

Mossberg's Investor Digest

Best Idea Profile:

L.B. Foster Company (NASDAQ:FSTR)

DESCRIPTION:

L.B. Foster Company provides infrastructure materials to transportation, construction, utility, energy, recreation and agriculture markets. It accomplishes this mission through three primary divisions. Its rail products segment, representing almost two-thirds of revenues, provides new and used rail primarily to transit authorities, industrial companies, and rail contractors. The construction segment sells and rents steel sheet and other products for foundation and earth retention, and fabricates steel and aluminum for highway, bridge, and transit systems. The tubular segment provides pipe products for natural gas pipelines, utilities, industrial water wells, and irrigation markets. The company's products are currently being used for the construction and rehabilitation of key projects including the New Orleans Flood Barrier, Brooklyn Bridge and the Panama Canal. L.B. Foster was founded in 1902 and has headquarters in Pittsburgh. It operates 20 manufacturing facilities in the U.S., Canada and the United Kingdom, with a global network of distributors and partners.

KEY INVESTMENT CONSIDERATIONS:

Warranty Charge – In the second quarter the company had a \$4.6 million warranty charge related to certain concrete railroad ties that were manufactured in a facility it no longer operates for the Union Pacific Railroad. This impacted the second quarter results and somewhat masks the excellent quarterly results outside of this issue.

Evolving – Approximately one-third of company revenues are derived from markets and products it did not operate before 2000. Its ongoing focus is to shift emphasis to faster growing markets, while expanding served markets and entering adjacent markets to achieve above-market growth rates of over 5% growth. The percentage of its products destined outside the U.S. has more than tripled in the past three years. The company has a strong history of income and margins.

Acquisition Plans – In the August conference call, L.B. Foster's CEO indicated they were seeing an increase in the "deal flow that is coming to our doorstep." He further elaborated that they are looking for investments that will drive value and support competitive advantage in rail and tubular products, mainly aimed at the energy segment. Management's plan over the next five years includes a 4% to 6% compound annual growth in sales from programs currently underway. However, it also intends to be more aggressive in accretive acquisitions that would

bring its potential into double-digit growth. The company expects to keep a balance between the cash maintained for acquisitions while still increasing capital spending to support growth programs and drive efficiency and cost reductions.

Carr Concrete Acquisition – L.B. Foster acquired Carr Concrete, based in West Virginia, in July 2014. This extended its reach into the east coast market. Carr's more eastern location leverages sales offices where the company was previously uncompetitive on price; this fact is important since transportation costs are 15% to 30% of total. It also expands the product lines available to its customers. Carr Concrete sales were \$12 million last year.

VALUATION:

Strong booking activity in the first half of 2014 bodes well for financial results for the rest of the year. Management indicated it may bump up the dividend in the future, as well as add to its share repurchase program, "because we do have enough liquidity . . . to do the things that we want to do from an acquisition standpoint." Having rebounded fairly nicely in mid-August, the stock is now trading near its late July lows.

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Investment Data (as of 9/29/14)

Recent Price	\$47.28
52-Week Range	\$40.09 - \$57.48
Fiscal Year End	Dec
Dividend	\$0.12
Yield	0.30%
Shares Outstanding	10.4 M
Average Trading Volume (3 mos)	31 K
Market Capitalization	\$490 M
Cash	\$88 M
Long-term Debt	\$398 K
Enterprise Value (EV)	\$402 M
Book Value	\$32.01
TTM Revenue	\$597 M
P/ Revenue	0.8x
TTM EPS	\$2.68
P/ EPS	17.7x
TTM EBITDA	\$50 M
EV/ EBITDA	8.0x

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