Zacks Small-Cap Research

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LGL Group Inc (LGL-AMEX)

LGL: Fourth quarter results encouraging despite reported loss.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	05/02/2010
Current Price (03/28/12)	$7.65
Target Price	**$10.00**

OUTLOOK

LGL Group, through its subsidiaries manufactures custom-designed highly engineered electronic components. Beyond its blue chip customer base the firm has significant opportunity for growth in specialty products in the military instrumentation and space avionics market (MISA) as well as high growth emerging areas such as India and China. Further the firm's long-term goals include plans to diversify away from strictly selling components and to be included higher in the value chain through strategic partnerships.

Our recommendation remains Outperform with a target price of $10.00 a share.

SUMMARY DATA

52-Week High	**$13.93**
52-Week Low	**$6.24**
One-Year Return (%)	**-44.9**
Beta	**1.16**
Average Daily Volume (sh)	**7,382**
Shares Outstanding (mil)	**2.6**
Market Capitalization ($mil)	**$20.0**
Short Interest Ratio (days)	**2.8**
Institutional Ownership (%)	**21.6**
Insider Ownership (%)	**36.6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-3.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**51.1**
P/E using 2012 Estimate	**13.8**
P/E using 2013 Estimate	**6.8**

Risk Level	**Moderate**
Type of Stock	**Small-Blend**
Industry	**Elec-Misc Compn**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	**$10.7 A**	**$12.5 A**	**$12.4 A**	**$11.0 A**	**$46.7 A**
2011	**$9.0 A**	**$9.6 A**	**$9.6 A**	**$7.4 A**	**$35.7 A**
2012	**$7.0 E**	**$8.0 E**	**$9.0 E**	**$8.0 E**	**$32.0 E**
2013	**$8.0 E**	**$9.5 E**	**$10.5 E**	**$9.5 E**	**$37.5 E**

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	**$0.48A**	**$0.97A**	**$0.88A**	**$1.75A**	**$4.19A**
2011	**$0.10A**	**$0.13A**	**$0.03A**	**-$0.11A**	**$0.15A**
2012	**$0.09E**	**$0.12E**	**$0.17E**	**$0.17E**	**$0.55E**
2013	**$0.20E**	**$0.27E**	**$0.33E**	**$0.33E**	**$1.12E**

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Recent News

Fourth quarter revenue was below our forecast with both segments showing continued weakness. Operating margins declined but less so than prior periods when revenue dropped. Backlog was down but showed encouraging signs as the sequential quarterly change was less than the second to third quarterly change.

	4Q10		1Q11	2Q11	3Q11	4Q11
Revenue	$11.0		$9.0	$9.6	$9.6	$7.4
Op. profit	$1.0		$0.4	$0.6	$0.1	($0.4)
Op. margins	9.4%		4.2%	5.8%	1.3%	-5.3%
Pretax income	$1.0		$0.4	$0.5	$0.1	($0.4)
EPS	$1.75		$0.10	$0.13	$0.03	($0.11)
Order backlog	$10.7		$12.2	$12.1	$9.1	$8.6
Net cash & equiv.	$2.8		$10.5	$10.4	$9.9	$10.2

The decrease in revenue over the last six months was due to reduced order activity for both segments. The decline in gross margins were mainly due to fixed expense coverage over a smaller revenue base. The uncertainty between budget, appropriations and spending in the government sector may have a continued impact on revenue. Weakness in the global macroeconomic environment may continue to be be a near term problem. Cisco Systems has reported flat revenue and flat gross profit over the last four quarters but expects some growth in the second half of 2012. Cisco is LGL's largest customer.

The Company's backlog decreased from $9.1 million to $7.4 million, a modest decline when compared to prior quarters.

LGL remains cautious regarding its outlook for repeat orders in the first half of 2012 as major electronic manufacturing service companies and original equipment manufacturer's report mixed market conditions. The Company believes its customer positions remain strong across its target market segments.

Likewise, LGL expects to see growth in revenue and earnings over the next two years through the expansion of its product portfolio through continued investment in product development and possibly by acquisitions.

INVESTMENT SUMMARY

LGL Group, through its subsidiaries manufactures custom-designed highly engineered electronic components. Beyond its blue chip customer base the firm has significant opportunity for growth in specialty products in the military instrumentation and space avionics market (MISA) as well as high growth emerging areas such as India and China. Further the firm's long-term goals include plans to diversify away from strictly selling components and to be included higher in the value chain through strategic partnerships. We feel the stock will outperform the overall market.

Growth Initiatives:

LGL is committed to four strategic growth initiatives in order to build shareholder value.

The Company intends to generate increased shareholder worth through incremental investments into its core business. This organic growth is anticipated through investments into higher level value chain products that will result in both higher average sales prices as well as increased margins. Organic growth would be accomplished through maximizing positions with existing customers through investments that would leverage opportunities with those customers.

Management also believes joint venture opportunities could further increase shareholder desirability by allowing the Company to secure access to intellectual property. Likewise, joint venture opportunities that would expand and improve LGL's capacity would allow the Company to be more reactive to its customers' supply chain requirements.

Similarly, management believes that synergistic mergers and acquisition opportunities may escalate shareholder appeal. The LGL Group intends to focus on acquisitions with high value added engineering complements as well as those that would improve customizations levels and extend OEM cycles.

The Company's subsidiary, M-tron Industry's October 2002 acquisition of Champion Technologies allowed entry to the timing modules market while the subsidiary's September 2004 acquisition of PTI provided LGL with its family of oven-controlled crystal oscillators and its electronic filter products.

Finally, LGL is also committed to growth through opportunities with new customers, fresh markets and new products. Approximately 10% of the Company's MtronPTI subsidiary's revenue has come from major new designs or new product platforms that have been introduced in the preceding three years.

VALUATION

The forward P/E, is in line with the group average but the other metrics are at the low end of the peer group. As the economic environment improves we would expect that the Enterprise Value to Revenue ratio to improve. The PEG value should improve as the growth in earnings drives the stock price higher. The current stock market environment has not been kind to small company stock prices but a better stock market should have a positive impact on the stock price.

Based on our N4Q estimate of revenue of $32 million and the group median P/S ratio our target price is $10.00.

Investor interest in the group has been declining, as shown by the decrease in institutional holdings as percentage of shares outstanding. We would expect this to reverse as the semiconductor industry returns to higher growth expectations later this year.

COMPARISON TABLE	Ticker	Price	Mkt	ROE	P/E	P/E	P/B	P/S	EV/Sales	EV/EBITDA	PEG	Inst.
(Source: Yahoo Finance)		3/26/12	Cap	(%)	L4Q	N4Q	LQ	L4Q	L4Q	L4Q		Ownership %
			(in million)									
LGL Group Inc.	**LGL**	**$7.65**	**$20**	**35.42**	**51.1**	**13.7**	**0.78**	**0.56**	**0.56**	**0.37**	**0.69**	**20.3%**
Cisco Systems Inc.	CSCO	$20.97	$112,630	14.74	16.2	10.5	2.30	2.53	1.9	6.90	1.31	68.0%
CTS Corporation	CTS	$10.40	$356	7.8	17.3	11.3	1.3	0.6	0.6	9.9	1.00	90.2%
Frequency Electronics Inc.	FEIM	$8.26	$69	11.20	8.97	N/A	0.93	1.11	0.79	4.73	NA	44.1%
Giga-tronics Inc.	GIGA	$1.20	$6	NM	NA	NM	0.95	0.36	0.16	NA	NA	3.6%
Pericom Semiconductor Inc.	PSEM	$8.15	$196	0.94	NA	22.00	0.84	1.34	0.83	10.05		83.7%
Rakon Ltd.	RAKNF.PK	$0.94	$178	NA	NA	NA	1.11	1.17	NA	NA	NA	NA
RF Monolithics Inc.	RFMI	$1.00	$11	1.85	NA	12.01	NA	0.35	0.41	10.48	NA	10.3%
Silicon Laboatories Inc.	SLAB	$43.68	$1,840	5.79	NA	18.15	3.06	3.74	3.12	19.09	1.02	109.4%
Symmetricom Inc.	SYMM	$5.69	$239	3.66	35.20	11.18	1.28	1.06	0.80	7.59	1.37	79.9%
Triquint Semiconductor Inc.	TQNT	$6.76	$1,120	5.44	24.14	14.08	1.22	1.28	1.10	6.80	3.64	70.4%
Valpey Fisher Group.	VPF	N/A										
Source: Yahoo Finance & Zacks Investment Research												
Mean				9.65	25.50	14.12	1.38	1.28	1.02	8.43	1.50	
Median				5.79	20.74	12.87	1.17	1.11	0.80	7.59	1.17	

PROJECTED INCOME STATEMENT & BALANCE SHEET

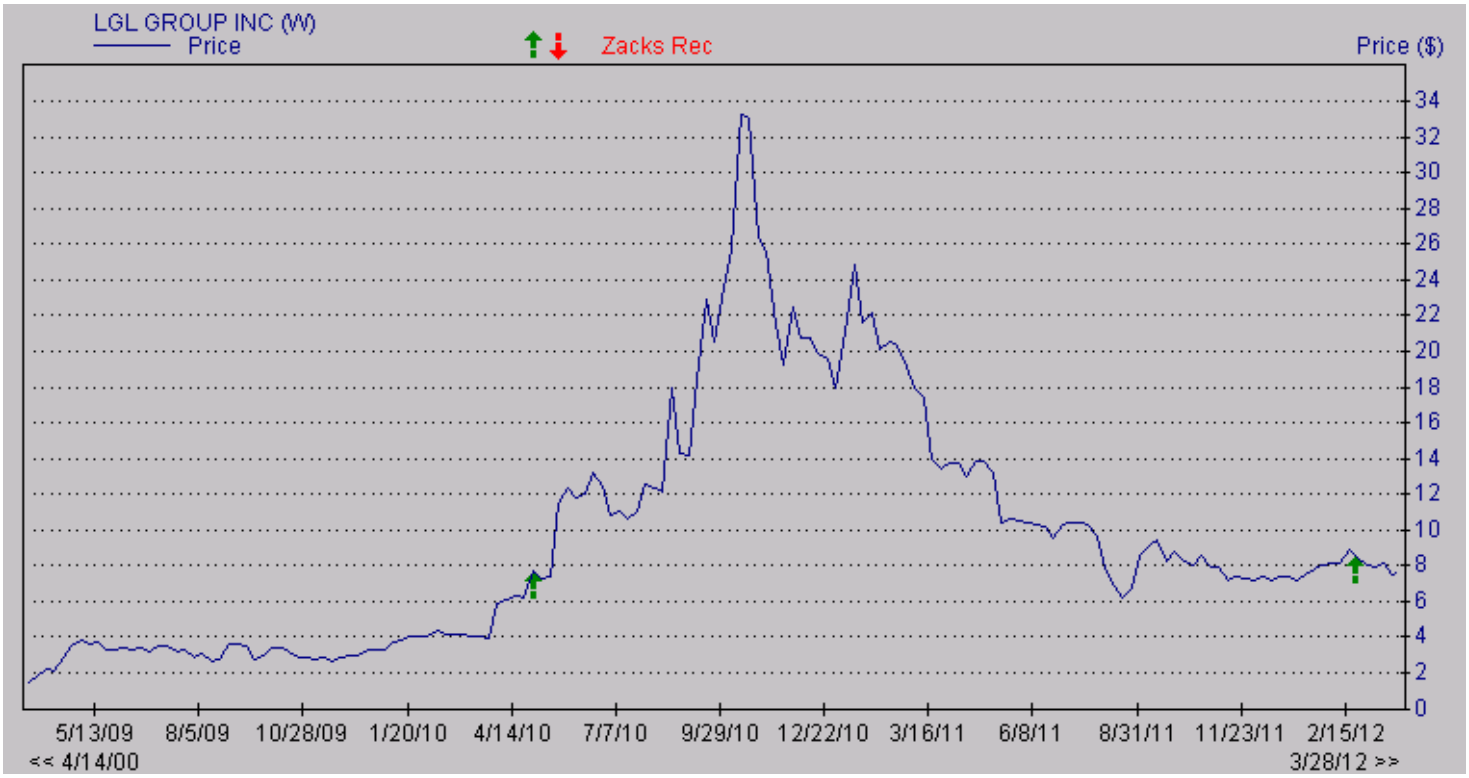
LGL Group Inc																	
Consolidated Statements of Operations																	
(Dollars in millions except per share data)																	
Fiscal Year Dec 31.	2009	2010	1Q11	2Q11	3Q11	4Q11	2011 A	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013
	Act.	Act.										Est.					Est.
Net sales	**$31.30**	**$46.66**	**$9.02**	**$9.65**	**$9.63**	**$7.39**	**$35.68**	**$7.00**	**$8.00**	**$9.00**	**$8.00**	**$32.00**	**$8.00**	**$9.50**	**$10.50**	**$9.50**	**$37.50**
% Change								(22.39)	(17.06)	(6.53)	8.30	(10.32)	14.29	18.75	16.67	18.75	17.19
Cost Goods	23.88	30.31	6.08	6.58	6.93	5.33	24.92	4.97	5.60	6.21	5.44	22.22	5.36	6.27	6.83	6.08	24.54
G & A	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Eng. S.G.&A.	9.34	9.57	2.56	2.50	2.58	2.46	10.09	1.75	2.00	2.25	2.00	8.00	2.00	2.38	2.63	2.38	9.38
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depr. & Amort.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Op Income GAAP	(1.92)	6.78	0.38	0.56	0.12	(0.40)	0.67	0.28	0.40	0.54	0.56	1.78	0.64	0.86	1.05	1.05	3.59
Interest Expenses	0.41	0.30	0.01	0.03	0.00	0.00	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non Op Income	(0.24)	0.00	0.00	0.01	(0.03)	(0.05)	(0.08)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.06	0.00	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Calc.Pretax	(2.50)	6.48	0.38	0.54	0.09	(0.44)	0.57	0.28	0.40	0.54	0.56	1.78	0.64	0.86	1.05	1.05	3.59
Taxes	0.02	(2.95)	0.14	0.19	0.00	(0.15)	0.09	0.04	0.06	0.09	0.09	0.28	0.10	0.14	0.17	0.17	0.57
Tax Rate	(0.76)	(45.46)	36.58	35.93	0.00	33.33	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
Other Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pro-forma adj.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income	(2.52)	9.42	0.24	0.35	0.09	(0.30)	0.38	0.24	0.34	0.45	0.47	1.50	0.54	0.72	0.88	0.88	3.02
Costs and expenses are on a pro-forma basis																	
Net For Common	(2.52)	9.42	0.24	0.35	0.09	(0.30)	0.38	0.24	0.34	0.45	0.47	1.50	0.54	0.72	0.88	0.88	3.02
Shares Used, millions	2.20	2.25	2.48	2.62	2.61	2.58	2.57	2.60	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70
Earnings Per Share																	
EPS	**($1.15)**	**$4.19**	**$0.10**	**$0.13**	**$0.03**	**($0.11)**	**$0.15**	**$0.09**	**$0.12**	**$0.17**	**$0.17**	**$0.55**	**$0.20**	**$0.27**	**$0.33**	**$0.33**	**$1.12**
Pro Forma EPS	**($1.15)**	**$4.19**	**$0.10**	**$0.13**	**$0.03**	**($0.11)**	**$0.15**	**$0.09**	**$0.12**	**$0.17**	**$0.17**	**$0.55**	**$0.20**	**$0.27**	**$0.33**	**$0.33**	**$1.12**

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LGL Group Inc									
Consolidated Balance Sheet (in $ millions)									
Fiscal Year Dec 31.									
	1Q10	2Q10	3Q10	4Q10		1Q11	2Q11	3Q11	4Q11
ASSETS									
Cash & Equiv.	3.98	3.61	2.26	4.15		11.05	10.99	13.72	13.71
A/R	5.93	6.99	6.67	5.78		4.80	5.19	5.82	4.31
Inventories	6.64	6.42	6.69	5.95		6.29	6.87	6.11	5.68
Other	0.34	0.27	0.29	1.61		1.70	1.61	1.57	1.25
Total current assets	16.88	17.30	15.91	17.49		23.84	24.65	27.22	24.95
Gross Plant	18.89	19.01	19.16	19.59		20.16	20.75	4.30	4.53
Acc. Deprn	15.27	15.42	15.59	15.76		15.93	16.09	0.00	0.00
Investments	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
Intangibles	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
Other	0.45	0.42	0.40	2.41		2.21	2.11	2.42	2.95
All Assets	20.96	21.30	19.88	23.73		30.28	31.42	33.94	32.42
LIABILITIES AND NET WORTH									
Debt Due 1 Yr	2.60	2.59	0.29	0.30		0.31	0.34	0.00	0.00
Notes Payable	1.97	1.03	0.00	0.00		0.00	0.00	0.00	0.00
A/P	2.81	2.53	2.45	2.03		2.40	2.88	8.07	6.83
Taxes	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
Other	2.86	2.29	2.26	2.33		1.88	2.14	0.00	0.00
Total current liabilities	10.25	8.43	5.00	4.66		4.59	5.35	8.07	6.83
Conv. Debt	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
L.T.Debt	0.60	0.52	0.45	0.37		0.29	0.20	0.15	0.00
Other LT	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
Def. Taxes & ITC	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
All Liabilities	10.84	8.96	5.45	5.03		4.88	5.55	8.22	6.83
Pref.Stock	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
Common Stock	0.02	0.02	0.02	0.02		0.03	0.03	0.00	0.00
Surplus	20.72	20.74	20.80	20.89		27.33	27.41	25.72	25.59
Retained Earnings	-10.54	-8.36	-6.38	-2.18		-1.94	-1.59	0.00	0.00
Other	-0.09	-0.06	-0.01	-0.04		-0.02	0.02	0.00	0.00
Treasury Stock	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
Net Worth	10.12	12.34	14.43	18.70		25.40	25.87	25.72	25.59
Total liabilities & stockholders' equity	20.96	21.30	19.88	23.73		30.28	31.42	33.94	32.42

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The current distribution of Zacks Ratings is as follows on the 1029 companies covered: Buy/Outperform- 15.7%, Hold/Neutral- 78.2%, Sell/Underperform – 5.2%. Data is as of midnight on the business day immediately prior to this publication.