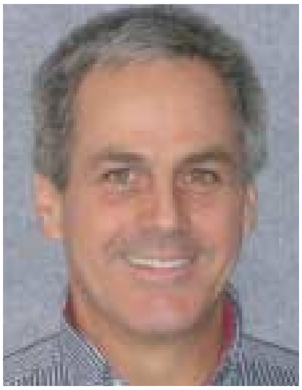
Filling the Gap

CJS Securities Provides a Voice to Underfollowed Small Caps

by Meghan Leerskov

CJS Securities



Arnie Ursaner
President

Arnie Ursaner knew the old way of doing things wasn't working. He saw firsthand how banking interests were running the Street.

During a six-year stint at Bear Stearns & Co. working on over 150 public offerings, Ursaner noticed a lot of companies slipping through the cracks. "I came to the realization that after a company became public, they became orphans," says Ursaner. "The banker paid attention at first, but a lot of very good companies weren't getting Wall Street's attention."

Wall Street research was not only being driven by investment banking, but it operated on the falsehood that small companies couldn't compete with large caps. "I was working at a big firm, so I knew exactly how they thought about small companies," says Ursaner. "There weren't a lot of investment banking dollars to be made, so they weren't pushing to cover the stocks."

When founding the boutique firm CJS Securities in 1998, Ursaner took a completely different approach. He decided the firm would only cater to the highest quality small-cap money manager by being as independent as possible, doing no investment banking or large-cap coverage, and finding companies that would make money.

Ursaner wasn't sure how his business model would pan out in an environment where success was driven by allocation of IPOs, but he knew that if he could provide value it would gain momentum. However, any reservations Ursaner may have had were quickly dispelled — small-cap companies were hungry for analytical coverage and money managers were eager to get the insight.

Modestly, Ursaner credits the firm's success to being in the right place at the right time, but his clients praise his superb research efforts. "They are creative and innovative and that is what the buy side needs," says CJS client Dick Strong of Strong Capital. "These people live by the sword and die by the sword."

Portfolio Manager Cliff Greenberg with Baron Capital Management emphasizes that CJS is not just a good firm, but a great firm. "CJS is focused entirely on coming up with good ideas for me as a portfolio manager. Arnie [Ursaner] and his guys have a good nose for interesting companies," he says. "Most firms just have a different agenda."

Any good portfolio manager will tell you the importance of knowing a company's management and this is an arena where CJS excels. "CJS's access to management is really superb. We like that because they allow us to have that same access and insight," says Carlene Ziegler with Artisan Partners.

Senior Analyst Bob Labick, CFA knows the perspective of a CJS client well because he was one. While with Evergreen Asset Management, Labick used CJS's research frequently. "I know we have a great product here because I used it," he says. In fact, Labick respected the firm so much that when he decided to make a career move, his first call was to Ursaner.

GENERALLY SPEAKING

While each analyst at CJS might be termed a generalist, Ursaner points out that they aren't slotted into traditional categories because they don't want to limit themselves. "A good idea can come from anywhere, and my analysts are free to scour the U.S. for small-cap opportunities," he says. Additionally, many of the 50 companies that CJS follows won't fit into traditional categories. Labick points to one of his top picks as a prime example: Griffon Corp. (GFF), is a mini-conglomerate that has three very different businesses: garage doors,

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–Bob Labick, CFA, Senior Analyst

plastic films and telephonics — making it difficult to pigeonhole the company into just one industry.

For value investors, Labick recommends Griffon with a Buy rating. The three arms of its business are excelling: Griffon's garage doors business captures 35% of the market share in the U.S; the plastic films business has a long-term contract with Proctor & Gamble to produce the back sheets of its diapers; and Griffon's telephonics business, which focuses on defense and marine radar, is quite timely with the U.S. ramping up for a possible war with Iraq. "It is a really great value play at under five times EV/EBITDA estimates for 2003 — there are areas for growth, excellent cash generation and a very strong balance sheet," says Labick.

Labick also favors Paxar Corp. (PXR) with a Strong Buy. Paxar is a leader in the niche area of producing price tags and inside labels for retailers. "The company has strong cash flow and a good balance sheet," says Labick. "Paxar has all the things that I like in a company."

DYNAMIC VALUE

Senior Analyst Mike Roesler, CFA points to PSS World Medical (PSSI), a leading pure play distributor of medical equipment and supplies to physician offices, nursing homes and eldercare providers. Roesler notes that the markets PSS caters to are large and growing faster than the overall healthcare industry. "PSS has competitive advantages in its size and the quality of its sales force," says Roesler. "Management has also implemented a number of strategies to accelerate growth." The goal of these plans is to deliver revenue growth at a rate of at least two times the market rate. Roesler currently rates the company a Buy.

Roesler also lauds Strong Buy-rated EMCOR Group (EME), one of the largest specialty mechanical and electrical construction firms in the world. He credits an excellent management team, great cash flow, a disciplined acquisition strategy, and a strong balance sheet with debt to total capital of 19%. "A recovery in the economy should lead to further positives for the company," says Roesler. "But even at current levels, we believe the valuation is compellingly attractive for an industry leader with a great balance sheet."

MARKET LEADERS

Senior Analyst Dan Moore, CFA appreciates being able to follow an eclectic group of companies from radio to software. "To find unique small-cap ideas with compelling changes that haven't been discovered by the Street requires going beyond a finite industry," he says.

Moore's digging in the small-cap universe unearthed broadcasting gem Regent Communications (RGCI). Regent owns and operates 73 radio stations in 17 market clusters, and is ranked No. 1 in 16 of those 17 markets. "Regent trades at a significant discount to long-term growth on both an EBITDA and FCF basis," says Moore. "With a target price of $10, Regent offers growth-oriented investors a lot of potential upside."

Moore recently initiated a Buy rating on Saga Communications (SGA), another radio owner/operator that also focuses on television stations. "Saga has an exceptionally strong management team from top to bottom," says Moore. "They have a very disciplined approach to acquisitions and a strong focus on returns on capital." Moore expects Saga will benefit from a stable revenue market due to its high exposure to local revenue and strong advertising relationships.

Moore singles out DocuCorp International (DOCC) for its sound track record. This Buy-rated provider of software and services dominates the industry by catering to nine of the top 10 property and casualty insurers, 10 of the top 10 life insurers and two-thirds of the top 200 insurers domestically. "If management is successful in expanding into other verticals, they could have a tremendous amount of capacity creating significant leverage," says Moore.

Labick feels that CJS has struck a chord with money managers. "What makes CJS so compelling is that we are like the companies we cover — we are serving a niche market of small-cap investors," he says. Ursaner agrees and adds, "And what makes us different is that we have one agenda: helping our clients outperform." ✦