

Mossberg's Investor Digest

Best Idea Profile:

KEMET Corp. (NYSE:KEM)

DESCRIPTION:

KEMET Laboratories was founded by Union Carbide in 1919 and has been headquartered in Greenville, South Carolina since 1963. It is a global manufacturer of tantalum, ceramic, film, aluminum, electrolytic, and paper capacitors. KEMET manufactures products in 23 locations in 10 countries, and employs 10,000 people.

In the automotive industry KEMET products are used in adaptive cruise controls, rearview camera systems, audio systems, tire pressure monitoring systems, airbag systems, hybrid and electric drive vehicles, security systems, and more. The company provides products for the business equipment industry for use in copiers, point-of-sale terminals, and fax machines; and cellular phones, telephones, switching equipment, and wireless infrastructure in the telecommunications industry. It also provides capacitors for use in personal computers, workstations, mainframes, computer peripheral equipment, power supplies, disk drives, printers, and local area networks in the computer-related industry. It serves the industrial sector, the consumer sector, the military/aerospace sector, and the alternative energy sector.

KEY INVESTMENT CONSIDERATIONS:

Vertical Integration Saves Money and Increases Reliability – KEMET continues to stabilize its supply chain through a strategy of vertical integration. It bought a tantalum powder manufacturing facility in Carson City, Nevada. This facility, plus the agreement to secure tantalum ore from the Democratic Republic of Congo, and an exclusive arrangement with Tantalum Resources in Johannesburg, South Africa, completed the Company's closed-pipe conflict-free vertically integrated tantalum supply chain. The completion of these plans makes KEMET the largest vertically integrated tantalum capacitor manufacturer in the world. It also makes it the most reliable and, hence, deserving of its recognition as the "Easy-to-Buy-From" company. This vertical integration will result in a reduction in raw material costs of \$10 million in fiscal 2013 and \$40 million in fiscal 2014.

Major Acquisition Waiting Final Approval – KEMET has agreed to acquire 34% economic interest (51% voting rights) of NEC TOKIN, a wholly owned subsidiary of NEC Corporation. The combined enterprise is targeting annual revenues of \$2 billion with projected EBITDA of \$300-\$400 million. This partnership improves access to NEC TOKIN's customers and provides critical

opportunities for capability sharing for KEMET. This is actually the first of three steps that will result in the acquisition of 100% of NEC TOKIN.

Restructuring in Europe Means Big Savings – Restructuring and low-cost manufacturing in Europe will translate into savings of \$16 million per year. Some softness in end-market demand, especially in Europe is impacting top-line growth but management is adamant that it is not relying on economic recovery. It has aggressively cut F&E, the majority of which is complete and on schedule.

Impressive Social Responsibility – KEMET is close to completing construction of a much-needed hospital and a new school in a village in the Congo. The company is very proud of its ability to change the lives of the 10,000 people in this village through its "Making Africa Work" initiative. This program is centered around sourcing of Conflict-Free Tantalum from the Katanga Province of the Democratic Republic of Congo.

VALUATION:

The stock is trading below its tangible book value and at the bottom of its 52-week range. Stock was decimated in the spring after falling short of estimates, but this is a company that has made great strides on the cost side while it waits for economic conditions to help strengthen end-market demand.

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Investment Data (as of 9/28/12)

Recent Price	\$4.55
52-Week Range	\$4.22 - \$10.85
Fiscal Year End	Mar 31
Dividend	NA
Yield	NA
Shares Outstanding	44.9 M
Average Trading Volume (3 mos)	316k
Market Capitalization	\$203 M
Cash	\$188 M
Long-term Debt	\$361 M
Enterprise Value (EV)	\$374 M
Book Value	\$7.45
TTM Revenue	\$919 M
P/ Revenue	0.22
TTM EPS	\$(0.97)
P/ EPS	NA
TTM EBITDA	\$68 M
EV/ EBITDA	5.5x

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