

Mossberg's Investor Digest

Best Idea Profile:

Headwaters, Inc. (NYSE:HW)

DESCRIPTION:

Headquartered in South Jordan, Utah; Headwaters Inc. provides products, technologies and services in the light building, heavy construction materials and energy industries. The Company sells building products such as manufactured architectural stone, siding accessory products and concrete blocks. Headwaters also markets coal combustion products, which are used as an admixture in concrete and provides services to electric utilities that are related to the management of Coal combustion products. The Company is involved in energy through reclaiming waste coal, heavy oil upgrading processes and the production of ethanol. Headwaters intends to divest itself of its coal waste reclamation business and expand its light building products and heavy construction materials businesses through the growth of existing operations and commercialization of new technologies and products.

KEY INVESTMENT CONSIDERATIONS:

Established Core Franchise – Headwaters has leading positions in several light building product categories that include siding accessories, functional shutters, specialty siding products, specialty roofing products and window wells. Headwater's is also the nation's largest manager and marketer of coal combustions products, which includes fly ash as a construction material replacement for Portland cement. Headwater's has formed numerous long-term exclusive management contracts with coal-fueled electric generating utilities throughout the United States and maintains 22 stand-alone CCP distribution terminals across North America.

Repair/Remodel Sales – Headwaters siding accessory sales are primarily driven by the residential repair and remodeling construction market.

Restructuring – Headwaters recorded approximately \$4.7 million of cash restructuring costs for Q4SepFY2011, and approximately \$7.4 million of cash restructuring costs in the year ended September. Total restructuring costs were \$11.7 million and \$17.9 million for the fourth quarter and fiscal year 2011, respectively. The Company anticipates that the restructuring activities will collectively result in an annualized cash benefit of approximately \$14 million, of which approximately 65% will be realized in fiscal 2012. Headwaters is in a position to improve 2012 margins despite of 2011 cost increases.

Asset Sale – Coal business revenues have exceeded revenues in the previous two fiscal years. Headwaters recorded a non-cash asset impairment charge of \$35 million, during the quarter ended September 2011, which is included in loss from discontinued operations. The Company expects cash proceeds from the sale of the coal cleaning assets will be in the range of \$20 to \$30 million.

Reduced Financial Risk – Headwaters successfully refinanced its senior debt, extending the maturity to 2019 thereby reducing the interest rate from 11.375% to 7.625% and lowering cash interest expense and increasing free cash flow. Additionally Headwaters paid down \$24.4 million of its high coupon subordinated debt. In 2012, the Company expect to further reduce it's debt through improved cash flow and with the proceeds from it's anticipated sale of the coal business.

VALUATION:

Headwaters represents an excellent play on any economic recovery in the housing sector. The Company has a strategic asset sale that could yield \$25 million and accelerate debt repayment and put the company on better financial footing.

Headwaters, Inc (NYSE:HW) Investment Data (as of 12/09/11)

Recent Price	\$2.74
52-Week Range	\$1.05 - \$6.41
Fiscal Year End	Sep
Dividend	NA
Yield	NA
Shares Outstanding	61MM
Average Trading Volume (3 mos)	532k
Market Capitalization	\$167MM
Cash	\$51MM
Long Term Debt	\$470MM
Enterprise Value (EV)	\$642MM
Book Value	\$0.93
TTM Revenue	592MM
P/ Revenue	0.27
TTM EPS	\$(3.80)
P/ EPS	NA
TTM EBITDA	\$89MM
EV/ EBITDA	7x