

# Mossberg's Investor Digest

## Best Idea Profile:

## Hurco Companies, Inc. (NASDAQ:HURC)

### DESCRIPTION:

Headquartered in Indianapolis, Indiana; Hurco Companies, Inc. is an industrial technology company. The company designs, manufactures and sells computerized machine tools, consisting primarily of vertical machining centers (mills) and turning centers (lathes), to companies in the metal working industry through a worldwide sales, service and distribution network. Although the company's computer control systems and software products are proprietary, they predominantly use industry standard personal computer components and are sold as integral components of our computerized machine tool products

### KEY INVESTMENT CONSIDERATIONS:

**Market Build-Out** – Demand for Hurco's products is driven by advances in industrial technology and the related demand for automated process improvements. The metal machining industry needs to continuously improve productivity and shorten cycle times. In addition to competitive needs there is pent up demand as retrofits were delayed for several years during the recession and an aging machine base requires retrofits units to stay competitive. Also, there are new facilities being built out in emerging markets which are looking for state of the art processes to maximize returns.

**Increases in Demand** – Hurco experienced strong demand for its technologically advanced products, and expansion into new markets between the beginning of fiscal 2003 and the end of fiscal 2008. Since the beginning of fiscal 2009, that growth trend reversed sharply due to the impact of the recent global recession. The company is now experiencing improvement each consecutive quarter as market conditions start to recover. Revenue for Q1FY2011 nearly doubled and were up 92% on year-over-year basis. Hurco's unit shipments for the first quarter of FY2011 were strong across the board with North America up 139%, Europe up 68% and the Asia Pacific region up 55%.

**Geographic Diversification** – Hurco is geographically diversified and has exposure to new, high growth Asian markets. For FY2010 the company had net sales and service fees of 26.3% in the North America, 62% in Europe and 11.7% in the Asia Pacific region (up from 5.7% in FY2009). Service fees comprised about 17% of revenues for the same period, a significant recurring revenue component within the business model.

**Industry Leader** – Hurco has been a leader in the introduction of interactive computer control systems that automate manufacturing processes and has over 40 years of experience. The company's computer control systems can be operated by both skilled and unskilled machine tool operators.

**Operating Leverage** - Hurco is a proven company experiencing a significant turnaround. Over the last five years the company has seen peak gross and operating margins of 37.8% and 16.5% respectively vs. 29% and 7% for Q1FY2011. This implies significant leverage in the company's model as the machine tool market strengthens.

**Financial Position** – Hurco has \$502 million in cash, no debt and generated \$2.4 million in CFFO during Q1FY2011.

### VALUATION:

Hurco is benefitting from a major turnaround in the machine tool automation markets. At the peak of the next cycle the company is capable of returning 25%+ returns on capital and net margins in the 10% to 12% range. As demand continues to improve and revenue returns to pre-recessionary levels, HURC has more than \$3.00 in earnings power. With a reasonable multiple of 15x to 18x, the stock would have 50% to 80% upside over the next couple of years.

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Investment Data (as of 5/27/11)

<b>Recent Price</b>	<b>\$29.63</b>
52-Week Range	\$14.5 - \$32.82
Fiscal Year End	Oct 31
Dividend	NA
Yield	NA
Shares Outstanding	6.4MM
Average Trading Volume (3 mos)	26k
Market Capitalization	\$191MM
Cash	\$50MM
Long Term Debt	NA
Enterprise Value (EV)	\$141MM
BV/ Share	\$18.29
TTM Revenue	\$125MM
P/ Revenue	1.5x
TTM EPS	(\$0.36)
P/ EPS	NA
TTM EBITDA	(\$0.289MM)
EV/ EBITDA	NA

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