

January 2, 2012

SN VALUATION [Stocks, Real Estate, Bonds]

Analyst: Sung Nam

Pro-Dex Inc (PDEX)

Market Price:	\$2.46	EBITDA/Share:	\$0.99	Net Asset/Share:	\$10.28
DCF: EV/EBITDA Terminal Value	32.407%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value	21.538%		
EBITDA-Cap Ex/Share	\$0.69	EVA Analysis:	7.277%		

Overview

Dividend?

Dividend yield is 0.0%.

Price to Book

Price to book is 0.78.

Cashflow Generation

Cashflows are \$3MM from operating cashflow.

Capex is \$1 MM, minority interest payment is \$0 MM, intangibles are \$0 MM and dividend is \$0 MM.

Free cash flow is about \$2 MM.

12.0% EBITA margin and FCF yield is 50.0%.

The company has \$4 MM in cash/short term investment and \$1 MM in debt.

We are projecting a \$0 MM paydown annually.

Profitability

ROA is 17.0%, and ROC is 25.6%.

LBO?

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

Price

We are forecasting a \$8.50/share in Year 5, or a 248.1% holding return, or 28.3% annual return. Thus, the 1 year forecasted price is \$3.10.

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LBO Analysis

WACC Terminal Value:		Intrinsic Price in 5 Years:	8.51	Non-LBO Forecast	Non-LBO Forecast	Desired Return Rate	20.00%
EV/EBITDA with 5X Multiple Terminal Value:	\$10.01	Market Price:	2.46	Year 1 Target	3.15	Implied Today's Price	3.42
Net Tangible Asset Terminal Value:	\$6.52	LBO Price:	2.46	Year 2 Target	4.04	Overvalued/(Undervalued)	-28.04%
EV/EBITDA with Today's Multiple Terminal Value:	\$7.79	Premium to Market Price:	0.00%	Year 3 Target	5.18		
EVA Enterprise Value:	\$9.70	LBO Price/Intrinsic Price Target:	28.16%	Year 4 Target	6.64		
Dividend Discount Model:	N/A	LBO Price/EV/EBIT Exit Price:	22.67%	Year 5 Target	8.51		
Average (Excluding Dividend Discount):	\$8.51	Implied IRR at today's EV/EBITDA:	25.94%	Implied IRR (Market Price):	28.16%		
		5 Year Return:	245.79%				

Current Evaluation				Exit Evaluation			
Current Market Price:	2.46	LBO Price:	2.46	Exit Price:	8.51	Exit Price:	7.79
Outstanding Shares:	3,270,000	Outstanding Shares:	3,270,000	Outstanding Shares:	3,270,000	Outstanding Shares:	3,270,000
Market Capitalization:	8,044,200	Market Capitalization:	8,044,200	Market Capitalization:	27,815,859	Market Capitalization:	25,487,227
Available Cash:	4,690,000	Available Cash:	4,690,000	Available Cash:	14,612,943	Available Cash:	14,612,943
Debt:	1,130,000	Debt:	1,130,000	Debt:	0	Debt:	0
Net Cash:	3,560,000	Net Cash:	3,560,000	Net Cash:	14,612,943	Net Cash:	14,612,943
Enterprise Value:	4,484,200	Enterprise Value:	4,484,200	Enterprise Value:	13,202,916	Enterprise Value:	10,874,284
Original EV/EBITDA:	1.38	EV/EBITDA:	1.38	EV/EBITDA at 5 Years:	3.64	EV/EBITDA at 5 Years:	3.00
Original EV/EBITDA:	1.38	EV/EBITDA:	1.14	EV/EBITDA at 5 Years:	3.73	EV/EBITDA at 5 Years:	2.36
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:	2.46	2.46	3.15	4.04	5.18	6.64	8.51
Shares Outstanding:	3,270,000	3,270,000	3,270,000	3,270,000	3,270,000	3,270,000	3,270,000
Market Capitalization:	8,044,200	8,044,200	10,309,670	13,213,160	16,934,354	21,703,539	27,815,859
Available Cash:	4,690,000	4,690,000	6,190,205	7,523,556	9,727,916	12,074,675	14,612,943
Debt:	1,130,000	1,130,000	770,000	0	0	0	0
Net Cash:	3,560,000	3,560,000	5,420,205	7,523,556	9,727,916	12,074,675	14,612,943
Enterprise Value:	4,484,200	4,484,200	4,889,466	5,689,605	7,206,438	9,628,864	13,202,916
EBIT	3,240,000	3,240,000	2,982,100	3,131,205	3,287,765	3,452,154	3,624,761
EV/EBIT:	1.38	1.38	1.64	1.82	2.19	2.79	3.64
EBITDA	3,940,000	3,940,000	3,775,835	4,020,064	4,167,816	4,360,455	4,604,193
EV/EBITDA:	1.14	1.14	1.29	1.42	1.73	2.21	2.87

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	2.46	2.46	2.92	3.63	4.37	5.15	6.00
Shares Outstanding:	3,270,000	3,270,000	3,270,000	3,270,000	3,270,000	3,270,000	3,270,000
Market Capitalization:	8,044,200	8,044,200	9,547,468	11,857,182	14,278,224	16,852,498	19,629,657
Available Cash:	4,690,000	4,690,000	6,190,205	7,523,556	9,727,916	12,074,675	14,612,943
Debt:	1,130,000	1,130,000	770,000	0	0	0	0
Net Cash:	3,560,000	3,560,000	5,420,205	7,523,556	9,727,916	12,074,675	14,612,943
Enterprise Value:	4,484,200	4,484,200	4,127,263	4,333,626	4,550,308	4,777,823	5,016,714
EBIT	3,240,000	3,240,000	2,982,100	3,131,205	3,287,765	3,452,154	3,624,761
EV/EBIT:	1.38	1.38	1.38	1.38	1.38	1.38	1.38
EBITDA	3,940,000	3,940,000	3,775,835	4,020,064	4,167,816	4,360,455	4,604,193
EV/EBITDA:	1.14	1.14	1.09	1.08	1.09	1.10	1.09

LBO Price	2.46	Equity Partners:	9,174,200	Weighting	100.00%	Annualized Return for Equity Partners: 22.67%
Shares Outstanding	3,270,000	Debt Partners:	0		0.00%	
Market Capitalization	8,044,200	Total Funds for LBO:	9,174,200		100.00%	
Debt	1,130,000					
Cash	4,690,000					
Enterprise Value	4,484,200					
Capital Investment	9,174,200					

Book Value	Enterprise Value	Stock Valuation	Debt Reduction
Beginning Book Value	10.32	Current Market Price	Starting Debt
Year 5 Book Value	21.92	Year 5 Market Price	Debt Repayment
Annualized Return	16.26%	Annualized Return	25.94%
			% of Starting Debt
			0.00%

	Historical				Forecasted				
	12 months ending 2008-06-30	12 months ending 2009-06-30	12 months ending 2010-06-30	12 months ending 2011-06-30	2011	2012	2013	2014	2015
Revenue	25.13	21.12	23.21	27.11	27.11	28.47	29.89	31.38	32.95
COGS	16.92	14.37	14.85	16.57	16.81	17.65	18.53	19.46	20.43
Gross margin	8.21	6.75	8.36	10.54	10.30	10.82	11.36	11.93	12.52
SG&A	5.02	4.45	4.67	4.88	4.88	5.12	5.38	5.65	5.93
R&D	2.73	2.79	2.48	2.42	2.44	2.56	2.69	2.82	2.97
Unusual expense	0.00	1.00	4.44	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)	0.46	-1.49	-3.23	3.24	2.98	3.13	3.29	3.45	3.62
Interest income/(expense)	-0.17	-0.22	-0.20	-0.14	-0.01	0.05	0.05	0.05	0.05
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	0.01	0.04	0.00	0.02	0.01	0.01	0.02	0.02
Income before tax	0.32	-1.70	-3.39	3.10	2.95	3.16	3.32	3.48	3.66
Tax	0.00	1.15	-0.42	0.46	0.89	0.95	1.00	1.05	1.10
Income after tax	0.32	-2.85	-2.97	2.64	2.07	2.21	2.32	2.44	2.56
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	0.32	-2.85	-2.97	2.64	2.07	2.21	2.32	2.44	2.56
*Figures are in millions (\$)									
Revenue Growth	N/A	-15.96%	9.90%	16.80%	0.00%	5.00%	5.00%	5.00%	5.00%
Tax Rate	0.00%	-67.65%	12.39%	14.84%	30.00%	30.00%	30.00%	30.00%	30.00%
Implied Debt Interest Rate	-4.26%	-6.61%	-6.92%	-12.39%	-1.91%	6.09%	NA	NA	NA
Margins									
COGS	67.33%	68.04%	63.98%	61.12%	62.00%	62.00%	62.00%	62.00%	62.00%
Gross margin	32.67%	31.96%	36.02%	38.88%	38.00%	38.00%	38.00%	38.00%	38.00%
SG&A	19.98%	21.07%	20.12%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%
R&D	10.86%	13.21%	10.69%	8.93%	9.00%	9.00%	9.00%	9.00%	9.00%
Unusual expense	0.00%	4.73%	19.13%	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)	1.83%	-7.05%	-13.92%	11.95%	11.00%	11.00%	11.00%	11.00%	11.00%
Interest income/(expense)	-0.68%	-1.04%	-0.86%	-0.52%	-0.05%	0.16%	0.16%	0.15%	0.14%
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%	0.05%	0.17%	0.00%	0.06%	0.05%	0.05%	0.05%	0.05%
Income before tax	1.27%	-8.05%	-14.61%	11.43%	10.89%	11.11%	11.11%	11.10%	11.09%
Tax	0.00%	5.45%	-1.81%	1.70%	3.27%	3.33%	3.33%	3.33%	3.33%
Income after tax	1.27%	-13.49%	-12.80%	9.74%	7.62%	8.17%	8.57%	8.99%	9.44%
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	1.27%	-13.49%	-12.80%	9.74%	7.62%	7.78%	7.78%	7.77%	7.77%

					Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
	As of 2008-06-30	As of 2009-06-30	As of 2010-06-30	As of 2011-06-30	+	-						
Cash	0.52	1.12	3.79	4.69			4.69	6.19	7.52	9.73	12.07	14.61
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	0.52	1.12	3.79	4.69			4.69	6.19	7.52	9.73	12.07	14.61
Accounts Receivable	2.84	2.52	2.68	3.13			3.13	3.13	3.13	3.13	3.13	3.13
Other receivables	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	2.84	2.52	2.68	3.13			3.13	3.13	3.13	3.13	3.13	3.13
Deferred Income Tax	0.20	0.01	0.03	0.02			0.02	0.02	0.02	0.02	0.02	0.02
Total Inventory	5.10	3.37	3.23	3.70			3.70	3.70	3.70	3.70	3.70	3.70
Prepaid Expenses	1.07	0.23	0.17	0.14			0.14	0.14	0.14	0.14	0.14	0.14
Other Current Assets	1.18	0.00	0.21	0.16			0.16	0.16	0.16	0.16	0.16	0.16
Current Assets	10.91	7.25	10.11	11.84	0.00	0.00	11.84	13.34	14.67	16.88	19.22	21.76
PP&E, Gross	10.90	11.13	9.95	10.20			10.20	11.20	12.20	13.20	14.20	15.20
Change in Depreciation	0.54	0.81	0.73	0.70			0.70	0.79	0.89	0.88	0.91	0.98
Accumulated Depreciation	4.43	5.15	5.88	6.58			6.58	7.37	8.26	9.14	10.05	11.03
PP&E, Net	6.47	5.98	4.07	3.62			3.62	3.83	3.94	4.06	4.15	4.17
Goodwill	3.00	3.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00
Intangibles	1.22	0.15	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
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	0.07	0.09	0.08	0.06			0.06	0.06	0.06	0.06	0.06	0.06
Long Term Assets	15.19	14.37	4.15	3.68	0.00	0.00	3.68	3.89	4.00	4.12	4.21	4.23
Total Assets	21.67	16.47	14.28	15.56	0.00	0.00	15.52	17.23	18.67	21.00	23.43	25.99
Accounts Payable	1.74	0.83	1.28	1.21			1.21	1.21	1.21	1.21	1.21	1.21
Accrued Expense	2.05	1.39	1.95	2.38			2.38	2.38	2.38	2.38	2.38	2.38
Other current Liabilities	0.11	0.05	0.08	0.08			0.08	0.08	0.08	0.08	0.08	0.08
Total Current Liabilities	3.90	2.27	3.31	3.67	0.00	0.00	3.67	3.67	3.67	3.67	3.67	3.67
Notes Payables/Short Term Debt	2.00	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	0.43	0.43	0.43	0.36			0.36	0.00	0.00	0.00	0.00	0.00
Long term Debt	1.56	2.90	2.46	0.77	0.00	0.00	0.77	0.77	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	3.99	3.33	2.89	1.13	0.00	0.00	1.13	0.77	0.00	0.00	0.00	0.00
Deferred Income tax	0.29	0.17	0.21	0.16			0.16	0.16	0.16	0.16	0.16	0.16
Minority Interest	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	0.19	0.21	0.26	0.28			0.28	0.28	0.28	0.28	0.28	0.28
Total Liabilities	8.37	5.98	6.67	5.24	0.00	0.00	5.24	4.88	4.11	4.11	4.11	4.11
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	16.55	16.57	16.68	16.74		0.00	16.74	16.74	16.74	16.74	16.74	16.74
Additional Paid-in capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends Paid	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	-3.25	-6.09	-9.06	-6.42		0.00	-6.42	-4.35	-2.14	0.19	2.62	5.18
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	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Equity	13.30	10.48	7.62	10.32	0.00	0.00	10.32	12.39	14.60	16.93	19.36	21.92
Liability + Equity	21.67	16.46	14.29	15.56	0.00	0.00	15.56	17.27	18.71	21.04	23.47	26.03
Variance	0.00	0.01	-0.01	0.00			-0.04	-0.04	-0.04	-0.04	-0.04	-0.04
Debt/Equity	0.30	0.32	0.38	0.11			0.11	0.06	0.00	0.00	0.00	0.00
Inventory Turnover	4.93	6.27	7.19	7.33			7.33	7.33	7.69	8.08	8.48	8.91
Inventory Turnover Days	74.07	58.24	50.79	49.82			49.82	49.82	47.44	45.18	43.03	40.98
Days Inventory Outstanding	110.02	85.60	79.39	81.50			81.50	80.35	76.52	72.88	69.41	66.10
Accounts Receivable Turnover	8.85	8.38	8.66	8.66			8.66	8.66	9.09	9.55	10.03	10.53
Accounts Receivable Turnover Days	41.25	43.55	42.15	42.14			42.14	42.14	40.13	38.22	36.40	34.67
Days Payable Outstanding	37.54	21.08	31.46	26.65			26.65	26.28	25.02	23.83	22.70	21.62
Days Sales Outstanding	41.25	43.55	42.15	42.14			42.14	42.14	42.14	40.13	38.22	36.40
Cash Conversion Cycle	113.73	108.07	90.07	96.99			96.99	96.21	93.64	89.18	84.93	80.89

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LBO Debt Schedule

	Proforma	2011	2012	2013	2014	2015
Net Change in Cash	0.90	1.50	1.33	2.20	2.35	2.54
Current Portion Debt Repayment		0.36				
Long Term Debt Repayment			0.77			
Outstanding Debt	1.13	0.77	0.00	0.00	0.00	0.00
Current Portion Debt Balance	0.36	0.00	0.00	0.00	0.00	0.00
Long Term Debt Balance	0.77	0.77	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		0.06	0.00	0.00	0.00	0.00
Cash Balance		4.69				
Interest @ 1.0%		0.05	0.05	0.05	0.05	0.05
Net Interest Expense/(Income)		0.01	(0.05)	(0.05)	(0.05)	(0.05)
Net Interest Rate		1.91%	-6.09%	#DIV/0!	#DIV/0!	#DIV/0!
EBITDA		2.98	3.13	3.29	3.45	3.62
EBITDA/Interest Expense Coverage		48.41	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Interest Rate Coverage Table

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

*Source: NYU; Professor Damodaran