

Asta Funding Inc (ASFI)

Price:	\$9.00	Net Tang. Bk Value Incl. Cash	\$170,390,000.00	Net Tang. Book Yr. 5 (Inc. Cash):	\$208,603,587.46
Market Cap:	\$116,460,000	(NTBVIC):		Avg. Year FCF/Share:	\$7,034,270.64
Cash:	\$28,040,000	NTBVIC/Market Downside Recovery:	146.31%	Year 5 Disposition FCF Multiple:	3.0
Debt:	\$62,000,000	Op. Cash Flow:	\$7,819,963	Year 5 Disposition Price:	\$229,706,399.38
Net Cash:	-\$33,960,000	Implied Years to Fill Gap:	-6.90		
Enterprise Value:	\$150,420,000	Today's Equity if 5x Op. CF:	\$193,849,888		
		Net Tang. Book+ Gain Disposition:			\$229,706,399.38
Shares Outstanding:	12,940,000	IRR:			14.55%
				Price:	\$17.75
				Target Market Cap:	\$229,706,399
				Target Enterprise Value:	\$263,666,399

* Our future intrinsic value measures the total return, which includes both capital appreciation and dividend income.

Dividend yield is 4.5%.

Essentially, the co. is a collections agency, or a factoring co. They buy receivables which were written off by the holders at a sharp discount to their face value and collect on the receivables using third party collections agencies and attorneys. The company also has an internal collections unit. Before going public in 1995, it was a family entity run by the current CEO's family, and they specialized in automobile contracts. They control 29.6% of the outstanding common stock so they still have an influential say in company matters. Since the late 90s, the Co. is specialized in consumer receivables where payments are either Visa, Mastercard, or other private label credit cards.

The Co. operation is essentially valuing the receivable portfolio and lining up financing to purchase them. There is a lot of leeway in their business grow out. They can either outsource the collection to third parties and lawyers, or choose to bring back operations to in-house, or do both. It does require a specialty in valuation and we believe this business model is feasible, as it can acquire through economic cycles - collection rates may improve when the economy strengthens and they can acquire portfolios cheaper when the economy sours. They only had 75 employees, so its a lean operation. Office lease expenses is around \$600k. \$25MM in SG&A cost for a \$45MM revenue Co.

The management placed a poison pill where a non-friendly buyer that acquires 20% of the outstanding shares and pursues a buyout would trigger rights issuances for the existing shareholders that will allow them to acquire new shares at a discount. Co. has a stock repurchase program in place which allows \$13MM in shares, or 1.44MM shares to be repurchased at today's price.

The debt on hand is from the \$300MM non-recourse loan financing, assumed by a subsidiary solely responsible for the particular portfolio, has been paid down to \$60MM. The co. has reaped about \$1.1 BB in cash collections off approximately \$700MM in booked cost since 2001. That \$400MM has gone out to the 3rd party collection agencies, lawyers, SG&A and dividends, leaving a \$100MM book value.

There seems to be no more fruits hanging on the tree, as they have not purchased new portfolios in 2011 and 2012. As an illustration, we can assume ASFI is like a apple juice maker which only has a 1 year supply of apples in the inventory and is unwilling to buy more apples since the cost is too expensive. I assume the principal on the portfolios are will not be paid down, but the co. could still collect interest on the outstanding principal.

The business model is great, but it does not look sustainable at the current market environment. The co. books the receivable at cost, but the cost is only 3-4% of the face value. The accounting gets thrown into a very confusing "interest" and "cost" accounting to realize the cash collected. If there is \$80MM left as receivable inventory, and all of this is impaired, there is still \$82MM in book value. We think it is fairly priced today on the downside with a 4.5% dividend yield, while the upside is nearly a price double. We like the bet, but we are uneasy with the future direction of the company, especially with the lack of receivables for purchase in the market today.

SN VALUATION

LBO Pro Forma Income Statement

Name:

Asta Funding Inc

Ticker:

ASFI

	Historical				Forecasted				
	12 months ending 2009-09-30	12 months ending 2010-09-30	12 months ending 2011-09-30	12 months ending 2012-09-30	2013	2014	2015	2016	2017
Revenue	70.36	45.85	43.17	44.50	44.95	45.39	45.85	46.31	46.77
COGS	8.45	4.37	3.02	2.54	3.60	3.63	3.67	3.70	3.74
Gross margin	61.91	41.48	40.15	41.96	41.35	41.76	42.18	42.60	43.03
SG&A	209.41	36.24	22.53	25.02	25.62	25.67	26.13	26.39	26.66
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation is: Excluded from COGS					0.00	0.00	0.00	0.00	0.00
Operating Income (EBITA)	-147.50	5.24	17.62	16.94	15.73	15.89	16.05	16.21	16.37
Interest income/(expense)	0.00	0.00	0.00	0.00	-4.29	-4.29	-4.29	-4.29	-4.29
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income before tax	-147.51	5.24	17.62	16.94	11.44	11.60	11.76	11.92	12.08
Tax	-56.79	2.11	7.10	6.87	4.00	4.06	4.11	4.17	4.23
Income after tax	-90.72	3.13	10.52	10.07	7.44	7.54	7.64	7.75	7.85
Minority Interest	0.00	0.00	0.00	-0.03	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	-90.72	3.13	10.52	10.04	7.44	7.54	7.64	7.75	7.85
*Figures are in millions (\$)									
EPS (based off today's share count)	-\$7.01	\$0.24	\$0.81	\$0.78	\$0.57	\$0.58	\$0.59	\$0.60	\$0.61
P/E (historical today's price; forecasted intrinsic price)	-1.28	37.21	11.07	11.60	17.94	20.27	22.91	25.89	29.26
Revenue Growth	N/A	-34.84%	-5.85%	3.08%	1.00%	1.00%	1.00%	1.00%	1.00%
Tax Rate	38.50%	40.27%	40.30%	40.55%	35.00%	35.00%	35.00%	35.00%	35.00%
Implied Debt Interest Rate	0.00%	0.00%	0.00%	0.00%	-6.92%	-6.92%	-6.92%	-6.92%	-6.92%
Margins									
COGS	12.01%	9.53%	7.00%	5.71%	8.00%	8.00%	8.00%	8.00%	8.00%
Gross margin	87.99%	90.47%	93.00%	94.29%	92.00%	92.00%	92.00%	92.00%	92.00%
SG&A	297.63%	79.04%	52.19%	56.22%	57.00%	57.00%	57.00%	57.00%	57.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Depreciation is: Excluded from COGS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income (EBITA)	-209.64%	11.43%	40.82%	38.07%	35.00%	35.00%	35.00%	35.00%	35.00%
Interest income/(expense)	0.00%	0.00%	0.00%	0.00%	-9.55%	-9.45%	-9.36%	-9.27%	-9.17%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	-209.65%	11.43%	40.82%	38.07%	25.45%	25.55%	25.64%	25.73%	25.83%
Tax	-80.71%	4.60%	16.45%	15.44%	8.91%	8.94%	8.97%	9.01%	9.04%
Income after tax	-128.94%	6.83%	24.37%	22.63%	16.55%	16.77%	17.00%	17.23%	17.47%
Minority Interest	0.00%	0.00%	0.00%	-0.07%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	-128.94%	6.83%	24.37%	22.56%	16.55%	16.61%	16.67%	16.73%	16.79%

						Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	As of 2009-09-30	As of 2010-09-30	As of 2011-09-30	As of 2012-09-30	As of 2013-03-31	+	-						
Cash	2.38	75.30	84.35	4.95	28.04			28.04	34.86	41.79	48.82	55.96	63.21
Short term investment	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	2.38	75.30	84.35	4.95	28.04			28.04	34.86	41.79	48.82	55.96	63.21
Accounts Receivable	2.57	3.53	2.08	2.04	2.00			2.00	2.00	2.00	2.00	2.00	2.00
Other receivables	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	2.57	3.53	2.08	2.04	2.00			2.00	2.00	2.00	2.00	2.00	2.00
Total Inventory	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other Current Assets	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current Assets	4.95	78.83	86.43	6.99	30.04	0.00	0.00	30.04	36.86	43.79	50.82	57.96	65.21
PP&E, Gross	3.30	3.40	3.88	5.24	78.00			78.00	79.00	80.00	81.00	82.00	83.00
Change in Depreciation	1.66	1.29	0.26	0.38	0.38			0.38	0.38	0.39	0.39	0.40	0.40
Accumulated Depreciation	2.76	3.07	3.32	4.00	0.00			0.00	0.38	0.77	1.16	1.56	1.96
PP&E, Net	0.54	0.33	0.56	1.24	78.00			78.00	78.62	79.23	79.84	80.44	81.04
Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangibles	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term investments	0.00	8.93	22.57	119.99	107.27			107.27	107.27	107.27	107.27	107.27	107.27
Other long term assets	26.20	20.07	15.39	11.50	11.02			11.02	11.02	11.02	11.02	11.02	11.02
Long Term Assets	26.74	29.33	38.52	132.73	196.29			196.29	196.91	197.52	198.13	198.73	199.33
Total Assets	31.69	108.16	124.95	139.72	226.33	0.00	0.00	226.33	233.77	241.30	248.95	256.69	264.54
Accounts Payable	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Accrued Expense	0.50	0.32	0.22	0.19	0.20			0.20	0.20	0.20	0.20	0.20	0.20
Other current Liabilities	0.29	0.29	1.62	0.26	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Current Liabilities	0.79	0.61	1.84	0.45	0.20	0.00	0.00	0.20	0.20	0.20	0.20	0.20	0.20
Notes Payables/Short Term Debt	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current port. Of LT Debt/Capital Leases	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term Debt	130.87	94.87	71.60	61.46	62.00	0.00	0.00	62.00	62.00	62.00	62.00	62.00	62.00
Capital Lease Obligations	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	130.87	94.87	71.60	61.46	62.00	0.00	0.00	62.00	62.00	62.00	62.00	62.00	62.00
Deferred Income tax	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Minority Interest	0.00	0.00	0.00	0.03	0.15			0.15	0.15	0.15	0.15	0.15	0.15
Other liabilities	0.24	0.56	0.67	1.19	-3.09			-3.09	-3.09	-3.09	-3.09	-3.09	-3.09
Total Liabilities	131.90	96.04	74.11	63.13	59.26	0.00	0.00	59.26	59.26	59.26	59.26	59.26	59.26
Redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	0.14	0.15	0.15	0.15	0.15		0.00	0.15	0.15	0.15	0.15	0.15	0.15
Additional Paid-in capital	70.19	72.72	74.79	77.02	77.00	0.00	0.00	77.00	77.00	77.00	77.00	77.00	77.00
Dividends Paid	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	87.06	89.03	98.38	107.30	109.00		0.00	109.00	116.44	123.97	131.62	139.36	147.21
Treasury Stock	0.00	0.00	-0.07	-16.23	-16.00		0.00	-16.00	-16.00	-16.00	-16.00	-16.00	-16.00
Other Equity	0.05	0.01	-0.29	0.24	0.24		0.00	0.24	0.24	0.24	0.24	0.24	0.24
Total Equity	157.44	161.91	172.96	168.48	170.39	0.00	0.00	170.39	177.83	185.36	193.01	200.75	208.60
Liability + Equity	289.34	257.95	247.07	231.61	229.65	0.00	0.00	229.65	237.09	244.62	252.27	260.01	267.86
Variance	-257.65	-149.79	-122.12	-91.89	-3.32			-3.32	-3.32	-3.32	-3.32	-3.32	-3.32
Debt/Equity	0.83	0.59	0.41	0.36	0.36			0.36	0.35	0.33	0.32	0.31	0.30
Inventory Turnover	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!			#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Inventory Turnover Days	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!			#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Days Inventory Outstanding	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Accounts Receivable Turnover	27.38	12.99	20.75	21.81	22.47			22.25	22.47	22.70	22.92	23.15	23.38
Accounts Receivable Turnover Days	13.33	28.10	17.59	16.73	16.24			16.40	16.24	16.08	15.92	15.76	15.61
Days Payable Outstanding	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Days Sales Outstanding	13.33	28.10	17.59	16.73	16.24			16.73	16.40	16.24	16.08	15.92	15.76
Cash Conversion Cycle	13.33	28.10	17.59	16.73	16.24			16.73	16.40	16.24	16.08	15.92	15.76
Net tangible assets/share	(\$7.74)	\$0.94	\$3.93	\$5.92	\$12.91				\$13.49	\$14.07	\$14.66	\$15.26	\$15.86

	12 months ending 2009-09-30	12 months ending 2010-09-30	12 months ending 2011-09-30	12 months ending 2012-09-30	2011	2012	2013	2014	2015
Net Income	-90.72	3.13	10.52	10.04	7.44	7.54	7.64	7.75	7.85
Depreciation	1.66	1.29	0.26	0.38	0.38	0.39	0.39	0.40	0.40
Net Income + Depreciation	-89.06	4.42	10.78	10.42	7.82	7.93	8.03	8.14	8.25
Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	-8.51	5.31	4.61	3.39	0.00	0.00	0.00	0.00	0.00
Non Cash Items	184.48	14.22	2.78	2.67	0.00	0.00	0.00	0.00	0.00
Change in Working capital	-53.92	44.80	-1.43	0.89	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	0.00	-0.96	1.45	0.04	0.00	0.00	0.00	0.00	0.00
Other Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accounts Payable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash from Operating Activities	32.99	68.75	16.74	17.37	7.82	7.93	8.03	8.14	8.25
Capital Expenditures Expenditures	-0.19	-0.11	-0.47	-0.64	-1.00	-1.00	-1.00	-1.00	-1.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investing Activities	57.25	39.27	16.99	-69.23	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	57.06	39.16	16.52	-69.87	-1.00	-1.00	-1.00	-1.00	-1.00
Financing Cash flow items	0.99	1.30	0.27	-0.06	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	-1.43	-1.16	-1.17	-1.14	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Stock	0.00	0.87	-0.05	-15.55	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Current Portion Debt	-	-	-	-	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Long Term Debt	-90.86	-36.00	-23.27	-10.14	0.00	0.00	0.00	0.00	0.00
Cash from Financing Activities	-91.30	-34.99	-24.22	-26.89	0.00	0.00	0.00	0.00	0.00
Foreign Exchange effect	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	3.62	2.38	75.30	84.35	28.04	34.86	41.79	48.82	55.96
Net Change in Cash	-1.24	72.92	9.05	-79.39	6.82	6.93	7.03	7.14	7.25
Ending Cash Balance	2.38	75.30	84.35	4.96	34.86	41.79	48.82	55.96	63.21
Capex to Revenue	0.27%	0.24%	1.09%	1.44%	2.22%	2.20%	2.18%	2.16%	2.14%
Depreciation to Sales	2.36%	2.81%	0.60%	0.85%	0.85%	0.85%	0.85%	0.85%	0.85%
Amortization to Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A/R to Sales	3.65%	7.70%	4.82%	4.58%	4.54%	4.49%	4.45%	4.41%	4.36%
Distributable FCF/EV Yield	59.87%	71.74%	22.11%	-34.90%	4.53%	4.60%	4.68%	4.75%	4.82%
Dividend Yield	-1.23%	-1.00%	-1.00%	-0.98%	0.00%	0.00%	0.00%	0.00%	0.00%
FCF (Ops-Investing)	34.23	69.80	17.44	17.87	6.82	6.93	7.03	7.14	7.25

SN VALUATION

LBO Debt Schedule

Ticker:

ASFI

	Proforma	2013	2014	2015	2016	2017
Net Change in Cash	-79.39	6.82	6.93	7.03	7.14	7.25
Current Portion Debt Repayment						
Long Term Debt Repayment						
Outstanding Debt	62.00	62.00	62.00	62.00	62.00	62.00
Current Portion Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Debt Balance	62.00	62.00	62.00	62.00	62.00	62.00
Forward Libor Curve		3.00%	3.00%	3.00%	3.00%	3.00%
Spread		4.00%	4.00%	4.00%	4.00%	4.00%
Interest Rate		7.00%	7.00%	7.00%	7.00%	7.00%
Interest Expense		4.34	4.34	4.34	4.34	4.34
Cash Balance		4.95				
Interest @ 1.0%		0.05	0.05	0.05	0.05	0.05
Net Interest Expense/(Income)		4.29	4.29	4.29	4.29	4.29
Net Interest Rate		6.92%	6.92%	6.92%	6.92%	6.92%
EBITDA		15.73	15.89	16.05	16.21	16.37
EBITDA/Interest Expense Coverage		3.62	3.66	3.70	3.73	3.77

Interest Rate Coverage Table

Debt Rating					
AAA					
AA					
A+					
A					
A-					
BBB					
BB+	BB+	BB+	BB+	BB+	BB+
BB					
B+					
B					
B-					
CCC					
CC					
C					
D					

*Source: NYU; Professor Damodaran

Altman Z Score

Company Name:

Asta Funding Inc

Ticker:

ASFI

Period	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	4.16	78.22	84.59	29.84	36.66	43.59	50.62	57.76	65.01
Total Assets	31.69	108.16	124.95	226.33	233.77	241.30	248.95	256.69	264.54
X1	0.13	0.72	0.68	0.13	0.16	0.18	0.20	0.23	0.25
Retained Earnings	87.06	89.03	98.38	109.00	116.44	123.97	131.62	139.36	147.21
Total Assets	31.69	108.16	124.95	226.33	233.77	241.30	248.95	256.69	264.54
X2	2.75	0.82	0.79	0.48	0.50	0.51	0.53	0.54	0.56
EBITDA	-147.50	5.24	17.62	16.94	15.73	15.89	16.05	16.21	16.37
Total Assets	31.69	108.16	124.95	226.33	233.77	241.30	248.95	256.69	264.54
X3	-4.65	0.05	0.14	0.07	0.07	0.07	0.06	0.06	0.06
Market Value of Equity	116.46	116.46	116.46	116.46	133.41	152.82	175.06	200.53	229.71
Total Liabilities	131.90	96.04	74.11	59.26	59.26	59.26	59.26	59.26	59.26
X4	0.88	1.21	1.57	1.97	2.25	2.58	2.95	3.38	3.88
Net Sales	70.36	45.85	43.17	44.50	44.95	45.39	45.85	46.31	46.77
Total Assets	31.69	108.16	124.95	226.33	233.77	241.30	248.95	256.69	264.54
X5	2.22	0.42	0.35	0.20	0.19	0.19	0.18	0.18	0.18
Altman Z Score	-8.61	3.33	3.67	2.46	2.65	2.89	3.15	3.45	3.78

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red