

# Mossberg's Investor Digest

## Best Idea Profile

## Alamo Group (NYSE: ALG)

### DESCRIPTION:

Based just outside of San Antonio, TX, Alamo Group designs, manufactures and sells equipment used in road maintenance (i.e. snow removal, street sweepers, grass and tree trimming) and agriculture. Founded in 1969, the company has 3,100 employees located in 24 plants in North America, Europe and Australia. Products are sold through a network of more than 5,600 independent dealers and distributors to governmental end-users, related independent contractors, as well as to the agricultural and commercial turf markets.

### KEY INVESTMENT CONSIDERATIONS:

**Smart acquirers** – Part of the company's growth strategy is to acquire businesses or product lines that have the dominant position, or the potential to dominate in niche markets. Over the past 15 years, the company has made 20 acquisitions. During that time frame the company added \$72 million in goodwill to its balance sheet. With the exception of a \$5 million charge during 2008 (when the world was falling apart), the company has not taken a material charge to goodwill, which is a strong indication of how their acquisitions have performed.

**The economy has limited affect on demand for this type of equipment** – Whether the economy is good or bad, grass and trees are going to keep growing and snow will keep falling. If you want to drive on the roads, you have to maintain them. Also, just because the tax base has shrunk, doesn't mean that the government entities can stop maintaining the roads...it's a critical part of any economy. Just ask the Romans, maintaining the roads is like death and taxes.

**Dominant competitive position in niche markets** – ALG is the largest manufacturer of agricultural mowers in the world and with this comes efficiencies of scale and a strong competitive moat. The company successfully manages multiple brands, which often allows it to have more than two products in the running for competitive bids. While brands are managed separately, the company successfully leverages economies of scale (purchasing power, engineering synergies, etc.) that over 750MM in revenue provides.

**Selling Shareholder eliminates overhang and diversifies shareholder base** – Long-time shareholder Capital Southwest (NASDAQ: CSWC) has sold its remaining 1.7 million shares in a secondary offering this month at \$43 per share. CSW is a private equity firm that had previously been ALG's largest shareholder (23%) and had owned the company since before it came public. Capital Southwest, under new leadership has been divesting itself of its public company assets over the last several years. The good news is that any overhang from their sale is now gone and there are 2.8 million more shares (23% of shares outstanding) now in the public float. This should significantly enhance trading liquidity in the stock, which has been tightly held with limited trading volume for years.

### VALUATION:

At a revenue run rate approaching \$900 million for 2015 and a business model capable of producing operating and net margins of 8% and 5% respectively, ALG has \$4.00 of earnings power in 2015, which implies a forward multiple of just 12x earnings. For a company with a consistent track record of increasing shareholder value, a double digit return on equity, and an increasing shareholder liquidity, the multiple could expand to provide investors with 50% of upside.

#### Alamo Group, Inc. (NYSE: ALG)

Investment Data (as of 11/26/14)

<b>Recent Price</b>	<b>\$48.81</b>
52-Week Range	\$37.93 - \$61.27
Fiscal Year End	December
Dividend	\$0.28
Yield	0.6%
Shares Outstanding	11.3 MM
Average Trading Volume (3 mos)	70,000
Market Capitalization	553 MM
Cash	38 MM
Long Term Debt	190 MM
Enterprise Value (EV)	705 MM
LT Debt/ Equity	0.57
Tangible BV/ Share	25.92
TTM Revenue	776MM
P/ Revenue	0.7x
TTM EPS	2.92
P/ EPS	17x
TTM EBITDA	72 MM
EV/ EBITDA	9.8x

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