

Mossberg's Investor Digest

Best Idea Profile:

GraphTech International (NYSE: GTI)

DESCRIPTION:

Headquartered in Parma, Ohio; GraphTech is one of the world's largest manufacturers of graphite electrodes a key consumable used in steel making. Electrodes are used to conduct electricity to melt scrap metal in an arc furnace and are replaced every eight to ten hours. The Company also manufactures carbon, graphite and semi-graphite refractory products, which protect the walls of blast furnaces and submerged arc furnaces. GraphTech is also one of the largest manufacturers of natural graphite products enabling thermal management solutions for the electronics industry and fuel cell solutions for the transportation and power generation industries. The Company currently manufactures its products in 14 manufacturing facilities strategically located on four continents. GraphTech services customers in 65 countries, including industry leaders such as Arcelor Mittal, BaoSteel, Gerdau S.A. and ThyssenKrupp Steel, Samsung, Elkem Solar and Griffin Wheel.

KEY INVESTMENT CONSIDERATIONS:

Strong Franchise – GraphTech is the #1 low-cost producer of electrodes and the #2 producer of needle coke (raw material used to make electrodes). The Company has a worldwide operation in 65 countries.

Leveraging the Platform – The Company has long-term initiatives to leverage its manufacturing platform and core competencies in graphite products. Over 200 engineers, scientists and specialists around the world are working in R & D to create new products. There are currently about 30 new products in the Company's product pipeline.

Intellectual Property – The Company's intellectual property portfolio is extensive, with close to 400 U.S. and foreign patents, as well as close to 400 pending U.S. and foreign carbon and graphite related patent applications, which it believes is more than any of its major competitors.

Emerging Markets – GraphTech has a Leading global footprint with nearly 50% of its revenues from emerging markets.

Mission Critical Recurring Revenues – Graphite Electrodes are a critical component in making steel. They conduct electricity to melt scrap steel with one being consumed every 8-10 hours. The business has high barriers to entry.

Mini-Mill Growth – GraphTech supplies critical components to steel mini mills. Due to their low capital and cost structure these types of mills are being added worldwide and in emerging markets. Only 9% of China's steel production and 18% of all emerging market production is currently from mini-mills. As scrap supplies grow mini-mill production is expected to expand. GraphTech is expecting Global mini-mill growth of 5% in FY2012.

Engineered Solutions – The Company is driving new uses for additional products in growth industries such as advanced electronics, alternative energy and energy efficiency. Over the last 7 years revenues from "engineered solutions" have grown from \$89 million to \$173 million-a 10% CAGR during that period. Revenues from these solutions now comprise close to 20% of revenues

VALUATION:

Shares currently trade at 13x and 8x the consensus estimates for 2011 and 2012, respectively. Given that the company has produced returns on equity in the high teens for each of the past two years, a 15x to 18x multiple could easily be justifiable. Applying that multiple to the \$1.60 consensus estimate for 2012, would yield a stock price in the mid-twenties... significant upside from current levels.

GraphTech Intl. (NYSE:GTI)

Investment Data (as of 11/25/11)

Recent Price	\$12.51
52-Week Range	\$12.11 - \$23.89
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	145MM
Average Trading Volume (3 mos)	1.4MM
Market Capitalization	\$1.8B
Cash	\$11MM
Long Term Debt	\$354MM
Enterprise Value (EV)	\$2.1B
Book Value	\$9.07
TTM Revenue	\$1.3B
P/ Revenue	1.5x
TTM EPS	1.19
P/ EPS	10.5x
TTM EBITDA	\$240MM
EV/ EBITDA	9x

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