

Special Report

The 100 Best Mid-Cap Stocks In America

By Brian Zajac, Electronically reprinted from September 25, 2007

The argument in favor of investing in mid-cap growth companies is this: They strike a sensible balance between small companies that might not be able to sustain their past performance and big companies that may be past their prime.

Mid-cap stocks have more than held their own in the volatile current stock market. Through Sept. 18, the S&P MidCap 400 Index shows a 17.3% price increase for the past 12 months. Over the same period, the S&P 500 and the S&P SmallCap 600 indexes have gained of 15% and 13.8%, respectively.

To find the 100 Best Mid-Cap Companies in America, we applied our financial screens to an initial field of over 1,000 U.S. mid-caps. We define a mid-cap as having a market value between \$1 billion and \$4 billion. Among our screening requirements: a positive return on equity and meaningful sales and earnings per share growth for the past five years and 12 months.

We eliminated companies where security analysts--according to consensus estimates from Thomson IBES--expect less than 10% annualized earnings growth over the next three to five

years. Using an equal weighted scoring system, we gave each company a composite ranking based on each of our key screening criteria.

Our initial ranking of a company within the top 100 mid-caps does not mean it made our final list. Our researchers scrutinized reviews by security analysts, press releases and other information. In the process, we eliminated companies with significant legal problems or other issues that might hamper future growth.

We also called on Audit Integrity of Los Angeles, which has developed computer programs that search through financial filings to identify and flag possible restatements, bond defaults or other financial difficulties. This information from Audit Integrity helped us weed out companies with potential accounting or governance problems.

While our list has over a dozen companies involved in the trendy business of creating, marketing or retailing apparel and accessories, including top-ranked **Under Armour**, the overall collection of companies represents an excellent cross section of the most dynamic sectors of

the American economy. Our list has 11 companies from the technology sector, 10 from healthcare and 19 from capital goods.

One example: newcomer **FLIR Systems**, ranked third on our list. This Wilsonville, Oregon, company manufactures and markets thermal imaging and stabilized camera systems for a wide range of security and defense applications. FLIR has five-year sales growth of 23% and five-year earnings growth of 27%. Over the past 12 months, the company earned \$122 on \$665 million in revenues. Security analysts think FLIR can generate 18% annualized earnings growth over the next three to five years.

This is our third year selecting top mid-caps, and we count 19 companies with the distinction of being listed all three years. One example is **Kirby**. The Houston company, which ranked No. 51 this year, operates barges along the Mississippi and provides fuel transportation services. Over the past five years, Kirby has delivered 21% annualized earnings growth, and security analysts expect similar growth of 22% in the next three to five years.

By The Numbers: Best Mid-Cap Stocks Newcomers



#16 Brown & Brown

Financial
Exchange: nyse
Ticker: BRO
Price: \$27.15
52-week price change: -11%
2007 EST P/E: 19
Market Value (\$mil): 3,810

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Prices as of Sept. 18.
Sources: Audit Integrity (www.auditintegrity.com); FT Interactive Data, Reuters Fundamentals and Thomson IBES via FactSet Research Systems

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