

Analyst: Sung Nam

Online Resources Corp (ORCC)

Market Price:	\$2.30	EBITDA/Share:	\$0.28	Net Asset/Share:	\$1.69
DCF: EV/EBITDA Terminal Value	-1.569%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value		-10.661%	
EBITDA-Cap Ex/Share	-\$0.19	EVA Analysis:		-0.764%	

Overview**Dividend?**

Dividend yield is 0.0%.

Cashflow Generation

Cashflows are \$23MM from operating cashflow.

Capex is \$15 MM, minority interest payment is \$0 MM, intangibles are \$0 MM and dividend is \$0 MM.

Free cash flow is about \$10 MM.

6.0% EBITA margin and FCF yield is 21.1%.

The company has \$29 MM in cash/short term investment and \$37 MM in debt.

We are projecting a \$5 MM paydown annually.

Profitability

ROA is 1.7%, and ROC is 2.2%.

LBO?

We don't believe a 60% debt/40% equity would be sustainable.

Price

We are forecasting a \$3.60/share in Year 5, or a 56.0% holding return, or 9.3% annual return. Thus, the 1 year forecasted price is \$2.50.

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LBO Analysis

WACC Terminal Value:		Intrinsic Price in 5 Years:	3.59	Non-LBO Forecast	Non-LBO Forecast
EV/EBITDA with 5X Multiple Terminal Value:	\$2.13	Market Price:	2.30	Year 1 Target	2.51
Net Tangible Asset Terminal Value:	\$1.31	LBO Price:	2.30	Year 2 Target	2.75
EV/EBITDA with Today's Multiple Terminal Value:	\$1.65	Premium to Market Price:	0.00%	Year 3 Target	3.00
EVA Enterprise Value:	\$9.26	LBO Price/Intrinsic Price Target:	9.28%	Year 4 Target	3.28
Dividend Discount Model:	N/A	LBO Price/EV/EBIT Exit Price:	-13.69%	Year 5 Target	3.59
Average (Excluding Dividend Discount):	\$3.59	Implied IRR at today's EV/EBITDA:	-6.42%	Implied IRR (Market Price):	9.28%
		5 Year Return:	55.87%		
				Desired Return Rate	20.00%
				Implied Today's Price	1.44
				Overvalued/(Undervalued)	59.64%

Current Evaluation				Exit Evaluation			
Current Market Price:	2.30	LBO Price:	2.30	Exit Price:	3.59	Exit Price:	1.65
Outstanding Shares:	32,080,000	Outstanding Shares:	32,080,000	Outstanding Shares:	32,080,000	Outstanding Shares:	32,080,000
Market Capitalization:	73,784,000	Market Capitalization:	73,784,000	Market Capitalization:	115,006,840	Market Capitalization:	52,954,393
Available Cash:	29,130,000	Available Cash:	29,130,000	Available Cash:	39,875,706	Available Cash:	39,875,706
Debt:	36,750,000	Debt:	36,750,000	Debt:	9,750,000	Debt:	9,750,000
Net Cash:	-7,620,000	Net Cash:	-7,620,000	Net Cash:	30,125,706	Net Cash:	30,125,706
Enterprise Value:	81,404,000	Enterprise Value:	81,404,000	Enterprise Value:	84,881,133	Enterprise Value:	22,828,687
Original EV/EBITDA:	9.07	EV/EBITDA:	9.07	EV/EBITDA at 5 Years:	11.15	EV/EBITDA at 5 Years:	3.00
Original EV/EBITDA:	9.07	EV/EBITDA:	2.90	EV/EBITDA at 5 Years:	3.37	EV/EBITDA at 5 Years:	0.82
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:	2.30	2.30	2.51	2.75	3.00	3.28	3.59
Shares Outstanding:	32,080,000	32,080,000	32,080,000	32,080,000	32,080,000	32,080,000	32,080,000
Market Capitalization:	73,784,000	73,784,000	80,633,310	88,118,437	96,298,402	105,237,707	115,006,840
Available Cash:	29,130,000	29,130,000	29,597,668	30,389,024	31,522,842	33,664,494	39,875,706
Debt:	36,750,000	36,750,000	30,750,000	24,750,000	18,750,000	12,750,000	9,750,000
Net Cash:	-7,620,000	-7,620,000	-1,152,332	5,639,024	12,772,842	20,914,494	30,125,706
Enterprise Value:	81,404,000	81,404,000	81,785,643	82,479,413	83,525,560	84,323,212	84,881,133
EBIT	8,980,000	8,980,000	7,101,725	7,101,725	7,172,742	7,387,925	7,609,562
EV/EBIT:	9.07	9.07	11.52	11.61	11.64	11.41	11.15
EBITDA	28,030,000	28,030,000	26,085,266	26,085,266	26,108,988	26,845,004	27,812,643
EV/EBITDA:	2.90	2.90	3.14	3.16	3.20	3.14	3.05

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	2.30	2.30	1.97	2.18	2.42	2.74	3.09
Shares Outstanding:	32,080,000	32,080,000	32,080,000	32,080,000	32,080,000	32,080,000	32,080,000
Market Capitalization:	73,784,000	73,784,000	63,225,042	70,016,399	77,793,990	87,886,277	99,106,643
Available Cash:	29,130,000	29,130,000	29,597,668	30,389,024	31,522,842	33,664,494	39,875,706
Debt:	36,750,000	36,750,000	30,750,000	24,750,000	18,750,000	12,750,000	9,750,000
Net Cash:	-7,620,000	-7,620,000	-1,152,332	5,639,024	12,772,842	20,914,494	30,125,706
Enterprise Value:	81,404,000	81,404,000	64,377,374	64,377,374	65,021,148	66,971,783	68,980,936
EBIT	8,980,000	8,980,000	7,101,725	7,101,725	7,172,742	7,387,925	7,609,562
EV/EBIT:	9.07	9.07	9.07	9.07	9.07	9.07	9.07
EBITDA	28,030,000	28,030,000	26,085,266	26,085,266	26,108,988	26,845,004	27,812,643
EV/EBITDA:	2.90	2.90	2.47	2.47	2.49	2.49	2.48

LBO Price	2.30	Equity Partners:	110,534,000	Weighting	100.00%	Annualized Return for Equity Partners: -13.69%
Shares Outstanding	32,080,000	Debt Partners:	0		0.00%	
Market Capitalization	73,784,000	Total Funds for LBO:	110,534,000		100.00%	
Debt	36,750,000					
Cash	29,130,000					
Enterprise Value	81,404,000					
Capital Investment	110,534,000					

Book Value		Enterprise Value		Stock Valuation		Debt Reduction	
Beginning Book Value	249.94	Beginning Enterprise Value	81.40	Current Market Price	\$2.30	Starting Debt	9.56
Year 5 Book Value	266.12	Year 5 Enterprise Value	22.83	Year 5 Market Price	\$1.65	Debt Repayment	27.00
Annualized Return	1.26%	Annualized Return	-22.45%	Annualized Return	-6.42%	Year 5 Ending Debt	9.56
						% of Starting Debt	100.00%

	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	135.13	151.64	151.86	149.51	142.03	142.03	143.45	147.76	152.19
COGS	64.08	77.35	77.26	78.95	75.28	75.28	76.03	78.31	80.66
Gross margin	71.05	74.29	74.60	70.56	66.76	66.76	67.42	69.45	71.53
SG&A	52.38	57.65	51.89	51.68	49.71	49.71	50.21	51.72	53.27
R&D	9.20	9.91	9.39	9.90	9.94	9.94	10.04	10.34	10.65
Unusual expense	5.62	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: Included within COGS					0.00	0.00	0.00	0.00	0.00
Operating Income (EBITA)	3.85	6.73	13.32	8.98	7.10	7.10	7.17	7.39	7.61
Interest income/(expense)	-5.49	-3.08	-4.14	-0.16	-2.17	-1.69	-1.21	-0.73	-0.49
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	-0.12	-0.56	0.09	-0.03	-0.04	-0.03	-0.03	-0.03	-0.03
Income before tax	-1.76	3.09	9.27	8.79	4.98	5.44	6.00	6.69	7.15
Tax	-12.71	1.17	4.14	3.41	1.49	1.63	1.80	2.01	2.15
Income after tax	10.95	1.92	5.13	5.38	3.48	3.81	4.20	4.68	5.01
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	10.95	1.92	5.13	5.38	3.48	3.81	4.20	4.68	5.01
*Figures are in millions (\$)									
Revenue Growth	N/A	12.22%	0.15%	-1.55%	-5.00%	0.00%	1.00%	3.00%	3.00%
Tax Rate	722.16%	37.86%	44.66%	38.79%	30.00%	30.00%	30.00%	30.00%	30.00%
Implied Debt Interest Rate	-6.46%	-4.08%	-8.49%	-0.44%	-22.69%	-17.66%	-12.64%	-7.62%	-5.11%
Margins									
COGS	47.42%	51.01%	50.88%	52.81%	53.00%	53.00%	53.00%	53.00%	53.00%
Gross margin	52.58%	48.99%	49.12%	47.19%	47.00%	47.00%	47.00%	47.00%	47.00%
SG&A	38.76%	38.02%	34.17%	34.57%	35.00%	35.00%	35.00%	35.00%	35.00%
R&D	6.81%	6.54%	6.18%	6.62%	7.00%	7.00%	7.00%	7.00%	7.00%
Unusual expense	4.16%	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: Included within COGS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income (EBITA)	2.85%	4.44%	8.77%	6.01%	5.00%	5.00%	5.00%	5.00%	5.00%
Interest income/(expense)	-4.06%	-2.03%	-2.73%	-0.11%	-1.53%	-1.19%	-0.84%	-0.49%	-0.32%
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	-0.09%	-0.37%	0.06%	-0.02%	-0.03%	-0.02%	-0.02%	-0.02%	-0.02%
Income before tax	-1.30%	2.04%	6.10%	5.88%	3.50%	3.83%	4.18%	4.53%	4.70%
Tax	-9.41%	0.77%	2.73%	2.28%	1.05%	1.15%	1.25%	1.36%	1.41%
Income after tax	8.10%	1.27%	3.38%	3.60%	2.45%	2.68%	2.96%	3.30%	3.53%
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	8.10%	1.27%	3.38%	3.60%	2.45%	2.68%	2.93%	3.17%	3.29%

					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	13.23	22.97	22.91	29.13			29.13	29.60	30.39	31.52	33.66	39.88
Short term investment	9.13	1.01	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	22.36	23.98	22.91	29.13			29.13	29.60	30.39	31.52	33.66	39.88
Accounts Receivable	16.55	15.74	17.46	20.41			20.41	20.41	20.41	20.41	20.41	20.41
Other receivables	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	16.55	15.74	17.46	20.41			20.41	20.41	20.41	20.41	20.41	20.41
Deferred Income Tax	-0.01	0.01	-0.01	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Inventory	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	4.60	2.34	2.10	2.07			2.07	2.07	2.07	2.07	2.07	2.07
Other Current Assets	12.18	10.45	9.42	6.86			6.86	6.86	6.86	6.86	6.86	6.86
Current Assets	55.68	52.52	51.88	58.47	0.00	0.00	58.47	58.94	59.73	60.86	63.00	69.22
PP&E, Gross	62.27	74.61	70.93	81.88			81.88	96.88	111.88	126.88	141.88	156.88
Change in Depreciation	19.81	21.27	20.24	19.05			19.05	18.98	18.98	18.94	19.46	20.20
Accumulated Depreciation	35.41	45.91	66.15	85.20			85.20	104.18	123.17	142.10	161.56	181.76
PP&E, Net	26.86	28.70	4.78	-3.32			-3.32	-7.30	-11.29	-15.22	-19.68	-24.88
Goodwill	184.30	181.52	181.52	181.52	0.00		181.52	181.52	181.52	181.52	181.52	181.52
Intangibles	36.92	27.67	19.97	14.16			14.16	14.16	14.16	14.16	14.16	14.16
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	36.96	33.27	29.56	31.30			31.30	31.30	31.30	31.30	31.30	31.30
Long Term Assets	320.45	317.07	235.83	223.66	0.00	0.00	223.66	219.68	215.69	211.76	207.30	202.10
Total Assets	340.72	323.68	308.49	310.58	0.00	0.00	282.13	278.61	275.42	272.62	270.30	271.31
Accounts Payable	2.00	1.20	2.01	2.41			2.41	2.41	2.41	2.41	2.41	2.41
Accrued Expense	7.58	3.62	3.77	6.29			6.29	6.29	6.29	6.29	6.29	6.29
Other current Liabilities	18.91	7.51	6.79	8.23			8.23	8.23	8.23	8.23	8.23	8.23
Total Current Liabilities	28.49	12.33	12.57	16.93	0.00	0.00	16.93	16.93	16.93	16.93	16.93	16.93
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	9.56	15.94	8.25	27.19			27.19	21.19	15.19	9.19	3.19	0.19
Long term Debt	75.44	59.50	40.50	9.56	0.00	0.00	9.56	9.56	9.56	9.56	9.56	9.56
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	85.00	75.44	48.75	36.75	0.00	0.00	36.75	30.75	24.75	18.75	12.75	9.75
Deferred Income tax	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	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	6.51	6.38	6.89	6.96			6.96	6.96	6.96	6.96	6.96	6.96
Total Liabilities	120.00	94.15	68.21	60.64	0.00	0.00	60.64	54.64	48.64	42.64	36.64	33.64
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	82.54	91.42	100.62	110.18			110.18	110.18	110.18	110.18	110.18	110.18
Common Stock	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Additional Paid-in capital	198.33	208.08	213.10	217.87	0.00	0.00	217.87	217.87	217.87	217.87	217.87	217.87
Dividends Paid	0.00	0.00	0.00	0.00			0.00	-1.00	-2.00	-3.00	-4.00	-5.00
Retained Earnings	-59.74	-66.70	-70.78	-75.19		0.00	-75.19	-71.71	-67.90	-63.70	-59.02	-54.01
Treasury Stock	-0.23	-2.36	-2.66	-2.92			-2.92	-2.92	-2.92	-2.92	-2.92	-2.92
Other Equity	-0.19	-0.91	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Equity	220.71	229.53	240.28	249.94	0.00	0.00	249.94	252.42	255.23	258.43	262.11	266.12
Liability + Equity	340.71	323.68	308.49	310.58	0.00	0.00	310.58	307.06	303.87	301.07	298.75	299.76
Variance	0.01	0.00	0.00	0.00			-28.45	-28.45	-28.45	-28.45	-28.45	-28.45
Debt/Equity	0.39	0.33	0.20	0.15			0.15	0.12	0.10	0.07	0.05	0.04
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	8.16	9.63	8.70	7.33			7.33	6.96	6.96	7.03	7.24	7.46
Accounts Receivable Turnover Days	44.70	37.89	41.97	49.83			49.83	52.45	52.45	51.93	50.42	48.95
Days Payable Outstanding	11.39	5.66	9.50	11.14			11.14	11.69	11.69	11.57	11.23	10.91
Days Sales Outstanding	44.70	37.89	41.97	49.83			49.83	49.83	52.45	52.45	51.93	50.42
Cash Conversion Cycle	33.31	32.22	32.47	38.69			38.69	38.14	40.76	40.88	40.70	39.51

SN VALUATION

LBO Adjusted Proforma Cash Flow

	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
Net Income	10.95	1.92	5.13	5.38	3.48	3.81	4.20	4.68	5.01
Depreciation	19.81	21.27	20.24	19.05	18.98	18.98	18.94	19.46	20.20
Net Income + Depreciation	30.76	23.19	25.37	24.43	22.47	22.79	23.13	24.14	25.21
Amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred Taxes	-13.38	0.78	3.57	3.54	0.00	0.00	0.00	0.00	0.00
Non Cash Items	6.66	3.98	4.35	2.03	0.00	0.00	0.00	0.00	0.00
Change in Working capital	-5.82	-0.35	-0.08	-0.10	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	0.00	0.81	-1.72	-2.95	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	2.26	0.24	0.03	0.00	0.00	0.00	0.00	0.00
Accounts Payable	0.00	-0.80	0.81	0.40	0.00	0.00	0.00	0.00	0.00
Cash from Operating Activities	18.22	27.60	33.21	29.90	22.47	22.79	23.13	24.14	25.21
Capital Expenditures	-16.36	-13.47	-9.26	-12.74	-15.00	-15.00	-15.00	-15.00	-15.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangibles	-20.51	6.46	2.15	0.00	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	-36.87	-7.01	-7.11	-12.74	-15.00	-15.00	-15.00	-15.00	-15.00
Financing Cash flow items	-1.60	-0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	0.00	0.00	0.00	0.00	1.00	1.00	1.00	1.00	1.00
Issuance (Retirement) of Stock	4.00	-1.14	0.57	1.09	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Current Portion Debt	-	-	-	-	-6.00	-6.00	-6.00	-6.00	-3.00
Issuance (Retirement) of Long Term Debt	-1.72	-9.60	-26.72	-12.02	0.00	0.00	0.00	0.00	0.00
Cash from Financing Activities	0.68	-10.85	-26.15	-10.93	-7.00	-7.00	-7.00	-7.00	-4.00
Foreign Exchange effect	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	31.19	13.23	22.97	22.91	29.13	29.60	30.39	31.52	33.66
Net Change in Cash	-17.96	9.74	-0.06	6.22	0.47	0.79	1.13	2.14	6.21
Ending Cash Balance	13.23	22.97	22.91	29.13	29.60	30.39	31.52	33.66	39.88
Depreciation to Sales	14.66%	14.03%	13.33%	12.74%	13.37%	13.37%	13.20%	13.17%	13.27%
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	12.25%	10.38%	11.50%	13.65%	14.37%	14.37%	14.23%	13.81%	13.41%
Distributable FCF Yield	-22.91%	25.29%	32.06%	21.08%	9.17%	9.57%	9.99%	11.23%	12.54%
Dividend Yield	0.00%	0.00%	0.00%	0.00%	1.36%	1.36%	1.36%	1.36%	1.36%

SN VALUATION

LBO Debt Schedule

	Proforma	2011	2012	2013	2014	2015
Net Change in Cash	6.22	0.47	0.79	1.13	2.14	6.21
Current Portion Debt Repayment		6.00	6.00	6.00	6.00	3.00
Long Term Debt Repayment						
Outstanding Debt	36.75	30.75	24.75	18.75	12.75	9.75
Current Portion Debt Balance	27.19	21.19	15.19	9.19	3.19	0.19
Long Term Debt Balance	9.56	9.56	9.56	9.56	9.56	9.56
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		2.46	1.98	1.50	1.02	0.78
Cash Balance		29.13				
Interest @ 1.0%		0.29	0.29	0.29	0.29	0.29
Net Interest Expense/(Income)		2.17	1.69	1.21	0.73	0.49
Net Interest Rate		22.69%	17.66%	12.64%	7.62%	5.11%
EBITDA		7.10	7.10	7.17	7.39	7.61
EBITDA/Interest Expense Coverage		2.89	3.59	4.78	7.24	9.76

Interest Rate Coverage Table

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

*Source: NYU; Professor Damodaran