

January 2, 2012

SN VALUATION [Stocks, Real Estate, Bonds]

Analyst: Sung Nam

Neutral Tandem Inc (TNDM)

Market Price:	\$10.69	EBITDA/Share:	\$2.33	Net Asset/Share:	\$6.07
DCF: EV/EBITDA Terminal Value	18.429%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value	3.515%		
EBITDA-Cap Ex/Share	\$1.53	EVA Analysis:	7.518%		

Overview

Dividend?

Dividend yield is 0.0%.

Price to Book

Price to book is 1.23.

Cashflow Generation

Cashflows are \$67MM from operating cashflow.

Capex is \$18 MM, minority interest payment is \$0 MM, intangibles are \$0 MM and dividend is \$0 MM.

Free cash flow is about \$48 MM.

27.1% EBITA margin and FCF yield is 18.2%.

The company has \$106 MM in cash/short term investment and \$0 MM in debt.

We are projecting a \$0 MM paydown annually.

Profitability

ROA is 10.3%, and ROC is 12.0%.

LBO?

We believe a 60% debt/40% equity would be sustainable.

Price

We are forecasting a \$19.90/share in Year 5, or a 86.4% holding return, or 13.3% annual return. Thus, the 1 year forecasted price is \$12.10.

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Altman Z Score

Company Name:

Neutral Tandem Inc

Ticker:

TNDM

Period	0	1	2	3	4	5
Working Capital	121.85	161.03	199.23	240.54	283.21	330.59
Total Assets	315.57	356.27	396.13	438.83	481.01	526.30
X1	0.39	0.45	0.50	0.55	0.59	0.63
Retained Earnings	102.02	142.72	182.58	225.28	267.46	312.75
Total Assets	315.57	356.27	396.13	438.83	481.01	526.30
X2	0.32	0.40	0.46	0.51	0.56	0.59
EBITDA	73.19	76.93	80.78	84.82	89.06	93.51
Total Assets	315.57	356.27	396.13	438.83	481.01	526.30
X3	0.23	0.22	0.20	0.19	0.19	0.18
Market Value of Equity	336.09	380.67	431.16	488.34	553.11	626.47
Total Liabilities	44.24	44.24	44.24	44.24	44.24	44.24
X4	7.60	8.60	9.75	11.04	12.50	14.16
Net Sales	199.83	219.81	230.80	242.34	254.46	267.18
Total Assets	315.57	356.27	396.13	438.83	481.01	526.30
X5	0.63	0.62	0.58	0.55	0.53	0.51
Altman Z Score	6.87	7.60	8.35	9.19	10.13	11.18

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

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

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LBO Analysis

WACC Terminal Value:		Intrinsic Price in 5 Years:	19.93	Non-LBO Forecast	12.11	Non-LBO Forecast	Desired Return Rate	20.00%
EV/EBITDA with 5X Multiple Terminal Value:	\$24.90	Market Price:	10.69	Year 1 Target	13.71		Implied Today's Price	8.01
Net Tangible Asset Terminal Value:	\$12.71	LBO Price:	10.69	Year 2 Target	15.53		Overvalued/(Undervalued)	33.50%
EV/EBITDA with Today's Multiple Terminal Value:	\$18.96	Premium to Market Price:	0.00%	Year 3 Target	17.59			
EVA Enterprise Value:	\$23.14	LBO Price/Intrinsic Price Target:	13.26%	Year 4 Target	19.93			
Dividend Discount Model:	N/A	LBO Price/EV/EBIT Exit Price:	12.14%	Year 5 Target				
Average (Excluding Dividend Discount):	\$19.93	Implied IRR at today's EV/EBITDA:	12.14%	Implied IRR (Market Price):	13.26%			
		5 Year Return:	86.40%					

Current Evaluation				Exit Evaluation			
Current Market Price:	10.69	LBO Price:	10.69	Exit Price:	19.93	Exit Price:	18.96
Outstanding Shares:	31,440,000	Outstanding Shares:	31,440,000	Outstanding Shares:	31,440,000	Outstanding Shares:	31,440,000
Market Capitalization:	336,093,600	Market Capitalization:	336,093,600	Market Capitalization:	626,471,084	Market Capitalization:	595,955,733
Available Cash:	106,670,000	Available Cash:	106,670,000	Available Cash:	315,412,454	Available Cash:	315,412,454
Debt:	0	Debt:	0	Debt:	0	Debt:	0
Net Cash:	106,670,000	Net Cash:	106,670,000	Net Cash:	315,412,454	Net Cash:	315,412,454
Enterprise Value:	229,423,600	Enterprise Value:	229,423,600	Enterprise Value:	311,058,630	Enterprise Value:	280,543,279
Original EV/EBITDA:	4.24	EV/EBITDA:	4.24	EV/EBITDA at 5 Years:	4.90	EV/EBITDA at 5 Years:	3.00
Original EV/EBITDA:	3.13	EV/EBITDA:	3.13	EV/EBITDA at 5 Years:	4.30	EV/EBITDA at 5 Years:	3.10
Competitor Average EV/EBIT:	N/A						
Competitor Average EV/EBITDA:	N/A						

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	10.69	10.69	12.11	13.71	15.53	17.59	19.93
Shares Outstanding:	31,440,000	31,440,000	31,440,000	31,440,000	31,440,000	31,440,000	31,440,000
Market Capitalization:	336,093,600	336,093,600	380,669,779	431,158,108	488,342,717	553,111,735	626,471,084
Available Cash:	106,670,000	106,670,000	145,850,861	184,046,930	225,361,327	268,028,854	315,412,454
Debt:	0	0	0	0	0	0	0
Net Cash:	106,670,000	106,670,000	145,850,861	184,046,930	225,361,327	268,028,854	315,412,454
Enterprise Value:	229,423,600	229,423,600	234,818,918	247,111,178	262,981,390	285,082,881	311,058,630
EBIT	54,130,000	54,130,000	56,934,550	55,781,278	59,820,341	59,061,358	63,514,426
EV/EBIT:	4.24	4.24	4.12	4.43	4.40	4.83	4.90
EBITDA	73,190,000	73,190,000	80,411,777	79,122,883	83,430,432	84,554,685	90,603,341
EV/EBITDA:	3.13	3.13	2.92	3.12	3.15	3.37	3.43

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	10.69	10.69	12.31	13.37	15.23	16.49	18.59
Shares Outstanding:	31,440,000	31,440,000	31,440,000	31,440,000	31,440,000	31,440,000	31,440,000
Market Capitalization:	336,093,600	336,093,600	387,161,214	420,469,274	478,902,766	518,353,433	584,610,835
Available Cash:	106,670,000	106,670,000	145,850,861	184,046,930	225,361,327	268,028,854	315,412,454
Debt:	0	0	0	0	0	0	0
Net Cash:	106,670,000	106,670,000	145,850,861	184,046,930	225,361,327	268,028,854	315,412,454
Enterprise Value:	229,423,600	229,423,600	241,310,353	236,422,344	253,541,439	250,324,579	269,198,381
EBIT	54,130,000	54,130,000	56,934,550	55,781,278	59,820,341	59,061,358	63,514,426
EV/EBIT:	4.24	4.24	4.24	4.24	4.24	4.24	4.24
EBITDA	73,190,000	73,190,000	80,411,777	79,122,883	83,430,432	84,554,685	90,603,341
EV/EBITDA:	3.13	3.13	3.00	2.99	3.04	2.96	2.97

LBO Price	10.69	Equity Partners:	336,093,600	Weighting	100.00%	Annualized Return for Equity Partners: 12.14%
Shares Outstanding	31,440,000	Debt Partners:	0		0.00%	
Market Capitalization	336,093,600	Total Funds for LBO:	336,093,600		100.00%	
Debt	0					
Cash	106,670,000					
Enterprise Value	229,423,600					
Capital Investment	336,093,600					

Book Value		Enterprise Value		Stock Valuation		Debt Reduction	
Beginning Book Value	271.27	Beginning Enterprise Value	229.42	Current Market Price	\$10.69	Starting Debt	0.00
Year 5 Book Value	482.00	Year 5 Enterprise Value	280.54	Year 5 Market Price	\$18.96	Debt Repayment	0.00
Annualized Return	12.18%	Annualized Return	4.11%	Annualized Return	12.14%	Year 5 Ending Debt	0.00
						% of Starting Debt	#DIV/0!

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LBO Pro Forma Income Statement

Name: Neutral Tandem Inc

Ticker: TNDM

	Historical				Forecasted				
	12 months ending 2007-12-31	12 months ending 2008-12-31	12 months ending 2009-12-31	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Revenue	85.56	120.90	168.91	199.83	219.81	230.80	242.34	254.46	267.18
COGS	30.16	40.33	50.65	69.12	76.93	80.78	84.82	89.06	93.51
Gross margin	55.40	80.57	118.26	130.71	142.88	150.02	157.52	165.40	173.67
SG&A	11.20	14.04	19.95	29.26	32.97	34.62	36.35	38.17	40.08
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	-0.14	0.18	-0.05	-0.08	0.00	0.00	0.00	0.00	0.00
Other operating expense	15.54	16.93	19.80	28.34	32.97	34.62	36.35	38.17	40.08
Depreciation is: Included within COGS	11.07	14.02	14.59	19.06	20.00	25.00	25.00	30.00	30.00
Operating Income (EBITA)	17.79	35.40	63.97	54.13	56.93	55.78	59.82	59.06	63.51
Interest income/(expense)	-0.35	2.54	0.50	1.09	1.07	1.07	1.07	1.07	1.07
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	-4.92	-1.13	0.37	-0.13	-0.15	-0.09	-0.12	-0.12	-0.13
Income before tax	12.46	36.81	64.84	55.09	58.15	56.93	61.01	60.25	64.71
Tax	6.20	12.79	23.53	22.48	17.44	17.08	18.30	18.07	19.41
Income after tax	6.26	24.02	41.31	32.61	40.70	39.85	42.70	42.17	45.29
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	6.26	24.02	41.31	32.61	40.70	39.85	42.70	42.17	45.29
*Figures are in millions (\$)									
Revenue Growth	N/A	41.30%	39.71%	18.31%	10.00%	5.00%	5.00%	5.00%	5.00%
Tax Rate	49.76%	34.75%	36.29%	40.81%	30.00%	30.00%	30.00%	30.00%	30.00%
Implied Debt Interest Rate	-4.62%	79.62%	217.39%	0.00%	NA	NA	NA	NA	NA
Margins									
COGS	35.25%	33.36%	29.99%	34.59%	35.00%	35.00%	35.00%	35.00%	35.00%
Gross margin	64.75%	66.64%	70.01%	65.41%	65.00%	65.00%	65.00%	65.00%	65.00%
SG&A	13.09%	11.61%	11.81%	14.64%	15.00%	15.00%	15.00%	15.00%	15.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	-0.16%	0.15%	-0.03%	-0.04%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	18.16%	14.00%	11.72%	14.18%	15.00%	15.00%	15.00%	15.00%	15.00%
Depreciation is: Included within COGS	12.94%	11.60%	8.64%	9.54%	9.10%	10.83%	10.32%	11.79%	11.23%
Operating Income (EBITA)	20.72%	29.28%	37.87%	27.09%	25.90%	24.17%	24.68%	23.21%	23.77%
Interest income/(expense)	-0.41%	2.10%	0.30%	0.55%	0.49%	0.46%	0.44%	0.42%	0.40%
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	-5.75%	-0.93%	0.22%	-0.07%	-0.07%	-0.04%	-0.05%	-0.05%	-0.05%
Income before tax	14.56%	30.45%	38.39%	27.57%	26.45%	24.67%	25.17%	23.68%	24.22%
Tax	7.25%	10.58%	13.93%	11.25%	7.94%	7.40%	7.55%	7.10%	7.27%
Income after tax	7.32%	19.87%	24.46%	16.32%	18.52%	18.13%	19.43%	19.19%	20.61%
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	7.32%	19.87%	24.46%	16.32%	18.52%	17.27%	17.62%	16.57%	16.95%

					Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	As of 2007-12-31	As of 2008-12-31	As of 2009-12-31	As of 2010-12-31	+	-						
Cash	112.02	110.41	161.41	106.67			106.67	145.85	184.05	225.36	268.03	315.41
Short term investment	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	112.02	110.41	161.41	106.67			106.67	145.85	184.05	225.36	268.03	315.41
Accounts Receivable	12.09	16.27	22.46	37.80			37.80	37.80	37.80	37.80	37.80	37.80
Other receivables	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	12.09	16.27	22.46	37.80			37.80	37.80	37.80	37.80	37.80	37.80
Deferred Income Tax	0.01	0.52	2.38	0.82			0.82	0.82	0.82	0.82	0.82	0.82
Total Inventory	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
Other Current Assets	3.26	4.14	19.71	9.50			9.50	9.50	9.50	9.50	9.50	9.50
Current Assets	127.38	131.34	205.96	154.79	0.00	0.00	154.79	193.97	232.17	273.48	316.15	363.53
PP&E, Gross	56.39	70.35	81.45	136.46			136.46	161.46	186.46	211.46	236.46	261.46
Change in Depreciation	11.08	14.02	14.59	19.06			19.06	23.48	23.34	23.61	25.49	27.09
Accumulated Depreciation	18.97	25.09	39.68	58.74			58.74	82.22	105.56	129.17	154.66	181.75
PP&E, Net	37.42	45.26	41.77	77.72			77.72	79.24	80.90	82.29	81.80	79.71
Goodwill	0.00	0.00	0.00	49.10	0.00		49.10	49.10	49.10	49.10	49.10	49.10
Intangibles	0.00	0.00	0.00	31.51			31.51	31.51	31.51	31.51	31.51	31.51
Long term investments	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	1.22	19.24	0.95	2.45			2.45	2.45	2.45	2.45	2.45	2.45
Long Term Assets	57.61	89.59	42.72	160.78	0.00	0.00	160.78	162.30	163.96	165.35	164.86	162.77
Total Assets	166.02	195.84	256.59	315.53	0.00	0.00	315.57	356.27	396.13	438.83	481.01	526.30
Accounts Payable	0.57	0.26	1.24	13.75			13.75	13.75	13.75	13.75	13.75	13.75
Accrued Expense	11.32	7.03	9.70	18.53			18.53	18.53	18.53	18.53	18.53	18.53
Other current Liabilities	0.00	0.66	0.43	0.66			0.66	0.66	0.66	0.66	0.66	0.66
Total Current Liabilities	11.89	7.95	11.37	32.94	0.00	0.00	32.94	32.94	32.94	32.94	32.94	32.94
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
Current port. Of LT Debt/Capital Leases	4.38	2.96	0.23	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Long term Debt	3.20	0.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Capital Lease Obligations	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Interest Earning Debt	7.58	3.19	0.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Income tax	2.10	4.65	4.16	10.39			10.39	10.39	10.39	10.39	10.39	10.39
Minority Interest	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	0.53	0.19	0.00	0.91			0.91	0.91	0.91	0.91	0.91	0.91
Total Liabilities	22.10	15.98	15.76	44.24	0.00	0.00	44.24	44.24	44.24	44.24	44.24	44.24
Redeemable Preferred Stock	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
Common Stock	0.03	0.03	0.03	0.03		0.00	0.03	0.03	0.03	0.03	0.03	0.03
Additional Paid-in capital	139.81	151.73	171.38	171.34	0.00	0.00	171.34	171.34	171.34	171.34	171.34	171.34
Dividends Paid	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	4.08	28.10	69.42	102.02		0.00	102.02	142.72	182.58	225.28	267.46	312.75
Treasury Stock	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other Equity	0.00	0.00	0.00	-2.12		0.00	-2.12	-2.12	-2.12	-2.12	-2.12	-2.12
Total Equity	143.92	179.86	240.83	271.27	0.00	0.00	271.27	311.97	351.83	394.53	436.71	482.00
Liability + Equity	166.02	195.84	256.59	315.51	0.00	0.00	315.51	356.21	396.07	438.77	480.95	526.24
Variance	0.00	0.00	0.00	0.02			0.06	0.06	0.06	0.06	0.06	0.06
Debt/Equity	0.05	0.02	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Inventory Turnover	#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!
Days Inventory Outstanding	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Accounts Receivable Turnover	7.08	7.43	7.52	5.29			5.29	5.82	6.11	6.41	6.73	7.07
Accounts Receivable Turnover Days	51.58	49.12	48.53	69.04			69.04	62.77	59.78	56.93	54.22	51.64
Days Payable Outstanding	6.90	2.35	8.94	72.61			72.61	65.23	62.13	59.17	56.35	53.67
Days Sales Outstanding	51.58	49.12	48.53	69.04			69.04	69.04	62.77	59.78	56.93	54.22
Cash Conversion Cycle	44.68	46.77	39.60	-3.57			-3.57	3.81	0.64	0.61	0.58	0.55

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LBO Debt Schedule

	Proforma	2011	2012	2013	2014	2015
Net Change in Cash	-54.74	39.18	38.20	41.31	42.67	47.38
Current Portion Debt Repayment						
Long Term Debt Repayment						
Outstanding Debt	0.00	0.00	0.00	0.00	0.00	0.00
Current Portion Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Forward Libor Curve		4.00%	4.00%	4.00%	4.00%	4.00%
Spread		4.00%	4.00%	4.00%	4.00%	4.00%
Interest Rate		8.00%	8.00%	8.00%	8.00%	8.00%
Interest Expense		0.00	0.00	0.00	0.00	0.00
Cash Balance		106.67				
Interest @ 1.0%		1.07	1.07	1.07	1.07	1.07
Net Interest Expense/(Income)		(1.07)	(1.07)	(1.07)	(1.07)	(1.07)
Net Interest Rate		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
EBITDA		56.93	55.78	59.82	59.06	63.51
EBITDA/Interest Expense Coverage		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Interest Rate Coverage Table

Debt Rating	2011	2012	2013	2014	2015
AAA	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
AA	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
A+	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
A	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
A-	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
BBB	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
BB+	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
BB	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
B+	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
B	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
B-	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
CCC	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
CC	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
C	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
D	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

*Source: NYU; Professor Damodaran