

# Mossberg's Investor Digest

## Best Idea Profile:

## Allied Motion Technologies Inc. (NASDAQ:AMOT)

### DESCRIPTION:

Allied Motion Technologies designs, manufactures and sells motion control products to entities in the United States, Europe, Sweden and Asia. Its largest segment is the vehicle market, with good diversification in industrial, medical, electronics, aerospace and defense. Its products range from durable brush DC motors for commercial equipment to sophisticated servo motors, drives and encoders for precision machinery. End products that use its technology include HVAC systems and actuators for vehicles, optical lasers and meters, robotic systems for semiconductors, anti-lock brake and fuel cell applications for specialty automotives, satellite tracking systems, and smart bomb and munitions controls. Allied Motion was formerly known as Hathaway Corporation, which was incorporated in 1962. It changed its name in 2002 when it became exclusively focused on the motion control industry. The company is headquartered in Amherst, New York, and has 942 employees.

### KEY INVESTMENT CONSIDERATIONS:

**Game-changing and Accretive Acquisition** – The acquisition of Ohio-based Globe Motors in October of last year was immediately accretive and essentially doubled the size of the company. Fourth quarter orders of \$54 million, compared with \$23 million in the 2012 fourth quarter, are quite reflective of this fact. It is a strategically wise combination. It will increase operational efficiencies and profit margins as it leverages the markets the two companies share: aerospace and defense, medical, industrial and vehicle. The current Allied Motion is a story of successful acquisitions. In 2002, Allied had \$12 million in revenues: with six acquisitions under its belt, revenues approximate \$200 million. Management expects 2014 revenues to be more than double relative to Allied's 2013 pre-acquisition revenues. The Globe acquisition is expected to continue to be accretive to earnings. The integration has started but will be more evident throughout 2014.

**Competitive Advantages** – Allied has several years of zero defects in its manufacturing line, which exceeds the track record of many of its competitors. Geographically Allied now has the strategic manufacturing advantage of capabilities in Europe, Asia, and North America, including lower cost production facilities in Portugal, China and Mexico. And these facilities not only take advantage of lower cost labor, but are state-of-the-art facilities. Additionally, Allied has strong emphasis on

applying lean principles to its organization, from manufacturing to front office, that will aid its competitive position.

**Strong Cash Generation** – Historically, both Globe and Allied have been excellent at cash generation. Allied now has \$10 million in cash, with its \$86 million in debt almost exclusively attributable to the Globe acquisition. Management believes “we will even be a stronger cash generator in the future” and that it has options to reduce this debt should other potential acquisitions arise.

**Dividend** – Despite the debt taken on by the acquisition, and the 22% payout ratio, management specifically addressed its intent to continue its current dividend policy.

### VALUATION:

Compared with its peers, albeit larger companies, AMOT appears undervalued, especially when using forward earnings expectations. The company's aggressive lean practices should improve operating efficiencies and the merger with Global should also provide competitive synergies that will propel the company's growth.

#### Allied Motion Technologies Inc. (NASDAQ:AMOT) Investment Data (as of 4/10/14)

<b>Recent Price</b>	<b>\$11.99</b>
52-Week Range	\$6.46 - \$14.17
Fiscal Year End	Dec
Dividend	\$0.025
Yield	0.8%
Shares Outstanding	9 M
Average Trading Volume (3 mos)	9 K
Market Capitalization	\$111 M
Cash	\$10 M
Long-term Debt	\$88 M
Enterprise Value (EV)	\$189 M
Book Value	\$5.28
TTM Revenue	\$126 M
P/ Revenue	0.9x
TTM EPS	\$0.45
P/ EPS	27x
TTM EBITDA	\$12 M
EV/ EBITDA	16x

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