



# Lindsay Corp (LNN)

*A natural duopoly, selling a necessary technology to a perfectly competitive industry, whose underlying good is necessary to sustain human life . 15% of the market cap is in cash and there is no debt. When coupled with short and long term drivers of demand against the backdrop of increasing political and humanitarian pressure to conserve our water resources, LNN makes for a compelling value investment.*

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## About Lindsay Corp

Lindsay Corporation is principally a water management company. They specialize in irrigation systems for farm land and ancillary products to monitor and control those systems. About 10% of the company is in road infrastructure (more on this in the following section). They were founded 55 years ago and are one of the two largest players in the global irrigation equipment market (the second being Valmont). They are headquartered in Nebraska but operate in over 90 countries.

Most farmland on the planet is irrigated by a method known as gravity flow whereby a farmer will send water to the top of a sloped plane and have water trickle down. It will then be collected and cycled back up to the top of the plane. Lindsay Corp creates mechanized irrigation systems such as pivot and lateral move technologies to transfer water more efficiently over a terrain. In addition they offer solutions such as remote control of those systems and sensors which will alert the user when certain parts of the covered land are in need of irrigation allowing the farmer to award each acre the most efficient amount of moisture, reducing waste, and enhancing yield.

Water is a scarce resource and the mouths to feed on the planet are growing. Their diets are evolving and the planet is heating. With increased demand for water and a static/declining supply, the cost of water will increase as will legislation around that water. Furthermore, any company participating in a perfectly competitive industry such as farming must be the lowest cost producer. Lindsay Corp is well positioned to take advantage of long term changes in global growth and consumption. Short term, there are several catalysts for LNN to award investors for their investment.

# Quick Sheet

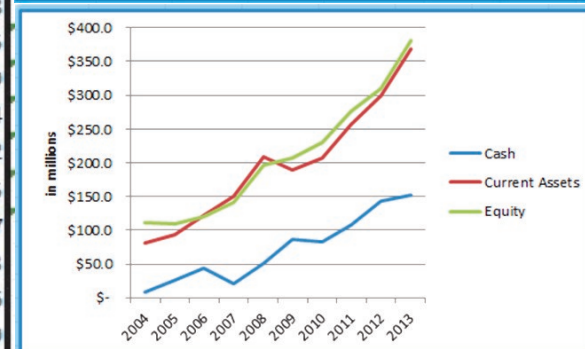
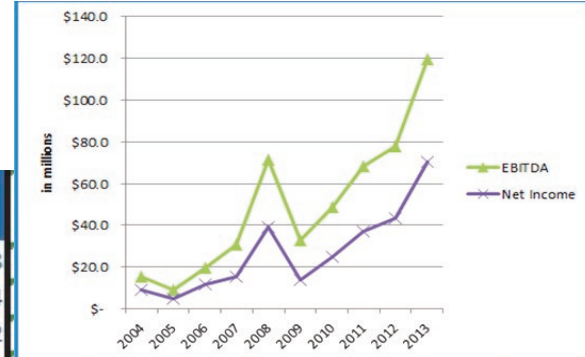
## - - - Thesis - - -

In the next 30-40 years the world population will be about 8 billion and commercial farming production will have to increase approximately 70% to satisfy the consumption of those people. Lindsay Corp is a natural duopoly, selling a necessary technology to a perfectly competitive industry, whose underlying good is necessary to sustain human life. LNN trades at all time lows by most metrics due to poor corporate governance, short term fluctuation in commodity prices, and a confusing transportation business that has no place in the overall corporate strategy. The company has over 15% of the market cap in cash and no debt resulting in an over capitalized balance sheet. The company can take several steps to enhance shareholder value by ;

- 1) Selling the transportation business. There is no synergistic reason, or underlying resource for which LNN can leverage the agriculture business and the transportation business. These are two autonomous operations and LNN could sell the transportation business which would enhance every earnings based metric as the segment doesn't earn money. The reason it is part of the firm is because it drives revenues (without hitting the bottom line) and management is compensated primarily by revenue generation instead of metrics that align themselves with shareholders such as ROE, ROIC, ect.
- 2) LNN could buy back shares with the 150 million in cash they hold. It is unclear that LNN has put their cash via acquisition to good use in the past nor do they have any need for it in the future. This money could (and should) be returned to shareholders through buybacks (or dividends, however I do not care for the tax implications of a dividend).
- 3) Kerrisdale Capital could effect change at the board level through their recent petition for improving the operations of the firm. With two new board members (notably one with experience in capital allocation) LNN could operate much more in line with shareholder expectations
- 4) A private equity firm or larger competitor could buy out the company as it is very easy (and in this environment, cheap) to leverage up given the 0 debt and large cash position. This is a perfect company for a go-private transition
- 5) Over time, even lazy management cannot suppress the value of this company. The human species is an ambitious one. Over time commodity prices will recover, and countries will develop wealth. Consumption of protein will continue to drive prices for corn and other feed up, thus raising farmer capex and overall demand. LNN's technology can enhance yields of various crop by 50-100% compared to that of gravity irrigation (the predominant method throughout the world). The 'green' movement will continue to require larger and larger amounts of bio-diesel inputs into energy more and more restrictions around frivolous use of water resources which will lead to higher prices and stronger demand for LNN's technology.

From a valuation perspective we see that LNN is trading at all time low: P/E, EV/EBITDA, and P/CF while returning higher ROE, ROIC, ROA. Cash and current assets have been on a straight line up accompanied by equity. LNN has significant embedded downside protection.

	10yr Average	5yr Average	3yr Average
P/E	26.30	17.82	16.78
P/E (cash adjusted)	22.57	15.04	14.24
EV/EBITDA	12.36	8.42	8.22
EV/Free Cash Flow	11.92	19.37	18.78
P/S	1.55	1.50	1.55
P/BV	2.85	2.61	2.79
P/Tang BV	3.68	3.27	3.44
P/CF	16.70	13.41	13.22
P/FCF	14.32	22.69	22.05
ROE	0.13	0.15	0.17
ROA	0.09	0.11	0.13
ROIC	0.17	0.22	0.26
CROIC	0.14	0.17	0.19



Based on an 8 valuation metrics, I believe LNN should trade at \$105 a share today and should trade at \$125 a share in three years . I believe LNN is undervalued by 30% (current trading price \$80) and should enjoy an approximate 15% annualized return for the next three years.





When most of us think about water scarcity, our minds go to arid desert climates. However, as demand continues to rise and supply remains constant or falls, water will become an increasingly difficult challenge for consumers, producers, and governments to deal with. 1.1 billion people live without adequate drinking water and 2.6 billion people lack adequate sanitation. The UN has recently acknowledged water as a human right and the need to fulfill that right for the world population will have a severe impact on those other uses of water. There is a dire humanitarian need to conserve our water supply and reduce water consumption. That reduction of water consumption need not come from curtailing our enjoyment of it, instead, water consumption can be greatly reduced by more effective measures of water distribution. As 70% of the world fresh water use goes toward irrigation, Lindsay Corp is the solution right in the center of this problem.

The declining water supply relative to population growth isn't the only weight on the supply/demand relationship of this resource. Pollution of water sources is an increasingly serious problem, notably in poorer countries. The UN identifies microbial pollution of water to be the greatest cause of illness and mortality. This pollution will also cause pollution of the nutrients in top soil and fail to produce a bountiful crop (if it can produce a crop at all). As the world economy creates more wealth, especially in Asia and Africa, there will be a move from subsistence lifestyles to lifestyles where the individual will be able to have larger discretionary funds which will almost certainly go to food consumption (beyond 3 meals of maize a day) and increased water consumption.

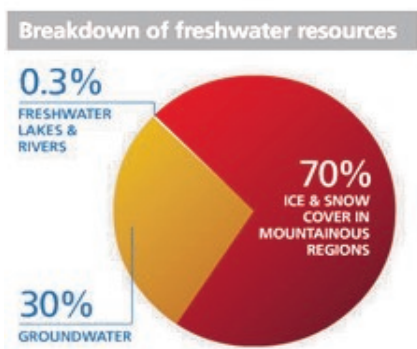
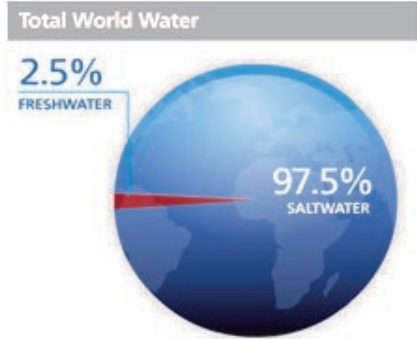
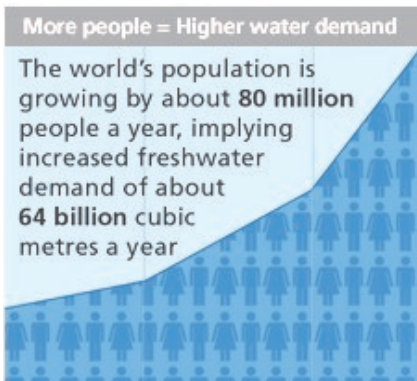
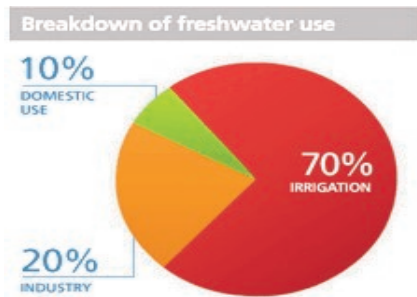
Merrill Lynch's research finds that we should expect individual water withdrawal to increase by 50% in developing countries and 18% in developed countries by 2025. They further find that we will need about 15% more water withdrawal for agricultural purposes over the next 30 years. Thirst of course isn't the problem, it takes hundreds of times more water to feed a population than to supply the body the water sustenance it needs. Furthermore, as diets develop across the planet and protein consumption continues, more water will be needed for livestock sustenance whose largest cost derives from corn feed which is a very water intensive crop. Additionally, the increase in atmospheric pressures will enhance the water demand for hydration needs of the billions of farm animals.

There are industry driven demand levers as well. For example the Renewable Fuels Standard requires massive amounts of renewable fuels to be blended into vehicle fuel. These renewable fuels include ethanol made from corn which, as mentioned earlier, is a highly water intensive crop.

The demand for more efficient water treatment is just beginning and will certainly be on the regulatory radar for decades to come. Strategies at all levels (business, state, nation, world) will have to be implemented to prepare lakes and reservoirs for increased demand. Technology, as well as policy, must play a role here. Lindsay Crop offers the agricultural technology to meet the global water shortage. By most efficiently distributing water across their acreage, farmers will be able to use less water and keep costs reigned in as water is not cheap nor will it remain at these low levels for long.

The short of the impact: higher costs of water, more regulatory oversight including caps on usage, and thus a growing demand for water management products

SOURCES: All information regarding the topic of water scarcity is from the following sources; "Water Scarcity; a bigger problem than assumed" by Merrill Lynch 2007, "Water Scarcity and Climate Change" by the Pacific Institute 2009, and the Water World Council Website. Graphs are from UNWater.org or made based on information from any of the aforementioned sources.

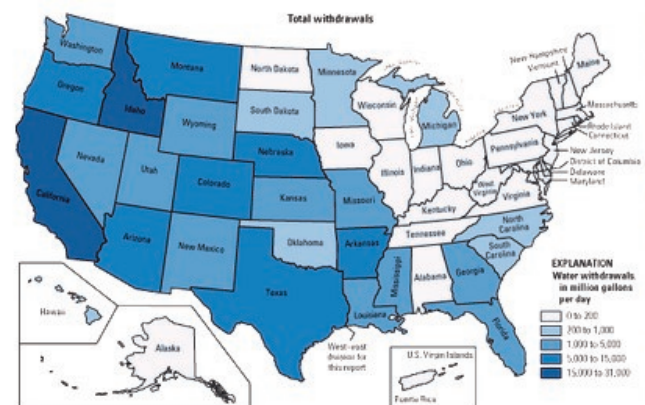




## Facts and Thoughts on Water Scarcity

- The depletion rate of water resources is higher than the recharge rate
- In the southwest, temperatures have risen by 2-3 degrees Fahrenheit and are set to continue to increase to 5 degrees Fahrenheit over the next century which by 2100 will halve the Colorado river basin (one of the most important sources of agricultural water)
- Less water will inevitably lead to less energy and less agriculture forcing prices to rise
- Poor water distribution systems as of current will cause soil erosion on overgrazed pasture lands which currently represents about 50% of all pasture land.
- Groundwater, river water, and basin water suffer from contamination of varying sorts (more of a country specific concern)
- Poor public policy: State water regulation is lenient and will have to be overhauled in the near future
- As water is a finite recourse, population demands will soon exceed water availability causing a rise in the price of water.
- Increase water scarcity may occur due to increases in precipitation patterns. Rising temperatures will increase water temperatures increasing likelihood of algae and bacterial development which further ruins sitting water supply and increase erosion rates and soil based pollutants ultimately causing increased cost for water treatment
- There will be an impact on corporate future growth as further regulation must be developed (specifically in the field of licensing) which will decrease the amount of water allocable to businesses and increase the cost and disruptions to that business
- Biofuel production has an incredibly large water footprint and will continue so as biofuels must make up more and more substantial portions of the fuel blend.
- Political risks: more stringent water regulation water intensive products and services will face more scrutiny, water stress increases political and economic instability
- Reputational risks: when resources are constrained, firms are expected to use those resources wisely causing more scrutiny on the use of valuable resources. Growing awareness of the costs associated with depleting water reserves will increase the need for conservative practices.
- Cage free chicken eggs have become increasingly popular as people have become acquainted with the practices of the old school chicken farm. These sorts of social observations apply to water whereby you may see a movement to “green” consumption of goods across the farming spectrum whereby a portion of that are ecologically conscious farmers.

Significant profits and opportunities are to be had in the field of efficient delivery systems for water. We are in the first innings of what will be a significantly regulated resources.



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# The Demand Dynamics of Farmers and the Value add Proposition of Lindsay Corp

Over time, trends in agriculture, to a large extent, have been driven by technological advancement. It is true that demand for particular good informs a farmer which good he/she may wish to produce, but it is the farmer who can produce at the lowest cost, given the market price, remains a player in a perfectly competitive industry.

Farmers operate in a perfectly competitive market where their good is not unique in any way from their neighbors good. A bushel of wheat is a bushel of wheat regardless of who produces that bushel and thus the homogenous product serves to distinguish one producer from another. The fact that there are many farmers in the US and around there world makes it difficult to pick a farmer based on individual characteristics, and there are little barriers to entry of new participants into the industry. For all these reasons, the farmer will face a profit maximization of zero economic profit. This isn't to say they don't earn a living wage, but merely they cannot earn above and beyond any other participant as there is nothing unique about them.

The disposition of the farmer to control price results in their maximization of supply as long as the marginal revenue of production exceeds or is equal to the marginal cost. When an individual can only expand through supply (not just nominally but by productive output per acre) they are required to to be the most efficient producer.

If the farmer is not the most efficient producer, then they will begin to earn negative economic profits (or economic losses). This can only last for so long before that farmer chooses to upend themselves from the farming community and use their resources and talents in another industry. Thus the requisite mindset of every farmer must surround being the most efficient producer. This happens through technologies such as better tractor/trailers, genetically modified seeds, use of fertilizers and other growth promoting chemical additives, and of course, irrigation technologies.

As the world begins to adapt more productive methods for irrigation (methods which can expand output by over 30+%) it is the farmers duty (per their mission of being the most efficient producer) to take up the new technology or they will find themselves on the losing end of the industry.

The demand for irrigations systems is one of revenue maximization as well as cost minimization:

## Cost Minimization

- 1) Lindsay's VPD technology is one example of how a farmer may save. The VFD technology provides precision control allowing for more precise pressure and low which saves energy. It reduces shocks on the irrigations system by being kind on the pump. Water costs make up around 5%
- 2) Using the Water Harvesting system, SkyHarvester, you can conserve water by designing, storing, and controlling your own water distribution system. There are significant tax savings to water/soil conservation investments. Gravity irrigation uses up to 60% more water than pivot and lateral systems
- 3) Using smart technologies to automatically adjust to soil densities or by adjusting them from your phone, the farmer may save significantly on manual labor costs (making up around 10% of farming expenses)

A farmer may be able to save 10-20% annually through tax benefits for water/soil efficiency enhancements, better control over water resources and more efficient distribution of chemical and fertilizer contents, and a reduction in labor costs thanks to the smart farming technologies.

# The Demand Dynamics of Farmers and the Value add Proposition of Lindsay Corp

Compared to a non irrigated farm land, you could see yield increases from use of lateral and pivot based systems of



## Revenue Maximization

One of the most important factors that allude to the success of an annual crop production is the water density and consistency of the soil. When a corn crop is properly watered it can enhance crop yields 50%-100% from a non irrigated farm land and 25-45% from a gravity flow based irrigation system.

The following example output was produced from Lindsay Corp's online crop production tool. Suppose an investment of 60,000 for a lateral based irrigation system enhancing a non irrigated farm under normal circumstances. See the table to the right. An investment of 60,000 can generate annual revenue increases around 24,000 a year. Using a standard NPV and IRR based decision making process for if a farmer should take on this investment, we see that in 10 years you may generate a NPV of 100,000 and an IRR of 36%. Furthermore, I assumed a 15,000 additional investment in the fifth year so that we may enhance the technology with whatever is the latest in remote monitoring as well as some piping enhancements.

Make no mistake. These farmers are not dumb and are doing this sort of math which will inform them as to if they should engage in such a venture. And as long as there are no alternative investments which compete for the funds and can generate >36% IRR then Lindsay Corp will be one of the first investments by any farmer hoping to enhance their yield.

Investment	\$ 60,000
Land (in acres)	100
Land (irrigated)	75
Product	Corn
Application rate (inch/acre/yr)	7
Average dry yield (bushels/acre)	175
Anticipated Irrigated Yield (bushels/acre)	245
Fuel Cost	\$ 3
mkt price of Corn	\$ 4.5
Annual Rev Inc	\$ 23,940

Lets suppose the below are a series of cash flows where in the end of year 5 the farmer chooses to invest 15000 in ancillary products to upgrade/enahnce his(her) irrigation system. The suggested average life is 20 years but for our purpose we will suppose a 10 year life with \$10,000 residual value

	time = 0					time = 5					time = 10		
Cash Flow	\$ (60,000)	\$ 23,940	\$ 23,940	\$ 23,940	\$ 23,940	\$ 8,940	\$ 23,940	\$ 23,940	\$ 23,940	\$ 23,940	\$ 23,940	\$ 33,940	
Discount Rate	6.5%												
NPV	\$99,980.89												
IRR	36%												

Lindsay Corp's products generate significant value for their target customer. It is not just a luxury but a necessity as the industry continues to adopt this technology. In the US it is already necessary to be a "smart farmer". The value proposition beckons, and the competitive challenges of a perfectly competitive industry require, investment in irrigation technology to survive.



# 1

## Thoughts as to Why LNN is so Cheap Terrible Board Compensation Plan

"WHAT IT AMOUNTS TO IS THAT THERE'S NO ONE REPRESENTING SHAREHOLDERS. IT'S LIKE  
HAVING LABOR NEGOTIATIONS WHERE ONE SIDE DOESN'T CARE." - ANONYMOUS FORTUNE

500 CEO, INTERVIEWED BY FORTUNE, 2002

80% of the executives' compensation is attributed to financial performance. Seemingly a positive statement, when we break down the metrics for financial performance we find that there is no mention of return on capital, EPS growth, ROE or any other metric that can immediately attribute to the bottom line and thus enhance shareholder wealth. The compensation plan is made of three components; revenue growth, operating margin, and average working capital to sales. The first two are obvious, the third is a component of average month end inventories plus average month end accounts receivable over operating revenues. It is popular practice amongst knowledgeable practitioners to have compensation metrics that are directly linked to long term goals and focused on total return to shareholders. The above incentive plan has a very clear impact that we observed just this year in Lindsay's acquisition of Claude Laval in San Francisco.

Claude Laval Acquisition (in thousands)	
Current assets	\$ 8,686
Property and equipment	\$ 7,604
Intangible assets	\$ 13,700
Other long-term assets	\$ 481
Current liabilities	\$ (1,784)
Long-term debt	\$ (1,400)
Other long-term liabilities	\$ (5,537)
Total identifiable net assets acc	\$ 21,750
Goodwill	\$ 7,257
Acquisition Price	\$ 29,000
Revenues	25-30 mil

So what did Lindsay buy? Assuming they wanted the patents at 7 million, they spent 22 million for about 2.5 million in earnings (assuming an approximate 10% NI/rev margin which is what Lindsay maintains). It will take Lindsay about 9 years (forgiving synergies that may exist) to earn back their investment. Maybe there is a great deal of strategy in this purchase, I cannot be sure, but I do know one thing with certainty, they purchased revenues. This will add approximately 25-30 million in revenue growth which is exactly the sort of income the board is looking for. It is when boards are not incentivized properly that they forget about enhancing shareholder return, and instead enhance their own.

# 2

## Poor Capital Structure and Allocation

Lindsay Corp has a tendency to hold cash, and there is no identifiable plan for how they may distribute that cash. They have made two large acquisitions in the last 10 years total 60 million or about the FCF generated this year alone. When the market cap of the firm was 200 million, this went under the radar. Now that they have breached 1 billion, I suspect more eyes will find their way onto this company. Kerrisdale Capital, for one, is beginning to have discussion with the firm on matters directly related to capital allocation. So what is a firm to do with 15% of their market capitalization in cash? You have three choices. You may distribute it to shareholders. However there is no share buyback program in place and the payout ratio is small on the dividend. You can spend it on capital expenditures. There isn't exactly a need for capital expenditures both for this point in the business cycle, and for their business in general. They are able to sufficiently innovate on their current budget. Finally you can make acquisitions. With 70% of acquisitions either destroying or doing nothing to enhance shareholder value, this should not be a long term solution. With some Financial engineering (to be seen in the valuations section) this company could significantly enhance its ROE and ROIC.

15%  
Mkt cap  
in cash

0%  
Debt/  
Equity

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cash and Equiv	\$ 9.0	\$ 25.6	\$ 43.3	\$ 21.0	\$ 50.8	\$ 85.9	\$ 83.4	\$ 108.2	\$ 143.4	\$ 151.9
Cash as % of Equity	8%	23%	36%	15%	26%	41%	36%	39%	46%	40%
Cash as % of mkt cap	3%	12%	12%	3%	13%	18%	11%	16%	15%	14%

# 3

## Why is LNN Trading Below Fair Value???

### A Business that has no Business Being in Lindsay Corp



Lindsay Corp has two divisions; the irrigation segment for which we are quite interested in, and the infrastructure segment. The infrastructure segment comprised of movable barriers for separating roads. They serve as crash cushions, end terminals and other miscellaneous needs for infrastructure projects. These movable barriers are placed down by a machine LNN invented called the Road Zipper which allows them to quickly and easily lay down road separators (for which the vehicle is aptly named after). Their primary consumer is the US federal and state governments for which a majority of highway infrastructure is operated by.

This business can be a bit confusing in the context of an irrigation company. The reason why there is no intuitive connection between the two segments is because there is, in fact, no connection between the two segments. The resources of one segment of LNN cannot be effectively transferred or rented to the other. There is no underlying resource base by which LNN can use to create a competitive advantage. They are neither the primary player in the industry nor a profitable one. The Infrastructure segment has lost money the last two years and has historically required a large portion of capex for a nominal to poor return on investment.

\$ in thousands	2013	2012	2011	2010	2009	2008
<b>Operating revenues:</b>						
Irrigation	625,996	475,299	369,930	258,666	255,507	374,906
Infrastructure	64,852	75,956	108,960	99,774	80,721	100,181
<b>Total operating revenues</b>	<b>690,848</b>	<b>551,255</b>	<b>478,890</b>	<b>358,440</b>	<b>336,228</b>	<b>475,087</b>
<b>Operating income:</b>						
Irrigation	125,395	80,259	59,703	40,869	35,504	66,848
Infrastructure	-811	-11	11,901	11,083	(36)	9,624
<b>Total Income</b>	<b>124,584</b>	<b>80,248</b>	<b>71,604</b>	<b>51,952</b>	<b>35,504</b>	<b>76,472</b>
<b>Total Capital Expenditures:</b>						
Irrigation	10,687	7,942	5,490	3,125	5,681	4,362
Infrastructure	449	1,948	2,915	2,659	4,819	9,731
<b>Total D&amp;A</b>						
Irrigation	7,147	6,959	6,009	4,597	4,191	3,862
Infrastructure	5,453	5,509	5,725	6,113	6,251	5,391
<b>Total Assets:</b>						
Irrigation	391,527	303,741	267,275	206,885	186,558	200,535
Infrastructure	120,769	111,790	113,869	118,596	121,339	125,355
	512,296	415,531	381,144	325,481	307,897	325,890

So why is it here???

This takes us back to point #1 : Because management cares about revenues, not earnings.

This company has produced between 64 and 109 million in revenues annually. Over the last five years it has generated 530 million in revenues and just 31.7 million in earnings which equates to a profit margin of just shy of 6%. Compare this to the 2.35 billion in revenues generated by the irrigation business and 408 million in earnings or a 17.3% operating margin. The infrastructure business is confusing to investors and a drain on valuable company resources. The infrastructure business may well be a great business, but it should exist in another owners hands.



# Lindsay Corp Valuation

The Valuations will be based on various strategies and valuation methodologies and culminated to give us a comprehensive view of the company. The following XX pages will explain the rationality and data behind the numbers.

- Strategy 1: Extrapolating The Past Into the Future
- Strategy 2: The Bear Case
- Strategy 3: The Bull Case
- Strategy 4: Lindsay W/out the Very Confusing Transportation Segment
- Strategy 5: Putting LNN in Perspective, a P/S Basis
- Strategy 6: On a Target P/E basis
- Strategy 7: What LNN Could Trade at Given a More Shareholder Friendly Capital Allocation (1)
- Strategy 8: What LNN Could Trade at Given a More Shareholder Friendly Capital Allocation (2)

	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Price Target Today	\$106	\$62	\$112	\$101
3yr Price Target	\$127	\$84	\$131	\$133
	Strategy 5	Strategy 6	Strategy 7	Strategy 8
Price Target Today	\$101	\$113	\$130	\$110
3yr Price Target	\$140	\$132	n/a	n/a

Averaging out the 8 above cases, I believe LNN should trade at \$105 a share today and should trade at \$125 a share in three years. I believe LNN is undervalued by 30% and should enjoy an approximate 15% annualized return for the next three years.

# LNN: DCF Valuation [Strategy 1]

Strategy 1: Here we assume the past is indicative of the future. I look at the last 10 years, last five years, and last three years of net income, cash flow from operations, FCF, and EPS growth. I take the averages over each interval and then average those averages. Furthermore, I project the income statement forward five more years based on the above methodology and take the intervals of the last five years to the next five years, next five years, and the next 3 years to years out.

	2013	2014	2015	2016	2017	2018
<b>Income Statement</b>						
<b>Revenue</b>	<b>\$ 690.8</b>	<b>\$ 812.9</b>	<b>\$ 967.4</b>	<b>\$ 1,172.8</b>	<b>\$ 1,404.3</b>	<b>\$ 1,686.8</b>
% change from prev year	25.3%	17.7%	19.0%	21.2%	19.7%	20.1%
<b>Cost of Revenues</b>	<b>\$ 496.0</b>	<b>\$ 599.7</b>	<b>\$ 711.2</b>	<b>\$ 860.7</b>	<b>\$ 1,031.1</b>	<b>\$ 1,237.3</b>
COGS (%)	71.8%	73.8%	73.5%	73.4%	73.4%	73.3%
<b>Gross Profit</b>	<b>\$ 194.8</b>	<b>\$ 213.2</b>	<b>\$ 256.2</b>	<b>\$ 312.1</b>	<b>\$ 373.2</b>	<b>\$ 449.6</b>
Gross Income (%)	28.2%	26.2%	26.5%	26.6%	26.6%	26.7%
<b>Operating Expenses</b>						
Selling, General & Admin. Expense	\$ 76.4	\$ 107.0	\$ 126.2	\$ 150.6	\$ 182.7	\$ 217.8
SG&A (%)	11.1%	13.2%	13.0%	12.8%	13.0%	12.9%
Research & Development	\$ 11.4	\$ 14.7	\$ 17.2	\$ 20.7	\$ 24.9	\$ 29.9
R&D (%)	1.6%	1.8%	1.8%	1.8%	1.8%	1.8%
Depreciation & Amortization	\$ 12.6	\$ 18.9	\$ 22.1	\$ 26.3	\$ 32.2	\$ 38.5
D&A (%)	1.8%	2.3%	2.3%	2.2%	2.3%	2.3%
<b>Operating Income</b>	<b>\$ 107.1</b>	<b>\$ 72.6</b>	<b>\$ 103.5</b>	<b>\$ 125.5</b>	<b>\$ 150.3</b>	<b>\$ 180.5</b>
Operating Income (%)	15.5%	10.7%	10.7%	10.7%	10.7%	10.7%
<b>Income Before Taxes (EBT)</b>	<b>\$ 107.3</b>	<b>\$ 72.6</b>	<b>\$ 103.5</b>	<b>\$ 125.5</b>	<b>\$ 150.3</b>	<b>\$ 180.5</b>
Income Taxes/(Credit)	\$ 36.7	\$ 24.5	\$ 34.9	\$ 42.6	\$ 50.9	\$ 61.1
Tax Rate %	34.2%	33.7%	33.7%	33.9%	33.9%	33.9%
<b>Net Income From Total Operatic</b>	<b>\$ 70.6</b>	<b>\$ 48.1</b>	<b>\$ 68.6</b>	<b>\$ 82.9</b>	<b>\$ 99.4</b>	<b>\$ 119.4</b>
Net Income (%)	10.2%	5.9%	7.1%	7.1%	7.1%	7.1%
<b>Shares and EPS</b>						
Total Basic EPS	\$ 5.50	\$ 3.86	\$ 5.49	\$ 6.63	\$ 7.96	\$ 9.54
Basic Shares Outstanding	12.8	12.5	12.5	12.5	12.5	12.5

I have averaged out NI and EPS and then averaged all the averages to find a projected annual growth of 20.56%. This number is relatively high so I assume it is the largest of the growth rates.

	Average 10 yr	Average 5yr	average 3 year	average of 10/5/3 yr
NI	22.48%	38.55%	24.23%	28.42%
CFO	47.19%	0.00%	10.13%	19.11%
FCF	21.91%	-0.27%	10.20%	10.61%
EPS	21.42%	37.37%	23.36%	27.38%
	Average last five to next five yrs	Average next five yrs	average 3yrs out	average of the averages
NI*	24%	20%	13%	19%
EPS*	24%	20%	13%	19%
Averages of all the Averages gives us total average growth				
<b>20.56%</b>				
* long term historical trend driven analysis [valuation Strategy 1]				

Because there is no debt, WACC is just the cost of equity. Assuming a beta of 1.15, a long term risk free rate of 3%, and expected returns of 8% we find a WACC of 8.75%.

**Price Target \$106.38**

		Discount Rates				
		7.75%	8.25%	8.75%	9.25%	9.75%
Growth Rates	12.00%	\$ 95.11	\$ 91.31	\$ 87.75	\$ 84.41	\$ 81.27
	14.50%	\$ 109.49	\$ 104.92	\$ 100.63	\$ 96.61	\$ 92.85
	16.00%	\$ 115.91	\$ 110.99	<b>\$ 106.38</b>	\$ 102.06	\$ 98.01
	17.50%	\$ 126.33	\$ 120.84	\$ 115.70	\$ 110.89	\$ 106.37
	20.00%	\$ 146.03	\$ 139.45	\$ 133.30	\$ 127.55	\$ 122.15



# LNN: DCF Valuation [Strategy 2]

Strategy 2: The bear case. While it may be a worthwhile exercise to attempt to replicate a long term downturn in the commodities market which may suppress farmer capex and reduce revenues, that seems a bit unlikely (given the natural propensity for human beings to eat and the fact that were already well into a 2yr bear market with prices depressed about 30%) as well as hard to do given my lack of experience with that market. My bear case is based on a duplication of what happened in 09. I simply carried those margins forward.. I find the valuation to be between 57 and 67 which averages out to 62. in that event approximately 20% of the firm would be in cash.

**Price Target of \$62  
of which 20% is in  
cash**

	2014	2015	2016	2017	2018
<b>Income Statement</b>					
<b>Revenue</b>	\$ 483.6	\$ 517.4	\$ 672.7	\$ 773.6	\$ 967.0
<i>% change from prev year</i>	-30.0%	7.0%	30.0%	15.0%	25.0%
<b>Cost of Revenues</b>	\$ 367.62	\$ 374.67	\$ 490.37	\$ 565.16	\$ 709.27
<b>COGS (%)</b>	76.0%	72.4%	72.9%	73.1%	73.3%
<b>Gross Profit</b>	\$ 116.0	\$ 142.8	\$ 182.3	\$ 208.4	\$ 257.7
<b>Gross Income (%)</b>	24.0%	27.6%	27.1%	26.9%	26.7%
<b>Operating Expenses</b>					
Selling, General & Admin. Expenses	\$ 75.05	\$ 76.89	\$ 88.21	\$ 103.18	\$ 106.91
<b>SG&amp;A (%)</b>	15.5%	14.9%	13.1%	13.3%	11.1%
Research & Development	\$ 8.68	\$ 11.25	\$ 14.61	\$ 13.30	\$ 15.95
<b>R&amp;D (%)</b>	1.8%	2.2%	2.2%	1.7%	1.6%
Depreciation & Amortization	\$ 15.02	\$ 15.46	\$ 16.48	\$ 17.50	\$ 17.64
<b>D&amp;A (%)</b>	3.1%	3.0%	2.5%	2.3%	1.8%
<b>Operating Income</b>	\$ 17.2	\$ 39.2	\$ 63.0	\$ 74.4	\$ 117.2
<b>Operating Income (%)</b>	3.6%	7.6%	9.4%	9.6%	12.1%
Income Taxes/(Credit)	\$ 5.63	\$ 12.69	\$ 21.97	\$ 24.96	\$ 40.13
<b>Tax Rate %</b>	32.7%	32.4%	34.9%	33.5%	34.2%
<b>Earnings After Taxes</b>	\$ 11.6	\$ 26.5	\$ 41.0	\$ 49.5	\$ 77.1
<b>Net Income (%)</b>	2.4%	5.1%	6.1%	6.4%	8.0%
<b>Shares and EPS</b>					
Total Basic EPS	\$ 0.93	\$ 2.12	\$ 3.16	\$ 3.81	\$ 5.93
Basic Shares Outstanding	12.5	12.5	13.0	13.0	13.0

# LNN: DCF Valuation [Strategy 3]

Strategy 2: The bull case: This assumes no financial engineering or change in the company what so ever. There is an implied annual growth of around 17% which is in line with historical averages and reinforced by a rebound in commodity prices. The macro factors to support such a valuation include Europe continuing to recover at its current rate, a consistent growth and government support for emerging market farmers, as well as increased or sustained housing/property prices here in the US for which is the largest wealth determinant for farmers and as such the largest determinant for reinvestment. This is my bull case but in now way is unrealistically bullish, especially if you consider that the past few years have caused some hesitation in investment on the behalf of farmers and ther is pent up demand in that market. Finally, this assumes no major rebound in the infrastructure segment.

**Price Target \$112**

	2014	2015	2016	2017	2018
<b>Income Statement</b>					
<b>Revenue</b>	\$ 829.0	\$ 994.8	\$ 1,243.5	\$ 1,554.4	\$ 1,943.0
<i>% change from prev year</i>	20.0%	20.0%	25.0%	25.0%	25.0%
<b>Cost of Revenues</b>	\$ 588.60	\$ 716.27	\$ 882.90	\$ 1,119.17	\$ 1,360.11
<b>COGS (%)</b>	71.0%	72.0%	71.0%	72.0%	70.0%
<b>Gross Profit</b>	\$ 240.4	\$ 278.5	\$ 360.6	\$ 435.2	\$ 582.9
<b>Gross Income (%)</b>	29.0%	28.0%	29.0%	28.0%	30.0%
<b>Operating Expenses</b>					
Selling, General & Admin. Expenses	\$ 91.19	\$ 119.38	\$ 174.09	\$ 233.16	\$ 291.45
<b>SG&amp;A (%)</b>	11.0%	12.0%	14.0%	15.0%	15.0%
Research & Development	\$ 16.58	\$ 19.90	\$ 24.87	\$ 31.09	\$ 38.86
<b>R&amp;D (%)</b>	2.0%	2.0%	2.0%	2.0%	2.0%
Depreciation & Amortization	\$ 14.92	\$ 19.90	\$ 24.87	\$ 31.09	\$ 38.86
<b>D&amp;A (%)</b>	1.8%	2.0%	2.0%	2.0%	2.0%
<b>Operating Income</b>	\$ 117.7	\$ 119.4	\$ 136.8	\$ 139.9	\$ 213.7
<b>Operating Income (%)</b>	14.2%	12.0%	11.0%	9.0%	11.0%
<b>Tax Rate %</b>	34.0%	34.0%	34.0%	34.0%	34.0%
<b>Earnings After Taxes</b>	\$ 77.7	\$ 78.8	\$ 90.3	\$ 92.3	\$ 141.1
<b>Net Income (%)</b>	9.4%	7.9%	7.3%	5.9%	7.3%
<b>Shares and EPS</b>					
Total Basic EPS	\$ 6.23	\$ 6.31	\$ 6.94	\$ 7.10	\$ 10.85
Basic Shares Outstanding	12.5	12.5	13.0	13.0	13.0

# Lindsay Without the Infrastructure Segment

Of the many catalysts for Lindsay Corp to become the best company it can be, this one must be the most obvious. The infrastructure segment does not fit well with the overall resource base of the firm. I will admit that it may offer solace in times of agricultural turmoil (not unlike the last two years in terms of corn prices). If the segment doesn't make money, it cannot offer much of a shield, and thus the segment should be severed from the host. So what is the infrastructure segment worth?

	2013	2012	2011	2010	2009	2008
Assets	120,769	111,790	113,869	118,596	121,339	125,355
Revenue	64,852	75,956	108,960	99,774	80,721	100,181
COGS	65,663	75,967	97,059	88,691	80,757	90,557
Operating Revenue	-811	-11	11,901	11,083	-36	9,624
Capex	449	1,948	2,915	2,659	4,819	9,731

In the right hands, the cost to generate earnings can be greatly reduced. Furthermore the ability to generate revenues can be greatly enhanced if the segment were owned by a firm with stronger industry connections. This firm could conservatively sell for 1x revenue (average trailing three years) which would amount to approximately 80 million. We could also assume (conservatively) that the firm could sell at 1x book (averaged over the last three years) which amounts to around 115 million dollars. Alternatively we could assume the firm could trade at around 6x EBITDA. Evident by the above table, the profits are chopped; earnings are either 10 mil or nothing. Assuming an average 5 mil EBITDA we could find a valuation of around 30 million. Taking the average between the three valuation assessments, the infrastructure segment of LNN could sell for about 75 million.

We observe that the average Capex contribution from infrastructure over the last 6 years has been 37%. Thus we reduced the SG&A and R&D line by that percentage. As for D&A, the 10-k lays out the exact contribution from each segment. We see substantial improvement to the balance sheet and income statement on nearly every line item.. Simply divesting the infrastructure business should award the firm a \$20 premium to where it currently trades today. Furthermore, the cash position only factors in the sales price of the company and not the benefits to the CF statement. This was left out for means of conservatism.

	2013
<b>Balance Sheet</b>	
Cash and Equiv	\$ 231.9
<b>Total Assets</b>	<b>\$ 472.3</b>
<b>Total Liabilities</b>	<b>\$ 101.4</b>
<b>Total Equity</b>	<b>\$ 370.9</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 472.3</b>

EPS \$5.50 -> \$6.78  
 Price \$80 -> \$101  
 NI/rev 10.2% -> 13.9%  
 Cash % Assets 49%

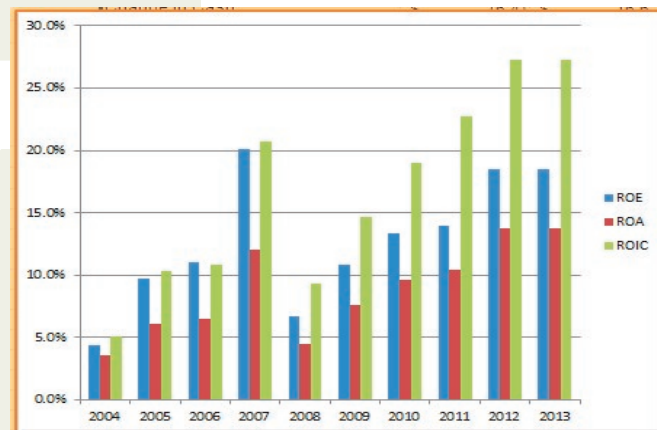
	2013
<b>Income Statement</b>	
<b>Revenue</b>	<b>\$ 626.0</b>
Cost of Revenues	\$ 430.4
<b>Gross Profit</b>	<b>\$ 195.6</b>
<i>Gross Income (%)</i>	<i>31.3%</i>
<b>Operating Expenses</b>	
Selling, General & Admin. Expenses	\$ 48.1
Research & Development	\$ 7.2
EBITDA	\$ 140.3
D&A	\$ 6.5
<b>Operating Income</b>	<b>\$ 133.8</b>
<i>Operating Income (%)</i>	<i>21.4%</i>
Income Taxes/(Credit)	\$ 46.83
<i>Tax Rate %</i>	<i>35.0%</i>
<b>Earnings After Taxes</b>	<b>\$ 87.0</b>
<b>Net Income From Total Operations</b>	<b>\$ 87.0</b>
<i>Net Income (%)</i>	<i>13.9%</i>
<b>Shares and EPS</b>	
Total Basic EPS	\$ 6.78
Basic Shares Outstanding	12.8



# - - - Putting Valuation in Perspective - - -

First, let us think about the valuation at hand. There is a strong trend in ROE, ROA, and ROIC growth. In 2004 all those metrics lay under 5%, in 2013, ROE stood at 17%, ROA at 13.5%, and ROIC at 26%. The five year trend reflects growth in each metric YoY no thanks to the inefficient means of capital allocation mentioned earlier. So, for a firm who in five years has more than doubled ROA and effectively tripled ROE and ROIC, why do they trade at significant discounts to their 10 year averages?. Perhaps that is to far. Looking to their five year average P/E, EV/EBITDA and P/CF ratio they trade at a 10-15% discount. LNN trades at a slight premium (2-8%) on an EV/FCF, P/S, and P/BV ratio. It would be certain that had they not made a 30 million acquisition of Claude Laval the EV/FCF ratio would be at a discount and P/BV doesn't surprise given how much of book is cash. P/S ratio is flat. An interesting observation is that LNN's most consistent valuation metric has been P/S. Their 10yr average is 1.55x, 5yr average is 1.5x and 3 year average is 1.55x. The standard deviation over the 10 year observation period is .12 suggesting an incredibly stable valuation metric. In fact, this is the only valuation metric of the standard ratios that is statistically significant over a 10 year period. We now draw our attention to the five year average where P/S is still the most statistically significant and stable with a standard deviation of .1. Second is tangible book value with a standard deviation of .293 (remember, stand deviation is relative to the scale of the observation!). Third in line is Price/FCF and EV/FCF at 2.53 and 2.188 standard deviations. Lastly, we will include EV/EBITDA with a standard deviation of .98. The three year average observations confirm the relative same hierarchy with the exception of EV/EBITDA loosing its spot to ROIC and tied with ROE.

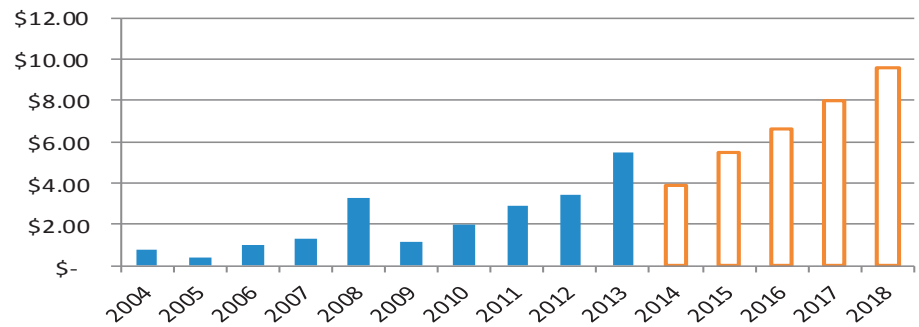
- Doubled ROA and Tripled ROIC in the last five years
- At 2014 revenue in the Strategy 1 case, LNN is worth \$101 on a price to sales basis (the most consistent metric for which LNN stock behaves.
- Trades at significant discount to its long run EV/EBITDA ratio
- ROIC average is up significantly



	10yr Average	5yr Average	3yr Average
P/E	26.30	17.82	16.78
P/E (cash adjusted)	22.57	15.04	14.24
EV/EBITDA	12.36	8.42	8.22
EV/Free Cash Flow	11.92	19.37	18.78
P/S	1.55	1.50	1.55
P/BV	2.85	2.61	2.79
P/Tang BV	3.68	3.27	3.44
P/CF	16.70	13.41	13.22
P/FCF	14.32	22.69	22.05
ROE	0.13	0.15	0.17
ROA	0.09	0.11	0.13
ROIC	0.17	0.22	0.26
CROIC	0.14	0.17	0.19

# LNN Valuation : On an Earnings Basis

## Earnings per Share



When using a multiples based analysis one must ask themselves two questions; What is the correct multiple and what is the holding period. Let us address each question separately.

1) What is the correct multiple?

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Average		
P/E	32.56	57.52	29.25	29.36	21.92	35.84	19.50	19.25	20.73	14.45	10yr	5yr	3yr
P/E (cash adjusted)	30.00	49.32	24.68	26.25	20.63	29.63	16.15	16.31	17.41	12.29	24.27	18.36	15.34

Little can be deduced from the above information with the exception that we currently trade at all time lows as a multiple of earnings. This may be because 2014 is anticipated to be a poor year. One way to consider the earnings multiple would be to look at 2009 and 2010, the last time earnings took a dive. Trading between 35 and 20x in the 09/10' may be guidance for what is to come in 2014. if 2014 is like 2009, one could derive a target price of \$130 (which may be a bit over ambitious). Looking to 2015, we could see a target price of \$100 (which is much more in line with my expectations. All in all, I think a multiple of 20x earnings when we consider the 2013 performance metrics to the left. Certainly the market average multiple must be the minimum given the strong balance sheet and earnings potential of the firm.

2) What is the holding period

	P/E Multiple				
	12	14	16	18	20
2016	\$ 79.60	\$ 92.87	\$ 106.14	\$ 119.40	\$ 132.67
2018	150.084	175.098	200.112	225.126	250.1399
	average annualized return next 3 & 5 yrs				
3yr	-0.16%	5.05%	9.78%	14.13%	18.17%
5yr	13.41%	16.96%	20.13%	22.99%	25.61%

LNN Snapshot	
Fundamental Ratios	2013
P/E	14.45
P/E (cash adjusted)	12.29
EV/EBITDA	7.25
EV/Free Cash Flow	18.71
P/S	1.48
P/BV	2.68
P/CF	11.85
P/FCF	21.99
ROE	18.5%
ROA	13.8%
ROIC	27.3%
Current Ratio	3.61
Total Debt/Equity Ratio	0.00

The above table may be read as follows. Assuming the EPS found in the DCF Strategy 1 case, we multiply those out in 2016 and 2018 by the above multiples. I believe this stock will trade between 12 and 20x for the rest of its existence as is, unless financial engineering or other shareholder rewarding schemes are implemented. If you were to buy the stock today, hold it for 3 or five years depending on your particular time horizon, you will earn the above annualized returns. The value proposition comes in long term holding periods at higher multiples, this is consistent with investment theory and basic mathematics

I believe LNN can return around 15% annualized return for the next five years which should outperform the long term S&P average return by about 2x.





# What LNN Could Trade at Given a More Shareholder Friendly Capital Allocation (1)

## - Sale of Infrastructure Business with a share buyback

### 1) Sell the Infrastructure Business

2013	
<b>Balance Sheet</b>	
Cash and Equiv	\$231.9
<b>Total Assets</b>	<b>\$472.3</b>
<b>Total Liabilities</b>	<b>\$101.4</b>
<b>Total Equity</b>	<b>\$370.9</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$472.3</b>

Given the Infrastructure business does nothing to enhance shareholder value, we can see significant enhancements to the company by removing it. Looking to the left, we have a sample balance sheet given the sale of the assets of the firm for \$80 million cash (logic can be found by referring to Strategy 4). The income statement is repair as margins are no longer compromised by the unproductive business.

2013	
<b>Income Statement</b>	
Revenue	\$ 626.0
Gross Profit	\$ 195.6
Operating Expenses	
Operating Income	\$ 133.8
Earnings After Taxes	\$ 87.0
Net Income From Total Operations	\$ 87.0
<b>Shares and EPS</b>	
Total Basic EPS	\$ 6.78
Basic Shares Outstanding	12.8

### 2) Deploy Cash to Shareholders

There are many avenues that LNN can take to deploy cash back to shareholders. The three most common are share buybacks, dividends, and special dividends. I tend to be a fan of share buybacks and am not a fan of dividends. Share buybacks occur without tax penalty (or at least without significant tax penalty) and are thus some 30% more accretive to shareholders.

Scenario 1) 100% special dividend of \$15 a share leaving 50 million in cash on the balance sheet. Results in shareholder reward of approximately 20%

Scenario 2) 100% share buyback at an average price of \$100 a share leaving 50 million in cash. This would bring the Basic shares down to 11 million and EPS up to 7.90. at 15x it would be \$118 .. At the target 20x multiple it would be \$158

The sale of the Infrastructure business followed by a \$180 million deployment of cash can net shareholders between \$100-\$160 a share depending on the method and price multiple of earnings



## What LNN Could Trade at Given a More Shareholder Friendly Capital Allocation (1) - Go Private

Lindsay Corp is a perfect candidate to be a private company. Whether through a management led buyout, a private equity firm, or a larger competitor looking to enter the space such as Monsanto or Agrium, LNN would be an even more profitable company private (or in the hands of another firm) than public given the cost to list and the limited reputational add (given the industry) of being a public company.

### 1) For an Industry Participant

In addition to deploying water, LNN irrigation systems also deploy nutritional chemicals and fertilizers. The acquisition of this company by a competing firm, such as an Agrium, would provide them with cross selling opportunities. By splitting off the infrastructure system and reducing redundant costs (nearly everyone at the company can be replaced) the competitor could gain access to quality revenue generation (through the advanced distributions system) and product offerings. At a standard 30% premium to current trading price (less the cost of the cash on the balance sheet) it would cost a mere \$100 a share awarding shareholders a 30% gain.

### 1) Buyout Valuation

Kerrisdale Capital performed analysis on this Lindsay Corp ( <http://kerrisdalecap.com/wp-content/uploads/2013/10/Lindsay-Corp-LNN.pdf> ). On p. 36 they created a LBO model and derived a price of \$107. The forecasts are very conservative and 2013 information had not fully been recognized yet which has been better than expectation. Using the model found on that page and updating for known information, as well as a higher required rate of return, an ending EBITDA of 220 m, and higher debt on the balance sheet we can get to closer to \$112 a share.

**The Go– Private strategy results in a price target of around \$110**





# A 2015 Guess on the Price of Corn

We know the 2014/2015 planted yield is around 92 mil acres. So what of the price of corn? Assuming demand grows at the rate that it has over the various uses we are left to guess the amount of acres to be harvested and the yield.

The planting season is stated as you would a school year (example 2003/2004). For the sake of convenience I will describe it as the harvest so that 2003/2004 is 2004

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E
Acres Planted (mil acres)	78.9	78.6	80.9	81.8	78.3	93.5	86	86.4	88.2	91.9	97.2	95.3	92
Acres Harvested	69.3	70.9	73.6	75.1	70.6	86.5	78.6	79.5	81.4	84	87.4	87.2	83
Yield/Bushels	129.3	142	160.4	148	149.1	150.7	153.9	164.7	152.8	147.2	123.4	160.4	145
Beginning excess capacity	1596	1080.49	931.29	2089.73	1949.53	1284.99	1598.54	1654.08	1696.73	1094.65	946.45	638.61	1590.49
Production	8960.49	10067.8	11805.44	11114.8	10526.46	13035.55	12096.54	13093.65	12437.92	12364.8	10785.16	13986.88	12035
Imports	15	15	15	15	15	15	15	15	15	15	15	15	15
Supply	10571.49	11163.29	12751.73	13219.53	12490.99	14335.54	13710.08	14762.73	14149.65	13474.45	11746.61	14640.49	13640.49
Use:													
Feed & Residual	5563	5798	6158	6155	5591	5913	5182	5125	4795	4557	4333	5200	5200
Food, seed, industrial	2340	2537	2686	2981	3490	4387	5025	5961	6426	6428	6044	6400	6976
Ethanol	996	1168	1323	1603	2119	3049	3709	4591	5019	5000	4648	4950	5445
Domestic consumption	7903	8335	8844	9136	9081	10300	10207	11086	11221	10985	10377	11600	12029.94
Exports	1588	1897	1818	2134	2125	2437	1849	1980	1834	1543	731	1450	1519.054
Total Use	9491	10232	10662	11270	11206	12737	12056	13066	13055	12528	11108	13050	13475.49
Ending Stock	1080.49	931.29	2089.73	1949.53	1284.99	1598.54	1654.08	1696.73	1094.65	946.45	638.61	1590.49	164.9994
price a bushel	2.32	2.42	2.06	2	3.04	4.2	4.06	3.55	5.18	6.22	6.89	4.4	5

Data with the exception of 2015E is from [http://firm.msue.msu.edu/uploads/files/Jim/Mfn121213\\_for\\_pdf.pdf](http://firm.msue.msu.edu/uploads/files/Jim/Mfn121213_for_pdf.pdf)

Given the mutli-year depression in corn prices and the relative stability of soybean, it is likely we will see a move to soybean production. It is surprisingly easy to switch crop and we have seen similar patterns in South America where their season is under way. Alternative crop options are flax which is in line with is longer term average and has a lower cost to produce. There is some debate over corn consumption for ethanol use but I will stick with the slightly over 5B estimate produced by Wells Fargo. Note that cattle futures are continuing to rise and it is likely we will see more cattle come online which promotes corn consumption. Ultimately feed acres should have strong demand an thus the price will be largely dependent on yield. The rise in Potash prices will likely also push crop prices higher as farmers push that new cost off to consumers. The Colorado river cannot get a break as it is about to face its 14th straight year of drought. As the east coast has been plummeted with severe weather, the west has had a poor snowfall which will reduce runoff and keep water levels low possibly requiring Lake Mead to be used as a water supplementation reservoir given that the Colorado river is the lifeline of the American West.

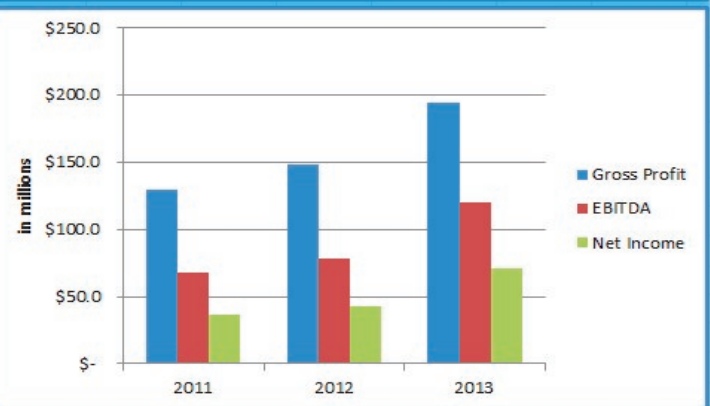
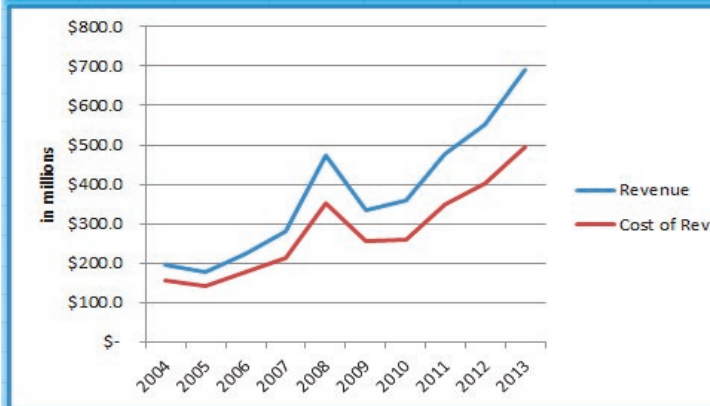
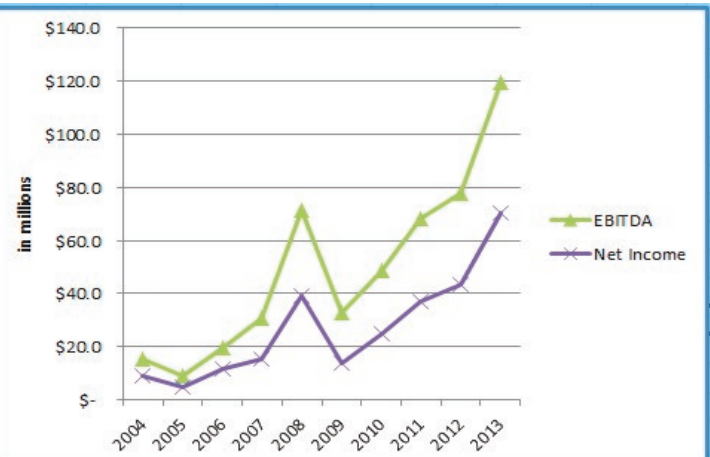
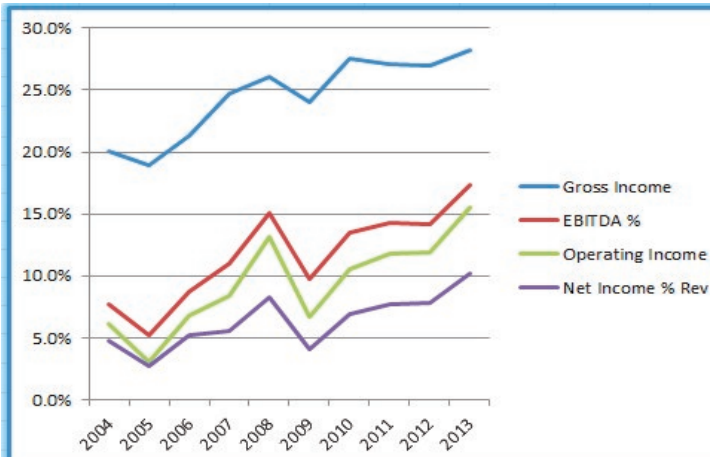
This idea that the world has plenty of grain stocks is a ridiculous notion and I suspect that we will see a massive reduction in ending stock. The World Weather inc suggests that all the quality rains that South America has enjoyed have been in areas where corn doesn't grow. One concern is that China has rejected massive amounts of attempted corn exports due to GMO concerns. This is a key risk that may drive corn prices the wrong way as 90% of our trade growth is with China who has been the buyer of choice.

If you are a good producer (that is to say you have the requisite technologies), you will make money in this industry.

# LNN: Historical Income Statement

Lindsay has generated average annual revenue growth of 13.8%. EBITDA growth has increased at 23% annually and EPS has increased at 21% annually. Lindsay Corp has been able to not just grow revenues, but to have that growth transfer to the bottom line. The financial crisis wasn't kind to LNN costing them more than half of their EPS. However, since the 2009 bottom on earnings, LNN has grown EPS by an average annualized rate of 48.7%.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Income Statement</b>										
<b>Revenue</b>	\$ 196.7	\$ 177.3	\$ 226.0	\$ 281.9	\$ 475.1	\$ 336.2	\$ 358.4	\$ 478.9	\$ 551.3	\$ 690.8
<b>Cost of Revenues</b>	\$ 157.2	\$ 143.7	\$ 177.8	\$ 212.1	\$ 351.3	\$ 255.6	\$ 259.5	\$ 349.1	\$ 402.7	\$ 496.0
<b>Gross Profit</b>	\$ 39.5	\$ 33.6	\$ 48.2	\$ 69.7	\$ 123.8	\$ 80.6	\$ 98.9	\$ 129.8	\$ 148.5	\$ 194.8
<b>Gross Income (%)</b>	20.1%	18.9%	21.3%	24.7%	26.1%	24.0%	27.6%	27.1%	26.9%	28.2%
<b>Operating Expenses</b>										
Selling, General & Admin. Expenses	\$ 24.6	\$ 25.4	\$ 30.0	\$ 41.3	\$ 55.2	\$ 52.2	\$ 53.3	\$ 62.8	\$ 73.5	\$ 76.4
Research & Development	\$ 2.9	\$ 2.7	\$ 2.7	\$ 4.7	\$ 6.4	\$ 6.0	\$ 7.8	\$ 10.4	\$ 9.5	\$ 11.4
<b>EBITDA</b>	\$ 15.2	\$ 9.2	\$ 19.8	\$ 31.0	\$ 71.5	\$ 32.9	\$ 48.6	\$ 68.3	\$ 78.0	\$ 119.7
<b>EBITDA (%)</b>	7.7%	5.2%	8.8%	11.0%	15.0%	9.8%	13.5%	14.3%	14.1%	17.3%
Other Special Charges	\$ -	\$ -	\$ 0.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation & Amortization	\$ 3.1	\$ 3.7	\$ 4.3	\$ 7.2	\$ 9.2	\$ 10.4	\$ 10.7	\$ 11.7	\$ 12.5	\$ 12.6
<b>Operating Income</b>	\$ 12.0	\$ 5.5	\$ 15.5	\$ 23.8	\$ 62.2	\$ 22.4	\$ 37.8	\$ 56.6	\$ 65.5	\$ 107.1
<b>Operating Income (%)</b>	6.1%	3.1%	6.9%	8.4%	13.1%	6.7%	10.6%	11.8%	11.9%	15.5%
<b>EBIT</b>	\$ 13.8	\$ 7.0	\$ 17.4	\$ 26.5	\$ 64.1	\$ 22.6	\$ 38.3	\$ 57.3	\$ 65.6	\$ 107.6
Income Taxes/(Credit)	\$ 4.5	\$ 2.1	\$ 5.7	\$ 8.5	\$ 21.7	\$ 6.7	\$ 11.9	\$ 19.7	\$ 21.8	\$ 36.7
<b>Tax Rate %</b>	32.5%	30.4%	32.8%	35.3%	35.5%	32.7%	32.4%	34.9%	33.5%	34.2%
<b>Earnings After Taxes</b>	\$ 9.3	\$ 4.8	\$ 11.7	\$ 15.6	\$ 39.4	\$ 13.8	\$ 24.9	\$ 36.8	\$ 43.3	\$ 70.6
Minority Interest Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Income From Continuing Operations</b>	\$ 9.3	\$ 4.8	\$ 11.7	\$ 15.6	\$ 39.4	\$ 13.8	\$ 24.9	\$ 36.8	\$ 43.3	\$ 70.6
<b>Net Income From Total Operations</b>	\$ 9.3	\$ 4.8	\$ 11.7	\$ 15.6	\$ 39.4	\$ 13.8	\$ 24.9	\$ 36.8	\$ 43.3	\$ 70.6
<b>Net Income (%)</b>	4.7%	2.7%	5.2%	5.5%	8.3%	4.1%	6.9%	7.7%	7.9%	10.2%
<b>Shares and EPS</b>										
Total Basic EPS	\$ 0.79	\$ 0.42	\$ 1.01	\$ 1.34	\$ 3.30	\$ 1.12	\$ 2.00	\$ 2.93	\$ 3.41	\$ 5.50
Dividends Paid Per Share	\$ 0.21	\$ 0.23	\$ 0.25	\$ 0.27	\$ 0.29	\$ 0.31	\$ 0.33	\$ 0.35	\$ 0.39	\$ 0.48
Basic Shares Outstanding	11.8	11.6	11.5	11.6	11.9	12.3	12.5	12.6	12.7	12.8





# Lindsay Corp: Historical CF Statement

The major theme in the story of Lindsay Corp is cash, thus it is fitting to spend a moment reviewing their spend over the last decade. LNN has generated positive net cash for 4 out of the last five years which is a fear for any firm combating the struggle of the recent crisis. FCF has been positive for eight of the last nine years in which 07 had very high capex. Acquisitions make up a majority of cash flow from investing and now that there is no debt, we can assume cash flow from financing will remain low. LNN should continue to generate mid 40-50 million in FCF for the foreseeable future. In just seven years (without intervention from shareholders) this firm can be expected to have the cash balance equivalent to its current book value.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Cash Flows Statement</b>										
<b>Cash Flows From Operating Activities</b>										
Net Income	\$ 9.3	\$ 4.8	\$ 11.7	\$ 15.6	\$ 39.4	\$ 13.8	\$ 24.9	\$ 36.8	\$ 43.3	\$ 70.6
Depreciation & Amortization	\$ 3.1	\$ 3.7	\$ 4.3	\$ 7.2	\$ 9.2	\$ 10.4	\$ 10.7	\$ 11.7	\$ 12.5	\$ 12.6
(Incr) Decr. in Receivables	\$ (11.5)	\$ 6.2	\$ (5.2)	\$ (3.5)	\$ (37.3)	\$ 43.3	\$ (22.3)	\$ (12.6)	\$ (7.6)	\$ (36.6)
(Incr) Decr. in Inventories	\$ 0.9	\$ 0.8	\$ (2.0)	\$ (10.9)	\$ (8.0)	\$ 7.7	\$ 0.8	\$ (1.8)	\$ (5.6)	\$ (10.0)
<b>Net Cash From Operating Activities</b>	<b>\$ 1.2</b>	<b>\$ 11.8</b>	<b>\$ 14.4</b>	<b>\$ 10.1</b>	<b>\$ 30.5</b>	<b>\$ 57.5</b>	<b>\$ 23.8</b>	<b>\$ 43.1</b>	<b>\$ 52.4</b>	<b>\$ 57.5</b>
<b>Cash Flows From Investing Activities</b>										
Capital Expenditures	\$ (5.0)	\$ (4.1)	\$ (3.6)	\$ (14.6)	\$ (14.1)	\$ (10.5)	\$ (5.8)	\$ (8.4)	\$ (9.9)	\$ (11.1)
Acquisitions	\$ (1.0)	\$ -	\$ (34.4)	\$ (16.7)	\$ (21.0)	\$ (3.1)	\$ (6.4)	\$ (6.2)	\$ -	\$ (29.0)
<b>Net Cash From Investing Activities</b>	<b>\$ (5.7)</b>	<b>\$ 13.2</b>	<b>\$ (24.2)</b>	<b>\$ (42.7)</b>	<b>\$ (6.3)</b>	<b>\$ (12.7)</b>	<b>\$ (9.7)</b>	<b>\$ (15.6)</b>	<b>\$ (6.8)</b>	<b>\$ (41.1)</b>
<b>Cash Flows From Financing Activities</b>										
Dividends Paid	\$ (2.4)	\$ (2.6)	\$ (2.8)	\$ (3.1)	\$ (3.4)	\$ (3.8)	\$ (4.1)	\$ (4.3)	\$ (4.9)	\$ (6.1)
<b>Cash from Financing</b>	<b>\$ (1.9)</b>	<b>\$ (8.6)</b>	<b>\$ 27.7</b>	<b>\$ 9.5</b>	<b>\$ 5.2</b>	<b>\$ (9.8)</b>	<b>\$ (16.2)</b>	<b>\$ (3.4)</b>	<b>\$ (8.8)</b>	<b>\$ (8.0)</b>
Cash at Beginning of the Period	\$ 15.4	\$ 9.0	\$ 25.6	\$ 43.3	\$ 21.0	\$ 50.8	\$ 85.9	\$ 83.4	\$ 108.2	\$ 143.4
Change in Cash	\$ (6.4)	\$ 16.6	\$ 17.8	\$ (22.3)	\$ 29.7	\$ 35.2	\$ (2.5)	\$ 24.7	\$ 35.3	\$ 8.5
<b>Free Cash Flow</b>										
Cash from Operations	\$ 1.2	\$ 11.8	\$ 14.4	\$ 10.1	\$ 30.5	\$ 57.5	\$ 23.8	\$ 43.1	\$ 52.4	\$ 57.5
Cap Ex	\$ 5.0	\$ 4.1	\$ 3.6	\$ 14.6	\$ 14.1	\$ 10.5	\$ 5.8	\$ 8.4	\$ 9.9	\$ 11.1
<b>Free Cash Flow</b>	<b>\$ (3.8)</b>	<b>\$ 7.7</b>	<b>\$ 10.8</b>	<b>\$ (4.5)</b>	<b>\$ 16.4</b>	<b>\$ 47.0</b>	<b>\$ 18.0</b>	<b>\$ 34.7</b>	<b>\$ 42.5</b>	<b>\$ 46.4</b>



# Lindsay Corp: Historical Balance Sheet

Over the last 10 years Lindsay Corp has managed to grow cash, total assets, and owners equity at an annual rate of 32%, 14%, and 13% respectively. Of the annualized 13% growth of the balance sheet, only 2% points of that is due to acquisition. It is not in the normal way of technology that firms can continue to grow in the double digits for over a decade by organic means. This suggests the power of the natural duopoly for which LNN and VMI are engaged. You will notice that receivables and inventories have been managed well and have been stable over the last ten years. About 30% of book is cash.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Balance Sheet</b>										
<b>Assets</b>										
Cash and Equiv	\$ 9.0	\$ 25.6	\$ 43.3	\$ 21.0	\$ 50.8	\$ 85.9	\$ 83.4	\$ 108.2	\$ 143.4	\$ 151.9
Net Receivables	\$ 34.4	\$ 28.9	\$ 38.1	\$ 47.0	\$ 88.4	\$ 42.9	\$ 63.6	\$ 79.0	\$ 82.6	\$ 120.3
Inventories	\$ 19.8	\$ 19.3	\$ 26.8	\$ 41.1	\$ 53.4	\$ 46.3	\$ 45.3	\$ 49.5	\$ 52.9	\$ 68.6
Other Current Assets	\$ 2.4	\$ 3.0	\$ 3.9	\$ 7.0	\$ 7.9	\$ 7.6	\$ 8.9	\$ 12.4	\$ 10.5	\$ 15.3
<b>Total Current Assets</b>	<b>\$ 81.4</b>	<b>\$ 94.2</b>	<b>\$ 122.4</b>	<b>\$ 149.8</b>	<b>\$ 208.6</b>	<b>\$ 189.5</b>	<b>\$ 208.0</b>	<b>\$ 257.7</b>	<b>\$ 298.9</b>	<b>\$ 368.8</b>
<b>Net Fixed Assets</b>	<b>\$ 16.4</b>	<b>\$ 17.3</b>	<b>\$ 27.0</b>	<b>\$ 44.3</b>	<b>\$ 57.6</b>	<b>\$ 59.6</b>	<b>\$ 57.6</b>	<b>\$ 58.5</b>	<b>\$ 56.2</b>	<b>\$ 65.1</b>
Intangible Assets	\$ -	\$ -	\$ 21.2	\$ 25.8	\$ 30.8	\$ 29.1	\$ 27.7	\$ 28.6	\$ 25.1	\$ 36.0
Goodwill	\$ -	\$ -	\$ 11.1	\$ 16.8	\$ 24.4	\$ 24.2	\$ 27.4	\$ 30.9	\$ 30.0	\$ 37.4
Total Long-Term Assets	\$ 57.6	\$ 40.6	\$ 69.8	\$ 92.4	\$ 118.3	\$ 118.4	\$ 117.5	\$ 123.5	\$ 116.7	\$ 143.5
<b>Total Assets</b>	<b>\$ 139.0</b>	<b>\$ 134.8</b>	<b>\$ 192.2</b>	<b>\$ 242.2</b>	<b>\$ 326.9</b>	<b>\$ 307.9</b>	<b>\$ 325.5</b>	<b>\$ 381.1</b>	<b>\$ 415.5</b>	<b>\$ 512.3</b>
<b>Liabilities &amp; Stockholders' Equity</b>										
Accounts payable	\$ 9.1	\$ 6.7	\$ 9.6	\$ 18.4	\$ 32.8	\$ 20.0	\$ 26.5	\$ 32.2	\$ 31.4	\$ 42.3
<b>Total Current Liabilities</b>	<b>\$ 24.5</b>	<b>\$ 20.1</b>	<b>\$ 37.5</b>	<b>\$ 51.5</b>	<b>\$ 82.4</b>	<b>\$ 59.2</b>	<b>\$ 67.1</b>	<b>\$ 79.3</b>	<b>\$ 80.4</b>	<b>\$ 102.1</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 2.3</b>	<b>\$ 5.4</b>	<b>\$ 33.9</b>	<b>\$ 49.7</b>	<b>\$ 48.5</b>	<b>\$ 41.1</b>	<b>\$ 28.8</b>	<b>\$ 26.2</b>	<b>\$ 24.3</b>	<b>\$ 29.6</b>
<b>Total Liabilities</b>	<b>\$ 26.8</b>	<b>\$ 25.5</b>	<b>\$ 71.3</b>	<b>\$ 101.2</b>	<b>\$ 131.0</b>	<b>\$ 100.2</b>	<b>\$ 95.9</b>	<b>\$ 105.5</b>	<b>\$ 104.7</b>	<b>\$ 131.7</b>
Retained Earnings	\$ 181.2	\$ 183.4	\$ 192.3	\$ 204.8	\$ 239.7	\$ 249.6	\$ 270.3	\$ 302.7	\$ 341.1	\$ 405.6
<b>Total Equity</b>	<b>\$ 112.2</b>	<b>\$ 109.3</b>	<b>\$ 120.9</b>	<b>\$ 141.0</b>	<b>\$ 195.9</b>	<b>\$ 207.7</b>	<b>\$ 229.6</b>	<b>\$ 275.7</b>	<b>\$ 310.8</b>	<b>\$ 380.6</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 139.0</b>	<b>\$ 134.8</b>	<b>\$ 192.2</b>	<b>\$ 242.2</b>	<b>\$ 326.9</b>	<b>\$ 307.9</b>	<b>\$ 325.5</b>	<b>\$ 381.1</b>	<b>\$ 415.5</b>	<b>\$ 512.3</b>

