



# Mossberg's Investor Digest Idea Profile

## TransAct Technologies (Nasdaq: TACT)

### DESCRIPTION:

Headquartered in Hamden, CT; TransAct Technologies manufactures and markets specialized printers for banks, point-of-sale locations, casinos and other market-specific applications.

### KEY INVESTMENT CONSIDERATION:

**Recurring revenue is approximately 25% of total** – With an installed base of over 2 million printers, TransAct generates approximately 25% of its revenue from selling spare parts and services to fix and maintain its existing base.

**TACT is the new default printer for the largest gaming machine manufacturer** – International Gaming Machines (NYSE: IGT), the world's leading manufacturer of gaming machines made TransAct its default printer vendor in April. TACT will eventually penetrate from approximately 20% of IGT machines to as much as 70% over the next couple of years. This was a major competitive coup for TACT, as they replaced Futurelogic as the default supplier. Despite weakness in the domestic casino business, the IGT deal will allow TACT to grow. Casino printer sales increased 19% in the latest quarter.

**Secular growth in lottery industry is likely in the coming years** – State and local governments are in desperate financial condition and revenue from lotteries makes an attractive alternative to raising taxes. No matter who wins the next presidential election, it's likely that federal taxes will increase. With increased tax payments at the federal level, combined with the weak economy and difficulties in the credit market, it is likely that state and local government entities will have fiscal difficulties and/or have a difficult time funding new projects. GTECH the world's largest provider of lottery terminals and is TACT's largest customer.

### CATALYSTS:

**Win with McDonald's** – TransAct will provide printers to support the rollout of premium coffee bars in 14,000 McDonald's stores over the next year. When it was recently reported that McDonald's might not be able to get financing to support the roll-out, TACT's stock price took a dive, possibly in response to the news. McDonald's has subsequently said its plans are on track and it's likely that the market has overreacted to this news.

### KEY RISKS:

**Financial company exposure** – A significant percentage of TACT's sales are generated by banks, credit unions and other financial institutions. The financials crises will likely put pressure on the company's ability to grow revenue in this area.

**GTECH is a big customer and can have lumpy orders patterns** – GTECH has represented 12% and 17% of revenue during 2007 and 2006, respectively. Revenue from this customer can swing significantly from year to year.

### VALUATION:

The lone analyst's EPS estimate for FY09 is \$0.58. This implies a ROE of north of 20% in the next 18 months. Assuming this level of return is delivered, the stock should trade at EPS multiples closer to 20x FY09 EPS in the next 18 months (\$12 per share).

<b>(Nasdaq: TACT)</b>	
Investment Data (as of 10/3/08)	
<b>Recent Price</b>	<b>\$6.99</b>
52-Week Range	3.58 - 13.75
Fiscal Year End	Dec
Dividend	N/A
Yield	N/A
Shares Outstanding	9.4 MM
Average Trading Volume (3 mos)	114,000
<b>Market Capitalization</b>	<b>66 MM</b>
Cash	2.5 MM
Long Term Debt	0
Enterprise Value (EV)	63 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	2.10
TTM Revenue	54 MM
<b>P/ Revenue</b>	<b>1.2x</b>
TTM EPS	-0.29
<b>P/ EPS</b>	<b>N/A</b>
TTM EBITDA	3.5 MM
<b>EV/ TTM EBITDA</b>	<b>18x</b>

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