

# Mossberg's Investor Digest

## Best Idea Profile:

## Hardinge, Inc (NASDAQ:HDNG)

### DESCRIPTION:

Headquartered in Elmira, NY, Hardinge, Incorporated is a global designer, manufacturer and distributor of machine tools, specializing in precision computer numerically controlled metal-cutting machines. The multi-directional movement of Hardinge's cutting tools allows for manufactured parts to be shaped to the desired dimensions. HDNG customers require a high degree of precision as many dimensions are often measured in millionths of an inch. HDNG's machines are generally computer controlled and use commands from an integrated computer to control the movement of cutting tools, grinding wheels, part positioning, and in the case of turning and grinding machines, the rotation speeds of the part being shaped. HDNG products are introduced each year to both broaden the HDNG's product offering and to take advantage of new technologies. The technologies generally allow Hardinge machines to run at higher speeds and with more power, thus increasing their efficiency. During 2008 HDNG discontinued less value added lines that competed on price to further a strategic focus on more value added precision products. HDNG sells its products in most of the industrialized countries of the world. The company has a direct sales force but also utilizes a combination of distributors, agents and manufacturers' representatives as part of its sales channel.

### KEY INVESTMENT CONSIDERATIONS:

**Established Franchise with Broad Customer Base –** HDNG has been operating successfully for over 120 years and has manufacturing and/or sales offices in the US, Switzerland, Taiwan, China, the UK and Germany. Hardinge is well positioned to take advantage of any recovery in the machine tool markets. HDNG's customer base cuts across a variety of vertical markets. Industries directly and indirectly served by the company include aerospace, automotive, computer, communications, consumer-electronics, construction equipment, defense, energy, farm equipment, medical equipment, recreational equipment and transportation. HDNG is not dependent on any one or small group of customers.

**Financial Performance Improvement –** HDNG received \$35 million in new orders from China last year, which included orders for machine tools for i-Pad production. Increased orders helped drive strong improvement in sales, orders and net income. Sales were \$82MM, a 45% increase on a year-over-year basis. Orders increased 63% to \$83MM. HDNG reported \$2MM in net income, a swing to profitability on a year-over-year basis over the same time frames.

**Recurring Revenue –** Five of the HDNG's brands have large installed bases of equipment. The replacement market accounts for nearly 25% of the HDNG's overall sales. This gives HDNG a non-cyclical component not enjoyed by some other industry participants.

**Strategic Restructuring –** HDNG undertook a variety of strategic initiatives in FY08 and FY09 to improve cost structure, working capital and business model. HDNG closed some plants, eliminated product lines and consolidated and realigned distribution channels. Collectively the initiatives have generated nearly \$30MM in annual fixed cost savings for the company.

### VALUATION:

HDNG's board recently rejected an all-cash offer of \$8/share as "inadequate". This rejected offer, along with \$2.40/share in net cash, and \$13.60 in book value, would indicate that shares have downside protection at current levels. During the peak of the last cycle, the company regularly posted more than \$30 million in EBITDA. Based on peak cycle performance, the current enterprise value just 3.7x. With a cost restructuring program behind it and a machine tool recovery commencing this company is worth a hard look by investors looking for exposure in the manufacturing sector.

### (NASDAQ:HDNG)

Investment Data (as of 2/28/11)

<b>Recent Price</b>	<b>\$12.35</b>
52-Week Range	\$7.42 - \$12.88
Fiscal Year End	Dec
Dividend	\$0.02
Yield	0.2%
Shares Outstanding	11.6MM
Average Trading Volume (3 mos)	35,700
Market Capitalization	\$143MM
Cash	\$31MM
Long Term Debt	2.8
Enterprise Value (EV)	\$117MM
LT Debt/ Equity	0.02%
BV/ Share	\$13.60
TTM Revenue	\$257MM
P/ Revenue	0.52x
TTM EPS	\$(0.46)
P/ EPS	NA
TTM EBITDA	\$3.2MM
EV/ EBITDA	36X

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