

## Guru Stock Report

**WAJAX CORPORATION (T Q: WJX)**

Based on 6/4/2013 Close Price of \$31.20

INDUSTRY: WHOLESALE DISTRIBUTORS

SECTOR: Wholesale Distributors

**Current Rating: Buy**
**Upgrade from B to A on 6/6/2013.**
**VALIDEA RATING (OVERALL STRENGTH GRADE):**

**OVERVIEW**

- This stock was upgraded from "B" to "A" on 6/6/2013 because its rating according to our Value Investor strategy based on the writings of Benjamin Graham was raised from No Interest to Some Interest. The score according to this strategy increased from 71% to 86%.
- This stock receives a fundamental grade of "A" based on Validea's Guru Analysis system. "A" rated stocks pass the strict fundamental tests of at least one of our top performing guru strategies. Stocks that receive this grade typically currently display desirable attributes that would be looked for by both growth and value investors. For further details on our scoring system, please see the FAQ section at the end of this report.
- Validea's Guru System classifies this stock as a value stock given its PE Ratio of 7.9, which is below the average market PE Ratio.
- This stock passes Validea's P/E Growth Investor strategy based on our interpretation of the published criteria of Peter Lynch with a score of 91%. The strategy looks for stocks that trade at a discount to their long-term earnings growth rates, which also show signs of financial strength.

**ANALYSIS SUMMARY**

Strategy Name	Based On Book By/About	Score
Contrarian Investor	David Dreman	57%
Book/Market Investor	Joseph Piotroski	0%
Growth Investor	Martin Zweig	33%
Growth/Value Investor	James O'Shaughnessy	50%
Low PE Investor	John Neff	40%
P/E Growth Investor	Peter Lynch	91%
Value Investor	Benjamin Graham	86%
Price/Sales Investor	Kenneth Fisher	50%
Patient Investor	Warren Buffett	0%

Momentum Investor

Validea

0%

\* Overall fundamental grade is based on a weighted scoring system in which the strategies at the top of the table are more significant than those at the bottom (the strategies used to determine our "A" rated stocks are above the dividing line in the table and the strategies used to determine the "B" rated stocks are below). Although all the strategies used in this report have exhibited market outperformance on a risk-adjusted basis, strategies at the top of the table have displayed superior historical risk-adjusted performance in our testing to those at the bottom.

**COMPANY PROFILE**

WAJAX CORPORATION is engaged in the sale and after-sales parts and service support of mobile equipment, industrial components and power systems, through a network of 117 branches across Canada.

**RATING HISTORY**

Date	Action	Old Rating	New Rating
3/1/2013	Downgrade	B	C
3/29/2013	Upgrade	C	B
4/26/2013	Upgrade	B	A
5/9/2013	Downgrade	A	B
5/24/2013	Upgrade	B	A

**METHODOLOGY**

This report provides a detailed analysis of WJX based on the publicly disclosed methodologies of Wall Street legends. Validea is a premier online independent research provider. The firm's Guru Stock Report unites the quantitative strategies of the world's most successful investors, including names like Peter Lynch, Warren Buffett, Ben Graham, Martin Zweig and many others. Rooted in fundamental analysis and built on core investing principles, each report contains an in-depth description of the guru methodologies, as interpreted by Validea, and examines the stock using multiple approaches (i.e. value, growth, momentum).

Using these strategies, Validea has created a ratings scale that is dynamic and weights more heavily the best performing approaches as identified and tracked by Validea. Each stock is scored using a five point rating system that assesses the security's investment prospects. Ratings range from A to F (correlates to Strong Buy to Sell), with A and B stocks having the best potential for long-term market outperformance. Stocks that score highly based on the best performing risk-adjusted guru strategies or are favored by multiple top performing guru strategies are given a higher rating versus their counterparts. Validea's ratings are limited to companies that exhibit profitability. Reports are updated every two weeks, or sooner in the event of an earnings report, other significant news, or a major stock price change, in an effort to provide timely and valuable analysis and coverage.

## GURU ANALYSIS OF: WAJAX CORPORATION (WJX)

### P/E GROWTH INVESTOR

SCORE: **91%**

BASED ON: Peter Lynch

STYLE: Growth/Value

### Strategy Overview

Perhaps the greatest mutual fund manager of all-time, Lynch guided Fidelity Investment's Magellan Fund to a 29.2 percent average annual return from 1977 until his retirement in 1990, almost doubling the S&P 500's 15.8 percent yearly return over that time. Lynch's common sense approach and quick wit made him one of the most quoted investors on Wall Street. ("Go for a business that any idiot can run -- because sooner or later, any idiot probably is going to run it," is one of his many pearls of wisdom.) Lynch's bestseller One Up on Wall Street is something of a "stocks for the everyman/everywoman", breaking his approach down into easy-to-understand concepts.

### Investment Strategy

Lynch's approach centers on a variable that he is famous for developing: The price/earnings/growth ratio, or "PEG". The PEG divides a stock's price/earnings ratio by its historic growth rate to find growth stocks selling on the cheap. Lynch's rationale: The faster a firm is growing, the higher the P/E multiple you should be willing to pay for its stock. Lynch is known for saying that investors can get a leg up on Wall Street by "buying what they know", but that's really just a starting point for him; his strategy goes far beyond investing in a restaurant chain you like or a retailer whose clothes you buy. Along with the PEG, he focused on fundamental variables like the debt/equity ratio, earnings per share growth rate, inventory/sales ratio, and free cash flow. It's important to note that Lynch used different criteria for different categories of stocks, with the three main categories being "fast-growers" (stocks with EPS growth rates of at least 20 percent per year); "stalwarts" (stocks with growth rates between 10 and 20 percent and multi-billion-dollar sales); and "slow-growers" (those with single-digit growth rates and high dividend payouts). He also used special criteria for financial stocks.

### Detailed Analysis

#### DETERMINE THE CLASSIFICATION:

According to this methodology, **WJX** is a "Slow Grower", based on its single digit earnings growth of **6.33%**, based on the average of the 3, 4 and 5 year historical eps growth rates.

#### SALES: [PASS]

**WJX** would fall into the "Dividend Payers" category according to this methodology. The first requirement of a Slow Grower is that its sales exceed one billion. **WJX's** sales are **\$1,466 million**. It passes the test.

#### INVENTORY TO SALES: [PASS]

When inventories increase faster than sales, it is a red flag. However an increase of up to 5% is considered bearable if all other ratios appear attractive. Inventory to sales for **WJX** was **17.57%** last year, while for this year it is **19.44%**. Since inventory has been rising, this methodology would not look favorably at the stock but would not completely eliminate it from consideration as the inventory increase (**1.87%**) is below 5%.

#### YIELD COMPARED TO THE S&P 500: [PASS]

This methodology also maintains that the Yield of a "Slow Grower" should be high, which includes being higher than the S&P average (currently 3.07%), and at least 3%. This yield is required because dividends are the main reason for investing in "Slow Growers". The yield for **WJX** is **7.69%** so it passes this test.

**YIELD ADJUSTED P/E/GROWTH (PEG) RATIO: [PASS]**

This methodology would consider the Yield-adjusted P/E/G ratio for **WJX** of **0.56**, based on the average of the 3, 4 and 5 year historical eps growth rates, to be good.

**TOTAL DEBT/EQUITY RATIO: [PASS]**

This methodology would consider the Debt/Equity ratio for **WJX (71.90%)** to be mediocre. If the Debt/Equity ratio is this high, the other ratios and financial statistics for **WJX** should be good enough to compensate.

**FREE CASH FLOW: [NEUTRAL]**

The Free Cash Flow/Price ratio, though not a requirement, is considered a bonus if it is above 35%. A positive Cash Flow (the higher the better) separates a wonderfully reliable investment from a shaky one. This methodology prefers not to invest in companies that rely heavily on capital spending. This ratio for **WJX (21.22%)** is too low to add to the attractiveness of the stock. Keep in mind, however, that it does not adversely affect the company as it is a bonus criteria.

**NET CASH POSITION: [NEUTRAL]**

Another bonus for a company is having a Net Cash/Price ratio above 30%. Lynch defines net cash as cash and marketable securities minus long term debt. According to this methodology, a high value for this ratio dramatically cuts down on the risk of the security. The Net Cash/Price ratio for **WJX (-32.05%)** is too low to add to the attractiveness of this company. Keep in mind, however, that it does not adversely affect the company as it is a bonus criteria.

**VALUE INVESTOR**SCORE: **86%**

BASED ON: Benjamin Graham

STYLE: Deep Value

**Strategy Overview**

The Value Investor strategy is based on the book "The Intelligent Investor" by Benjamin Graham. Widely recognized as the father of securities analysis, Benjamin Graham argued for investing in stocks that were significantly undervalued relative to their intrinsic worth, which he measured principally by their future earnings potential. Defensive investors who followed his advice, he said, would enjoy an invaluable "margin of safety" in their investment activities. Graham's defensive investor strategy is considered by many to be the ultimate value strategy and has stood the test of time more than perhaps any strategy ever created.

**Detailed Analysis****SECTOR:** [PASS]

**WJX** is neither a technology nor financial Company, and therefore this methodology is applicable.

**SALES:** [PASS]

The investor must select companies of "adequate size". This includes companies with annual sales greater than \$110 million. **WJX's** sales of **\$1,466.0 million**, based on trailing 12 month sales, pass this test.

**CURRENT RATIO:** [FAIL]

The current ratio must be greater than or equal to 2. Companies that meet this criterion are typically financially secure and defensive. **WJX's** current ratio of **1.90** fails the test.

**LONG-TERM DEBT IN RELATION TO NET CURRENT ASSETS:** [PASS]

For industrial companies, long-term debt must not exceed net current assets (current assets minus current liabilities). Companies that meet this criterion display one of the attributes of a financially secure organization. The long-term debt for **WJX** is **\$160.0 million**, while the net current assets are **\$230.0 million**. **WJX** passes this test.

**LONG-TERM EPS GROWTH:** [PASS]

Companies must increase their EPS by at least 30% over a ten-year period and EPS must not have been negative for any year within the last 5 years. Companies with this type of growth tend to be financially secure and have proven themselves over time. **WJX's** EPS growth over that period of **7,828.6%** passes the EPS growth test.

**P/E RATIO:** [PASS]

The Price/Earnings (P/E) ratio, based on the greater of the current PE or the PE using average earnings over the last 3 fiscal years, must be "moderate", which this methodology states is not greater than 15. Stocks with moderate P/Es are more defensive by nature. **WJX's** P/E of **8.40** (using the 3 year PE) passes this test.

**PRICE/BOOK RATIO:** [PASS]

The Price/Book ratio must also be reasonable. That is, the Price/Book multiplied by P/E cannot be greater than 22. **WJX's** Price/Book ratio is **2.16**, while the P/E is **8.40**. **WJX** passes the Price/Book test.

**CONTRARIAN INVESTOR**SCORE: **57%**

BASED ON: David Dreman

STYLE: Contrarian

**Strategy Overview**

The Contrarian Investor strategy is based on the book "Contrarian Investment Strategies" by David Dreman. If you relish going against the crowd, David Dreman's contrarian investment style should suit you well. Dreman is manager of the Kemper-Dreman High-Return Equity Fund and an investment columnist for Forbes magazine. This strategy passes large, fundamentally sound companies (good earnings growth, good return on equity, low debt-to-equity ratio) that are out of favor due to public apathy, delirium or naivete. Such companies can be recognized by their low price relative to their earnings, cash flow, book value or dividends.

**Detailed Analysis****MARKET CAP: [PASS]**

Medium to large-sized companies (the largest 500 companies) should be chosen, because they are more in the public eye. Furthermore, the investor is exposed to less risk of "accounting gimmickry", and companies of this size have more staying power. **WJX** has a market cap of **\$522** million, therefore passing the test.

**EARNINGS TREND: [FAIL]**

A company should show a rising trend in the reported earnings for the most recent quarters. **WJX's** EPS for the latest quarter is not greater than the prior quarter, (from earliest to most recent quarter) **0.97, 0.85**. Hence the stock fails this test, but the investor should evaluate this company qualitatively to see if it qualifies under this methodology's "exception rule".

**EPS GROWTH RATE IN THE IMMEDIATE PAST AND FUTURE: [FAIL]**

This methodology likes to see companies with an EPS growth rate higher than the market in the immediate past and a likelihood that this trend will continue in the near future. **WJX** fails this test as its EPS growth rate for the past 6 months (**-23.42%**) does not beat that of the market (**11.66%**).

**This methodology would utilize four separate criteria to determine if WJX is a contrarian stock. In order to eliminate weak companies we have stipulated that the stock should pass at least two of the following four major criteria in order to receive "Some Interest".**

**P/E RATIO: [FAIL]**

The P/E of a company should be in the bottom 20% of the overall market. **WJX's** P/E of **7.88**, based on trailing 12 month earnings, is higher than the bottom 20% criterion (below 7.88), and therefore fails this test.

**PRICE/CASH FLOW (P/CF) RATIO: [FAIL]**

The P/CF of a company should be in the bottom 20% of the overall market. **WJX's** P/CF of **4.72** does not meet the bottom 20% criterion (below 3.89), and therefore fails this test.

**PRICE/BOOK (P/B) VALUE: [FAIL]**

The P/B value of a company should be in the bottom 20% of the overall market. **WJX's** P/B is currently **2.16**, which does not meet the bottom 20% criterion (below 0.67), and it therefore fails this test.

**PRICE/DIVIDEND (P/D) RATIO: [PASS]**

The P/D ratio for a company should be in the bottom 20% of the overall market (that is the yield should be in the top 20%). **WJX's** P/D of **13.00** meets the bottom 20% criterion (below 13.42 or yield above 3.7% ), and it therefore passes this test.

**This methodology maintains that investors should look for as many healthy financial ratios as possible to ascertain the financial strength of the company. These criteria are detailed below.**

**CURRENT RATIO: [FAIL]**

A prospective company must have a strong Current Ratio (greater than or equal to the average of its industry [2.19] or greater than 2). This is one identifier of financially strong companies, according to this methodology. **WJX's** current ratio of **1.90** fails the test.

**PAYOUT RATIO: [PASS]**

A good indicator that a company has the ability to raise its dividend is a low payout ratio. The payout ratio for **WJX** is **78.54%**, while its historical payout ratio has been **89.43%**. Therefore, it passes the payout criterion.

**RETURN ON EQUITY: [PASS]**

The company should have a high ROE, as this helps to ensure that there are no structural flaws in the company. This methodology feels that the ROE should be greater than the top one third of ROE from among the top 500 large cap stocks, which is **15.20%**, and would consider anything over 27% to be staggering. The ROE for **WJX** of **27.28%** is high enough to pass this criterion.

**PRE-TAX PROFIT MARGINS: [FAIL]**

This methodology looks for pre-tax profit margins of at least 8%, and considers anything over 22% to be phenomenal. **WJX's** pre-tax profit margin is **5.28%**, thus failing this criterion.

**YIELD: [PASS]**

The company in question should have a yield that is high and that can be maintained or increased. **WJX's** current yield is **7.69%**, while the market yield is **2.53%**. **WJX** passes this test.

**LOOK AT THE TOTAL DEBT/EQUITY: [PASS]**

The company must have a low Debt/Equity ratio, which indicates a strong balance sheet. The Debt/Equity ratio should not be greater than 20% or should be less than the average Debt/Equity for its industry of **108.33%**. **WJX's** Total Debt/Equity of **71.90%** is considered acceptable.

**PRICE/SALES INVESTOR**SCORE: **50%**

BASED ON: Kenneth Fisher

STYLE: Growth/Value

**Strategy Overview**

The Price/Sales Investor strategy is based on the book "Super Stocks" written by Kenneth Fisher. Fisher is a money manager, best-selling author and long-time Forbes columnist who wowed Wall Street in the early 1980s when his book first popularized the idea of analyzing price-to-sales ratios (PSR) as a means of identifying attractive stocks. The strategy looks for stocks whose low price-to-sales ratios are accompanied by strong earnings growth, little debt, and positive free cash flow.

**Detailed Analysis****PRICE/SALES RATIO: [PASS]**

The prospective company should have a low Price/Sales ratio. Non-cyclical (non-Smokestack) companies with Price/Sales ratios below 0.75 are tremendous values and should be sought. **WJX's** P/S of **0.36** based on trailing 12 month sales, is below 0.75 which is considered quite attractive. It passes this methodology's P/S ratio test with flying colors.

**TOTAL DEBT/EQUITY RATIO: [FAIL]**

Less debt equals less risk according to this methodology. **WJX's** Debt/Equity of **71.90%** is unacceptable, thus failing the test.

**PRICE/RESEARCH RATIO: [PASS]**

This methodology considers companies in the Technology and Medical sectors to be attractive if they have low Price/Research ratios. **WJX** is neither a Technology nor Medical company. Therefore the Price/Research ratio is not available and, hence, not much emphasis should be placed on this particular variable.

**PRELIMINARY GRADE: No Interest in WJX At this Point****Is WJX a "Super Stock"? NO****Price/Sales Ratio: [PASS]**

The Price/Sales ratio is the most important variable according to this methodology. The prospective company should have a low Price/Sales ratio. **WJX's** Price/Sales ratio of **0.36** passes this criterion.

**LONG-TERM EPS GROWTH RATE: [FAIL]**

This methodology looks for companies that have an inflation adjusted EPS growth rate greater than 15%. **WJX's** inflation adjusted EPS growth rate of **4.01%** does not pass this test.

**FREE CASH PER SHARE: [PASS]**

This methodology looks for companies that have a positive free cash per share. Companies should have enough free cash available to sustain three years of losses. This is based on the premise that companies without cash will soon be out of business. **WJX's** free cash per share of **6.62** passes this criterion.

**THREE YEAR AVERAGE NET PROFIT MARGIN: [FAIL]**

This methodology looks for companies that have an average net profit margin of 5% or greater over a three year period. **WJX's** three year net profit margin, which averages **4.69%**, does not pass this criterion.

## Strategy Overview

The Growth/Value Investor strategy is based on the book "What Works on Wall Street" by James P. O'Shaughnessy. In the book, O'Shaughnessy back-tested 44 years of stock market data from the comprehensive Standard & Poor's Compustat database to find out which strategies work and which don't. To the surprise of many, he concluded that price-to-earnings ratios aren't the best indicator of a stock's value, and that small-company stocks, contrary to popular wisdom, don't as a group have an edge on large-company stocks. Based on his research, O'Shaughnessy developed two key investment strategies: "Cornerstone Growth" and "Cornerstone Value", both of which are combined to form this strategy.

## Detailed Analysis

### MARKET CAP: [PASS]

The first requirement of the Cornerstone Growth Strategy is that the company has a market capitalization of at least \$50 million. This will screen out the companies that are too illiquid for most investors, but still include a small growth company. **WJX**, with a market cap of **\$522** million, passes this criterion.

### EARNINGS PER SHARE PERSISTENCE: [FAIL]

The Cornerstone Growth methodology looks for companies that show persistent earnings growth without regard to magnitude. To fulfill this requirement, a company's earnings must increase each year for a five year period. **WJX**, whose annual EPS before extraordinary items for the last 5 years (from earliest to the most recent fiscal year) were **4.57, 2.06, 3.31, 3.84 and 3.95**, fails this test.

### PRICE/SALES RATIO: [PASS]

The Price/Sales ratio should be below 1.5. This value criterion, coupled with the growth criterion, identify growth stocks that are still cheap to buy. **WJX's** Price/Sales ratio of **0.36**, based on trailing 12 month sales, passes this criterion.

### RELATIVE STRENGTH: [FAIL]

The final criterion for the Cornerstone Growth Strategy requires that the Relative Strength of the company be among the top 50 of the stocks screened using the previous criterion. This gives you the opportunity to buy the growth stocks you are searching for just as the market is embracing them. **WJX** has a relative strength of **18**, which is not in the top 50. Therefore, it would fail the overall methodology.

## Frequently Asked Questions

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### What is Validea's Guru Analysis?

Guru Analysis provides an in depth analysis of any stock using Validea's interpretation of published writings by or about 10 of history's best investors including Peter Lynch, Benjamin Graham, Warren Buffett, James P. O'Shaughnessy, the Motley Fool, David Dreman, John Neff, Kenneth Fisher and Martin Zweig. With Guru Analysis you can analyze any stock step by step using any one of these strategies and can see exactly why the stock passes or fails each methodology.

### What type of investors can use Validea's Guru Stock Reports?

Validea's Guru Stock reports are geared toward long and medium-term investors. The vast majority of the investors that our guru strategies are based upon were long term investors. The reports can be utilized by both value and growth investors because there are multiple methodologies within the report that appeal to each investment style and several that combine both.

### What does the Validea Rating overall letter grade indicate?

The Validea Rating indicates how well the stock meets the investment criteria of the 10 strategies in this report. The strategies with the best historical risk-adjusted performance are weighted more heavily in determining the letter grade. The letter grades are determined as follows.

**A** - "A" rated stocks receive a score of 90% from at least one of our top tier guru strategies. Our top tier strategies are based on our interpretation of the published writings of David Dreman, Joseph Piotroski, James P. O'Shaughnessy, John Neff and Martin Zweig. Stocks in this category exhibit the fundamental criteria that have proven most predictive of future stock performance in our historical testing.

**B** - "B" rated stocks receive a score of 90% from at least one of our second tier guru strategies. Our second tier strategies are based on our interpretation of the published writings of Peter Lynch, Warren Buffett, Kenneth Fisher and Benjamin Graham. Stocks in this category exhibit the fundamental criteria that is sought by these strategies. These strategies have all exhibited strong risk-adjusted performance in our historical testing.

**C** - "C" rated stocks have an average score from all of our strategies of at least 25%. Stocks in this category typically exhibit elements of fundamental strength, but also have some noticeable weaknesses.

**D** - "D" rated stocks have an average score from all of our strategies between 20% and 25%. Stocks in this grouping typically have several major fundamental weaknesses that would not be looked upon favorably by both value and growth investors.

**F** - "F" rated stocks have an average guru score from all of our strategies below 20%. Stocks in this grouping typically have many major fundamental weaknesses that would eliminate them from any consideration by our guru strategies.

### What do the individual guru scores mean?

The scores for each strategy represent a weighted percentage of how well a particular stock meets a guru's criteria. Not all criteria are weighted equally and some of our strategies have criteria that are important enough to automatically result in a 0% score if they are failed. For example, in the Patient Investor strategy based on Warren Buffett, a stock will automatically fail if it does not meet the requirement of consistent earnings over the past 10 years.

### Is there any affiliation between Validea and the gurus that the strategies are based on?

No, the names of individual investment advisors (i.e., the 'gurus') appearing in this report are for identification

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Fundamental data provided by the Globe & Mail.

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