

## Obagi Medical (OMPI)

Price:	\$25.19
Market Cap:	\$439,061,700
Cash:	\$34,550,000
Debt:	\$10,000
Net Cash:	\$34,540,000
Enterprise Value:	\$404,521,700
Shares Outstanding	17,430,000

EV/FCF:	23.51
FCF (in MM):	7.84
Op. CF (in MM):	12.84
<b>Net Tang. Book Value/Share:</b>	<b>\$3.31</b>
Price/FCF:	48.66
Price/Op. CF:	29.70

<b>Net Tang. Book Yr. 5 (Inc. Cash):</b>	<b>\$6.53</b>
Avg. Year FCF/Share:	\$0.45
Year 5 Disposition FCF Multiple:	5.0
<b>Year 5 Disposition Price:</b>	<b>\$8.78</b>

<b>Net Tang. Book+5 FCF+ Gain Disposition:</b>	<b>\$8.78</b>
<b>IRR:</b>	<b>-19.01%</b>

Target Market Cap:	\$152,990,000
Target Enterprise Value:	\$118,450,000

Assumed Deal Details

Debt	60.00%	\$263,437,020
Equity	40.00%	\$175,624,680

Levered Return

New market cap in 5 years	\$152,990,000
Nominal Gain for Equity	-\$286,071,700
<b>Levered Equity Return</b>	<b>-191.14%</b>

Obagi Medical was the first company we included in our SN Valuation research tab. We didn't include the stock into our portfolio because we thought the stock was overpriced back then. However, we have been proven wrong because in the eyes of a larger competitor, looking to make a bid for the assets which generates 80% GM and generated steady revenue even during the Great Recession, the stock was very cheap.

Overview

The co. manufactures a line of facial products which helps to treat individuals with skin issues like eczema, acne and pigmentation problems. These are solely sold through distribution partners, mainly dermatologist offices nationwide. We researched the efficacy of the products and were mainly positive reviews. The co. was sitting on a huge cash balance, but they decided to repurchase \$60MM worth of shares over the past 4 years, which we thought was good use of capital.

Financials/Valuation

Although the co. seems like it is only generating \$15 MM in op. cash flow, it will generate \$80 MM to the acquiror since the SG&A cost of over 50% can be materially reduced. So, at the current pricing of \$400MM, it is only a Price/Flow through Op. cash flow of 5x. The larger acquiror can probably take over the operations by incorporating the manufacturing and distribution amongst its' present assets and system. Not only that, the co. could probably sell more of these high margin products through their broader network. Since the OMPi was not bogged down with debt, the acquiror doesn't have to use capital invested for dilutive purposes.

From a fundamental valuation stand point, this co. is being sold at a huge premium to their assets and earnings for individual investors. However, it may be accretive for the acquiror if there are synergys that can be generated through their high margin products.

<sup>1</sup> 2012 10K Filing



# SN VALUATION

# LBO Analysis

WACC Terminal Value:	N/A	<b>Intrinsic Price in 5 Years:</b>	<b>7.66</b>	<b>Non-LBO Forecast</b>	<b>Non-LBO Forecast</b>	<b>Desired Return Rate</b>	<b>20.00%</b>
EV/EBITDA with 3X Multiple Terminal Value:	\$7.14	Market Price:	25.19	Year 1 Target	19.85	<b>Implied Today's Price</b>	<b>3.08</b>
Net Tangible Asset Terminal Value:	\$5.36	LBO Price:	<b>25.19</b>	Year 2 Target	15.65	Overvalued/(Undervalued)	718.50%
EV/EBITDA with Today's Multiple Terminal Value:	\$9.08	Premium to Market Price:	0.00%	Year 3 Target	12.33		
EVA Enterprise Value:	\$9.06	LBO Price/Intrinsic Price Target:	-21.19%	Year 4 Target	9.72		
Dividend Discount Model:	N/A	LBO Price/EV/EBIT Exit Price:	-18.47%	Year 5 Target	7.66		
Average (Excluding Dividend Discount):	<b>\$7.66</b>	Implied IRR at today's EV/EBITDA:	-18.47%	Implied IRR (Market Price):	-21.19%		
		5 Year Return:	-69.60%				

Current Evaluation				Exit Evaluation			
Current Market Price:	25.19	LBO Price:	25.19	Exit Price:	7.66	Exit Price:	9.08
Outstanding Shares:	17,430,000	Outstanding Shares:	17,430,000	Outstanding Shares:	17,430,000	Outstanding Shares:	17,430,000
<b>Market Capitalization:</b>	<b>439,061,700</b>	<b>Market Capitalization:</b>	<b>439,061,700</b>	<b>Market Capitalization:</b>	<b>133,479,056</b>	<b>Market Capitalization:</b>	<b>158,196,000</b>
Available Cash:	34,550,000	Available Cash:	34,550,000	Available Cash:	73,730,000	Available Cash:	73,730,000
Debt:	10,000	Debt:	10,000	Debt:	10,000	Debt:	10,000
Net Cash:	34,540,000	Net Cash:	34,540,000	Net Cash:	73,720,000	Net Cash:	73,720,000
<b>Enterprise Value:</b>	<b>404,521,700</b>	<b>Enterprise Value:</b>	<b>404,521,700</b>	<b>Enterprise Value:</b>	<b>59,759,056</b>	<b>Enterprise Value:</b>	<b>84,476,000</b>
Original EV/EBITDA:	14.75	EV/EBITDA:	14.75	EV/EBITDA at 5 Years:	3.54	EV/EBITDA at 5 Years:	<b>5.00</b>
Original EV/EBITDA:	13.92	EV/EBITDA:	13.92	EV/EBITDA at 5 Years:	4.66	EV/EBITDA at 5 Years:	4.56
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:	25.19	25.19	19.85	15.65	12.33	9.72	7.66
Shares Outstanding:	17,430,000	17,430,000	17,430,000	17,430,000	17,430,000	17,430,000	17,430,000
<b>Market Capitalization:</b>	<b>439,061,700</b>	<b>439,061,700</b>	<b>346,021,488</b>	<b>272,697,140</b>	<b>214,910,730</b>	<b>169,369,659</b>	<b>133,479,056</b>
Available Cash:	34,550,000	34,550,000	42,386,000	50,222,000	58,058,000	65,894,000	73,730,000
Debt:	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Net Cash:	34,540,000	34,540,000	42,376,000	50,212,000	58,048,000	65,884,000	73,720,000
<b>Enterprise Value:</b>	<b>404,521,700</b>	<b>404,521,700</b>	<b>303,645,488</b>	<b>222,485,140</b>	<b>156,862,730</b>	<b>103,485,659</b>	<b>59,759,056</b>
EBIT	27,430,000	27,430,000	16,895,200	16,895,200	5	16,895,200	16,895,200
EV/EBIT:	14.75	14.75	17.97	13.17	31,372,545.91	6.13	3.54
EBITDA	29,060,000	29,060,000	18,525,200	18,525,200	18,525,200	18,525,200	18,525,200
EV/EBITDA:	13.92	13.92	16.39	12.01	8.47	5.59	3.23

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	25.19	25.19	16.73	17.18	3.33	18.07	18.52
Shares Outstanding:	17,430,000	17,430,000	17,430,000	17,430,000	17,430,000	17,430,000	17,430,000
<b>Market Capitalization:</b>	<b>439,061,700</b>	<b>439,061,700</b>	<b>291,536,592</b>	<b>299,372,592</b>	<b>315,048,074</b>	<b>315,044,592</b>	<b>322,880,592</b>
Available Cash:	34,550,000	34,550,000	42,386,000	50,222,000	58,058,000	65,894,000	73,730,000
Debt:	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Net Cash:	34,540,000	34,540,000	42,376,000	50,212,000	58,048,000	65,884,000	73,720,000
<b>Enterprise Value:</b>	<b>404,521,700</b>	<b>404,521,700</b>	<b>249,160,592</b>	<b>249,160,592</b>	<b>74</b>	<b>249,160,592</b>	<b>249,160,592</b>
EBIT	27,430,000	27,430,000	16,895,200	16,895,200	5	16,895,200	16,895,200
EV/EBIT:	14.75	14.75	14.75	14.75	14.75	14.75	14.75
EBITDA	29,060,000	29,060,000	18,525,200	18,525,200	18,525,200	18,525,200	18,525,200
EV/EBITDA:	13.92	13.92	13.45	13.45	0.00	13.45	13.45

LBO Price	25.19	Equity Partners:	439,081,700	Weighting	<b>100.00%</b>	<b>Annualized Return for Equity Partners: -18.47%</b>
Shares Outstanding	17,430,000	Debt Partners:	0		0.00%	
<b>Market Capitalization</b>	<b>439,061,700</b>	<b>Total Funds for LBO:</b>	<b>439,081,700</b>		100.00%	
Debt	20,000					
Cash	34,550,000					
<b>Enterprise Value</b>	<b>404,531,700</b>					
<b>Capital Investment</b>	<b>439,081,700</b>					

Book Value	Enterprise Value	Stock Valuation	Debt Reduction				
Beginning Book Value	61.86	Beginning Enterprise Value	404.52	Current Market Price	\$25.19	Starting Debt	0.00
Year 5 Book Value	117.89	Year 5 Enterprise Value	84.48	Year 5 Market Price	\$9.08	Debt Repayment	0.00
<b>Annualized Return</b>	<b>13.77%</b>	<b>Annualized Return</b>	<b>-26.89%</b>	<b>Annualized Return</b>	<b>-18.47%</b>	Year 5 Ending Debt	0.00
						% of Starting Debt	#DIV/0!

SN VALUATION

LBO Pro Forma Income Statement

Name:

Obagi Medical

Ticker:

OMPI

	Historical				Forecasted				
	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2013	2014	2015	2016	2017
Revenue	104.10	112.76	114.11	120.68	120.68	120.68	120.68	120.68	120.68
COGS	22.04	23.69	24.02	25.05	25.34	25.34	25.34	25.34	25.34
Gross margin	82.06	89.07	90.09	95.63	95.34	95.34	95.34	95.34	95.34
SG&A	59.22	69.29	71.89	66.04	76.03	76.03	76.03	76.03	76.03
R&D	4.41	3.88	2.19	2.16	2.41	2.41	2.41	2.41	2.41
Unusual expense	0.00	0.08	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: Included within COGS					0.00	0.00	0.00	0.00	0.00
Operating Income (EBITA)	18.43	15.82	16.01	27.43	16.90	16.90	16.90	16.90	16.90
Interest income/(expense)	0.05	-0.02	-0.11	-0.02	0.34	0.34	0.34	0.34	0.34
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	18.48	15.84	15.90	27.41	17.24	17.24	17.24	17.24	17.24
Tax	7.15	6.35	5.88	10.77	6.03	6.03	6.03	6.03	6.03
Income after tax	11.33	9.49	10.02	16.64	11.21	11.21	11.21	11.21	11.21
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	11.33	9.49	10.02	16.64	11.21	11.21	11.21	11.21	11.21
*Figures are in millions (\$)									
EPS (based off today's share count)	\$0.65	\$0.54	\$0.57	\$0.95	\$0.64	\$0.64	\$0.64	\$0.64	\$0.64
P/E (historical today's price; forecasted intrinsic price)	38.75	46.27	43.82	26.39	30.88	24.33	19.18	15.11	11.91
Revenue Growth	N/A	8.32%	1.20%	5.76%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax Rate	38.69%	40.09%	36.98%	39.29%	35.00%	35.00%	35.00%	35.00%	35.00%
Implied Debt Interest Rate	250.00%	0.00%	-550.00%	-100.00%	NA	NA	NA	NA	NA
Margins									
COGS	21.17%	21.01%	21.05%	20.76%	21.00%	21.00%	21.00%	21.00%	21.00%
Gross margin	78.83%	79.99%	78.95%	79.24%	79.00%	79.00%	79.00%	79.00%	79.00%
SG&A	56.89%	61.45%	63.00%	54.72%	63.00%	63.00%	63.00%	63.00%	63.00%
R&D	4.24%	3.44%	1.92%	1.79%	2.00%	2.00%	2.00%	2.00%	2.00%
Unusual expense	0.00%	0.07%	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: Included within COGS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income (EBITA)	17.70%	14.03%	14.03%	22.73%	14.00%	14.00%	14.00%	14.00%	14.00%
Interest income/(expense)	0.05%	0.02%	-0.10%	-0.02%	0.29%	0.29%	0.29%	0.29%	0.29%
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	17.75%	14.05%	13.93%	22.71%	14.29%	14.29%	14.29%	14.29%	14.29%
Tax	6.87%	5.63%	5.15%	8.92%	5.00%	5.00%	5.00%	5.00%	5.00%
Income after tax	10.88%	8.42%	8.78%	13.79%	9.29%	9.29%	9.29%	9.29%	9.29%
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	10.88%	8.42%	8.78%	13.79%	9.29%	9.29%	9.29%	9.29%	9.29%

SN VALUATION

LBO Adjusted Proforma Balance Sheet

	As of					Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	2009-12-31	2010-12-31	2011-12-31	2012-12-31	2012-12-31	+	-						
Cash	30.22	15.14	35.05	34.55	34.55			34.55	42.39	50.22	58.06	65.89	73.73
Short term investment	5.74	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
<b>Cash and Short term</b>	<b>35.96</b>	<b>15.14</b>	<b>35.05</b>	<b>34.55</b>	<b>34.55</b>			<b>34.55</b>	<b>42.39</b>	<b>50.22</b>	<b>58.06</b>	<b>65.89</b>	<b>73.73</b>
Accounts Receivable	24.34	22.74	20.98	20.46	21.00			21.00	21.00	21.00	21.00	21.00	21.00
Other receivables	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Receivables</b>	<b>24.34</b>	<b>22.74</b>	<b>20.98</b>	<b>20.46</b>	<b>21.00</b>			<b>21.00</b>	<b>21.00</b>	<b>21.00</b>	<b>21.00</b>	<b>21.00</b>	<b>21.00</b>
Total Inventory	6.23	4.62	4.39	6.59	6.59			6.59	6.59	6.59	6.59	6.59	6.59
Prepaid Expenses	2.42	2.47	2.36	2.61	2.61			2.61	2.61	2.61	2.61	2.61	2.61
Other Current Assets	1.38	1.54	2.89	1.59	1.59			1.59	1.59	1.59	1.59	1.59	1.59
<b>Current Assets</b>	<b>70.33</b>	<b>46.51</b>	<b>65.67</b>	<b>65.80</b>	<b>66.34</b>	<b>0.00</b>	<b>0.00</b>	<b>66.34</b>	<b>74.18</b>	<b>82.01</b>	<b>89.85</b>	<b>97.68</b>	<b>105.52</b>
PP&E, Gross	10.06	8.32	10.09	10.00	10.00			10.00	15.00	20.00	25.00	30.00	35.00
Change in Depreciation		1.95	1.86	1.63	1.63			1.63	1.63	1.63	1.63	1.63	1.63
Accumulated Depreciation	5.37	5.06	5.07	5.00	5.00			5.00	6.63	8.26	9.89	11.52	13.15
<b>PP&amp;E, Net</b>	<b>4.69</b>	<b>3.26</b>	<b>5.02</b>	<b>5.00</b>	<b>5.00</b>			<b>5.00</b>	<b>8.37</b>	<b>11.74</b>	<b>15.11</b>	<b>18.48</b>	<b>21.85</b>
Goodwill	4.63	4.63	4.63	4.63	4.63	0.00		4.63	4.63	4.63	4.63	4.63	4.63
Intangibles	4.94	4.59	3.54	2.97	2.97			2.97	2.97	2.97	2.97	2.97	2.97
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	2.18	1.32	0.17	3.72	3.72			3.72	3.72	3.72	3.72	3.72	3.72
<b>Long Term Assets</b>	<b>16.44</b>	<b>13.80</b>	<b>13.36</b>	<b>16.32</b>	<b>16.32</b>			<b>16.32</b>	<b>19.69</b>	<b>23.06</b>	<b>26.43</b>	<b>29.80</b>	<b>33.17</b>
<b>Total Assets</b>	<b>86.77</b>	<b>60.31</b>	<b>79.03</b>	<b>82.12</b>	<b>82.66</b>	<b>0.00</b>	<b>0.00</b>	<b>82.66</b>	<b>93.87</b>	<b>105.07</b>	<b>116.28</b>	<b>127.48</b>	<b>138.69</b>
Accounts Payable	7.97	6.55	7.30	8.48	8.48			8.48	8.48	8.48	8.48	8.48	8.48
Accrued Expense	4.69	6.33	5.26	7.31	7.31			7.31	7.31	7.31	7.31	7.31	7.31
Other current Liabilities	1.27	0.00	1.73	2.60	2.60			2.60	2.60	2.60	2.60	2.60	2.60
<b>Total Current Liabilities</b>	<b>13.93</b>	<b>12.88</b>	<b>14.29</b>	<b>18.39</b>	<b>18.39</b>	<b>0.00</b>	<b>0.00</b>	<b>18.39</b>	<b>18.39</b>	<b>18.39</b>	<b>18.39</b>	<b>18.39</b>	<b>18.39</b>
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	0.02	0.00	0.01	0.01	0.01			0.01	0.01	0.01	0.01	0.01	0.01
Long term Debt	0.00	0.00	0.01	0.01	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	0.00
<b>Total Interest Earning Debt</b>	<b>0.02</b>	<b>0.00</b>	<b>0.02</b>	<b>0.02</b>	<b>0.01</b>	<b>0.00</b>	<b>0.00</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
Deferred Income tax	0.00	0.00	0.91	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Minority Interest	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	1.55	1.60	1.57	1.84	1.85			1.85	1.85	1.85	1.85	1.85	1.85
<b>Total Liabilities</b>	<b>15.50</b>	<b>14.48</b>	<b>16.79</b>	<b>20.25</b>	<b>20.25</b>	<b>0.00</b>	<b>0.00</b>	<b>20.25</b>	<b>20.25</b>	<b>20.25</b>	<b>20.25</b>	<b>20.25</b>	<b>20.25</b>
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	0.02	0.02	0.02	0.02	0.02		0.00	0.02	0.02	0.02	0.02	0.02	0.02
Additional Paid-in capital	59.51	61.17	63.80	67.93	67.93	0.00	0.00	67.93	67.93	67.93	67.93	67.93	67.93
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	17.89	27.38	37.40	54.04	54.04		0.00	54.04	65.25	76.45	87.66	98.86	110.07
Treasury Stock	-5.35	-40.35	-40.35	-60.13	-60.13			-60.13	-60.13	-60.13	-60.13	-60.13	-60.13
Other Equity	-0.08	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Equity</b>	<b>71.99</b>	<b>48.22</b>	<b>60.87</b>	<b>61.86</b>	<b>61.86</b>	<b>0.00</b>	<b>0.00</b>	<b>61.86</b>	<b>73.07</b>	<b>84.27</b>	<b>95.48</b>	<b>106.68</b>	<b>117.89</b>
<b>Liability + Equity</b>	<b>87.49</b>	<b>62.70</b>	<b>77.66</b>	<b>82.11</b>	<b>82.11</b>	<b>0.00</b>	<b>0.00</b>	<b>82.11</b>	<b>93.32</b>	<b>104.52</b>	<b>115.73</b>	<b>126.93</b>	<b>138.14</b>
<b>Variance</b>	-0.72	-2.39	1.37	0.01	0.55			0.55	0.55	0.55	0.55	0.55	0.55
<b>Debt/Equity</b>	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Inventory Turnover	16.71	24.41	25.99	18.31	18.31			18.31	18.31	18.31	18.31	18.31	18.31
Inventory Turnover Days	21.84	14.95	14.04	19.93	19.93			19.93	19.93	19.93	19.93	19.93	19.93
Days Inventory Outstanding	103.17	71.18	66.71	96.02	94.91			96.02	94.91	94.91	94.91	94.91	94.91
Accounts Receivable Turnover	4.28	4.96	5.44	5.90	5.75			5.75	5.75	5.75	5.75	5.75	5.75
Accounts Receivable Turnover Days	85.34	73.61	67.11	61.88	63.52			63.52	63.52	63.52	63.52	63.52	63.52
Days Payable Outstanding	131.99	100.92	110.93	123.56	122.13			123.56	122.13	122.13	122.13	122.13	122.13
Days Sales Outstanding	85.34	73.61	67.11	61.88	63.52			61.88	63.52	63.52	63.52	63.52	63.52
Cash Conversion Cycle	56.53	43.87	22.89	34.34	36.29			34.34	36.29	36.29	36.29	36.29	36.29
Net tangible assets/share	\$3.82	\$2.36	\$3.31	\$3.28	\$3.31			\$3.96	\$4.60	\$5.24	\$5.89	\$6.53	\$6.53

SN VALUATION

LBO Adjusted Proforma Cash Flow

	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2011	2012	2013	2014	2015
Net Income	11.33	9.49	10.02	16.64	11.21	11.21	11.21	11.21	11.21
Depreciation	2.34	1.95	1.86	1.63	1.63	1.63	1.63	1.63	1.63
<b>Net Income + Depreciation</b>	<b>13.67</b>	<b>11.44</b>	<b>11.88</b>	<b>18.27</b>	<b>12.84</b>	<b>12.84</b>	<b>12.84</b>	<b>12.84</b>	<b>12.84</b>
Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	0.14	0.62	0.61	-2.73	0.00	0.00	0.00	0.00	0.00
Non Cash Items	2.90	2.36	2.30	1.94	0.00	0.00	0.00	0.00	0.00
Change in Working capital	2.22	0.06	4.61	2.94	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	0.00	1.60	1.76	0.52	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	1.61	0.23	-2.20	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	0.00	-0.05	0.11	-0.25	0.00	0.00	0.00	0.00	0.00
Accounts Payable	0.00	-1.42	0.75	1.18	0.00	0.00	0.00	0.00	0.00
<b>Cash from Operating Activities</b>	<b>18.93</b>	<b>14.48</b>	<b>19.40</b>	<b>20.42</b>	<b>12.84</b>	<b>12.84</b>	<b>12.84</b>	<b>12.84</b>	<b>12.84</b>
Capital Expenditures Expenditures	-1.41	-0.75	-0.84	-3.21	-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	0.26	5.88	0.05	0.00	0.00	0.00	0.00	0.00	0.00
<b>Cash from Investing Activities</b>	<b>-1.15</b>	<b>5.13</b>	<b>-0.79</b>	<b>-3.21</b>	<b>-5.00</b>	<b>-5.00</b>	<b>-5.00</b>	<b>-5.00</b>	<b>-5.00</b>
Financing Cash flow items	-0.14	-0.73	0.04	0.13	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Stock	-1.33	-33.93	1.28	-17.82	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	-0.02	-0.02	-0.01	-0.01	0.00	0.00	0.00	0.00	0.00
<b>Cash from Financing Activities</b>	<b>-1.49</b>	<b>-34.68</b>	<b>1.31</b>	<b>-17.70</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Foreign Exchange effect	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	13.93	30.21	15.14	35.05	34.55	42.39	50.22	58.06	65.89
<b>Net Change in Cash</b>	<b>16.28</b>	<b>-15.08</b>	<b>19.91</b>	<b>-0.50</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>
Ending Cash Balance	30.21	15.14	35.05	34.55	42.39	50.22	58.06	65.89	73.73
Capex to Revenue	1.35%	0.67%	0.74%	2.66%	4.14%	4.14%	4.14%	4.14%	4.14%
Depreciation to Sales	2.25%	1.73%	1.63%	1.35%	1.35%	1.35%	1.35%	1.35%	1.35%
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	23.38%	20.17%	18.39%	16.95%	16.95%	16.95%	16.95%	16.95%	16.95%
Distributable FCF Yield	4.40%	4.85%	4.60%	4.25%	1.94%	1.94%	1.94%	1.94%	1.94%
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>FCF (Ops-Investing-Dividends)</b>	<b>17.52</b>	<b>13.73</b>	<b>18.56</b>	<b>17.21</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>

# SN VALUATION

# LBO Debt Schedule

	Proforma	2013	2014	2015	2016	2017
<b>Net Change in Cash</b>	<b>-0.50</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>	<b>7.84</b>
Current Portion Debt Repayment						
Long Term Debt Repayment						
<b>Outstanding Debt</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
Current Portion Debt Balance	0.01	0.01	0.01	0.01	0.01	0.01
Long Term Debt Balance	0.00	0.00	0.00	0.00	0.00	0.00
Forward Libor Curve		3.00%	3.00%	3.00%	3.00%	3.00%
Spread		4.00%	4.00%	4.00%	4.00%	4.00%
<b>Interest Rate</b>		<b>7.00%</b>	<b>7.00%</b>	<b>7.00%</b>	<b>7.00%</b>	<b>7.00%</b>
<b>Interest Expense</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Cash Balance		34.55				
Interest @ 1.0%		0.35	0.35	0.35	0.35	0.35
<b>Net Interest Expense/(Income)</b>		<b>(0.34)</b>	<b>(0.34)</b>	<b>(0.34)</b>	<b>(0.34)</b>	<b>(0.34)</b>
<b>Net Interest Rate</b>		<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>	<b>#DIV/0!</b>
EBITDA		16.90	16.90	16.90	16.90	16.90
<b>EBITDA/Interest Expense Coverage</b>		<b>24136.00</b>	<b>24136.00</b>	<b>24136.00</b>	<b>24136.00</b>	<b>24136.00</b>

Interest Rate Coverage Table

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

\*Source: NYU; Professor Damodaran

# Altman Z Score

Company Name:

Obagi Medical

Ticker:

OMPI

Period	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	56.40	33.63	51.38	47.95	55.79	63.62	71.46	79.29	87.13
Total Assets	86.77	60.31	79.03	82.66	93.87	105.07	116.28	127.48	138.69
<b>X1</b>	<b>0.65</b>	<b>0.56</b>	<b>0.65</b>	<b>0.58</b>	<b>0.59</b>	<b>0.61</b>	<b>0.61</b>	<b>0.62</b>	<b>0.63</b>
Retained Earnings	17.89	27.38	37.40	54.04	65.25	76.45	87.66	98.86	110.07
Total Assets	86.77	60.31	79.03	82.66	93.87	105.07	116.28	127.48	138.69
<b>X2</b>	<b>0.21</b>	<b>0.45</b>	<b>0.47</b>	<b>0.65</b>	<b>0.70</b>	<b>0.73</b>	<b>0.75</b>	<b>0.78</b>	<b>0.79</b>
EBITDA	18.43	15.82	16.01	27.43	16.90	16.90	16.90	16.90	16.90
Total Assets	86.77	60.31	79.03	82.66	93.87	105.07	116.28	127.48	138.69
<b>X3</b>	<b>0.21</b>	<b>0.26</b>	<b>0.20</b>	<b>0.33</b>	<b>0.18</b>	<b>0.16</b>	<b>0.15</b>	<b>0.13</b>	<b>0.12</b>
Market Value of Equity	439.06	439.06	439.06	439.06	346.02	272.70	214.91	169.37	133.48
Total Liabilities	15.50	14.48	16.79	20.25	20.25	20.25	20.25	20.25	20.25
<b>X4</b>	<b>28.33</b>	<b>30.32</b>	<b>26.15</b>	<b>21.68</b>	<b>17.09</b>	<b>13.47</b>	<b>10.61</b>	<b>8.36</b>	<b>6.59</b>
Net Sales	104.10	112.76	114.11	120.68	120.68	120.68	120.68	120.68	120.68
Total Assets	86.77	60.31	79.03	82.66	93.87	105.07	116.28	127.48	138.69
<b>X5</b>	<b>1.20</b>	<b>1.87</b>	<b>1.44</b>	<b>1.46</b>	<b>1.29</b>	<b>1.15</b>	<b>1.04</b>	<b>0.95</b>	<b>0.87</b>
<b>Altman Z Score</b>	<b>19.97</b>	<b>22.23</b>	<b>19.25</b>	<b>17.18</b>	<b>13.82</b>	<b>11.50</b>	<b>9.68</b>	<b>8.23</b>	<b>7.09</b>

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

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