

# Mossberg's Investor Digest

## Best Idea Profile

## American Reprographics Company (NYSE: ARP)

### DESCRIPTION:

Headquartered in Walnut Creek, California, American Reprographics is an industry leader in the reprographics industry. The company provides business-to-business services that include document management, document distribution, logistics, and print-on-demand. American Reprographics' primary market is the architectural, engineering and construction (AEC) industry but also includes other industries such as aerospace, technology, financial services, retail and entertainment. The company currently operates 272 reprographics service centers, including 259 US service centers in 38 states, seven reprographics service centers in Canada, one in United Kingdom, and a business venture company in China with five locations.

### KEY INVESTMENT CONSIDERATIONS:

**A Market Leader in a Large and Fragmented Market** – The International Reprographics Association (IRgA) reports that the reprographics industry in the United States represents a \$4.5 billion dollar market. The industry is highly fragmented, consisting of approximately 3,000 firms with average annual sales of approximately \$1.5MM and 20 to 25 employees. With over \$500MM in annual revenues and a national footprint, ARP is the industry leader with economies of scale and proprietary technology advantages that give the company a competitive edge.

**Full Platform Advantage** - Customers looking to centralize their work on a central platform cannot use traditional reprographic companies. ARP has a distinct advantage with these clients and should be able to take market share from this segment of the market.

**A Market Innovator** - Due to its size and financial strength, ARP continues to add new services and technologies. ARP recently released iShipDocs and new versions of several other products. Yet the company has not recently seen any new technology from competitors due to recessionary pressures. ARP's continuous investment should yield future competitive advantages in an industry with little current investment.

**Additional Vertical and Geographical Markets** – Though ARP has traditionally served the construction (AEP) market, there are additional vertical markets where it can leverage expertise and compete for new business. In the MRQ, 22% of the ARP's revenue came from outside the AEP segment. ARP has also expanded geographically with operations in China and a new office in India.

**Diversified Customer Base** - ARP has a diverse customer base of both local and national companies, with no single customer accounting for more than 2.5% of net sales during 2009.

**Strong Cash Flow and Improving Financials** – Like many companies, ARP has suffered a loss of revenues and had to downsize during 2009. Yet the company generated \$97.4 million in cash flow from operations (\$2.16 per share), while paying down \$35 million on its credit agreement and \$8.4 million in scheduled debt payments. ARP has \$29.4 million in cash.

**Market Bottom** - The market for reprographics is sensitive to general economic conditions. However, it appears that the worst of the economic downturn has been weathered.

### VALUATION:

In addition to organic growth, ARP has also successfully acquired 140 companies since 1997. With the market beginning to stabilize, ARP should soon benefit from both better market conditions and a renewed M&A program. This suggests some significant earnings power in the company's business model. With the market near bottom the company should meet or exceed its current 2010 guidance of \$0.15 to \$0.30 and 2011 estimates of \$0.45. EV/ EBITDA multiple of 6.6x appears attractive for a market leader with upside earnings potential.

### (NYSE: ARP)

Investment Data (as of 4/2/10)

<b>Recent Price</b>	<b>\$9.00</b>
52-Week Range	3.69 - 10.26
Fiscal Year End	December
Shares Outstanding	45.7 MM
Average Trading Volume (3 mos)	200,745
Market Capitalization	411 MM
Cash	29.4 MM
Long Term Debt	274 MM
Enterprise Value (EV)	656 MM
LT Debt/ Equity	0.8
BV/ Share	\$6.04
TTM Revenue	\$502 MM
P/ Revenue	0.8x
2010 EPS (estimate)	\$0.23
P/ EPS	39x
TTM EBITDA	100 MM
EV/ EBITDA	6.6x

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