



Mossberg's Investor Digest

Idea Profile

Titan Machinery (Nasdaq: TITN)

DESCRIPTION:

Headquartered in Fargo, North Dakota, Titan Machinery has a 28 year operating history as a dealer of farm and construction equipment. The company completed its public offering a year ago in December of 2007, a follow on offering in May of 2008, and has used part of the proceeds to double the size of its store base through acquisitions. The company currently has 61 dealers located in the upper Midwest...North Dakota, South Dakota, Minnesota, Iowa and Nebraska. Titan is a dealer for CNH Global (NYSE: CNH), for the brands Case and New Holland. Approximately 75% of the company's revenue comes from new equipment sales and the remaining 25% from parts and service.

KEY INVESTMENT CONSIDERATION:

Consolidator in a buyers market – The agricultural and construction equipment industries are fragmented and consist of many relatively small, independent businesses serving local markets. For example, TITN is the largest CNH dealer, but comprises less than 2% of the total CNH dealer base in North America. The company has a strong track record of making and profitably integrating acquisitions. Over the past 5 years the company has made approximately 20 acquisitions consisting of about 2/3 of its store base. The company's "strong store" operating model keeps decision making at the store level, and centralizes support infrastructure such as HR, Marketing, and IT. This model has been key to success of integrating acquisitions and it is also very scalable. According to the company, this model can "easily" scale to over \$1 billion in sales. Purchasing these businesses at the right price is also a significant determinate of success. Acquisitions have been made near asset value, and very little has been paid in premiums. As evidence, there is just \$10.2 million goodwill on the balance sheet, which equates to about \$300,000 per acquired location.

Customers in strong financial position – While corn prices have fallen from \$5 per bushel to around \$3.5, they still remain well above the 20 year trend. In addition, gasoline makers must blend 10.5 billion gallons of ethanol in 2009 and 12 billion in 2010 under the new Renewable Fuels Standard. This ethanol mandate effectively puts in a floor for corn and soybean prices. Check out the following article from Iowa State Volume 13, No. 4 ([how low will corn prices go?](#)) Farmers are also benefiting from lower input costs including Fuel and fertilizer. In addition,

U.S. farm debt is at very manageable levels. According the USDA, the debt to equity ratio of U.S. farmers is 10%, a 48 year low. This leaves plenty of room to buy new, productivity enhancing, farm equipment.

KEY RISK:

Supplier concentration – Approximately 75% of revenue is derived from sales of CNH equipment. In addition, the company is dependent on CNH to finance its inventory. Changes in CNH's competitive position or relationship with Titan could have a significant adverse affect on the company's results.

VALUATION:

Shares currently trade at 11X the current consensus estimate for FY10 (ending in January) of \$1.19. Keep in mind those analysts estimates include little if any acquisition growth in their models. Considering the company's potential for growth and significant returns (TTM ROE of 16%), shares could easily command higher multiples.

(Nasdaq: TITN)	
Investment Data (as of 12/24/08)	
Recent Price	\$12.71
52-Week Range	7.75 - 34.49
Fiscal Year End	January
Dividend	N/A
Yield	N/A
Shares Outstanding	17.7 MM
Average Trading Volume (3 mos)	350,000
Market Capitalization	230 MM
Cash	92 MM
Long Term Debt	175 MM
Enterprise Value (EV)	314 MM
LT Debt/ Equity	1.0
Tangible BV/ Share	8.88
TTM Revenue	637 MM
P/ Revenue	0.4x
TTM EPS (non-GAAP)	1.01
P/ EPS	13.0x
TTM EBITDA	37 MM
EV/ TTM EBITDA	8.6x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.