

## Breeze-Eastern Corporation

Amex: BZC

**Analyst:** Matthew Darcy

**Sector:** Industrials

**BUY**

Price Target: \$12.72

### Key Statistics as of 3/12/2015

Market Price:	\$10.13
Industry:	Aerospace and Defense
Market Cap:	\$99.43 M
52-Week Range:	\$15.15-9.01
Beta:	.513

### Thesis Points:

- Large profit margins
- Having zero debt, and excess cash gives the firm financial stability

### Company Description:

Breeze-Eastern Corporation manufactures, sells, and services a line of helicopter rescue hoists, cargo winches, cargo hook systems, mechanical components, hold open rods, and motion control systems. The company sells to the U.S. and Foreign militaries, civilian agencies, and aerospace contractors. The U.S. Government makes up 30% of net sales. They sell to helicopter manufactures as well as end users. Breeze-Eastern was founded in 1962, and is a global company. 56.8% of its revenue comes from the U.S. 72.4% of its revenue comes from the sale of products, while 27.6% comes from servicing those products. They are used in search and rescue missions, as well as transportation of cargo. The companies importance on search and rescue missions, allows a case to be made for a socially responsible portfolio.



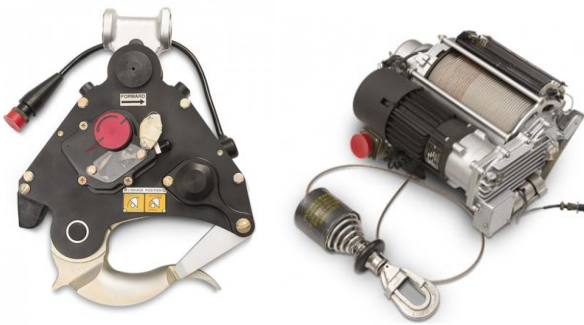
## Thesis

Breeze-Eastern Corporation is a company that has impressively large profit margins, and high cash flows, which it has used to completely pay off its debt. The company is worth \$12.25, when its current price is only \$10.13. It is an impressively stable company, and is a great investment opportunity for investors who do not mind the low liquidity. Breeze-Eastern is a BUY.

## Porter's Five Forces

Briefly analyzing the forces that affect this company, one can see that there are moderate forces coming from competition in this market.

There are no foreseeable substitutes for this company's products. When a search and rescue team needs to rescue someone via helicopter there is no other way to get back into the helicopter than to be pulled back up, with the help of a hoist. Cargo hooks may be more substitutable; there are many other ways to transport goods than by helicopter.



Threat from new entrants can be seen as moderate, because there is not anything stopping new companies from arising. However, it may be difficult for new companies to gain the trust of customers, as the products being sold must be extremely reliable.

The company has a low threat from supplier bargaining power. As stated in the 10 K the company's raw materials and components are "generally available from more than one source." They also explain that those items that come from a single source could be redesigned, and the company often stocks a larger supply of these items.

Threat from customer bargaining power is moderate. The company has 3 large customers that make up over 10% of sales, each, including 30% of sales coming from the U.S. government. However 81% of the company's sales come from U.S. and foreign government end users. Generally speaking governments have inelastic demand, that is, they will pay whatever they have to, in order to maintain the stability of their country.

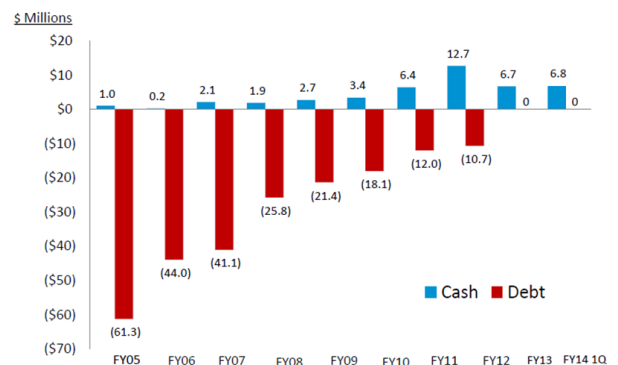
All in all, there is moderate pressure on this company from competition. In the Breeze-Eastern's 10k, there were only 2 competitors listed, United Technologies and Onboard Systems. United Tech is also one of Breeze-Eastern's largest customers.

Without an extreme amount of pressure, this company should not have too much difficulty in sustaining their current EBITDA margin of 14.4%. This means the company will continue to generate cash from operations at an impressive rate.

## Cash

This company's ability to generate cash from its operations, has allowed it to pay off its debts, and become an all equity company. The company had debt of over \$60 million 10 years ago, and has now reduced this liability to zero.

## Cash and Debt



Breeze-Eastern still does have considerable liabilities, however. The company has an environmental liability, as a result of a previous business, that has since been disposed of from the company. The risk of the company incurring any more environmental liabilities is extremely low; however, the company must continue to pay for remediation of contaminated groundwater. The current

size of the liability is \$10.3 million, although the exact amount of the future cash flows is difficult to estimate.

This Liability is not too large for the company to handle, as it has \$12.2 million of operating cash flows from 2014, \$11.6 million of which is free cash flow. The company currently has a cash balance of \$15.7 million, part of which they will be using to help drive down the size of this liability.

It is reasonable to believe that Breeze-Eastern will be able to maintain this high level of cash flow, because of the increasing size of the company's backlog. In 2013 the backlog was \$115 million, which increased to \$119 million in 2014. This shows that the demand for the company's products is growing.

## Liquidity

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It is important to point out that this company's stock is traded at a very low volume. The low liquidity of this stock means that its high intrinsic value may not be realized in the market for quite some time. It could also pose issues for trying to get and close a position without moving the price of the stock.

Although there is a risk involved here, the company is worth more than its current trading price. It may be some time before the trading price rises to fair value, but the stock can currently be bought at a price less than it is worth.

## Summary

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Taking all of this into account the stock has been given a target value of \$12.72 and an intrinsic value of \$12.25. This would yield a return of 25.52%. The company provides an interesting investment opportunity for those who are willing to accept the low liquidity of the company. The stock is also acceptable for socially responsible investors, as the company's products are vital to search and rescue missions. Breeze-Eastern Corporation is a BUY.

