United-Guardian (UG)

Raimondas Lencevicius
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 investments)
  • 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%