PROFIT CATALYST ALERT

Special Report

# Three "Launchpad Protocol" Trades to Make NOW!

By Linda McDonough and the team of analysts at *Profit Catalyst Alert*

Welcome to *Profit Catalyst Alert*. I am excited to have you on board and eager to share my investing ideas with you. I do appreciate the investment you have made with your subscription and look forward to a long and prosperous relationship.

*Profit Catalyst Alert* looks for stocks experiencing a significant change in their business models that will propel earnings right away. My 25 years of experience as a hedge fund analyst have taught me that buying stocks at this launch point can be wildly profitable.

While I love all the stocks in the *PCA* portfolio, the three that I am  most excited about right now are **Brunswick** (NYSE:BC), **Criteo** (NSDQ: CRTO) and **SolarEdge Technologies** (NSDQ: SEDG). Each one of these is witnessing an explosion in earnings giving the stocks at least 50% upside and the potential to move much higher as estimates increase. Get their full stories below.

## Launchpad Trade #1: Brunswick

**Brunswick Corp**. (NYSE: BC) is really bulking up. The company's Jan. 21 announcement of its purchase of Cybex, the manufacturer of premium fitness equipment, boosts their much publicized transformation from a company tied to the cyclicality of consumer whims to one with steady and predictable growth.

Coincident with the purchase, management boosted estimates from $3.30 to $3.45 for this year. After a brief drop due to concerns over a slight revenue miss, the stock has righted itself. I've given the numbers a real work out and think Brunswick's diversification strategy is on track.

The stock currently trades at a puny 12 PE on 2017 estimates despite earnings growth of 17%. As the market recognizes Brunswick's transformation from a scrawny cyclical to a beefy grower, its stock should take flight.

**Flexing its muscles…**

Brunswick, well known for its Boston Whaler fishing boats, has been fortifying its fitness business to diversify away from the overly-cyclical boat business. That boat business lost almost $200 million following the 2009 recession. Although the boat business is now shipshape, Brunswick is building up an arsenal of less volatile segments to avoid a rout if another recession comes. A surge in Brunswick's trading volume alerted us to Brunswick unrecognized potential. As with all Launchpad stocks, this bump in volume let us know investors were excited about a new development. The day of the Cybex announcement, Brunswick traded 3.74 million shares, almost four times its average volume and closed up 8%.

Cybex is one of the largest players in this field – your gym probably has at least a few Cybex machines, and maybe an entire circuit or two. The company, which developed the popular low impact Arc Trainer, will generate roughly $165 million in sales in 2016 and has been growing mid-single digits.

**Heading to the gym**

This is not Brunswick's first day at the gym. In 1997 it acquired Life Fitness, a manufacturer of cardio and strength equipment. While the company has bought additional smaller fitness companies since then, Cybex adds real heft to its portfolio.

The purchase ramps fitness revenue up quickly towards management's 2020 goal of $1.5 billion. In fact on its fourth quarter conference call, management estimated that fitness revenue would equal almost $1 billion this year, up 26% primarily due to the inclusion of Cybex.

The overall fitness equipment market is growing at about 5% globally. However the U.S. is growing much faster, around 8%, and should keep its momentum from the expansion of budget health club chains. Well-used fitness equipment must be replaced every 5 years, almost twice as quickly as the 10-year replacement cycle for boats.

Planet Fitness, one of Brunswick's largest fitness customers, continues to grow in leaps and bounds. It opened 209 new locations in 2015 and on its recent conference call noted it will open 215 in 2016, with 500 stores expected to open over the next three years.

Not only does Brunswick get a huge boost in orders for equipment when a new fitness facility is opened (have you seen the sea of treadmills and bikes in one of these places?) but it also requires franchisees to replace equipment every 5.5 years on average.

**Healthy earnings…**

Brunswick earned 52c in the quarter and is expected to earn $3.45 this year and $3.99 in 2017. Management has been reliable on its promise to deliver mid-teens earnings growth. The company has $2.60 per share in net cash (cash after subtracting total debt) and a squeaky clean balance sheet.

Free cash flow, which measures cash from operations less capital expenditures, grew 65% in 2015 and should exceed $200 million in 2016. This cash can be used to continue share repurchases and to fund the company's 60c dividend.

Brunswick is looking in better shape than ever. It added $300 million to its three-year stock buyback plan recently. If the company bought $100 million worth of stock at current levels this fiscal year, it would boost earnings per share 2%. In addition the company issued its quarterly 15 cent dividend.

With the stock trading at 12 times 2017 estimates, growing earnings 17% and offering a 1.3% dividend yield, investors would be wise to add a healthy dose of this stock to their portfolios.

**Buy up to $48.**

## Launchpad Trade #2: Criteo

Don't you hate those annoying ads that scroll across your computer screen blocking the article you're trying to read? How about banner ads that skip around like Mexican jumping beans when you try to "x" them out? Miss the x, and you're transported to an ad for something you don't need or a story you won't read.

These annoying ads rank with robo calls and junk mail as consumers' top pet peeves. It's no wonder investors were alarmed that **Criteo** (NSDQ: CRTO), a Paris-based digital-advertising firm, would feel the sting of new ad-blocking software rolled out to iPhones last fall. After all, the company earns a fee from advertisers when consumers click on an ad and then collects a bigger fee if that customer buys the advertiser's product.

But on Feb. 10, Criteo showed investors that its unique technology, which delivers relevant, non-intrusive ads, could overcome any issues with ad blocking on mobile devices. On its earnings call, management guided to higher-than-expected 32% growth for 2016 revenue.

Criteo trades at just 17 times 2017 estimates. Earnings growth of 21% this year should be followed by an even bigger 30% jump in 2017 as mobile advertising floods the market. Assuming a PE equivalent to growth shoots this stock to the low 60s.

**Digital ads big, mobile huge**

Digital advertising is a big market. The U.S. portion of digital advertising was close to $60 billion in 2015 and $170 billion worldwide. But advertising on mobile devices is rapidly becoming even more important. Facebook CEO Sheryl Sandberg noted on the company's fourth-quarter call that 78% of its ad dollars come from mobile devices. In fact Facebook's mobile advertising grew 73% last year to $3.4 billion.

I love buying stocks serving big markets. I especially love buying stocks trading at reasonable valuations with excellent growth prospects. The icing on the cake is when I can confirm our optimism with company management.

I did just this with Friederike Edelmann, manager of Criteo's investor relations, who described the company's edge:

"Advertisers are typically not running silo campaigns (deciding on delivery to PCs or mobile devices separately). Our algorithm decides what platform is best for the ad. In the December quarter 47% of revenue ex-TAC [traffic acquisition cost] was generated on mobile ads. Our win rate is twice as high in mobile, partly because we have so little competition."

**Blocking is no barrier**

On Feb. 10 the stock traded 5.5 million shares, seven times its daily volume and rose a gigantic 28%. This outsized volume coincident with an up day is the hallmark signal for the Launchpad method, which helps me identify companies with specific and positive earnings' catalysts.

Criteo's stock was slammed last year because of fears about ad-blocking software. Apple, whose Safari desktop version has allowed ad blocking for some time, announced last summer that its next system update would include the ability to block ads on mobile devices. Criteo dropped from a high of $55 last summer to a low of $27 before the good news this February.

Like Lazarus rising from the dead, Criteo reported 31% revenue growth in the December quarter. Revenue guidance for 2016, a metric closely watched for cracks due to ad blocking, came in at 32% versus analyst estimates of 22%.

**Moving up**

Despite being up another 10% since the February earnings announcement, Criteo still trades at a price-to-earnings ratio below its growth rate. Earnings are expected to grow 24% in 2016 and ramp up another 30% in 2017, yet the stock trades at 17 times 2017's $2.25 estimate.

Cash flow was a robust $137 million last year. Total net cash equals more than $5.00 per share and continues to build. I see the stock moving up to the low $60s as investors recognize its potential.

Investors should look no further than Criteo to find an exciting way to capitalize on the bothersome but increasingly prevalent trend of consumers spending more of their time scrolling through their phones.

**Buy up to $43.**

## Launchpad Trade #3: SolarEdge

Has the sun set for solar stocks? Benchmark Guggenheim Global Solar ETF is down by more than half since its April 2015 peak. And recently a major solar company's woes have roiled the solar market even more.

The carnage has been broad, with solar system operators and equipment suppliers alike hit hard. But solar installations continue growing rapidly worldwide; many solar operators still expect growth of 40% to 60% for the next few years and are positioned to make a lot of money in the sector.

SolarEdge is one of them.

**SolarEdge** (NSDQ: SEDG) makes inverters and optimizers for solar panels. These high-tech boxes are the brains behind solar panels, allowing them to convert and maximize energy collected from sunlight. Consider:

SolarEdge revenue skyrocketed 144% in fiscal 2015 and was up 72% in the first quarter of this year.

Profits are expected to grow 80% in 2016 and another 30% in 2017.

The stock, which is down 44% since its 52-week high, and down 17% since my original recommendation in January, trades at a puny price-to-earnings ratio of 10, despite this impressive growth.

Buying stocks simply because they are bumping along 52-week lows can be a dangerous business. Stocks need a catalyst to move higher, and our Launchpad system first uses trading volume to uncover such catalysts. On November 5, SolarEdge traded 3.8 million shares, almost five times its average volume.

That caught our attention, and then we discovered that SolarEdge is making the kind of changes we expect from a Launchpad stock. Around the time of that volume spike, management revealed that its new HD Wave technology would lower the cost of manufacturing dramatically.

This technology both addresses the new, lower-cost mandate driving the solar business and eases investor worries about a competitor that was undercutting SolarEdge's prices.

**New day dawning**

SolarEdge's business is boosted not only by solar market growth but also by a switch from traditional wiring to SolarEdge's innovative products. The company's recent announcement of the HD Wave product will power up growth as the industry expands and the company continues to take market share from competitors.

The company has been successfully reducing costs and introducing more efficient products to help its customers excel as subsidies disappear. This important distinction should allow SolarEdge to prosper despite lower rebates for solar power.

Enphase, a competitor and an early entrant in the inverter market, had long commanded majority market share despite having more expensive products. With SolarEdge's more efficient and lower-priced products widely available, Enphase suffered dramatically and struggles to overcome its high costs.

SolarEdge's new HD Wave inverter, introduced in September, will boost growth more and allow the company to prosper while offering lower prices to its customers.

**A better box**

Even before the HD Wave was introduced, industry experts had already blessed SolarEdge's products in comparisons with Enphase. The HD Wave inverter should widen that lead considerably. Management calls the product "one of the most significant leaps in solar technology in the past 20 years." SolarEdge increased the inverter's efficiency to 99% while reducing the size and weight of the box. HD Wave inverters should represent close to 100% of all inverters sold by June.

Although SolarEdge's growth will slow from last year's triple-digit rates, it will still outpace that of the overall solar market. The HD Wave technology also lets SolarEdge expand more aggressively into the corporate market, and eventually the utility market, which requires more robust hardware.

SolarEdge has been solidly profitable for the past five quarters. Its balance sheet is rock solid, with more than $4 per share in cash and zero debt. The company has shown it is adept at increasing profits despite lower industry pricing and is prepared for stormy weather.

**Waiting for the clouds to break**

Yet despite these fabulous numbers my favorite solar stock appears to be taking a nap in the sun while the rest of the market rallies.

Industry daredevil SunEdison continues to create drama for the solar group. This highly leveraged player hit the wall last week as bankers backed out of financing its most recently planned acquisition of Vivint Solar. Yet this deal has no impact on Solaredge outside of investor sentiment.

The Solar Energy Industries Association (SEIA) reported that U.S. solar installations hit a record 7.3 gigawatts in 2015 and represented almost 30% of all new electric-generating capacity. This is a remarkable number. The extension of the investment tax credit on solar panels into 2020 will continue to stoke demand.

As they say, make hay while the sun shines. I believe that means buying SolarEdge stock by the baleful.

**Buy SolarEdge up to $32.**

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