

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	\$28.01
52Wk High	\$39.95
52Wk Low	\$20.00
3mo. Daily Volume	77,903
Market Capitalization	284 Mil.
Shares Outstanding	10.3 Mil.
Inside Ownership	4%
Dividend Yield	NA
Book Value	\$21.22
Net Cash per Share	\$7.65
EV-to-Sales - TTM	0.4x
EV-to-EBITDA - TTM	4.6x

Financial Data

			Old	New
EPS	FY-07	FY-08	FY-09E	FY-09E
Q1-Mar	\$0.28	\$0.36	\$0.29A	\$0.29A
Q2-Jun	\$0.63	\$0.69	\$0.72E	\$0.45E
Q3-Sep	\$0.64	\$0.76	\$0.77E	\$0.64E
Q4-Dec	\$0.81	\$0.45	\$0.62E	\$0.52E
FY-Dec	\$2.28	2.36*	\$2.40	\$1.90
P/E			12.2	11.7
*excludes one-time gains of \$0.21				
Revenue	\$509	\$513	\$516	\$489
% Chg	30.6%	0.7%	1.0%	-5.0%
EBITDA	\$47	\$48	\$47	\$39
ROIC	21.4%	21.0%	16.7%	13.3%
Cash	\$121	\$115	\$105	\$102
Assets	\$331	\$331	\$324	\$317
Debt	\$16	\$22	\$23	\$23
Equity	\$214	\$217	\$241	\$236

Note: Figures in \$millions except per share data

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LB Foster

L.B. FOSTER COMPANY
NASDAQ: FSTR
PRICE: \$28.01
June 16, 2009

We are reducing our FY09 EPS estimate from \$2.40 to \$1.90 based on evidence of potential gross margin pressure for construction segment.

We are reducing our FY09 revenue estimate from \$516 million to \$489 million based on increased risk of a pullback in State funding for infrastructure projects and uncertainty regarding the timing of Federal infrastructure projects stemming from Stimulus Package funds.

The stock trades at a discount to its peer group.



Revising FY09 Estimates

We are reducing our FY09 EPS estimate from \$2.40 to \$1.90. Some evidence exists to suggest that the bidding prices for construction and infrastructure-related work have declined over the past several months due to increased competition on government-funded projects. We have therefore reduced our gross margin estimate for the Construction segment. Additionally, it is unclear as to when the company may benefit from Stimulus Package funds allocated for infrastructure and high-speed rail. Most likely this will occur in the second half of 2009. States are required to make allocation decisions for Federal monies by the end of June. It is also unclear if this funding will be sufficient enough to mitigate reduced infrastructure spending at the state level. State coffers have been suffering from reduced property tax revenue and reduced gas tax revenue brought on by the recession. Some states have been deferring infrastructure projects due to budgetary pressures. The project-nature of the company's business makes predicting topline performance more difficult despite a Q1 performance which suggested some resiliency to the macro economy. We are reducing our FY09 revenue from \$516 to \$489 million. Lastly, it is unclear how quickly declining steel prices might work through the supply chain. The stock trades at a discount to its peers based on several valuation metrics.

Peer Group Comparison:

Peer Group (in thousands)			EV /	EV /	Price /	CY 2009	CY 2010E
Ticker	Name	Price	Sales	EBITDA	BV	P/E	P/E
STLD	Steel Dynamics	\$15.24	0.75	6.7	1.9	NA	12.0
NWPX	Northwest Pipe	\$36.40	1.01	7.3	1.2	20.4	13.6
TRN	Trinity Industries	\$14.36	0.71	4.1	0.6	13.9	18.2
PRPX	Portec Rail Products	\$9.43	0.96	7.1	1.7	13.5	10.8
KOP	Koppers	\$26.44	0.65	5.7	38.0	13.8	10.3
CAT	Caterpillar	\$36.12	1.12	9.8	3.6	30.9	23.3
	Median		0.9	6.9	1.8	13.9	12.8
FSTR*	L.B. Foster	\$28.01	0.4	4.6	1.3	14.5	14.8

Prices as of 6/15/09

FSTR has \$9.60/ Share in Cash

*data excludes one-time gains of \$3.5 million

Income Statement (in millions)	2006	2007	Q1-08	Q2-08	Q3-08	Q4-08	2008	Q1-09	Q2-09E	Q3-09E	Q4-09E	2009E
Sales	\$389.8	\$509.0	\$93.4	\$129.8	\$145.5	\$143.7	\$512.5	\$97.7	\$117.3	\$135.0	\$139.1	\$489.0
COGS	\$338.2	\$432.6	\$77.8	\$107.9	\$122.8	\$123.8	\$432.4	\$84.0	\$100.6	\$114.7	\$120.3	\$419.7
Gross Profit	\$51.6	\$76.4	\$15.6	\$21.9	\$22.7	\$19.9	\$80.1	\$13.7	\$16.7	\$20.2	\$18.8	\$69.3
S G&A Expense	\$33.7	\$37.4	\$9.4	\$10.0	\$10.1	\$11.5	\$40.9	\$9.0	\$9.6	\$10.2	\$10.7	\$39.5
EBIT	\$17.9	\$39.0	\$6.3	\$11.9	\$12.6	\$8.4	\$39.2	\$4.7	\$7.1	\$10.0	\$8.1	\$29.8
Interest Expense	\$3.4	\$4.0	\$0.6	\$0.5	\$0.5	\$0.4	\$1.9	\$0.3	\$0.4	\$0.3	\$0.3	\$1.3
Other Income, Net	\$1.2	\$2.0	\$0.7	\$0.7	\$0.5	\$0.6	\$2.5	\$0.3	\$0.6	\$0.7	\$0.7	\$2.3
Pretax Income	\$15.8	\$36.9	\$6.4	\$12.2	\$12.6	\$8.6	\$39.7	\$4.7	\$7.3	\$10.4	\$8.5	\$30.8
Income Tax	\$5.1	\$11.0	\$2.3	\$4.5	\$4.5	\$2.9	\$14.2	\$1.7	\$2.6	\$3.8	\$3.1	\$11.1
Net Income	\$10.7	\$25.0	\$4.1	\$7.7	\$8.1	\$5.7	\$25.5	\$3.0	\$4.6	\$6.7	\$5.4	\$19.7
Shares Outstanding-Diluted	10.8	11.0	11.1	11.0	10.7	10.4	10.8	10.3	10.4	10.4	10.5	10.4
EPS - Diluted	\$0.99	\$2.28	\$0.36	\$0.69	\$0.76	\$0.55	\$2.36	\$0.29	\$0.45	\$0.64	\$0.52	\$1.90
% Change	90.2%	129.9%	28.4%	10.6%	18.3%	-32.3%	3.5%	-20.5%	-35.7%	-15.1%	-5.7%	-19.5%
% 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%
COGS	86.8%	85.0%	83.3%	83.1%	84.4%	86.2%	84.4%	86.0%	85.8%	85.0%	86.5%	85.8%
Gross Profit	13.2%	15.0%	16.7%	16.9%	15.6%	13.8%	15.6%	14.0%	14.2%	15.0%	13.5%	14.2%
S G&A Expense	8.6%	7.3%	10.0%	7.7%	6.9%	8.0%	8.0%	9.2%	8.2%	7.6%	7.7%	8.1%
EBIT	4.6%	7.7%	6.7%	9.2%	8.7%	5.8%	7.6%	4.8%	6.0%	7.4%	5.8%	6.1%
Interest Expense	0.9%	0.8%	0.6%	0.4%	0.3%	0.3%	0.4%	0.3%	0.3%	0.2%	0.2%	0.3%
Other Income, Net	0.3%	0.4%	0.7%	0.6%	0.3%	0.4%	0.5%	0.3%	0.5%	0.5%	0.5%	0.5%
Pretax Income	4.1%	7.3%	6.8%	9.4%	8.7%	6.0%	7.8%	4.8%	6.2%	7.7%	6.1%	6.3%
Income Tax	32.1%	29.7%	36.2%	37.0%	35.7%	33.7%	35.8%	36.0%	36.0%	36.0%	36.0%	36.0%
Net Income	2.7%	4.9%	4.3%	5.9%	5.6%	4.0%	5.0%	3.1%	4.0%	5.0%	3.9%	4.0%
Revenue by Segment												
Rail Products	\$189.5	\$260.8	\$45.8	\$60.8	\$65.6	\$62.3	\$234.5	\$53.9	\$54.7	\$59.0	\$56.1	\$223.7
Construction Products	\$180.5	\$211.6	\$40.2	\$60.0	\$69.8	\$72.9	\$242.9	\$36.2	\$54.0	\$66.3	\$74.7	\$231.2
Tubular Products	\$19.8	\$36.6	\$7.5	\$9.0	\$10.1	\$8.5	\$35.1	\$7.6	\$8.6	\$9.6	\$8.3	\$34.1
Total	\$389.8	\$509.0	\$93.4	\$129.8	\$145.5	\$143.7	\$512.5	\$97.7	\$117.3	\$135.0	\$139.1	\$489.0
Revenue % by Segment												
Rail Products	48.6%	51.2%	49.0%	46.8%	45.1%	43.4%	45.8%	55.2%	46.7%	43.7%	40.3%	45.7%
Construction Products	46.3%	41.6%	43.0%	46.2%	48.0%	50.7%	47.4%	37.1%	46.0%	49.1%	53.7%	47.3%
Tubular Products	5.1%	7.2%	8.0%	6.9%	7.0%	5.9%	6.9%	7.8%	7.3%	7.1%	6.0%	7.0%
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%
Revenue Segment (Year / Year)												
Rail Products	20.1%	37.7%	-27.5%	-23.3%	6.8%	9.2%	-10.1%	17.7%	-10.0%	-10.0%	-10.0%	-4.6%
Construction Products	3.2%	17.2%	-2.9%	1.9%	12.0%	48.8%	14.8%	-9.9%	-10.0%	-5.0%	2.5%	-4.8%
Tubular Products	-4.8%	84.7%	22.2%	-13.6%	-15.8%	6.0%	-4.1%	1.7%	-5.0%	-5.0%	-2.0%	-2.9%
Total	10.3%	30.6%	-15.6%	-12.6%	7.2%	26.0%	0.7%	4.5%	-9.7%	-7.3%	-3.2%	-4.6%
Backlog by Segment												
Rail Products	\$64.1	\$61.6	\$57.5	\$60.6	\$72.4	\$68.4	\$68.4					
Construction Products	\$66.1	\$70.3	\$110.2	\$121.7	\$97.0	\$57.6	\$57.6					
Tubular Products	\$11.1	\$6.4	\$6.0	\$9.9	\$9.4	\$6.5	\$6.5					
Total	\$141.3	\$138.3	\$173.7	\$192.2	\$178.8	\$132.5	\$132.5	\$130.9				

Fiscal Year End - December
(\$ in millions, except per share data)

Note: FY08 EPS and EBIT excludes one-time gains

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