

Mossberg's Investor Digest

Best Idea Profile

FARO Technologies, Inc. (NASDAQ:FARO)

DESCRIPTION:

Headquartered in Dallas; Faro Technologies Corporation designs, manufactures and markets software driven, 3-D measurement and imaging systems used in a broad range of manufacturing, industrial and building construction applications. FARO's products scan and measure for a variety of applications and along with their companion CAM2 software provide for Computer-Aided Design, or CAD, based inspection and/or factory-level statistical process control and high-density surveying. Together, these products integrate the measurement, quality inspection, and reverse engineering functions with CAD software to improve productivity, enhance product quality and decrease rework and scrap in the manufacturing process. FARO uses the acronym "CAM2" for this process, which stands for computer-aided measurement. Faro is a Global company with three reportable segments based upon geographic regions: Americas, Europe/Africa and Asia Pacific. The Company develops, manufactures, markets and supports CAD-based quality assurance products integrated with CAD-based inspection and statistical process control software in each of these regions.

KEY INVESTMENT CONSIDERATIONS:

Secular Growth of CAD – CAD has grown rapidly and changed manufacturing processes since the 1980's. CAD software was developed to automate the design process, providing manufacturers with computerized 3-D design capability and shorten developmental time between design changes. Most manufacturers use some form of CAD software to create designs and engineering specifications for new products and to quantify and modify designs and specifications for existing products. Faro products help companies satisfy today's more stringent standards for precise measurement in matching actual measurements to CAD design plans.

Globalization Drives CAD Use - In today's Global environment many product designs are done as CAD designs in Western Countries such as the US and manufactured in developing countries such as China. Faro products are a critical link in this process and the need for measurement tools should continue to grow.

ROI Efficiencies Create a Growth Market – Manufacturers are keen on getting quick ROI in the current economic environment and FARO's tools reduce costs of scrap and rework in the manufacturing process. A \$20,000 to \$120,000 measurement tool from Faro can have a 5 to 6 month payback for customers... a compelling value proposition.

Leading player in a Mature Market – The leading players in the market place, Faro and Hexigon, control nearly 70% of the market.

Diverse Customer Base – Faro's client base is highly diversified by industry, geography and size. It's products have been purchased by approx. 10,000 customers worldwide, ranging from small machine shops to major manufacturing and industrial companies such as Audi, Boeing, Bombadier, FORD, General Electric, General Motors, Honda, Johnson Controls, Komatsu America International and Lockheed Martin.

Growth out of a Recessionary Bottom – Faro has had 30% revenue growth for the last three quarters and recently returned to profitability. Management has seen "vast improvement" in the overall environment for the first half of FY2010 and the pipeline appears solid at this time. For the second quarter of FY10, FARO reported a 24% year-over-year increase in net new bookings.

VALUATION:

Analysts estimates for FY11 are currently \$1.19. That gives Faro a current PE ratio of 15.8x, well below the company's current revenue growth rate. Investors should also note that when Faro's large \$107 million cash balance is subtracted from its market capitalization the company has a PE ratio of 10.3x.

(NASDAQ: FARO)

Investment Data (as of 8/16/10)

Recent Price	\$18.83
52-Week Range	14.68 - 29.40
Fiscal Year End	DEC
Shares Outstanding	16.2MM
Average Trading Volume (3 mos)	95,000
Market Capitalization	305MM
Cash	107MM
Long Term Debt	NA
Enterprise Value (EV)	198MM
LT Debt/ Equity	NA
Tangible BV/ Share	\$10.91
TTM Revenue	\$170MM
P/ Revenue	1.8x
2011 EPS estimate	\$1.19
P/ EPS	15.8x
TTM EBITDA	\$15.8MM
EV/ EBITDA	12.5x

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