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## TLF – Tandy Leather Factory

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**Disclaimer & Disclosure:** Please review our policy as outlined on our website [thatstockguy.NET](http://thatstockguy.NET). As well note, the writer of the article and his direct family members do not currently hold a financial position in TLF.

### **Intended Audience**

Personal investors who manage their own investment portfolio and have a long term outlook 3 to 5 years.

### **Summary Points to Take Away**

- Strong Balance Sheet: (1) Cash is 1.56X current liabilities and almost par (0.92X) with total liabilities as of Q3 2008. (2) Current tangible NBV is greater than the share price (3) Inventory and AR have remained flat; thus, implying no valuation issues.
- Producing cash flow – in the last four quarters TLF has produced a total of \$0.94 of CFO per share, impressive considering a stock price around \$2.
- Forward P/E ratio based estimates are 8X earnings; thus, in theory stock price would double in 8 years (annual appreciation of 12.5%).
- 34% of total outstanding shares are owned by insiders; thus, incentives of management and shareholders are aligned.
- Largest in their market space – have numerous small competitors that actually buy from TLF and resell those products to the end consumer; thus, TLF has strong industry power.
- Management Style appears to be very prudent and responsible, which is desired with a company set for expanding their retail outlets since many companies grow too aggressively leading to operational issues.
- Analysts like the stock – “Merriman Curhan Ford” issued a Buy recommendation on the stock on August 6, 2008 while it was trading at \$2.85.

### **Analysis**

*Tandy Leather Factory, headquartered in Fort Worth, TX, is the leading marketer and manufacturer of leather and leather related products to both retail and wholesale customers.*

#### Strong Balance Sheet

Very strong cash position – works out to \$0.98 per share (as of Q3 2008) – almost half of the actual share price of \$2, which provides a significant cushion for investors should things go sour. TLF doesn't appear to have any financing issues as they're very solvent – which is appealing in present economic times where credit has become very expensive. Cash is 1.56X current liabilities and almost at par with total liabilities (0.92X liabilities) as of Q3 2008. A further look into tangible NBV per share reveals that when taking net assets after excluding intangibles such as Goodwill etc., NBV per share is \$2.731; which, is \$0.73 more than the average share price over the period from when this article was written of \$2; thus, implying investors get a discount on current assets and future earnings for free by entering in at a price of \$2.

Analysis into AR and Inventory can also point to signs of operational issues with the business – but as a % of total assets they've remained relatively stable with small annual declines; thus, implying that management is continuing to strive in reducing their cash operating cycle.

#### Cash Flow

TLF continues to produce cash – CFO per share for the last 4 quarters (starting with Q3 2008) has been \$0.94 per share (cumulative) – which is significant given an average share price of \$2. Excess cash isn't used on wasteful

acquisitions where the acquired company shareholders get all the value, continues to be spent on stock buybacks or continuation of retail store expansion with the goal of increasing future EPS.

#### Attractive Forward P/E

Current EPS estimates for FY2009 per analyst (“taken from Yahoo Finance”) are \$0.29 per share, which is not off the mark from my estimation of \$0.25 per share. Based on a share price of \$2 – this would make the forward P/E 8X earnings. This is viewed as a conservative estimate as sales growth forecast was pegged at 4% in my estimate (with net income as a % of sales staying stable), which is on the low end considering the store location expansion plan from 72 to 120 stores that is expected over the next several years.

#### Management has “Skin in the Game”

To have “skin in the game” means that management has something to lose if TLF’s stock began to perform poorly. Since management has a large stake in the company – they have an incentive to add value to TLF in order to see a rise in the stock price; thus the incentives for management and the shareholders are aligned. This implies that management will not only manage the performance of the company, but of the stock as well – reducing the probability that shareholders will be penalized by the company with bad financial decisions.

#### Largest in their Market Space

TLF is the largest retailer within the leather and leather-related products market with numerous small competitors that actually purchases goods from TLF’s wholesale division and re-sells them. This makes each of these small competing retailers an advertiser for TLF since it is TLF’s products they are selling – which gives TLF tremendous pricing power within the market; thus, further evidence that current margins of 59% (Q2 2008) are sustainable.

#### Appealing Management Style

Listening to management’s presentation during numerous quarterly earnings call – it is apparent that they are very prudent and fiscally sound executives as evidenced by the strong build up of cash and the slow execution of the planned store expansion. This is a desired trait for a company planning on aggressively expanding their operations as it is important to keep control to ensure that operations don’t turn sour during the process.

#### Other Analysts Like it

“Merriman Curhan Ford” Issued a Buy recommendation on the stock on August 6, 2008 while it was trading at \$2.85. They view it as a growth stock as number of stores is expected to rise from 72 locations (currently) to 120. If you extrapolate the FY2007 EPS based on the expected % increase in the number of locations – at some point once the expansion is complete, EPS could be \$0.47 per share, making the forward P/E 4.3X future earnings (assuming a current share price of \$2). Please review their research report on TLF for further details and relevant disclosures.

#### **Where to go from here?**

Tandy Leather Factory is a publicly traded company – ticker symbol TLF on the AMEX. Please consult your financial advisor before undertaking any investment transactions.

Would love to hear your feedback – contact [thatstockguy.NET@gmail.com](mailto:thatstockguy.NET@gmail.com) .

Thanks,

Simon

**Simon Giannakis** is the founder and creator of [thatstockguy.NET](http://thatstockguy.NET). He currently is a Senior Accountant within the Assurance and Advisory group at Deloitte & Touche LLP in Toronto, Ontario. He has a BBA degree from Wilfrid Laurier University and is currently pursuing both CA and CFA designations. Simon can be contacted through [thatstockguy.net@gmail.com](mailto:thatstockguy.net@gmail.com)

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