Mossberg's Investor Digest

Best Idea Profile: **Franklin Electric Co., Inc. (NASDAQ:FELE)**

DESCRIPTION:

Franklin Electric Co. produces and sells systems and components for the movement of water and automotive fuels. It is the number one global supplier in many of its markets. Franklin Fueling Systems provides petroleum fueling products ranging from service station hardware to submersible and surface pumping systems and piping. Franklin Water Systems serves agricultural, residential, industrial, community and commercial needs with products including sewer systems, irrigation, HVAC, water transfer and recirculation. Water Systems represents more than three-quarters of the company's business. Franklin transformed itself from a motor company with only 2,000 products to the diversified company it is today with more than 40,000 products. Franklin, founded in 1944, is based in Fort Wayne, Indiana and has manufacturing and distribution facilities worldwide.

KEY INVESTMENT CONSIDERATIONS:

Global Growth – Not surprisingly, the biggest growth markets are coming from outside of the U.S. Although almost half of water systems sales came from the U.S. in 2013, the compound annual growth rate is 13%, compared with the 24% growth from the developing world. Fueling systems shows a similar comparison; with more room for growth as fueling stations outside the U.S. have greater technological growth opportunities. There are probably well more than half of all stations left in the world to convert to the more efficient pressure pumping systems; whereas, in the U.S., more than 90% have been converted. Additionally new passenger vehicle sales growth in China, India and Latin America is expected to far exceed that in North America.

Consistency of Growth – Franklin has recorded 19 quarters of consecutive adjusted earnings per share growth. And its growth in developing regions has been 21% per year in the last decade. There has been a short-term disruption in North American sales as the company has realigned its distribution from a national distributor to regional distributors, but this only represents 3% of sales. Inventory levels are rebalancing and the expansion of product line offerings through the new outlets should begin benefitting sales and earnings beginning in the second half of 2014.

Acquisition Minded – Over the last decade, Franklin has averaged one to two acquisitions per year and management sees plenty of opportunity for bolt-on acquisitions in the fragmented global markets it observes.

Dividend Growth – Franklin has increased its annual dividend for 22 consecutive years and currently pays $0.36 annualized. Its shareowner return is 27% over the past five years and 53% at the end of 2013.

Consistency of Management – Although the company appointed a new chief executive officer, he has been with the company for 25 years and was instrumental in establishing the current corporate strategy. Therefore, the growth through new products, emerging market expansion and acquisitions should continue without disruption.

VALUATION:

Why buy Franklin Electric? Franklin has repurchased 140,000 shares in the open market through the second quarter, and has substantial cash. It has a history of returning value to its shareholders. And lastly, its global growth and opportunities bode well for long-term continuation of record sales and earnings. Franklin will report third-quarter earnings on October 29, and is expecting overall company adjusted earnings per share to grow 3% to 5% in the third quarter.

Franklin Electric Co., Inc. (NASDAQ:FELE)
Investment Data (as of 10/22/14)

Recent Price	**$36.21**
52-Week Range	$33.57 - $46.11
Fiscal Year End	Dec 28
Dividend	$0.36
Yield	1.0%
Shares Outstanding	47.6 M
Average Trading Volume (3 mos)	147k
Market Capitalization	$1.7 B
Cash	$87.7 M
Long-term Debt	$245.2 M
Enterprise Value (EV)	$1.9 B
Book Value	$13.41
TTM Revenue	$995.4 M
P/ Revenue	1.8 x
TTM EPS	$1.68
P/ EPS	21.6 x
TTM EBITDA	$165.9 M
EV/ EBITDA	11.6 x