

***LNN Long Pitch – Summary – Kevin Romanteau

Deep dive analyse ~50-pages available upon request

**Company

- Lindsay Corporation (LNN) is a U.S company providing a variety of proprietary irrigation for agriculture such center-pivot and hose reel as well as roads infrastructure products and services.
 - o w/ revenue: irrigation 85%, infrastructure 14%
 - o w/ mkt cap of \$1,312m and EV a of \$1,272m, ADV trailing 101,997 (3mth)

**Industry

- Irrigation is a niche market that has a positive trend – forecast ~7-8% CAGR N5Y
- '12-'13 temporary tailwind due to drought condition, followed by several years of cyclical downturn
- '15-'17 irrigation revenues contracted due to lower commodity price and w/ lower farm income, favourable growing conditions, and the lack of significant demand driven by storm damage.
- End '18 uncertainty regarding the outcome of U.S. steel tariffs and trade negotiations weighted on farmer sentiment towards investment decisions.
- '20-'22 temporary tailwind emerged supported by commodity price, farm income, weather condition.
- '23 uncertainty on inflation, interest rates, general economic, and commodity prices - farmers have adopted a wait-and-see approach, deferring investment decisions despite active quotation.

**Company Fundamentals

- '12-'22 track record: +3.5% revenue CAGR, +3.7% EBIT CAGR, +5.8% EPS CAGR, stock price 2.6x bagger
 - o Increase in ASP to selling price to pass through inflation finalized, w/ EBIT ~20% vs. 16% in '22
- '23 faced temporary headwinds w/ low farmer sentiment leading to unusual seasonality shift. Q2 EPS \$1.63 above \$1.53 but revenue down by 26%, so stock dropped by 30%. Q3 EPS \$1.53 missed \$2.15

**Thesis Point

- **#1. Irrigation cycle 101:** 1) inadequate rainfall levels lead to persistent drought condition, 2) early start in irrigation drive higher replacement, 3) drought supports higher commodity price, 4) irrigators can increase grain yields.
- **#2. Replacement:** Net farmer income is still expected to be 26%+ above its 20-year level. if corn holds the \$5-6 range, the margins are decent enough for that replacements will occur. With farmers cautious sentiment, assumes shifting in seasonality demand to pre-harvest in LNN Q1/Q3 '24.
- **#3. Valuation:** LNN PE spread is trading at 5-year trough level vs. Valmont. Based on 30Y reverse-DCF, at current P/E level, market embeds ~1% revenue growth and 10.5% operating margin (vs. 11.4% over L3Y)

**Risk Point

- **#1. Farmer sentiment:** Ag Economic Barometer is back near to pandemic level. Farmers are concerned about price increases in machinery (sector down by -7% since January '23) and interest rate – but end hike cycle? Is U.S. regionals bank failures putting more financial pressure on farmer credit access?
- **#2. Competition:** Valmont is well-positioned and has eating market shares: '15-'22 +32% revenue CAGR, w/ +87% revenue growth internationally (vs. LNN 8%). Forecasted 8-9% CAGR over the N5Y.
- **#3. COGS/Steel price:** Steel more specifically hot-rolled coil steel represents ~30% of COGS. '21-'22 price jumped by +260%, COGS went up 74% of sales from 67% - Mgmt. guidance gross margin 30-31%

**Valuation

- Current valuation at trough P/E levels (18.6x NTM P/E) near to low 5-year level
- Since August '21, P/E declined by 55% to trough at 18x in June '23, EPS rose from \$3.88 to \$6.28e
- Absolute valuation metrics – 13.9% ROIC, -1% FCF yield, 1.1% dividend yield w/ 21% payout ratio

**Estimates vs. Street

- Assumes that revenue growth will come earlier than consensus due to seasonality shift
- Drought condition and farmer investment delay suggest peak demand in '24. My base assumes:
 - o Bounce back in the irrigation segment w/ '15% revenue growth in '24 and 10% in '25, and 3% afterward driven by seasonality shift demand, drought condition, Brazilian funding program
 - o Light gross margin contraction aligned w/ mgmt. from 31.7% to 30.0% and OM at 15.4%

**Upside, Downside, Risk/Reward

- 3-year reward case is +53% and risk -35% for a nearly 1.5x R/R

	3 Year Return Scenarios			
	2027 EPS	P/E	12m Target	% return
Bull	\$9.62	22.0x	\$211.64	77.8%
Base	\$7.72	20.0x	\$154.35	29.7%
Bear	\$4.30	18.0x	\$77.40	(35.0%)
Reward (50% bull, 50% base)			\$182.99	53.8%
Risk			\$77.40	(35.0%)
R/R				1.5x