

Mossberg's Investor Digest

Best Idea Profile:

Northern Technologies International Corporation (NASDAQ:NTIC)

DESCRIPTION:

Northern Technologies is the global leader in environmentally beneficial technologies including corrosion protection. The Company's core business, under the brand name Zerust, is the dominant player in the worldwide automotive industry and has extended its technologies into the oil and gas industry. Zerust is unique in anti-corrosion solutions due to proprietary technology/products and a significant competitive advantage in the VCI space due to its worldwide network of service and support around the globe through 27 joint ventures strategically located around the world. The Company's rust and corrosion inhibiting products include polyethylene packaging, liquids and coatings, paper, rust removers and cleaners, and diffusers. Corrosion damage costs the oil and gas industry \$127 billion annually. The Company's Natur-Tec takes commercially available compostable bioplastic resins and mechanically and chemically improves their performance to make finished products stronger, easier to manufacture and less expensive. These biodegradable and/or biobased plastics are used for flexible packaging, injection molding and engineered articles. The company was founded in 1970 and is headquartered in Circle Pines, Minnesota.

KEY INVESTMENT CONSIDERATIONS:

Track Record of Growth – The 10-year compound annual growth rate for earnings per share is 26% with CAGR for worldwide sales for the same period of 13%.

Northern Technologies Intl Corp (NASDAQ:NTIC)

Investment Data (as of 9/27/12)

Recent Price	\$10.95
52-Week Range	\$9.60 - \$16.48
Fiscal Year End	Aug 31
Dividend	NA
Yield	NA
Shares Outstanding	4.4 M
Average Trading Volume (3 mos)	5k
Market Capitalization	\$48 M
Cash	\$4.5 M
Long Term Debt	1.0 M
Enterprise Value (EV)	\$40.6 M
Book Value	\$8.15
TTM Revenue	\$23.2 M
P/ Revenue	1.9
TTM EPS	\$0.91
P/ EPS	12.1
TTM EBITDA	\$3.9M
EV/ EBITDA	10.5x

JV Structure Masks Actual Size of Revenue Base – NTIC has internally developed, commercialized and supported proprietary products. It has expanded its core business to address multi-billion market opportunities by building a network of joint venture distribution partners around the world. Sales from these joint ventures are not accounted for as revenue. Instead, contribution from these partnerships is recorded below the gross margin line as equity in income. The net effect is that the sales base is approx. 6x larger (\$140MM) than it what appears on the P&L.

Compelling Core Business – Northern Technologies two businesses (Zerust and Natur-Tec) are research driven and leverage the company's proprietary expertise. The market for its core business is expected to grow 10-15% with opportunities to expand technologies to other industries, including oil & gas, general industrial applications, agriculture equipment, marine, and military operations.

Growth in Oil and Gas– Petrobras has taken delivery of a \$4.3 MM phase 1 & 2 contracts and recently signed a phase 3 contract for \$3.7 MM in "flange savers," specially designed flange protectors containing proprietary formulations of Zerust that provide corrosion protection for off-shore oil platforms. The market opportunity at Petrobras alone is a significant multiple of these revenues based on the number of owned and operated oil platforms. Additionally, it validates the Zerust technology and will strengthen NTIC's efforts to sell Zerust solutions to additional oil and gas companies in other parts of the world.

Natur-Tec Business Rollout - The Natur-Tec bioplastics segment sells compostable products. New legislation mandating the use of compostable plastics is being evaluated in implemented in N. America and various areas across the world. In Italy, non-biodegradable shopping bags have been banned since 2011 and it consumes ~20% of the market in Europe. NTIC has entered an agreement with a major player in Italy to promote use of its Natur-Tec bags. Rev. has been growing >100% in recent years and the business is expected to turn solidly profitable in Fiscal 2013.

VALUATION:

The stock has been drifting downward over the past six month despite a positive outlook for its businesses. For the fiscal year ending August 31, 2012, NTIC provided guidance that it expects to recognize net income of \$0.87 to \$0.94 per diluted share, making this stock an attractive value.

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