



American Recovery and Reinvestment Act - Art's Way Modular Laboratories

President Obama signed the American Recovery and Reinvestment Act on February 17th. The Recovery Act will provide \$780 billion to preserve and create jobs, promote economic recovery, and provide investments to increase economic efficiency.

Projects must be 'shovel ready' under the Act, with very short bidding deadlines on projects. It also is intended to support technological advances in science and health. For example, the National Institute of Health will receive \$10.4 billion under the Act.



According to this legislation 'shovel ready' projects include upgrades to research facilities, and renovations, repairs and improvements to facilities. Modular laboratories like those manufactured by **Art's Way Manufacturing** (ARTW) are included in the stimulus package. Deadlines for grant submissions are set for May 6th, June 17th, and July 20th. Grants will be awarded prior to the end of September. Projects need to be completed by the end of 2011.

Discussing opportunities under the Recovery Act with ARTW management and other interested parties at the shareholder meeting last month we gathered the following information:

- After the Recovery Act passed inquiries about modular laboratories increased substantially. Modular labs offer the advantage of being cheaper than traditional on-site custom built facilities. Modular labs also take less time to certify, build, and install. This is a niche business that few have entered. Few competitors exist. To our knowledge ARTW is the only one publicly traded.
- Parties who intend to apply for a grant under the Recovery Act have approached ARTW with their customized requirements. ARTW, based on customer specifications, prepares a bid to construct the facilities at the ARTW manufacturing facility. The finished lab is then shipped by ARTW and installed on-site. Projects are nationwide, the market is not limited to the Midwest.
- The ARTW Scientific division manufacturing facility is virtually new. The building substantially expands ARTW's output capacity and is set up so that construction is much more efficient and cost effective. On a capacity basis the facility can support an estimated \$50 million a year in output. Last year the Scientific division booked revenue of \$10.6 million according to SEC filings.

- Ongoing projects and recent inquiries include those from Texas A&M, Wake Forest, National Cancer Institute, EPA, FDA, and National Institute of Health, among others. Demand for the modular labs extends beyond those who might obtain grants under the Recovery Act. A recent project was funded by the State of Texas.
- The Swine flu problem will present opportunities, but most of these will be for offshore facilities. ARTW modular labs can be built to specification then shipped in containers and installed anywhere in the world. Global shipping rates have come down significantly in the last year. To date ARTW has not made any international modular lab sales, but it is an area of potential growth.
- In the three to four weeks prior to the shareholder meeting ARTW had about \$40 million in inquiries on modular labs, mostly under the provisions of the Recovery Act. The number of bids that eventually will be funded under the Act is unknown.
- Under many of the historical grant programs the project merits were scrutinized extremely closely prior to funding. Under the Recovery Act, with the applicable deadlines, projects are not being scrutinized quite as closely on merit. ARTW will know within the next few months how many projects have been funded.
- ARTW's price/sales ratio is 0.7, price/book ratio is 1.8, and the price/earnings ratio is roughly 16 – well below average for a profitable growth company with an excellent business niche and outlook.

We continue to find the valuation, business niche, and positioning of Art's Way attractive. The LSGI Venture Fund LP owns roughly 3.2% of the company.

We expect Art's Way Manufacturing will be included in the Fortune Small Business Top 100 again in 2009 when the list is published later this month. The FSB 100 is a group of America's fastest growing small public companies.

