

Mossberg's Investor Digest

Best Idea Profile

Twin Disk, Inc. (NASDAQ:TWIN)

DESCRIPTION:

Headquartered in Racine, Wisconsin; Twin Disk, Inc. manufactures and sells marine and off highway power transmission equipment. The company produces marine transmissions, surface drives, propellers, boat management systems and other related equipment. Twin Disk products are used for equipment in a number of markets including pleasure crafts, commercial and military marine markets and energy and natural resources. The company has customers worldwide and sells to both domestic and foreign customers directly and through distributors. Primary competitive factors for the company's products are performance, price, service and availability.

KEY INVESTMENT CONSIDERATIONS:

Expansion into Oil and Gas – Twin Disk has products which give it significant exposure to the energy sector. The rebound in energy prices has created additional demand for the company's goods in this sector which has increased as a percentage of Twin's revenues. Twin is also introducing a new mobile frac rig pressure pump which will soon be ready for shipment. The first shipments of this new product are expected to begin near the end of 2010. Twin expects this new product to have a "noticeable" effect on the company's 6 month backlog during the first and second quarters of FY11.

Diversification – In addition to Oil and Gas equipment, the company also serves the military with land based equipment and patrol boats. There has been continuous demand for these products which, along with oil and gas products, has helped to offset the downturn in Twins mega-yacht products business. These businesses along with airport rescue firefighting equipment are creating sequential improvement in the company's results.

Strong and Improving Financial Position – For the first three quarters of FY2010 Twin has generated over \$23.1 million in cash from operations. The company has also reduced its debt by 16% to \$35 million for a debt/cap ratio of 25% vs. 33% over the same time period for the last fiscal year. The company expects continued sequential improvement of results for the fourth quarter of FY2010.

Significant Expense Reductions – Twin has restructured its expense base significantly to match the current environment and its new sales mix. During the 4Q07 the company recorded a pre-tax workforce

restructuring charge of \$2.6 million. This action paved the way for new outsourcing of manufacturing processes. During 4Q09 the company took a \$948,000 restructuring charge. With the company predicting sequential improvement in results it would appear that cost reduction measures have been effective and are essentially complete.

Near Term Turnaround - Twin Disk has successfully navigated the recession. The company is experiencing a significant downturn in its high-end yacht business. Yet though overall sales are still below pre-recession levels, the company has reduced costs and changed its operations and sales mix. Twin is now getting higher market penetration in industrial markets with stronger prospects. A combination of new products, a lower cost base and growth in the energy and emergency equipment markets should lead to improved results.

VALUATION:

Current analysts estimate that Twin Disk will earn \$0.70 for FY2011. With the company's new frac rig pressure pump expected to impact FY11 backlog and continued global demand for energy, Twin has plenty of room to surprise the Street and beat current expectations. Four times cash flow seems a reasonable price for a company with the prospects of Twin.

(NYSE: TWIN)

Investment Data (as of 5/07/10)

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|--------------------------------|----------------|
| Recent Price | \$12.53 |
| 52-Week Range | 6.21 - 15.23 |
| Fiscal Year End | June |
| Dividend | \$0.28 |
| Yield | 2.20% |
| Shares Outstanding | 11 MM |
| Average Trading Volume (3 mos) | 33,240 |
| Market Capitalization | 140 MM |
| Cash | 15 MM |
| Long Term Debt | 31 MM |
| Enterprise Value (EV) | 156 MM |
| LT Debt/ Equity | 30% |
| BV/ Share | \$9.23 |
| TTM Revenue | \$235 MM |
| P/ Revenue | 0.6x |
| TTM EPS | 0.12 |
| P/ EPS | NA |
| TTM EBITDA | 16 MM |
| EV/ EBITDA | 10x |

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