
[Begin NBT - FLOW INTERNATIONAL CORPORATION - 1]

Tobin Smith: Hi, this is Toby Smith with Next Big Thing Investor. Okay. Now let me ask you something. If you could cut through, I don't know, a bank wall with 94,000 pounds of pressure, now that seems like it would be a good thing. Charley Brown, the CEO of Flow International tells me that you guys can cut through anything.

Charley Brown: We can cut through any material up to two or three feet of steel, because we pressurize water to 94,000 PSI, introduce grains of garnet or sand into it like bullets and shoot it out at four times the speed of sound.

Tobin Smith: All right. So this bus from an earning standpoint, has been on fire. Fiscal 2011, I think you guys had two cents a share. Fiscal 2012, you had 20 cents a share. So were you just lapping the fat guy?

Charley Brown: They were somewhat coming out of the recession with that, but also being able to leverage the overhead we kept in place out of the recession in order to be the larger company.

Tobin Smith: So why do I want to be in this business with you? We have private competitors. Guys grew like crazy. Now you've sort of taken a breath this fiscal and then getting ready for additional ground of growth, right?

Charley Brown: Our top line is continuing to grow. We've had record quarters the last three quarters in a row, four of the last five quarters.

Tobin Smith: Way to go.

Charley Brown: We've continued to invest in the business because we believe we have a long-term growth platform, and so why with Flow? We invented the category 30-plus years ago. We've had every major technological breakthrough in the category over that time period. We are the market share leader in the world, and we have absolutely the best product line and best disposition, so we're poised to capitalize on a growing capital –

[Crosstalk]

Tobin Smith: And the revenue is just not North America, obviously. What's the split?

Charley Brown: About half-and-half, North America and the rest of the world.

- Tobin Smith:* Who's growing the fastest for you? What area
- Charley Brown:* We've had some great growth in some of the brick countries. We have –
- Tobin Smith:* Brazil, Russia, India, China?
- Charley Brown:* And we've had excellent, actually, good performance out of Europe, unlike a lot of industrial companies. And the US is doing fairly well, so it's fairly balance. And one of the things about our business model is the balance, the diversification by geography as one country might slow down, another will pick up, and that's allowed us to have continued growth –
- Tobin Smith:* And so who's the typical customer? Who are the customers you're going after now?
- Charley Brown:* They're a couple of varieties. One is an industrial company that is making their own product and they realize that they need to cut parts, and they do it more efficiently, more effectively with the brace of water jet and then with say a laser cutter or a plasma cutter. And then there's also what we call job shots, which are making parts for other people, and they might be making little decorative parts like this little guy.
- Tobin Smith:* Wow. I don't know if you can get that with our high-def camera, but that is unbelievable. So this was cut all with your –
- Charley Brown:* All with our Flow water jet.
- Tobin Smith:* And you could have done this and made it 18 feet, right? In other words size was no issue?
- Charley Brown:* Our machines will cut this. We also have machine that cut the wing skins for a Boeing 787, or an Airbus A350 machine.
- Tobin Smith:* Thank God you're not doing the batteries. Anyway, we're gonna get back in a second and talk about more growth comes, where – who is really gonna buy this stuff, and then I guess the third thing is where can this thing go because you're building a platform to be the killer cutter of the world, and if it's the next big thing in industrial technology, it's right here.

[End NBT - FLOW INTERNATIONAL CORPORATION - 1]

[Begin NBT - FLOW INTERNATIONAL CORPORATION - 2]

Tobin Smith: Toby Smith, Next Big Thing Investor. We're back with Charlie Brown who is the CEO of Flow International. I just love the name of that. All right, so a growing business, cash flow positive business, giving investors something to aim for here, when do you get to \$30 million or \$40 million of EBITDA? 'Cause you're at, what, like \$20 million now?

Charley Brown: About \$25 million right now, and at a run rate and revenue of about \$265 million, so our target is a \$300 million run rate, or \$75 million per quarter, and \$10 million of EBITDA per quarter, \$40 million annually.

And we don't –

Tobin Smith: That sounds like operational leverage, Charley.

Charley Brown: That's absolutely where it's coming from 'cause we've built the company and kept the company's capabilities to be a \$300 million company. We've got the capacity. We've got the capability to do that.

Tobin Smith: All right. Now is this a razor blade type business where you sell the big machine, but then you get a service contract? How does that work?

Charley Brown: Excellent point. It's really got about a third of our business.

Tobin Smith: That's why I do this.

Charley Brown: Yeah, I know. It's a about a third of our business is the repeat business with the spares, the aftermarket business, and that's very, very good margin business for us.

Tobin Smith: And that's all custom stuff for you. You can't go to Home Depot and buy your stuff –

Charley Brown: At the higher end, at the 94,000 rated PSI product, it's' absolutely patentable technology. There are pieces of the system at the lower technology levels that have been copied and have knockoffs.

Tobin Smith: [*Fake cough*] Chinese. Anyway, so the bigger issue here is you have customers everywhere, but you don't have anybody who's the dominant customer. I was amazed to read that.

Charley Brown: That's a very diversified customer base. Typically, no customer will make more than two or three percent of our revenue stream in a given quarter. So not only are we diversified geographically, we're diversified with customer base and with the range of products, and with our distribution channels. We have both direct salespeople and indirect salespeople around the world. We have over 300 people in those two channels that can sell a Flow product around the world.

Tobin Smith: I would love to be an industrial sales rep to sell your product and then get the follow-on sale, right, the follow-on revenue. All right. So \$40 million EBITDA in my big math calculator here, we're usually going seven-eight times EBITDA. So there's your \$300 million market cap. Where are you today?

Charley Brown: We're in about \$180 million market cap.

Tobin Smith: Okay. So we got – we have (a) a lot of room for growth, (b) these are the type companies I'm sure you've had people try to buy you all the time. I mean that's sort of the thing. But your thing is you guys are solid. You're cash flow positive so you're gonna be here a while, I gather.

Charley Brown: We believe we've got a very sustainable business model. We have the foundation blocks are all in place, and now it's a matter of continuing to build it out a step at a time.

Tobin Smith: All right. Well, in our top 100 micro cap companies, you guys rates pretty high, by the way.

Charley Brown: Thank you.

Tobin Smith: So I bet you, you're gonna probably qualify for that deal. And the other thing is, is what's intriguing to me is this is a company that I never heard of before we looked at the roster at Roth Conference, so we need to get the word out a little bit on this, right?

Charley Brown: We do.

Tobin Smith: All right. And the same thing in your sector. You're fighting against entrenched old style ways of cutting stuff, so guys are the new upstart is basically you're replacing a chisel and a hammer?

Charley Brown: Well, we're replacing either some sort of a torch, a plasma cutter, or a laser cutter. Laser will be used to cut very quickly, thinner materials. If you're going to thicker material, metal, or if you're

going to any other kind of material, stone, or rubber, or composite, it's right there. We cut it all, and the other technologies don't, because they generate heat when you cut, and we don't.

Tobin Smith: That's the key. So in general, you're getting much more efficiency. You're getting something where you don't have to clean edge, right? There has to be no processing. You have a business growing in the teens at a pretty low valuation, and ready to make the next leap up into the \$40 million EBITDA, in other words, cash flow range, which should have the good \$250 million, \$300 million market cap.

So a good steady Eddy with new exciting technology that you own.

Charley Brown: That's right

Tobin Smith: That's the next big thing in cutting is right here.

[End NBT - FLOW INTERNATIONAL CORPORATION - 2]

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