

Mossberg's Investor Digest

Best Idea Profile:

DESCRIPTION:

Steinway Musical Instruments is best known for its high-end grand and upright Steinway & Sons pianos. It also makes mid- and lower-priced Boston and Essex pianos. The Band Instruments segment sells woodwind instruments: flutes, clarinets, and oboes; brass instruments: trumpets, French horns, and trombones; acoustic and percussion instruments: drums, marimbas and chimes; and string instruments. Some of its well known brand names in this segment include Bach Stradivarius, Selmer, Selmer Paris, C.G. Conn, Leblanc, King and Ludwig, and Glaesel. Pianos make up 61% of revenues, with the remainder from the sale of band instruments to professionals and students. The Company also produces and distributes classical music recordings through its online music retailer, ArkivMusic. Steinway is based in Waltham, Massachusetts, and is celebrating the 160th anniversary of the founding of Steinway & Sons in 1853.

KEY INVESTMENT CONSIDERATIONS:

Strong Finish to 2012 – Steinway had improved fourth-quarter sales at both of its segments. Band and Piano revenues were up 6% over the prior year fourth quarter and gross margins were up 250 basis points. Management said it expects revenue will increase approximately 5% in 2013, which is similar to the 2012 increase, with further improvements in gross margins.

Production Ramping Up – Increasing inventories and inventory turnover, particularly in raw materials and work-in-process, confirms management's expectation that piano production will increase. Steinway pianos in particular are perceived by the market to be exceptional; therefore, Steinway has pricing power that allows it to raise prices while maintaining significant market presence. Unit growth in 2013 will be a key contributor to increased gross margins as Steinway has a high fixed cost structure.

Sale of Flagship Building – Constructed in 1925, the building on W. 57th Street will be sold, generating \$43 million in cash and an estimated \$22 million gain. More importantly, this avoids the capital expenditure that keeping the building would have required. The building was in need of much repair and renovation and was ideally suited for up-scale residential. Steinway intends to open a modern showroom in Manhattan. It has 15 showrooms in the U.S. and Europe.

Steinway Musical Instruments Inc. (NYSE:LVB)

Opportunities to Build Value – An excellent balance sheet, with \$73 million of cash on hand, provides opportunities for Steinway to refinance its debt. This cash and the sale of its building also make it likely the company will proceed with its share buyback program that has \$22.5 million in remaining capacity.

Transitioning to Fully Public Company – Shifting from a controlled public company, previously ruled by supervoting Class A shares, to a fully public company will involve several changes that are positive for shareholders. The governance committee is working to create a board consisting of more independent directors that have skills appropriate to the company's business. Additionally, management stated its intent to expand its investor relations efforts through structured meetings and conferences beginning with its June annual meeting.

VALUATION:

Steinway has enormously strong brand name recognition and respect, allowing it to increase pricing and margins with minimal impact on the number of products sold. With expectations of a strong showing in 2013 in both volumes and margins, and with the support of a stock buyback program, the stock offers upside value.

Steinway Musical Instruments (NYSE:LVB)

Investment Data (as of 4/26/13)

Recent Price	\$24.67
52-Week Range	\$20.61 - \$26.70
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	12.5 M
Average Trading Volume (3 mos)	19k
Market Capitalization	\$313 M
Cash	\$73 M
Long-term Debt	\$68 M
Enterprise Value (EV)	\$303 M
Book Value	\$19.41
TTM Revenue	\$354 M
P/ Revenue	0.9
TTM EPS	\$1.08
P/ EPS	23.3
TTM EBITDA	\$38.7 M
EV/ EBITDA	7.83

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