

Mossberg's Investor Digest

Best Idea Profile:

Griffon Corporation (NYSE:GFF)

DESCRIPTION:

Headquartered in New York City, New York; Griffon Corporation is a diversified manufacturing holding company. The company has three operating businesses which include Telephonics Corporation (communications technology for military and commercial use), Home & Building Products (Garage doors and landscaping products) and Clopay Plastic Products Company (Plastic films for hygienic, health-care and industrial applications). On September 30, 2010, Griffon purchased the parent of ATT holdings for \$542 million in cash. ATT's lawn and garden tool brands hold the number one or number two market positions in their respective major product categories.

KEY INVESTMENT CONSIDERATIONS:

Diversification – Griffon derives its revenue from three distinctly different businesses. The TTM revenue mix includes Home and Lawn Products (48%), Plastics (28%) and Communications (24%). Top customers for the last two categories include Proctor and Gamble and the US Government. Therefore Griffon has a diversified and non-cyclical source of Cash Flow to support opportunistic acquisitions, especially in the home products and lawn equipment businesses.

Customer Base – Griffon has a long history with an established customer base of large clients that include names such as Lowe's, The Home Depot, Lockheed Martin and Boeing. Griffon is the predominant supplier to its clients in many of its products.

Dominating a Niche Market – The Company's Building Products division (Clopay) is the largest manufacturer of residential garage doors in the United States and maintains a top tier market position in the commercial garage market. ATT is a leading North American manufacturer of non-powered lawn and garden tools with top tier market positions in a number of its products.

Restructuring – Griffin has just completed a plant consolidation program in its home products division that will generate approximately \$10 million in annual savings.

Profitability – YTD Q2 2011 EBITDA increased 24% due to higher volume, favorable product mix, partially offset by the impact of higher resin costs and foreign exchange. Resin costs remain a risk to the plastics division in a rising price environment.

Growth Market for Plastics – Clopay Plastic Products produces many health care related products such as infant diapers, adult incontinence, feminine hygiene, surgical products, patient care and protective apparel. These markets are showing stable growth. Growth in hygiene markets for BRIC/developing countries are at double digit rates, as growth of the middle class and increased usage rates open new markets.

Cash Flow – Griffon's operating companies have generated \$247 million of free cash flow (excluding interest, taxes, and non-recurring items) over the past four years during a major economic downturn. With \$208MM of cash on the balance sheet and \$200MM in borrowing capacity Griffin has the financial capacity for growth.

VALUATION:

Griffin's share price has fallen nearly 23% since April. The stock trades at a Px/Earnings multiple of 12x FY2012 estimates and is now trading at an 11% discount to book value. Griffin should be able to use its financial strength to expand its market position against some financially weaker competitors while acquiring others. Value investors should take a hard look at Griffin at current price levels.

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Investment Data (as of 7/8/11)

Recent Price	\$9.98
52-Week Range	\$9.56 - \$14.31
Fiscal Year End	Sep
Dividend	NA
Yield	NA
Shares Outstanding	63MM
Average Trading Volume (3 mos)	200k
Market Capitalization	\$633MM
Cash	\$208MM
Long Term Debt	\$667MM
Enterprise Value (EV)	\$1.1B
BV/ Share	\$11.17
TTM Revenue	\$1.57B
P/ Revenue	0.42x
TTM EPS	\$(0.20)
P/ EPS	NA
TTM EBITDA	\$87MM
EV/ EBITDA	13x

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