

Mossberg's Investor Digest

Best Idea Profile

Reddy Ice Holdings, Inc. (NYSE:FRZ)

DESCRIPTION:

Headquartered in Dallas, Texas; Reddy Ice Holdings, Inc. is the largest manufacturer and distributor of packaged ice in the United States. FRZ serves a variety of customers in 33 states and the District of Columbia under the Reddy Ice brand name. Reddy Ice's principal product is ice packaged in 6 to 50 pound bags, which is sold to a highly diversified customer base, including supermarkets, mass merchants and convenience stores. The company also produces ice in cube, half-moon, cylindrical and crushed forms (collectively referred to as "cubed ice") as well as block forms. Reddy Ice has long-standing relationships with customers across all major retail channels including prominent supermarkets, mass merchants and convenience stores such as Albertson's, Circle-K, ExxonMobil, Food Lion, Kroger, Safeway, 7-Eleven and Wal-Mart. The company is also focused on expanding into non-retail sales channels, including sales to construction, airline, sporting and other special events and agricultural customers. Reddy Ice owns or operates 56 ice manufacturing facilities, 73 distribution centers and approximately 3,500 ISB machines with a manufacturing capacity of approximately 18,000 tons. Reddy Ice continues to be a consolidator in its market with 9 acquisitions during the first 6 months of FY10.

KEY INVESTMENT CONSIDERATIONS:

Dominant Player in a fragmented market – The annual wholesale market demand for packaged ice in the United States and Canada, including packaged ice resold through retail channels and packaged ice utilized in non-retail applications, is estimated to be approximately \$2.3 billion. At roughly \$300 million in annual revenue, FRZ is the largest player and represents just 13% of the market. The industry is highly fragmented and includes Reddy Ice, one other multi-regional operator, one multi-state operator and numerous local and regional companies of varying size and resources. Most ice manufacturers have annual revenues of less than \$2MM. FRZ is an established consolidator in the marketplace with far greater resources than many competitors.

Successful market consolidator – During 2Q10 FRZ completed six acquisitions for an aggregate purchase price of \$8.4 million. Year-to-date the company has made 9 acquisitions for an aggregate purchase price of \$9.2 million. These acquisitions are highly profitable and represent an associated \$7.1 million in annual revenues with \$2.4 million in adjusted EBITDA. Reddy Ice sees many more acquisition opportunities in the current marketplace.

Improving outlook and efficiencies – Volume growth has resumed in recent quarters. For 2Q10 Reddy Ice reported growth of 4.3% with all three months showing increases. FRZ has now shown growth in 4 out of the last 8 months. The company has been shrinking the number of facilities and is now focusing on internal efficiencies in both manufacturing and distribution. The efficiencies range from 'best practices' implementation to technology enhancement and robotics. The current efficiencies program is expected to save \$8MM on an annualized basis of which 30% was recognized during the 1H10.

New Markets – The company is just starting to pioneer non-traditional customers and activities such as dollar stores and ice vending equipment leasing, which have good potential for additional revenue.

VALUATION:

Shares of Reddy Ice have just experienced a 15% drop due to a decline in profits for the second quarter of FY10. Yet the company experienced both revenue growth and progress on its efficiency initiatives. The current valuation of the stock is also being depressed by unresolved DOJ issued involving the prepackaged ice industry. As these issues are resolved, and the company continues to improve its operations, patient investors should be rewarded with growth in earnings and the valuation multiple.

(NYSE: FRZ)

Investment Data (as of 8/07/10)

Recent Price	\$2.91
52-Week Range	2.36 - 6.30
Fiscal Year End	December
Shares Outstanding	23MM
Average Trading Volume (3 mos)	87,000
Market Capitalization	\$66MM
Cash	\$47MM
Long Term Debt	\$451MM
Enterprise Value (EV)	\$470MM
LT Debt/ Equity	NA
BV/ Share	NA
TTM Revenue	\$306MM
P/ Revenue	0.2x
TTM EPS	-0.28
P/ EPS	N/A
TTM EBITDA	\$58MM
EV/ EBITDA	8x

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