

Mossberg's Investor Digest

Best Idea Profile

John B. Sanfilippo & Son (Nasdaq: JBSS)

DESCRIPTION:

John B. Sanfilippo & Son is one of the largest private label and branded processors of peanuts and tree nuts in the world. JBSS produces a variety of nuts including peanuts, almonds, Brazil nuts, pecans, pistachios, filberts, cashews, English walnuts, black walnuts, pine nuts and macadamia nuts. No single nut type makes up more than 22% of revenue. JBSS also markets and distributes other snack products including peanut butter, natural snacks, trail mixes, sunflower seeds, and sesame snack products. JBSS has 2.2 million square feet of processing, warehouse and office space (87% owned), including what JBSS says is the single largest nut processing facility in the world with over 1 million square feet.

KEY INVESTMENT CONSIDERATIONS:

Healthy food trends - For aging baby boomers and people who are health conscious, nuts offer a healthy snack alternative. Nuts are high in protein, beneficial fats, antioxidants, have no preservatives, and no, or reduced, trans fats. According to the FDA, "Scientific evidence suggests that eating 1.5 ounces per day of most nuts as part of diet low in saturated fat and cholesterol, may reduce the risk of heart disease."

Position as the leading private label nut producer should support revenue - In addition to healthier eating habits, customers are looking for lower priced private label products. JBSS' position as the leading private label nut supplier should help support revenue during the economic downturn.

Improving operating performance - Over the past few years, JBSS has spent \$120MM to consolidate 4 facilities into one giant one. By eliminating significant redundant costs, operating performance has improved significantly this past year and is poised for continued improvement. During the past 4 quarters, gross margin improved over 80 basis points. The new facility is currently operating at just 55% of capacity. As the top line grows, increasing utilization should allow the bottom line to grow even faster.

Fisher is a great heritage brand - With 74% brand recognition, Fisher is among the top three most recognized nut brands. After several years of under investing in the brand, JBSS has committed significant resources to launching new products and promoting the brand. In the past 13 weeks, these efforts have generated a 34% growth in Fisher versus flat comparisons for the category.

Improving cash flows - The new large facility is not only improving operating efficiencies, it is allowing for a significant reduction in inventory levels. In addition, JBSS has taken other measures to improve working capital efficiencies, including cutting the number of skus in half from 5,000 to 2,500. While the lower sku count has had a slightly negative impact on the top line, over the past four quarters, inventory levels fell \$20MM. (turns improved from 3.7x to 4.5x). Combined with improved profitability, JBSS generated \$37MM in free cash flow last year, which was used to pay down debt. With the large capital project recently behind them, there will be limited capex requirements over the next few years. While the pace of inventory reduction will likely slow, free cash flow generation should remain strong due to continued improvements in top line and operating performance.

VALUATION:

Shares currently trade at a 24% discount to tangible book value. On an EV/ EBITDA basis shares trade at 7.4x. Longer term, as further efficiencies are gained, EBITDA margin should return to historic levels of 8% to 10%, 50% to 80% higher than the trailing twelve month performance. If multiples remain unchanged, that leaves significant upside for the stock. It is also important to note that there are just 10 million shares outstanding and a limited float. Any additional attention from Wall Street or analyst coverage could put upside pressure on the stock.

(Nasdaq: JBSS)

Investment Data (as of 9/29/09)

Recent Price	\$11.92
52-Week Range	4.01 - 12.50
Fiscal Year End	June
Shares Outstanding	11 MM
Average Trading Volume (3 mos)	20,000
Market Capitalization	126 MM
Cash	1 MM
Long Term Debt	100 MM
Enterprise Value (EV)	225 MM
LT Debt/ Equity	0.6
BV/ Share	15.58
TTM Revenue	554 MM
P/ Revenue	0.2x
TTM EPS	0.65
P/ EPS	18x
Adjusted TTM EBITDA	30 MM
EV/ EBITDA	7.4x

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