

# Mossberg's Investor Digest

## Best Idea Profile:

### DESCRIPTION:

Matrix Service Company provides design, engineering and construction services primarily to the energy and energy related industries in the United States and Canada. For instance it constructs and maintains above-ground storage tanks and power plants and performs industrial cleaning. With a 28-year operating history, this Tulsa-based company recently changed its operating segments to more closely align with its diversified businesses: Electrical Infrastructure (20% of revenues), Storage Solutions (48%), Oil, Gas and Chemical (30%), and Industrial (2%).

### KEY INVESTMENT CONSIDERATIONS:

**Strong Growth** – Matrix forecasts average annual revenue growth of 12-15% annually over the next five years. It expects this growth to be 60% organic and 40% from acquisitions. A strong and reputable market presence is ripe opportunity to leverage Matrix's diverse businesses.

**Organic and Acquisition Growth** – Improvement in core markets and strategic initiatives are contributing to backlog growth. Backlog has increased in five consecutive quarters and is at its highest level since the third quarter of fiscal 2009. Matrix is targeting acquisitions with strategic, cultural and geographic fits, thereby leveraging its current successes. Although acquisitions are important to speed and movement into geographic areas, the company has stated that if it can't get the right price, organic growth and leadership acquisition will take precedence.

**Diversification Protection** – Significantly diverse types of business and clients provides a degree of protection from the cyclical nature of energy related businesses. The Matrix client base spans much of North America, from east coast power suppliers to oil and gas projects in the Southwest and Canada. This results in greater predictability of revenue growth, while still allowing for the upside potential of increased business following disasters such as Hurricane Katrina.

**Strong Client List** – Each of the company's segments boasts strong clients, including: Lockheed Martin, Enbridge, BP, Shell, Chevron, PPL Electric, and PSEG. Backlog continues to grow in all segments and was up more than 12% in the quarter ended March from FY11.

## Matrix Service Company (NASDAQ:MTRX)

**Financial Strength** - Matrix has liquidity of \$157.0 million and virtually no debt. Revenues for the nine months ended March 31, 2012, increased 19.6% from the same period a year earlier, while net income increased 15.8% for the same period.

### VALUATION:

Matrix Service Company recently reduced its full-year EPS guidance to a range of \$0.77 to \$0.85 and revenue guidance to \$725 million to \$750 million. The earnings adjustment was primarily related to investment in infrastructure which is critical to the company's strategic plan for growth. The market's negative reaction to this reduction provides a buying opportunity. The stock trades at less than 5x EV/EBITDA.

### Matrix Service Company (NASDAQ:MTRX) Investment Data (as of 6/8/12)

Recent Price	\$10.46
52-Week Range	\$15.06 - \$7.34
Fiscal Year End	June
Dividend	NA
Yield	NA
Shares Outstanding	25.7M
Average Trading Volume (3 mos)	140K
Market Capitalization	\$270 M
Cash	\$43 M
Long Term Debt	\$1.7 M
Enterprise Value (EV)	\$227 M
Book Value/share	\$8.11
TTM Revenue	\$718 M
P/ Revenue	0.35x
TTM EPS	\$0.79
P/ EPS	12x
TTM EBITDA	\$46.5 M
EV/ EBITDA	4.5x