

Business Description

L.B. Foster Company is a manufacturer and distributor of products for the transportation, construction, utility, and energy markets. The company supplies products to industries requiring rail and rail accessories; sheet, pipe and H piling; bridge decking and highway products; precast concrete buildings; and threaded and coated pipe.

Stock Data

Price	\$31.43
52Wk High	\$35.09
52Wk Low	\$24.92
3mo. Daily Volume	40,000
Market Capitalization	319 Mil.
Shares Outstanding	10.3 Mil.
Inside Ownership	4%
Dividend Yield	NA
Book Value Per Share	\$22.75
Cash per Share	\$12.09
EV-to-Sales - TTM	0.6x
EV-to-EBITDA - TTM	6.8x

Financial Data

			Old	New
EPS	FY-08	FY-09	FY-10E	FY-10E
Q1-Mar	\$0.36	\$0.29A	\$0.22	\$0.17A
Q2-Jun	\$0.69	\$0.26A	\$0.30	\$0.30
Q3-Sep	\$0.76	\$0.60A	\$0.33	\$0.33
Q4-Dec	\$0.45	\$0.38A	\$0.40	\$0.40
FY-Dec	2.36*	\$1.53	\$1.25	\$1.20
P/E				26.2
*excludes one-time gains of \$.21				
Revenue	\$513	\$382	\$368	\$364
% Chg	0.7%	-25.0%	-4.0%	-5.0%
EBITDA	\$48	\$33	\$29	\$28
ROIC	21.0%	11.6%	9.6%	9.6%
Cash	\$115	\$125	\$135	\$130
Assets	\$331	\$333	\$329	\$329
Debt	\$22	\$13	\$11	\$19
Equity	\$217	\$233	\$246	\$245

Note: Figures in \$millions except per share data

Mark Zinski

414.431.8704

mzinski@tfcentury.com

LB Foster

L.B. FOSTER COMPANY
NASDAQ: FSTR
PRICE: \$31.43
DATE: April 23, 2010

Q1 EPS of \$.17 missed our estimate of \$.22 due to acquisition related costs (\$.03), JV loss (\$.01), and higher than expected net interest expense (\$.01).

Sales declined 19% YOY to \$82 million vs. our estimate of \$86 million. Decreased selling prices in both the rail and construction segments materially impacted sales. Volumes for piling and concrete ties were higher YOY.

Gross margin of 14.7% improved 120 basis points YOY due to a warranty charge in the prior year Q1.

Exclusive of acquisition costs, SG&A declined 3% YOY due to effective cost controls.

Backlog of \$204.8 million is record high for the company.

The company generated \$7.4 million in operating cash flow for the quarter.

The balance sheet remains strong with \$124.5 million in cash (\$12/share) and \$19.2 million of debt.

The company completed the asset acquisition of IDSI's steel bridge decking business for \$7 million during the quarter.

The Portec acquisition remains pending due to court injunction.



Analysis of Q1 Results

Q1 EPS of \$.17 was below our estimate of \$.22 due to acquisition related costs (\$.03), loss on the recently formed JV (\$.01), and higher than expected net interest expense (\$.01). The JV should begin producing positive results going forward. Sales declined 19% YOY to \$82 million vs. our estimate of \$86 million. By business segment, sales declines were as follows: Rail (27.1%), Construction (4.5%), and Tubular (35.8%). Sales price declines within the rail and construction segments negatively impacted sales performance. More specifically, pricing within the distribution businesses declined 20-25% YOY. Both piling and concrete tie products witnessed volume increases over the prior year. Order entry for the quarter increased 6% YOY for the quarter and backlog stood at a record high of \$204.8 million. Gross margin improved 120 basis points YOY to 14.7% YOY primarily due to a warranty charge recorded in the prior year quarter. Exclusive of acquisition costs, SG&A declined 3% YOY due to effective cost controls. Effective working capital management continued as the company generated \$7.4 million in operating cash flow for the quarter. The balance sheet remains strong with \$124.5 million in cash (\$12/share) and \$19.2 million in debt. The company disbursed \$5 million during the quarter related to its \$7 million asset acquisition of IDSI (Interlocking Deck Systems International). The company acquired inventory and production equipment from IDSI's steel bridge decking business. The Portec Rail acquisition announced in February remains pending due to a court injunction. The legal review process is in the early stages.

Outlook

While precise forecasting of financial performance remains problematic due to timing of order shipments and sales price fluctuations, the company's underlying business is demonstrating signs of recovery as evidenced by the record backlog and 6% increase in order entry for the quarter. Effective working capital management and cost controls coupled with a strong balance sheet continue to anchor the business through inconsistent business conditions. The company expects roughly 90% of its backlog to filter through its order system in ensuing quarters. Freight activity within the general economy is demonstrating signs of revitalization as both CSX and Union Pacific recently reported marked improvements in rail shipments over the prior year. The company is forecasting capital expenditures of \$6-\$7 million for FY10. The company expects to generate cash flow in excess of its capital expenditure and debt servicing requirements for FY10. Margin compression and tepid non-residential construction spending remain the ongoing risk factors. We are maintaining our prior estimates.

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Peer Group (in thousands)

Ticker	Name	Price	EV / Sales	EV / EBITDA	Price / BV	CY 2010E P/E	CY 2011E P/E
STLD	Steel Dynamics	\$16.68	1.5	13.7	1.8	12.6	8.7
NWPX	Northwest Pipe	\$24.95	0.8	6.5	0.8	22.1	NA
TRN	Trinity Industries	\$25.77	1.3	7.1	1.1	61.4	26.8
PRPX	Portec Rail Products	\$11.73	1.2	9.5	1.7	14.5	NA
KOP	Koppers	\$28.38	0.8	6.9	13.3	11.2	9.1
TXI	Texas Industries	\$38.68	2.5	30.0	1.4	NA	NA
	Median		1.2	8.3	1.5	14.5	9.1
FSTR*	L.B. Foster	\$31.43	0.6	6.8	1.4	20.5	14.8

Prices as of 4/22/10

*FSTR has \$12/share in Cash

Note: All figures based on trailing 12-months except CY 2010E and CY 2011E, which are based on 21st Century or consensus estimates



21st Century Equity Research

Income Statement (in millions)	2005	2006	2007	2008	Q1-09	Q2-09	Q3-09	Q4-09	2009	Q1-10	Q2-10E	Q3-10E	Q4-10E	2010E
Sales	\$353.5	\$389.8	\$509.0	\$512.5	\$97.7	\$93.8	\$92.4	\$98.0	\$381.8	\$82.0	\$90.4	\$93.1	\$98.4	\$363.9
COGS	\$313.5	\$338.2	\$432.6	\$432.4	\$84.0	\$81.0	\$74.7	\$82.5	\$322.2	\$69.9	\$77.0	\$79.6	\$83.4	\$310.0
Gross Profit	\$40.0	\$51.6	\$76.4	\$80.1	\$13.7	\$12.8	\$17.7	\$15.5	\$59.6	\$12.1	\$13.4	\$13.5	\$15.0	\$53.9
S G&A Expense	\$31.1	\$33.7	\$37.4	\$40.9	\$9.0	\$8.6	\$9.0	\$8.8	\$35.4	\$9.2	\$8.5	\$8.4	\$8.7	\$34.8
EBIT	\$8.9	\$17.9	\$39.0	\$39.2	\$4.7	\$4.2	\$8.7	\$6.7	\$24.2	\$2.9	\$4.9	\$5.1	\$6.3	\$19.1
Interest Expense	\$2.5	\$3.4	\$4.0	\$1.9	\$0.3	\$0.3	\$0.3	\$0.1	\$1.0	\$0.2	\$0.1	\$0.1	\$0.1	\$0.5
Other Income, Net	\$1.3	\$1.2	\$2.0	\$2.5	\$0.3	\$0.4	\$1.5	\$0.0	\$2.2	\$0.0	\$0.1	\$0.4	\$0.4	\$0.9
Pretax Income	\$7.7	\$15.8	\$36.9	\$39.7	\$4.7	\$4.3	\$9.9	\$6.6	\$25.4	\$2.7	\$4.9	\$5.4	\$6.6	\$19.6
Income Tax	\$2.3	\$5.1	\$11.0	\$14.2	\$1.7	\$1.6	\$3.7	\$2.7	\$9.7	\$0.9	\$1.8	\$2.0	\$2.5	\$7.2
Net Income	\$5.4	\$10.7	\$25.0	\$25.5	\$3.0	\$2.7	\$6.2	\$3.9	\$15.7	\$1.8	\$3.0	\$3.4	\$4.1	\$12.3
Shares Outstanding-Diluted	10.4	10.8	11.0	10.8	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3
EPS - Diluted	\$0.52	\$0.99	\$2.28	\$2.36	\$0.29	\$0.26	\$0.60	\$0.38	\$1.53	\$0.17	\$0.30	\$0.33	\$0.40	\$1.20
% Change	261.4%	90.2%	129.9%	3.5%	-20.5%	-62.7%	-20.4%	-31.1%	-36.2%	-39.6%	14.3%	-45.6%	6.0%	-21.6%
% of Sales														
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	88.7%	86.8%	85.0%	84.4%	86.0%	86.4%	80.8%	84.2%	84.4%	85.2%	85.2%	85.5%	84.8%	85.2%
Gross Profit	11.3%	13.2%	15.0%	15.6%	14.0%	13.6%	19.2%	15.8%	15.6%	14.8%	14.8%	14.5%	15.2%	14.8%
S G&A Expense	8.8%	8.6%	7.3%	8.0%	9.2%	9.2%	9.7%	9.0%	9.3%	11.2%	9.4%	9.0%	8.8%	9.6%
EBIT	2.5%	4.6%	7.7%	7.6%	4.8%	4.4%	9.4%	6.8%	6.3%	3.5%	5.4%	5.5%	6.4%	5.3%
Interest Expense	0.7%	0.9%	0.8%	0.4%	0.3%	0.3%	0.3%	0.1%	0.3%	0.2%	0.1%	0.1%	0.1%	0.1%
Other Income, Net	0.4%	0.3%	0.4%	0.5%	0.3%	0.4%	1.6%	0.0%	0.7%	0.0%	0.1%	0.5%	0.5%	0.3%
Pretax Income	2.2%	4.1%	7.3%	7.8%	4.8%	4.5%	10.7%	6.7%	6.7%	3.3%	5.4%	5.8%	6.7%	5.4%
Income Tax	29.8%	32.1%	29.7%	35.8%	36.0%	37.5%	37.3%	41.0%	38.1%	33.3%	37.5%	37.5%	37.5%	36.9%
Net Income	1.5%	2.7%	4.9%	5.0%	3.1%	2.8%	6.7%	4.0%	4.1%	2.2%	3.4%	3.6%	4.2%	3.4%
Revenue by Segment														
Rail Products	\$157.8	\$189.5	\$260.8	\$234.5	\$53.9	\$44.3	\$41.2	\$39.4	\$178.8	\$41.1	\$43.4	\$42.2	\$41.4	\$168.1
Construction Products	\$174.9	\$180.5	\$211.6	\$242.9	\$36.2	\$44.5	\$48.1	\$53.4	\$182.1	\$36.2	\$42.2	\$46.9	\$52.0	\$177.4
Tubular Products	\$20.8	\$19.8	\$36.6	\$35.1	\$7.6	\$5.0	\$3.1	\$5.2	\$21.0	\$4.7	\$4.8	\$4.0	\$4.9	\$18.4
Total	\$353.5	\$389.8	\$509.0	\$512.5	\$97.7	\$93.8	\$92.4	\$98.0	\$381.8	\$82.0	\$90.4	\$93.1	\$98.4	\$363.9
Revenue % by Segment														
Rail Products	44.6%	48.6%	51.2%	45.8%	55.2%	47.2%	44.6%	40.2%	46.8%	50.1%	48.0%	45.3%	42.1%	46.2%
Construction Products	49.5%	46.3%	41.6%	47.4%	37.1%	47.4%	52.0%	54.5%	47.7%	44.1%	46.7%	50.4%	52.9%	48.7%
Tubular Products	5.9%	5.1%	7.2%	6.9%	7.8%	5.4%	3.4%	5.3%	5.5%	5.7%	5.3%	4.3%	5.0%	5.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Revenue Segment (Year / Year)														
Rail Products	9.2%	20.1%	37.7%	-10.1%	17.7%	-27.2%	-37.2%	-36.7%	-23.8%	-23.7%	-2.0%	2.5%	5.0%	-6.0%
Construction Products	28.2%	3.2%	17.2%	14.8%	-9.9%	-25.9%	-31.1%	-26.8%	-25.0%	0.0%	-5.0%	-2.5%	-2.5%	-2.6%
Tubular Products	23.3%	-4.8%	84.7%	-4.1%	1.7%	-44.0%	-69.1%	-38.9%	-40.3%	-38.2%	-5.0%	27.8%	-5.0%	-12.1%
Total	18.7%	10.3%	30.6%	0.7%	4.5%	-27.8%	-36.5%	-31.8%	-25.5%	-16.0%	-3.6%	0.8%	0.4%	-4.7%
Backlog by Segment														
Rail Products	\$56.6	\$64.1	\$61.6	\$68.4	\$56.7	\$56.3	\$55.1	\$53.4	\$53.4					
Construction Products	\$71.4	\$66.1	\$70.3	\$57.6	\$69.4	\$79.9	\$97.0	\$116.1	\$116.1					
Tubular Products	\$1.5	\$11.1	\$6.4	\$6.5	\$4.8	\$4.3	\$3.5	\$3.2	\$3.2					
Total	\$129.5	\$141.3	\$138.3	\$132.5	\$130.9	\$140.5	\$155.6	\$172.7	\$172.7	\$204.8				

Fiscal Year End - December

(\$ in millions, except per share data)

Note: FY08 EPS and EBIT excludes one-time gains