United-Guardian (UG)

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Disclaimers

- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

United-Guardian - business

- Product areas:
  - Cosmetic ingredients
  - Personal and health care products
  - Pharmaceuticals
  - Specialty industrial products
- Major products
  - LUBRAJEL® line of cosmetic ingredients and medical lubricants - 76.9% of sales in 2008
  - RENACIDIN ® IRRIGATION, pharmaceutical product - 18.0% of sales in 2008

United-Guardian – Misc thoughts

- R&D for new products $420K per year – no assurance of success
    - 38 employees
- 57% foreign sales
- 43% insider (family) owned
    - Founder, chairman (?) 87 years old
    - Founder's son (?) (56) CEO
    - Established in 1942 – not much growth…

Is it a good business?

- 10 year history of profits
- ROE:
  - 19.9 24.5 19.4 13.3 19.6 19.1 19.7 20.7 24.4 21.5 2009:24.98
- Margins
  - 2009: 27.73798478 25.73218353 29.8090672 22.44178419
- Strong balance sheet
  - Zero debt (~12.3M cash + short term invesments)
  - 15.3 book = net tangible assets, 14M net current assets
- ROIC = Earnings / (Equity + Debt – Cash) = Earnings / (Assets – non-debt liabilities - Cash)
  - Equal to ROE

Is business cheap?

- ROE 25% - conservatively assume 20%
- Earnings in 10 years = ROE*Equity*(1+ROE)^9 = $16M
- Equity in 10 years = Equity*(1+ROE)^9 = 79M
- Market cap = 16M x P/E (15) = $243M
- Rate of return = ~15% after tax (calculations omitted)
- If we assume 15% ROE: 8%

- >3 P/Book – not a net net

Is business cheap?

- Discounted cash flow
  - Current earnings of ~3.8M
  - 10% growth for 10 years, leveling after that
    - 10% discount -> $76M current valuation
    - 15% discount -> $46M current valuation
  - 20% growth for 5 years, leveling after that
    - 10% discount -> $83M current valuation
    - 15% discount -> $53M current valuation
- Owner's yield = earnings / (market cap + debt - cash) = earnings/EV
  - 3.8M / (49.4M + 0M – 12.5M) = 10.3%