21st Century *Equity Research* — Company Update

L.B. FOSTER COMPANY
NASDAQ: FSTR
PRICE: $29.66
DATE: February 19, 2010

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	$29.66
52Wk High	$35.09
52Wk Low	$20.14
3mo. Daily Volume	44,000
Market Capitalization	300 Mil.
Shares Outstanding	10.3 Mil.
Inside Ownership	4%
Dividend Yield	NA
Book Value	$22.58
Cash per Share	$12.12
EV-to-Sales - TTM	0.5x
EV-to-EBITDA - TTM	5x

Financial Data

	Old	Old	Old	New
EPS	FY-09E	FY-09A	FY-10E	FY-10E
Q1-Mar	$0.29A	$0.29A		$0.22
Q2-Jun	$.26A	$.26A		$0.30
Q3-Sep	$.60A	$.60A		$0.33
Q4-Dec	$0.30	$.38A		$0.40
FY-Dec	$1.45	$1.53	$1.50	$1.25
P/E				20.5
Revenue	$382	$382	$406	$368
% Chg	-25.0%	-25.0%	6.0%	-4.0%
EBITDA	$33	$33	$32	$29
ROIC	10.5%	11.6%	9.4%	9.6%
Cash	$125	$125	$121	$135
Assets	$318	$333	$323	$329
Debt	$23	$13	$23	$11
Equity	$231	$233	$247	$246

Note: Figures in $millions except per share data

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Company announces intent to acquire Portec Rail Products Inc. for $112 million ($11.71/share) in an all cash transaction. The company's current cash position is $125 million. The deal is expected to close before the completion of Q2FY10.

On a TTM basis, the deal transacted at 9x EBITDA and 1.15x sales. Portec's Net Debt (Debt-Cash) is negligible as of Q3FY09.

Deal is expected to be accretive to earnings for FY10. Interest income lost to cash deployment will be marginal due to current low interest rate environment.

Portec is expected to report Q4 and FY results in the near term.

Key benefits of acquisition for FSTR include:
1) acquired business carries 30%+ gross margins which are higher than the majority of FSTR's peer group 2) enables platform for FSTR to expand internationally e.g. Canada, India, UK, and China. 3) the company's products are complementary which affords opportunities for cost efficiencies and synergies 4) Portec's business is more maintenance-based and less correlated with Class 1 railroad capital expenditure spending 5) Portec's friction management products (47% of sales) has grown nearly 9% over TTM including expansion into China market.

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Analysis of Portec Acquisition

FSTR's recently announced purchase of Portec Rail Products Inc. for $112 million includes approximately $47 million in goodwill. The table below reflects Portec's trailing twelve month performance by product line.

Portec's Product Lines	Trailing 12 months 10/07-9/08	% of total sales	Trailing 12 months 10/08-9/09	% of total sales	YOY % Change
Friction management products and services	$41,746	38.1%	$45,345	46.6%	8.6%
Track component products	$46,891	42.8%	$39,376	40.5%	-16.0%
Other products and service sales	$5,146	4.7%	$5,463	5.6%	6.2%
Wayside data collection and data management systems	$5,676	5.2%	$5,339	5.5%	-5.9%
Material handling products	$9,101	8.3%	$5,266	5.4%	-42.1%
Automotive products	$6,778	6.2%	$3,101	3.2%	-54.2%
Chain securement systems	$2,954	2.7%	$2,471	2.5%	-16.4%
Other load securement systems	$802	0.7%	$573	0.6%	-28.6%
Strap securement systems	$343	0.3%	$301	0.3%	-12.2%
Intersegment sales	-$9,825	-9.0%	-$9,920	-10.2%	1.0%
Consolidated Net Sales	$109,612	100.0%	$97,315	100.0%	-11.2%
Gross Margin	$35,705	32.6%	$32,336	33.2%	-9.4%
Operating Income	$11,738	10.7%	$9,583	9.8%	-18.4%
D&A	$3,155	2.9%	$2,908	3.0%	-7.8%
EBITDA	$14,893	13.6%	$12,491	12.8%	-16.1%

The acquisition provides FSTR will a multitude of benefits and possible strategic opportunities. Firstly, Portec's product lines carry a substantially higher gross margin 30%+ vs. FSTR (12-15% range). Additionally, the maintenance oriented nature of its products has proven more resilient in the current macro environment. This condition should help buttress the cyclical tendencies of FSTR's rail division which is arguably more correlated with the cap ex spending patterns of the Class 1 railroads. Portec's cost effective friction management products, which reduce fuel consumption and asset degradation for the rail industry, have proven especially resilient. In addition to the aforementioned, Portec's existing sales network provides a platform for FSTR to expand its sales reach on an international level. Less than 10% of FSTR's products are sold abroad, while Portec generates 30% and 20% of its sales in Canada and the UK respectively. The company is also experiencing a successful entrance into the China market. These international outlets provide a new sales capability for FSTR. Lastly, the products of the two newly merged products are essentially complementary. Insulated body joints are the only products in direct competition, but this represents less than 5% of FSTR's sales. There appears to be substantial opportunities for synergies and cost efficiencies at both the manufacturing and administrative cost levels.

On the surface, the valuation may appear high with a TTM EBITDA multiple of 9x. However, any perceived premium could be sufficiently justified by the higher gross margins, intellectual property, R&D capabilities, international expansion potential, and anti-cyclical nature of the business acquired. Furthermore, FSTR employed a discounted cash flow model to arrive at the valuation. Portec has empirically generated strong and consistent operating cash flow as seen below. Divestitures of non-core assets are possible.

Portec Operating Cash Flow

	2009-9 months	2008	2007	2006
Net income	$5,362	$7,779	$6,131	$4,620
Adjustments				
Depreciation	$1,309	$1,852	$2,343	$2,103
Amortization	$806	$1,199	$1,241	$926
Provision for doubtful accounts	$78	$123	$70	$37
Deferred income taxes	$597	$838	-$346	-$446
Pension expense (income)	$157	-$64	$75	$29
Loss on sale of fixed assets	-$176	$271	$81	$94
Pension contributions	$2	-$809	-$207	-$23
Stock-based compensation	$78	$98	$52	
Impairment of long-lived assets			$50	$100
Changes in operating assets and liabilities				
AR	$672	$630	-$148	-$131
Inventories	$3,854	-$4,014	$1,264	-$845
Prepaid expenses and other current assets	-$685	-$246	$85	-$217
AP	-$1,361	$2,467	-$1,745	$211
Income taxes payable	-$450	$13	-$281	-$341
Accrued expenses	-$1,190	-$30	$269	$167
Net cash provided by operating activities	**$9,053**	**$10,107**	**$8,934**	**$6,284**

The December 2009 acquisition of Tangent Rail Corporation by Stella Jones transacted at $165 million. Tangent is a manufacturer of wood rail ties for the U.S. market. Tangent is projected to generate sales of $178 million and EBITDA of $28 million for 2009, representing sales and EBITDA multiples of .9x and 6x respectively. Inventory destocking, a general forecast of a challenging environment for the rail tie market, and the commodity-like nature of this product line most likely factored into the lower valuation. Tangent’s cash and debt levels were unavailable.

We are withholding our revised post acquisition estimates until the deal finalizes and Portec reports FY09 earnings.

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