

Mossberg's Investor Digest

Best Idea Profile:

HFF, Inc. (NYSE:HF)

DESCRIPTION:

Headquartered in Pittsburgh, Pennsylvania; HFF, Inc. offers one stop shopping as a financial intermediary for commercial real estate transactions. HFF provides commercial real estate and capital markets services to both consumers of capital (developers, property owners, equity funds and REITs etc.) and providers of capital (commercial banks, investment banks, insurance companies etc.) in the US commercial real estate market. HFF has a fully integrated platform and offers a variety of services in areas such as debt placement, investment sales, distressed debt, structured finance, private equity placement and loan servicing. The Company offers only solutions and acts as an agent for clients on both sides of the real estate capital markets and does not manage a portfolio of real estate, loans or derivatives. HFF's revenues come in the form of capital markets services fees that are negotiated on a transaction-by-transaction basis and fee income from servicing loans.

KEY INVESTMENT CONSIDERATIONS:

Market Position – HFF is a leader in Commercial Real Estate financing services with a national footprint. The Company has 20 offices and 498 employees. For FY2011 HFF transacted business in 39 states and had a presence in the US top 40 metropolitan statistical areas. The Company was involved in \$35.6 billion of US transactions in FY2011.

Experienced Management and Personnel – The 6 members of the Company's upper management and executive committee collectively have 186 years of experience in the real estate industry. HFF also employs 191 transaction professionals with an average of 17.5 years of industry experience.

Aligned Interest – HFF always acts as an agent for its clients. This means that the Company's interests are aligned with that of its customers.

Long-Term Growth – From 2001 through 2011 HFF had a revenue CAGR of 12.6% and an Ebitda CAGR of 32.6%. From 1998 through 2011 The Company grew its transaction dollar volume with a CAGR of 10.2%.

Diversified Revenue Stream – The Company's transaction revenue mix for FY2011 was 52% Debt, 35% investment sales, 7% loan sales, and 6% structured finance.

EBITDA Margins – HFF has EBITDA Margins in the upper 20's which is far higher than some of its major competitors which have EBITDA margins of less than 12%.

Significant Insider Ownership – Nearly 27% of the HFF's equity is owned by its employees (includes stock and LLC units).

Public Market Demand – The public markets appear very open to HFF as the issuance of REIT Investment Grade Debt grew from \$9 billion in 2009 to \$13.5 billion in 2011.

Risks – The Secondary and tertiary markets for the Real Estate Capital Markets remain a challenging situation. Energy prices along with US Government Debt remain a risk to the economy at large. However this risk may be mitigated by a new demand driver for transactions as lenders will have \$1.7 trillion in debt maturing from 2012-2018 with much of it requiring refinancing.

VALUATION:

HFF is a leading company in its industry that is poised for growth. The Company has strong growth trends and is well capitalized. HFF currently trades for 8.8x its FY2011 EBITDA.

HFF, Inc. (NYSE:HFF)	
Investment Data (as of 3/30/12)	
Recent Price	\$16.47
52-Week Range	\$7.83 - \$16.98
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	37MM
Average Trading Volume (3 mos)	150k
Market Capitalization	\$607MM
Cash	\$143MM
Long Term Debt	\$155MM
Enterprise Value (EV)	\$610MM
Book Value	\$3.53
TTM Revenue	\$255MM
P/ Revenue	2.3x
TTM EPS	\$1.11
P/ EPS	14.8x
Adjusted TTM EBITDA	\$69mm
EV/ EBITDA	10.1x

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