

# Mossberg's Investor Digest

Best Idea Profile:

Landec Corporation (NASDAQ:LNDC)

## DESCRIPTION:

Landec develops polymer-based products for biomedical (approx. 15% of revenue), food products (approx. 70% of revenue) and industrial markets (approx. 15% of revenue) to meet specific applications as diverse as food technology packaging, crop treatments, seed coatings, personal care products, medical devices and specialty adhesives. With \$10 million (3.5% of sales) in annual spending on R&D, the Company has a successful track record in the development of new commercial products. Landec is headquartered in Menlo Park, California, and has fewer than 300 employees.

LNDC's vertically integrated food subsidiary, Apio, is also based in California, includes a fruit and vegetable trading business, equity ownership in a hydroponic growing farm, BreatheWay packaging technology, and branded produce businesses. Apio is a leader in fresh-cut specialty vegetables and packaged fruit. Its packaging extends the freshness of fruits and vegetables up to 50%.

Based in MN, LNDC's Lifecore Biomedical subsidiary has exceeded expectations since its acquisition in April 2011. Lifecore supplies sodium hyaluronate (NaHy) for medical applications and benefits as a leading supplier of materials for ophthalmology (70% of Lifecore revenues) and orthopedic (20%) purposes.

## KEY INVESTMENT CONSIDERATIONS:

**Accretive GreenLine acquisition** – GreenLine is a leader in specialty-packaged beans that arrive to consumers ready to cook. The acquisition is synergistic with Apio, as its eastern coast focus provides geographic diversification in terms of customers, and processing and distribution facilities. Apio now has products in 80% of North American retail grocery sites. The acquisition, completed in April 2012, was immediately accretive and provides the critical mass necessary to best serve the growing demand for fresh-cut vegetables.

**Resistant to vagaries of economy** – Landec has been consistently profitable since 2003 based on its outstanding management and diversity of business. Sourcing of produce can impact margins but is not impactful to biomedical materials.

**Cash flow generation** – Landec's core businesses are net cash generators. The company expects \$35-40 million in EBITDA in the next 12 months.

**Growth** – The Company's businesses are all poised to grow. There are more than 6 million cataract surgeries per year. The aging population will expand that as well as the number of joint surgeries, both of which benefit Landec. There is also strong demand from grocery stores, food clubs and consumers for fresh-cut produce that has a longer shelf life. Apio is well positioned to satisfy that need as the market leader in fresh-cut vegetables and beans, as well as its investment in hydroponic greenhouse technology where the company will be doubling its capacity in the next 24 months.

## VALUATION:

Landec is an underfollowed stock with an impressive history, successful acquisitions and excellent prospects for growth and profitability. The company states they expect revenues will be up 10% for fiscal 2012 over 2011, with net income increasing 40%.

### Landec Corporation (NASDAQ: LNDC) Investment Data (as of 6/18/2012)

Recent Price	\$7.71
52-Week Range	\$8.19 - \$4.85
Fiscal Year End	May
Dividend	NA
Yield	NA
Shares Outstanding	25.6 M
Average Trading Volume (3 mos)	80 K
Market Capitalization	\$200 M
Cash	\$38 M
Total Debt	\$16 M
Enterprise Value (EV)	\$178 M
Book Value/share	\$5.79
TTM Revenue	\$303 M
P/ Sales	0.6x
TTM EPS (diluted)	\$0.28
P/ EPS	29x
TTM EBITDA	\$18 M
EV/ EBITDA	9.4x

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