assuming a "more-than-reasonable" 7x multiple and subtracting $60 million in estimated net debt, the resulting market cap would translate into a $16.50 share price, double today's level. If the 5G replacement cycle kicks in as he expects in 2021, the stock upside should be significantly higher.

The company last August hired Bank of America to help it review strategic alternatives, presumably in response to private-equity interest in the cash-cow screen-protector business. While Roumell considers a deal possible, he's made it clear to Zagg management that unless they get a blowout offer, they're better off on their own. As he puts it, "Why let somebody else capture most of the upside?"

*Disclosure: The specific security identified and described does not represent all of the securities purchased, sold, or recommended, and the reader should not assume that investment in the security identified and discussed was or will be profitable.*