

LS Starrett (SCX)

Price:	\$10.35
Market Cap:	\$70,483,500
Cash:	\$20,460,000
Debt:	\$31,590,000
Net Cash:	-\$11,130,000
Enterprise Value:	\$81,613,500
Shares Outstanding:	6,810,000

Net Tang. Bk Value Incl. Cash, Excl.	\$125,210,000.00
Goodwill (NTBVIC):	
NTBVIC/Market Downside Recovery:	177.64%
Op. Cash Flow:	\$5,799,812
Implied Years to Fill Gap:	-9.44
Today's Equity if 5x Op. CF:	\$142,609,436

Net Tang. Book Yr. 5 (Inc. Cash):	\$102,335,000.00
Avg. Year Op. Cash:	\$5,720,128.57
Year 5 Disposition FCF Multiple:	3.0
Year 5 Disposition Price:	\$119,495,385.71
Net Tang. Book+ Gain Disposition:	\$119,495,385.71
IRR:	11.14%

Price:	\$17.55
Target Market Cap:	\$119,495,386
Target Enterprise Value:	\$130,625,386

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

Manufacturer of precision measurement and tools. 5,000 products. Been in business for over 100 years.

Royce and Associates and DFA each own 8% of the shares. Teton, Gabelli, GAMCO owns 5%. Institutional alone is 30%.

Company is selling at P/B of 0.55x. This implies the tangible book value of the Co. is worth more than the current market valuation of the Co.

The market is not accepting the asset values at face value. Possible write offs maybe in the inventory (\$67MM), other long term investments, deferred tax asset (\$30MM). Can writeoff \$55MM and still have a 1.0x P/Tangible book value.

Last time we included a stock, solely on its' asset value was with EXM, which filed for bankruptcy not too long ago. Sure, the debt investors might have made some money, but the equity investors were wiped out. As important as the asset value is the cash flow. This Co. has unreliable cash flow. We are concerned of operational cash burn. It has very low leverage, but we aren't comfortable with the low EBIT margins.

Dividend yield at 3.8%. Cash flow is very low and Gross margins is healthy at 30%, but SG&A is high. Op. cash flow is \$5MM, capex is \$5MM, which means the Co. has to use cash balance to pay out the \$3MM in dividends. The Co. paid higher dividends in the early '90s, since op cash was +\$10MM. This is a shrinking business with dimmer prospects.

At first glance, value is definitely present, but we don't want another EXM on our plate. It's been trading at a low multiple for at least an year, and large institutional investors have been vested in the Co., with greater than 5% ownership. Yet, the shares have not moved up, if in fact there was hidden value. So, we must conclude there is some element of risk in the balance sheet, which is keeping investor interest at bay. We will pass on this investment.

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5 Year FCF+3 Yr Op. Cash Flow
46,159,446

200,000,000
150,000,000
100,000,000
50,000,000
-
-50,000,000

Debt
31,590,000

Mkt Cap
70,483,500

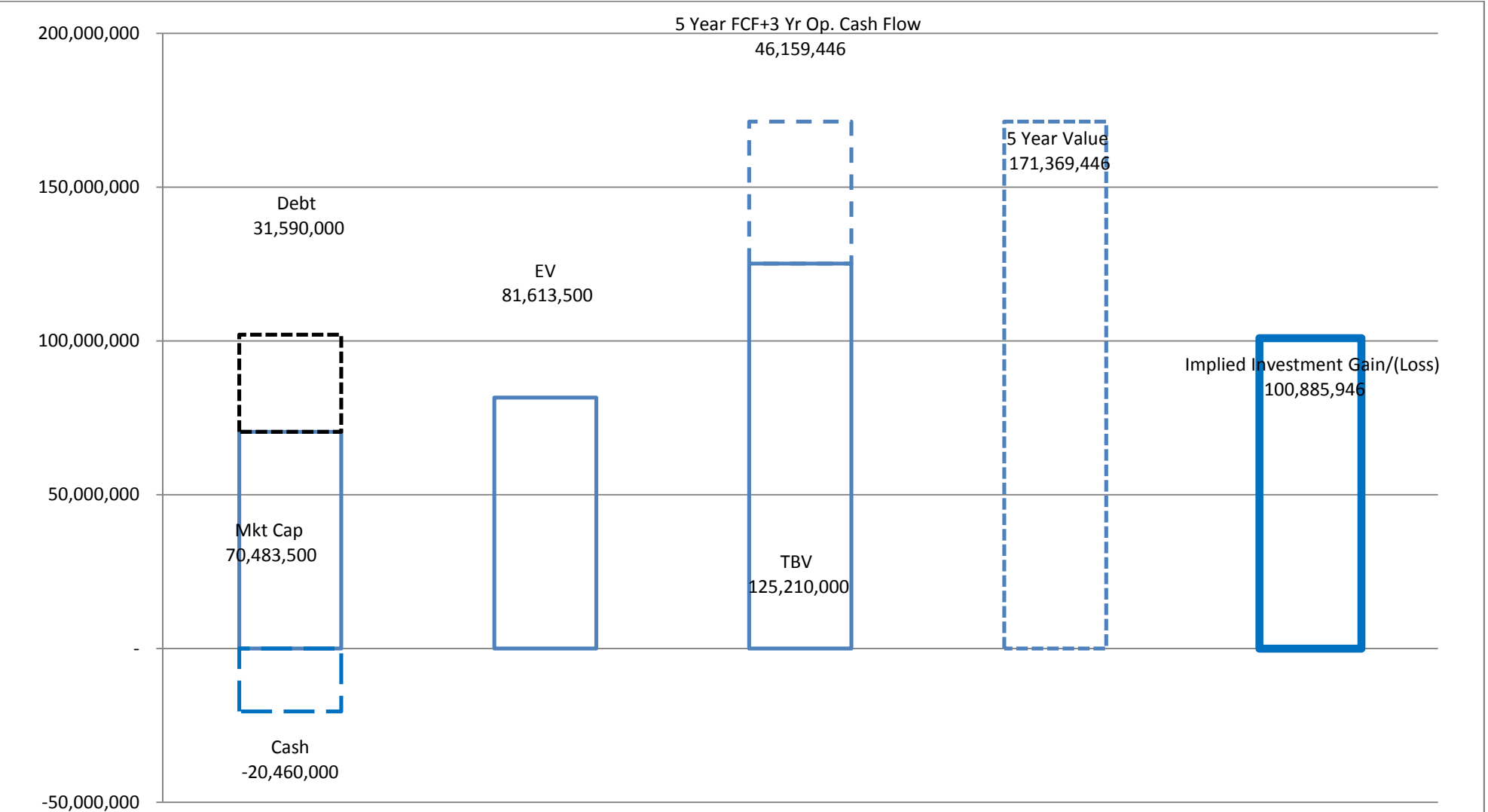
Cash
-20,460,000

EV
81,613,500

TBV
125,210,000

5 Year Value
171,369,446

Implied Investment Gain/(Loss)
100,885,946



SN VALUATION

LBO Pro Forma Income Statement

Name:

LS Starrett

Ticker:

SCX

	Historical				Forecasted				
	52 weeks ending 2009-06-27	52 weeks ending 2010-06-26	52 weeks ending 2011-06-30	52 weeks ending 2012-06-30	2013	2014	2015	2016	2017
Revenue	203.66	203.66	244.84	260.15	260.15	260.15	260.15	260.15	260.15
COGS	169.77	147.29	163.04	182.07	182.11	182.11	182.11	182.11	182.11
Gross margin	33.89	56.37	81.80	78.08	78.05	78.05	78.05	78.05	78.05
SG&A	66.80	64.11	70.75	79.72	80.65	80.65	80.65	80.65	80.65
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	5.26	1.71	-1.35	0.30	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: Included within COGS					0.00	0.00	0.00	0.00	0.00
Operating Income (EBITA)	-38.17	-9.45	12.40	-1.94	-2.60	-2.60	-2.60	-2.60	-2.60
Interest income/(expense)	0.00	-0.21	0.49	1.65	-1.97	-1.97	-1.97	-1.97	-1.97
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	0.07	0.32	0.35	0.41	0.00	0.00	0.00	0.00	0.00
Income before tax	-38.10	-9.34	13.24	0.11	-4.57	-4.57	-4.57	-4.57	-4.57
Tax	-14.67	-1.32	6.40	-0.78	0.00	0.00	0.00	0.00	0.00
Income after tax	-23.43	-8.02	6.84	0.89	-4.57	-4.57	-4.57	-4.57	-4.57
Minority Interest	0.00	0.00	0.00	0.00	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	-23.43	-8.02	6.84	0.89	-4.57	-4.57	-4.57	-4.57	-4.57
*Figures are in millions (\$)									
EPS (based off today's share count)	-\$3.44	-\$1.18	\$1.00	\$0.13	-\$0.67	-\$0.67	-\$0.67	-\$0.67	-\$0.67
P/E (historical today's price; forecasted intrinsic price)	-3.01	-8.79	10.30	79.19	-17.12	-19.03	-21.15	-23.50	-26.12
Revenue Growth	N/A	0.00%	20.22%	6.25%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax Rate	38.50%	14.13%	48.34%	-709.09%	35.00%	35.00%	35.00%	35.00%	35.00%
Implied Debt Interest Rate	0.00%	-6.16%	5.47%	5.29%	-6.58%	-6.58%	-6.58%	-6.58%	-6.58%
Margins									
COGS	83.36%	72.32%	66.59%	69.99%	70.00%	70.00%	70.00%	70.00%	70.00%
Gross margin	16.64%	27.68%	33.41%	30.01%	30.00%	30.00%	30.00%	30.00%	30.00%
SG&A	32.80%	31.48%	28.90%	30.64%	31.00%	31.00%	31.00%	31.00%	31.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	2.58%	0.84%	-0.55%	0.12%	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: Included within COGS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income (EBITA)	-18.74%	-4.64%	5.06%	-0.75%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Interest income/(expense)	0.00%	-0.10%	0.20%	0.63%	-0.76%	-0.76%	-0.76%	-0.76%	-0.76%
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	0.03%	0.16%	0.14%	0.16%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	-18.71%	-4.59%	5.41%	0.04%	-1.76%	-1.76%	-1.76%	-1.76%	-1.76%
Tax	-7.20%	-0.65%	2.61%	-0.30%	0.00%	0.00%	0.00%	0.00%	0.00%
Income after tax	-11.50%	-3.94%	2.79%	0.34%	-1.76%	-1.76%	-1.76%	-1.76%	-1.76%
Minority Interest	0.00%	0.00%	0.00%	0.00%	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	-11.50%	-3.94%	2.79%	0.34%	-1.76%	-1.76%	-1.76%	-1.76%	-1.76%

						Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	As of 2009-06-27	As of 2010-06-26	As of 2011-06-30	As of 2012-06-30	As of 2013-03-31	+	-						
Cash	10.25	20.48	21.57	17.50	12.83			12.83	13.83	14.36	15.03	15.71	16.43
Short term investment	1.79	1.25	6.42	6.28	7.63			7.63	7.63	7.63	7.63	7.63	7.63
Cash and Short term	12.04	21.73	27.99	23.78	20.46			20.46	21.26	21.99	22.66	23.34	24.06
Accounts Receivable	27.23	33.71	45.57	42.17	43.00			43.00	43.00	43.00	43.00	43.00	43.00
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	27.23	33.71	45.57	42.17	43.00			43.00	43.00	43.00	43.00	43.00	43.00
Total Inventory	60.23	46.16	58.79	69.89	66.78			66.78	66.78	66.78	66.78	66.78	66.78
Prepaid Expenses	8.05	5.51	5.49	7.76	6.37			6.37	6.37	6.37	6.37	6.37	6.37
Other Current Assets	5.17	3.30	6.10	7.62	5.78			5.78	5.78	5.78	5.78	5.78	5.78
Current Assets	112.72	110.41	143.94	151.22	142.39	0.00	0.00	142.39	143.19	143.92	144.59	145.27	145.99
PP&E, Gross	174.91	177.47	189.53	0.00	190.00			190.00	195.00	200.00	205.00	210.00	215.00
Change in Depreciation	8.65	10.04	9.35	9.04	9.04			9.04	9.04	9.04	9.04	9.04	9.04
Accumulated Depreciation	117.95	120.94	133.27	0.00	133.00			133.00	142.04	151.08	160.12	169.16	178.20
PP&E, Net	56.96	56.53	56.26	0.00	57.00			57.00	52.96	48.92	44.88	40.84	36.80
Goodwill	0.98	0.00	0.00	3.03	3.03	0.00		3.03	3.03	3.03	3.03	3.03	3.03
Intangibles	2.52	1.30	0.23	8.76	3.00			9.00	7.67	6.40	5.20	3.98	2.72
Long term investments	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	18.26	29.09	23.15	31.74	32.70			32.70	32.70	32.70	32.70	32.70	32.70
Long Term Assets	78.72	86.92	79.64	43.53	101.73			101.73	96.36	91.05	85.81	80.55	75.25
Total Assets	191.44	197.33	223.58	194.75	244.12	0.00	0.00	244.12	239.55	234.97	230.40	225.82	221.25
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	5.11	5.04	7.13	7.30	7.00			7.00	7.00	7.00	7.00	7.00	7.00
Other current Liabilities	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Current Liabilities	5.11	5.04	7.13	7.30	7.00	0.00	0.00	7.00	7.00	7.00	7.00	7.00	7.00
Notes Payables/Short Term Debt	0.00	0.00	0.00	0.00	1.59			1.59	1.59	1.59	1.59	1.59	1.59
Current port. Of LT Debt/Capital Leases	10.14	2.70	8.24	1.80	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term Debt	1.26	0.71	0.72	29.39	30.00	0.00	0.00	30.00	30.00	30.00	30.00	30.00	30.00
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	11.40	3.41	8.96	31.19	31.59	0.00	0.00	31.59	31.59	31.59	31.59	31.59	31.59
Deferred Income tax	0.00	2.44	2.81	2.53	2.69			2.69	2.69	2.69	2.69	2.69	2.69
Minority Interest	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	24.48	39.14	33.59	62.40	69.75			69.75	69.75	69.75	69.75	69.75	69.75
Total Liabilities	40.99	50.03	52.49	103.42	111.03	0.00	0.00	111.03	111.03	111.03	111.03	111.03	111.03
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	6.64	6.68	6.73	6.77	6.77		0.00	6.77	6.77	6.77	6.77	6.77	6.77
Additional Paid-in capital	49.98	50.37	51.41	51.94	52.00	0.00	0.00	52.00	52.00	52.00	52.00	52.00	52.00
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	127.71	93.01	96.48	94.66	95.00		0.00	95.00	90.43	85.85	81.28	76.70	72.13
Treasury Stock	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Equity	-41.45	-17.68	-1.96	-25.53	-25.53		0.00	-25.53	-25.53	-25.53	-25.53	-25.53	-25.53
Total Equity	142.88	132.38	152.66	127.84	128.24	0.00	0.00	128.24	123.67	119.09	114.52	109.94	105.37
Liability + Equity	183.87	182.41	205.15	231.26	239.27	0.00	0.00	239.27	234.70	230.12	225.55	220.97	216.40
Variance	7.57	14.92	18.43	-36.51	4.85			4.85	4.85	4.85	4.85	4.85	4.85
Debt/Equity	0.08	0.03	0.06	0.24	0.25			0.25	0.26	0.27	0.28	0.29	0.30
Inventory Turnover	3.38	4.41	4.16	3.72	3.90			3.90	3.90	3.90	3.90	3.90	3.90
Inventory Turnover Days	107.94	82.73	87.64	98.06	93.69			93.69	93.69	93.69	93.69	93.69	93.69
Days Inventory Outstanding	129.49	114.39	131.61	140.11	133.85			133.88	133.85	133.85	133.85	133.85	133.85
Accounts Receivable Turnover	7.48	6.04	5.37	6.17	6.05			6.05	6.05	6.05	6.05	6.05	6.05
Accounts Receivable Turnover Days	48.80	60.42	67.93	59.17	60.33			60.33	60.33	60.33	60.33	60.33	60.33
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	48.80	60.42	67.93	59.17	60.33			59.17	60.33	60.33	60.33	60.33	60.33
Cash Conversion Cycle	178.29	174.80	199.55	199.28	194.18			193.04	194.18	194.18	194.18	194.18	194.18
Net tangible assets/share	\$20.47	\$19.25	\$22.38	\$17.04	\$17.06				\$16.59	\$16.10	\$15.61	\$15.11	\$14.63

	52 weeks ending 2009-06-27	52 weeks ending 2010-06-26	52 weeks ending 2011-06-30	52 weeks ending 2012-06-30	2011	2012	2013	2014	2015
Net Income	-23.43	-8.02	6.84	0.89	-4.57	-4.57	-4.57	-4.57	-4.57
Depreciation	8.65	10.04	9.35	9.04	9.04	9.04	9.04	9.04	9.04
Net Income + Depreciation	-14.78	2.02	16.19	9.93	4.47	4.47	4.47	4.47	4.47
Amortization	1.25	1.21	1.07	1.06	1.33	1.27	1.20	1.22	1.26
Deferred Taxes	-18.49	-5.97	-0.60	-5.08	0.00	0.00	0.00	0.00	0.00
Non Cash Items	37.46	11.26	0.25	15.49	0.00	0.00	0.00	0.00	0.00
Change in Working capital	-4.78	21.19	-11.73	-17.88	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	0.00	-6.48	-11.86	3.40	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	14.07	-12.63	-11.10	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	0.00	2.54	0.02	-2.27	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	0.66	29.71	5.18	3.52	5.80	5.73	5.67	5.68	5.72
Capital Expenditures Expenditures	-9.44	-9.27	-6.77	-10.80	-5.00	-5.00	-5.00	-5.00	-5.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investing Activities	14.91	0.26	-3.37	-15.07	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	5.47	-9.01	-10.14	-25.87	-5.00	-5.00	-5.00	-5.00	-5.00
Financing Cash flow items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	-3.18	-2.00	-2.15	-2.70	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Stock	0.33	0.36	0.40	0.40	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	1.55	-8.36	5.52	22.36	0.00	0.00	0.00	0.00	0.00
Cash from Financing Activities	-1.30	-10.00	3.86	20.06	0.00	0.00	0.00	0.00	0.00
Foreign Exchange effect	-1.10	-0.47	2.19	-1.77	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	-3.73	0.00	0.00	0.00	12.83	13.63	14.36	15.03	15.71
Net Change in Cash	3.73	10.23	1.09	-4.07	0.80	0.73	0.67	0.68	0.72
Ending Cash Balance	0.00	0.00	1.09	-4.07	13.63	14.36	15.03	15.71	16.43
Capex to Revenue	4.64%	4.55%	2.77%	4.15%	1.92%	1.92%	1.92%	1.92%	1.92%
Depreciation to Sales	4.25%	4.93%	3.82%	3.47%	3.47%	3.47%	3.47%	3.47%	3.47%
Amortization to Sales	0.61%	0.59%	0.44%	0.41%	0.51%	0.49%	0.46%	0.47%	0.48%
A/R to Sales	13.37%	16.55%	18.61%	16.21%	16.21%	16.21%	16.21%	16.21%	16.21%
Distributable FCF/EV Yield	7.51%	25.36%	-6.08%	-27.39%	0.98%	0.90%	0.82%	0.83%	0.88%
Dividend Yield	-4.51%	-2.84%	-3.05%	-3.83%	0.00%	0.00%	0.00%	0.00%	0.00%
FCF (Ops-Investing)	-5.60	22.44	0.56	-4.58	0.80	0.73	0.67	0.68	0.72

SN VALUATION

LBO Debt Schedule

Ticker:

SCX

	Proforma	2013	2014	2015	2016	2017
Net Change in Cash	-4.07	0.80	0.73	0.67	0.68	0.72
Current Portion Debt Repayment						
Long Term Debt Repayment						
Outstanding Debt	31.59	31.59	31.59	31.59	31.59	31.59
Current Portion Debt Balance	1.59	1.59	1.59	1.59	1.59	1.59
Long Term Debt Balance	30.00	30.00	30.00	30.00	30.00	30.00
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		2.21	2.21	2.21	2.21	2.21
Cash Balance		23.78				
Interest @ 1.0%		0.24	0.24	0.24	0.24	0.24
Net Interest Expense/(Income)		1.97	1.97	1.97	1.97	1.97
Net Interest Rate		6.58%	6.58%	6.58%	6.58%	6.58%
EBITDA		(2.60)	(2.60)	(2.60)	(2.60)	(2.60)
EBITDA/Interest Expense Coverage		(1.18)	(1.18)	(1.18)	(1.18)	(1.18)

Interest Rate Coverage Table

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

*Source: NYU; Professor Damodaran

Altman Z Score

Company Name:

LS Starrett

Ticker:

SCX

Period	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	107.61	105.37	136.81	135.39	136.19	136.92	137.59	138.27	138.99
Total Assets	191.44	197.33	223.58	244.12	239.55	234.97	230.40	225.82	221.25
X1	0.56	0.53	0.61	0.55	0.57	0.58	0.60	0.61	0.63
Retained Earnings	127.71	93.01	96.48	95.00	90.43	85.85	81.28	76.70	72.13
Total Assets	191.44	197.33	223.58	244.12	239.55	234.97	230.40	225.82	221.25
X2	0.67	0.47	0.43	0.39	0.38	0.37	0.35	0.34	0.33
EBITDA	-38.17	-9.45	12.40	-1.94	-2.60	-2.60	-2.60	-2.60	-2.60
Total Assets	191.44	197.33	223.58	244.12	239.55	234.97	230.40	225.82	221.25
X3	-0.20	-0.05	0.06	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Market Value of Equity	70.48	70.48	70.48	70.48	78.33	87.05	96.75	107.52	119.50
Total Liabilities	40.99	50.03	52.49	111.03	111.03	111.03	111.03	111.03	111.03
X4	1.72	1.41	1.34	0.63	0.71	0.78	0.87	0.97	1.08
Net Sales	203.66	203.66	244.84	260.15	260.15	260.15	260.15	260.15	260.15
Total Assets	191.44	197.33	223.58	244.12	239.55	234.97	230.40	225.82	221.25
X5	1.06	1.03	1.10	1.07	1.09	1.11	1.13	1.15	1.18
Altman Z Score	3.05	3.02	3.42	2.63	2.68	2.75	2.83	2.91	2.99

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

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

Year	Present Value	Holding Period					Terminal Value			Sale Price
	0	1	2	3	4	5	6	7	8	TBV at Year 5 + 3 Years FCF
Tangible Book Value	125.21	120.64	116.06	111.49	106.91	102.34				102.34
Annual Change		(4.57)	(4.57)	(4.57)	(4.57)	(4.57)				
Annual FCF	(7.28)	0.80	0.73	0.67	0.68	0.72	0.72	0.72	0.72	2.16
Annual Op. Cash Flow	3.52	5.80	5.73	5.67	5.68	5.72	5.72	5.72	5.72	
Annual PP&E Investment	(10.80)	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)	
Today's Tangible Book Value	125.21	120.26	115.50	110.94	106.55	102.34				104.50
Intrinsic Value IRR	-3.95%									
Market Price	70.48	76.26	82.51	89.27	96.58	104.50				104.50
Market Price IRR	8.19%									

Debt	50.00%	35.24
Equity	50.00%	35.24
Total	100.00%	70.48

	Present Value	Holding Period					Terminal Value			Sale Price
	Historic	ProForma	1	2	3	4	5			
Book Equity	128.24	35.24	28.07	20.90	13.74	6.57	(0.60)			
Goodwill	3.03	(54.73)	(54.73)	(54.73)	(54.73)	(54.73)	(54.73)			
Debt	30	65.24	65.24	65.24	65.24	65.24	65.24			
Debt Interest Rate		7.00%	7.00%	7.00%	7.00%	7.00%	7.00%			
Additional Interest Expense		2.59	2.59	2.59	2.59	2.59				
Tangible Book Value	125.21	89.97	82.80	75.63	68.46	61.29	54.13			54.13
Annual Change			-7.17	-7.17	-7.17	-7.17	-7.17			
Annual FCF	(7.28)	(1.79)	(1.86)	(1.93)	(1.91)	(1.87)	(1.87)	(1.87)	(1.87)	(5.62)
Annual Net Income	0.89	(7.17)	(7.17)	(7.17)	(7.17)	(7.17)	(7.17)	(7.17)	(7.17)	
Annual Op. Cash Flow	3.52	3.21	3.14	3.07	3.09	3.13	3.13	3.13	3.13	
Dividend Payments										
Annual PP&E Investment	(10.80)	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)	(5.00)	
Debt Paydown	0.00						0.00	0.00	0.00	

Sale Price in Year 5										48.51
Remaining Debt Balance										35.24
Capital Left for Equity Investor										13.26
Dividend Payments										0.00
Total Cash In Flow										13.26
Invested Equity	35.24	28.99	23.84	19.61	16.13	13.26				
IRR	-17.75%									

<u>Value Creation</u>	
TBV Growth (equals sum of NI Year 1-5)	-35.84
Cash Flow (Year 6-8)	-5.62
Total	-41.46

<u>Value Dilution</u>	
Debt	35.24
Goodwill	-57.76
Additional Interest	12.97
Total	(9.55)