



# Pro-Dex, Inc.

*Q2 revenue upside. Positive long-term, but supply chain issues to temper near term. Lowering P/T to \$32.*

## COMPANY UPDATE

**Rating: BUY**

Ticker: PDEX

Price: \$19.32

Target: \$32.00  
(from \$34)

**Q2 revenue upside:** Pro-Dex recently (on February 3) reported its fiscal Q2 2022 results. Revenue was \$10.2 million (+23% y-o-y), compared with our estimate of \$8.3 million. EPS was \$0.25, compared with our estimate of \$0.28. There was no guidance or consensus estimates.

**Revenue +23%:** Revenue was +23% (y-o-y) due to increased sales of orthopedic surgical handpieces it sells to its largest customer.

**No guidance:** Management as usual did not provide any forward guidance.

**But supply chain issues to weigh:** In 2021, the company had supply chain issues with delayed shipments, longer lead times, and surcharges. During early 2022, these supply issues continue to weigh and is expected to “negatively impact” Q3 and Q4 results.

**Lowering FY22 EPS estimates:** We are maintaining our FY22 revenue estimate of \$40 million, but lowering it for EPS to \$1.13 from \$1.32.

**We remain positive:** After suffering declining sales in 2013 and 2014 (combined -37%) due to the loss of a major product contract, the company has experienced strong revenue growth most of the past seven years (+24% in FY15, +51% in FY16, +14% in FY17, +1% in FY18, +21% in FY19, +28% in FY20, and +9% in FY21). The management team has reversed the declining sales by winning new product contracts, investing in its own private label products, and returning the company to strong growth.

**Solid growth expected in FY22/23:** We expect revenue growth to remain solid over the next several years (we estimate +5% in FY22 and +5% in FY23). Pro-Dex has plans to launch many internally developed devices for sale in FY22/23 and beyond presenting new growth opportunities. The company did note that it is delaying some internal products near term to focus on customer projects.

**Large market potential:** We believe there is substantial market demand for medical contract manufacturing. By focusing on highly specialized medical and dental devices, we believe that the company is developing a proprietary niche in contract manufacturing. Due to high government regulations and the high value of medical products, we believe Pro-Dex is better able to compete and add value.

**New building expansion:** For planned future growth, the company in November 2020 acquired a new manufacturing facility (near its current facility) for \$6.5 million. The company expects to begin operations there in Q2 FY22 and this should provide adequate facilities for strong future growth.

**Product diversification:** A large portion of Pro-Dex’s revenue is derived from a few customers and products. We believe it is positive that Pro-Dex is developing several devices (the company has listed 2 products to be released in FY23 (from FY 22)) to diversify its customer base and product lines.

**Positive valuation:** We are maintaining our BUY rating, but lowering our 12-month price target to \$32 from \$34, which is based on a forward P/E multiple of ~20x our FY23 EPS estimate of \$1.62. We believe this multiple is reasonable as it is its estimated near-term earnings growth rate (implying a PEG ratio of 1 (P/E to growth rate)). We believe this valuation appropriately balances out the company’s risks with the company’s growth prospects and large upside opportunities.

### Company Description

Based in Irvine, CA, Pro-Dex provides OEMs outsourcing design, development, and manufacturing services in the surgical, dental, and industrial markets.

United States  
Technology

February 22, 2022

Edward Woo, CFA  
(949) 259-4932  
ewoo@ascendant.com

### Stock Data

Exchange:	NasdaqGS
52-week Range:	\$19.14 – 38.45
Shares Outstanding (million):	4
Market cap (\$million):	\$77
EV (\$million):	\$82
Debt (\$million):	\$12
Cash (\$million):	\$7
Avg. Daily Trading Vol. (\$million):	~\$0.5
Float (million shares):	2
Short Interest (million shares):	~0
Dividend, annual (yield):	\$0 (NA%)

### Revenues (US\$ million)

	<u>2022E</u> (Cur.)	<u>2022E</u> (Old)	<u>2023E</u> (Cur.)	<u>2023E</u> (Old)
Q1 Sep	10A		10E	
Q2 Dec	10A	8E	11E	9E
Q3 Mar	11E	12E	12E	
Q4 Jun	<u>9E</u>	<u>10E</u>	<u>10E</u>	<u>11E</u>
Total	<b>40E</b>		<b>42E</b>	
EV/Revs	2.1x		2.0x	

### Earnings per Share (pro forma)

	<u>2022E</u> (Cur.)	<u>2022E</u> (Old)	<u>2023E</u> (Cur.)	<u>2023E</u> (Old)
Q1 Sep	0.28A		0.40E	0.40E
Q2 Dec	0.25A	0.28E	0.42E	0.34E
Q3 Mar	0.33E	0.40E	0.45E	0.48E
Q4 Jun	<u>0.27E</u>	<u>0.35E</u>	<u>0.36E</u>	<u>0.40E</u>
Total	<b>1.13E</b>	<b>1.32E</b>	<b>1.62E</b>	
P/E	17x		12x	

### Important Disclosures

Ascendant Capital Markets LLC seeks to do business with companies covered by its research team. Consequently, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making an investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 7.**

### OVERVIEW

- Pro-Dex recently (on February 3) reported its fiscal Q2 2022 (ending December) results.
- Revenue was \$10.2 million (+23% y-o-y), compared with our estimate of \$8.3 million.
- EPS was \$0.25, compared with our estimate of \$0.28. There was no guidance or consensus estimates.
- Management as usual did not provide any forward guidance.
- We are maintaining our FY22 revenue estimate of \$40 million, but lowering it for EPS to \$1.13 from \$1.32.
- We are maintaining our FY23 estimates for revenue of \$42 million, and for EPS of \$1.62.

### ADDITIONAL DETAILS

- Gross profit for the quarter was \$3 million, compared with our estimate of \$3 million.
- Gross margin for the quarter was 34%, versus 31% last year and our estimate of 36%.
- Operating expenses were \$1.8 million, compared with our estimate of \$1.4 million.
- Operating income was \$1.6 million, compared with our estimate of \$1.5 million.
- Net income was \$0.9 million, compared with our estimate of \$1.1 million.

The company's balance sheet has \$7 million in cash and \$12 million in debt, compared with \$7 million in cash and \$13 million in debt as of September.

### **Exhibit 1: Planned Product Release**

	Three and Six Months Ended December 31, 2021		Three and Six Months Ended December 31, 2020		<b>Est Market Launch<sup>(1)</sup></b>	Est Annual Revenue
Total Research & Development costs:	\$ 615	\$ 1,596	\$ 989	\$ 2,080		
Products in development:						
ENT Shaver	32	263	76	258	Q4 2022	\$ 1,000
Vital Ventilator	-	108	8	65	Q1 2023	\$ 1,500
CMF Driver	-	-	279	468	(2)	\$ 1,000
Sustaining & Other	583	1,225	626	1,289		
<b>Total</b>	<b>\$ 615</b>	<b>\$ 1,596</b>	<b>\$ 989</b>	<b>\$ 2,080</b>		

Source: Company report and Ascendant Capital Markets estimates

**Exhibit 2: Pro-Dex's Stock Price (5-Years)**



Source: <https://bigcharts.marketwatch.com/>

## FINANCIAL MODEL

### Pro-Dex, Inc.

Income Statement (\$ mils)	Sep-19	Dec-19	Mar-20	Jun-20	2020	Sep-20	Dec-20	Mar-21	Jun-21	2021	Sep-21	Dec-21	Mar-22	Jun-22	2022	Sep-22	Dec-22	Mar-23	Jun-23	2023
Fiscal Year End: June 30	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3E	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E
<b>Total Revenue</b>	7.24	7.96	8.51	11.13	34.83	8.59	8.27	11.74	9.44	38.03	9.99	10.17	10.92	8.96	40.04	10.18	10.78	11.57	9.50	42.03
Cost of Revenues	4.46	5.10	5.30	6.84	21.69	5.12	5.67	7.35	6.32	24.45	6.56	6.77	7.21	5.92	26.45	6.31	6.69	7.17	5.89	26.06
Gross Profit	2.78	2.86	3.21	4.29	13.14	3.48	2.60	4.39	3.12	13.58	3.43	3.40	3.71	3.05	13.59	3.87	4.10	4.40	3.61	15.97
Sales and marketing	0.14	0.14	0.16	0.14	0.58	0.13	0.15	0.14	0.18	0.59	0.04	0.02	0.19	0.15	0.40	0.17	0.18	0.20	0.16	0.71
General and administrative	0.66	0.66	0.73	1.14	3.19	0.71	0.94	1.28	1.15	4.08	1.09	1.17	1.04	0.81	4.10	0.92	0.97	1.04	0.86	3.78
Research and development	0.48	0.40	0.62	0.82	2.32	1.09	0.99	1.10	1.20	4.38	0.98	0.62	0.76	0.63	2.99	0.67	0.71	0.77	0.63	2.78
Restructuring and other				(0.01)	(0.01)					0.00				0.00						0.00
Total operating expenses	1.29	1.20	1.51	2.09	6.08	1.93	2.08	2.52	2.53	9.05	2.11	1.80	1.99	1.59	7.49	1.76	1.87	2.01	1.64	7.28
<b>Operating income (loss)</b>	<b>1.49</b>	<b>1.67</b>	<b>1.70</b>	<b>2.20</b>	<b>7.07</b>	<b>1.55</b>	<b>0.52</b>	<b>1.87</b>	<b>0.59</b>	<b>4.53</b>	<b>1.32</b>	<b>1.60</b>	<b>1.72</b>	<b>1.46</b>	<b>6.11</b>	<b>2.11</b>	<b>2.23</b>	<b>2.39</b>	<b>1.97</b>	<b>8.69</b>
Interest income (expense)	(0.02)	(0.03)	(0.05)	(0.02)	(0.12)	(0.00)	(0.06)	(0.06)	(0.10)	(0.22)	(0.10)	(0.09)	(0.12)	(0.12)	(0.43)	(0.12)	(0.12)	(0.12)	(0.12)	(0.49)
Other income (expense)	0.96	0.96			0.96	0.78	0.53	1.32	1.32	0.15	0.30			(0.15)						0.00
Income before income taxes	1.47	1.64	1.66	3.14	7.90	1.55	0.47	2.59	1.03	5.63	1.37	1.21	1.60	1.34	5.52	1.99	2.11	2.27	1.85	8.21
Income taxes	0.36	0.39	0.44	0.60	1.79	0.28	0.13	0.59	0.17	1.18	0.31	0.29	0.35	0.29	1.24	0.42	0.44	0.48	0.39	1.72
Net income (loss)	1.10	1.25	1.21	2.55	6.11	1.27	0.34	2.00	0.85	4.45	1.06	0.93	1.25	1.04	4.28	1.57	1.67	1.79	1.46	6.48
Nonrecurring/noncash adjustments					0.00					0.00					0.00					0.00
<b>Net income (pro forma)</b>	<b>1.10</b>	<b>1.25</b>	<b>1.21</b>	<b>2.55</b>	<b>6.11</b>	<b>1.27</b>	<b>0.34</b>	<b>2.00</b>	<b>0.85</b>	<b>4.45</b>	<b>1.06</b>	<b>0.93</b>	<b>1.25</b>	<b>1.04</b>	<b>4.28</b>	<b>1.57</b>	<b>1.67</b>	<b>1.79</b>	<b>1.46</b>	<b>6.48</b>
EBITDA	1.66	1.81	1.92	2.55	7.93	1.73	0.73	2.53	1.17	6.16	1.80	2.10	2.22	1.96	8.09	2.61	2.73	2.89	2.47	10.69
Shares, Basic	4.01	3.95	3.87	3.81	3.91	3.85	3.86	3.82	3.66	3.80	3.65	3.66	3.71	3.76	3.69	3.81	3.86	3.91	3.96	3.88
Shares, Diluted	4.11	4.05	4.00	3.98	4.08	3.98	4.01	3.97	3.80	3.94	3.78	3.77	3.82	3.87	3.81	3.92	3.97	4.02	4.07	3.99
EPS Basic (Pro forma)	\$0.28	\$0.32	\$0.31	\$0.67	\$1.56	\$0.33	\$0.09	\$0.52	\$0.23	\$1.17	\$0.29	\$0.25	\$0.34	\$0.28	\$1.16	\$0.41	\$0.43	\$0.46	\$0.37	\$1.67
<b>EPS Diluted (Pro forma)</b>	<b>\$0.27</b>	<b>\$0.31</b>	<b>\$0.30</b>	<b>\$0.64</b>	<b>\$1.50</b>	<b>\$0.32</b>	<b>\$0.08</b>	<b>\$0.50</b>	<b>\$0.22</b>	<b>\$1.13</b>	<b>\$0.28</b>	<b>\$0.25</b>	<b>\$0.33</b>	<b>\$0.27</b>	<b>\$1.13</b>	<b>\$0.40</b>	<b>\$0.42</b>	<b>\$0.45</b>	<b>\$0.36</b>	<b>\$1.62</b>
<b>Margins</b>																				
Gross margin	38.4%	36.0%	37.7%	38.5%	37.7%	40.5%	31.4%	37.4%	33.1%	35.7%	34.3%	33.5%	34.0%	34.0%	33.9%	38.0%	38.0%	38.0%	38.0%	38.0%
Sales and marketing	2.0%	1.7%	1.9%	1.2%	1.7%	1.5%	1.8%	1.2%	1.9%	1.6%	0.4%	0.2%	1.7%	1.7%	1.0%	1.7%	1.7%	1.7%	1.7%	1.7%
General and administrative	9.2%	8.3%	8.5%	10.2%	9.2%	8.2%	11.3%	10.9%	12.2%	10.7%	10.9%	11.5%	9.5%	9.0%	10.2%	9.0%	9.0%	9.0%	9.0%	9.0%
Research and development	6.7%	5.0%	7.3%	7.3%	6.6%	12.7%	12.0%	9.4%	12.7%	11.5%	9.8%	6.0%	7.0%	7.0%	7.5%	6.6%	6.6%	6.7%	6.6%	6.6%
Operating margin	20.6%	21.0%	20.0%	19.8%	20.3%	18.0%	6.3%	15.9%	6.3%	11.9%	13.2%	15.7%	15.8%	16.3%	15.2%	20.7%	20.7%	20.6%	20.7%	20.7%
Tax rate, GAAP	24.7%	23.7%	26.7%	19.0%	22.7%	18.3%	27.7%	22.9%	16.9%	20.9%	22.4%	23.6%	22.0%	22.0%	22.4%	21.0%	21.0%	21.0%	21.0%	21.0%
Net margin	15.2%	15.7%	14.3%	22.9%	17.5%	14.7%	4.1%	17.0%	9.0%	11.7%	10.7%	9.1%	11.5%	11.7%	10.7%	15.4%	15.5%	15.5%	15.3%	15.4%
<b>Y/Y % change</b>																				
Total Revenue	5%	24%	24%	59%	28%	19%	4%	38%	-15%	9%	16%	23%	-7%	-5%	5%	2%	6%	6%	6%	5%
Gross margin	2%	27%	42%	69%	34%	25%	-9%	37%	-27%	3%	-1%	31%	-15%	-2%	0%	13%	20%	18%	18%	18%
Sales and marketing	330%	39%	32%	-15%	39%	-8%	11%	-16%	27%	3%	-72%	-85%	36%	-13%	-33%	368%	733%	6%	6%	80%
General and administrative	17%	5%	13%	74%	28%	6%	41%	77%	1%	28%	55%	24%	-19%	-30%	1%	-16%	-17%	0%	6%	-8%
Research and development	19%	22%	3%	50%	23%	125%	149%	78%	47%	89%	-10%	-38%	-31%	-48%	-32%	-31%	16%	1%	0%	-7%
Operating income (loss)	-14%	40%	90%	87%	41%	4%	-69%	9%	-73%	-36%	-15%	207%	-8%	148%	35%	60%	39%	38%	35%	42%
Net income (loss)	-18%	6%	66%	187%	47%	15%	-73%	64%	-67%	-27%	-16%	174%	-37%	23%	-4%	47%	80%	43%	40%	51%
EPS Diluted (Pro forma)	-13%	11%	76%	203%	55%	18%	-73%	66%	-65%	-25%	-11%	192%	-35%	20%	0%	42%	71%	36%	33%	44%

Source: Company reports and Ascendant Capital Markets estimates.

**Pro-Dex, Inc.**

Balance Sheet (\$ mils)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Fiscal Year End: June 30	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
<b>Assets</b>																
Cash and cash equivalents	6.50	6.18	4.38	6.42	5.20	5.52	3.87	3.72	5.18	5.25	6.56	10.82	12.69	13.84	14.89	19.01
Short term investments	3.13	3.54	2.77	2.56	2.40	2.88	1.12	1.30	1.51	1.24	1.24	1.24	1.24	1.24	1.24	1.24
Accounts receivable, net	3.16	2.68	4.17	5.16	6.14	4.62	11.92	10.93	10.09	8.85	9.50	7.80	8.85	9.38	10.07	8.27
Due from factor											0.00	0.00	0.00	0.00	0.00	0.00
Unbilled receivable																
Deferred costs	0.49	0.49	0.39	0.16	0.14	0.14	0.17	0.19	0.18	0.42	0.42	0.42	0.42	0.42	0.42	0.42
Inventory	6.84	7.81	8.64	8.24	8.31	9.15	8.37	8.44	8.91	9.29	9.01	7.10	6.31	6.69	7.17	5.89
Deferred income taxes											0.00	0.00	0.00	0.00	0.00	0.00
Prepaid expenses and other	0.23	0.19	0.23	0.15	0.34	0.39	1.11	0.43	0.15	1.04	1.11	0.91	1.04	1.10	1.18	0.97
<b>Total current assets</b>	<b>20.36</b>	<b>20.89</b>	<b>20.58</b>	<b>22.67</b>	<b>22.54</b>	<b>22.71</b>	<b>26.57</b>	<b>25.01</b>	<b>26.02</b>	<b>26.09</b>	<b>27.84</b>	<b>28.29</b>	<b>30.55</b>	<b>32.67</b>	<b>34.98</b>	<b>35.79</b>
Property and equipment, net	2.65	2.77	2.73	2.69	2.63	9.19	9.57	10.28	10.95	13.42	13.52	13.62	13.72	13.82	13.92	14.02
Intangibles, net	0.13	0.15	0.14	0.16	0.16	0.16	0.16	0.19	0.20	0.16	0.16	0.16	0.16	0.16	0.16	0.16
Goodwill											0.00	0.00	0.00	0.00	0.00	0.00
Long term investments	1.31	1.61	1.66	2.36	2.31	3.24	3.03	1.70	1.66	1.94	1.94	1.94	1.94	1.94	1.94	1.94
Deferred income tax	0.30	0.16	0.05	0.26	0.26	0.26	0.26	0.46	0.46	0.46	0.46	0.46	0.46	0.46	0.46	0.46
Other	3.23	3.15	3.07	2.99	2.90	2.82	2.73	2.67	2.59	0.04	0.04	0.04	0.04	0.04	0.04	0.04
<b>Total assets</b>	<b>27.97</b>	<b>28.73</b>	<b>28.23</b>	<b>31.13</b>	<b>30.80</b>	<b>38.37</b>	<b>42.32</b>	<b>40.32</b>	<b>41.87</b>	<b>42.11</b>	<b>43.97</b>	<b>44.52</b>	<b>46.88</b>	<b>49.09</b>	<b>51.50</b>	<b>52.42</b>
<b>Liabilities and stockholders' equity</b>																
Accounts payable	1.38	1.67	1.91	1.97	1.83	2.47	2.52	2.29	2.48	2.32	2.48	2.04	2.32	2.45	2.63	2.16
Accrued expenses	1.31	1.29	1.52	2.41	1.76	1.79	2.64	2.20	2.20	1.81	1.94	1.60	1.81	1.92	2.06	1.69
Deferred revenue	0.24	0.36	0.36	0.20	0.20	0.20	0.20	0.15	0.29	0.58	0.58	0.58	0.58	0.58	0.58	0.58
Deferred income tax											0.00	0.00	0.00	0.00	0.00	0.00
Capital lease											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
Short term debt	0.62	0.63	0.64	0.65	0.66	0.48	1.11	1.24	1.25	1.26	1.26	1.26	1.26	1.26	1.26	1.26
<b>Total current liabilities</b>	<b>3.55</b>	<b>3.95</b>	<b>4.44</b>	<b>5.23</b>	<b>4.45</b>	<b>4.93</b>	<b>6.48</b>	<b>5.87</b>	<b>6.21</b>	<b>5.97</b>	<b>6.27</b>	<b>5.48</b>	<b>5.97</b>	<b>6.22</b>	<b>6.54</b>	<b>5.70</b>
Deferred income taxes	0.19	0.35	0.33	0.80	0.49	0.62	1.21	0.40	0.71	0.99	0.99	0.99	0.99	0.99	0.99	0.99
Other long term liabilities	3.02	2.94	2.86	2.75	2.70	2.61	2.52	2.43	2.34	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Long term debt	3.78	3.61	3.45	3.28	3.11	8.38	11.70	11.54	11.22	10.90	10.90	10.90	10.90	10.90	10.90	10.90
<b>Total other liabilities</b>	<b>6.98</b>	<b>6.90</b>	<b>6.63</b>	<b>6.84</b>	<b>6.30</b>	<b>11.60</b>	<b>15.43</b>	<b>14.36</b>	<b>14.27</b>	<b>14.14</b>	<b>14.14</b>	<b>14.14</b>	<b>14.14</b>	<b>14.14</b>	<b>14.14</b>	<b>14.14</b>
Common stock	15.16	13.63	12.97	12.75	12.58	12.62	9.06	7.95	8.19	7.89	8.19	8.49	8.79	9.09	9.39	9.69
Additional paid-in capital																
Retained earnings	2.89	4.14	5.35	7.90	9.16	9.50	11.49	12.35	13.20	14.12	15.37	16.41	17.98	19.65	21.44	22.90
Accumulated other comprehensive in	(0.61)	0.10	(1.16)	(1.59)	(1.69)	(0.28)	(0.14)	(0.22)			0.00	0.00	0.00	0.00	0.00	0.00
Other																
<b>Total stockholders' equity</b>	<b>17.44</b>	<b>17.87</b>	<b>17.16</b>	<b>19.06</b>	<b>20.05</b>	<b>21.84</b>	<b>20.41</b>	<b>20.08</b>	<b>21.38</b>	<b>22.01</b>	<b>23.56</b>	<b>24.90</b>	<b>26.77</b>	<b>28.74</b>	<b>30.83</b>	<b>32.58</b>
<b>Total stockholders' equity and liabil</b>	<b>27.97</b>	<b>28.73</b>	<b>28.23</b>	<b>31.13</b>	<b>30.80</b>	<b>38.37</b>	<b>42.32</b>	<b>40.32</b>	<b>41.87</b>	<b>42.11</b>	<b>43.97</b>	<b>44.52</b>	<b>46.88</b>	<b>49.09</b>	<b>51.50</b>	<b>52.42</b>

**Balance Sheet Drivers**

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
Prepaid as % of total rev	3%	2%	3%	1%	4%	5%	9%	5%	2%	10%	10%	10%	10%	10%	10%	10%
Accounts payable as % of total rev	19%	21%	22%	18%	21%	30%	22%	24%	25%	23%	23%	23%	23%	23%	23%	23%
Inventories as % of cost of rev	153%	153%	163%	120%	163%	161%	114%	134%	136%	137%	125%	120%	100%	100%	100%	100%
Accrued expenses as % of total rev	18%	16%	18%	22%	20%	22%	23%	23%	22%	18%	18%	18%	18%	18%	18%	18%
<b>Activity Ratios</b>																
A/R Days Sales Outstanding	39	30	44	42	64	50	91	104	91	78	78	78	78	78	78	78
Inventory Turnover	2.6x	2.6x	2.5x	3.3x	2.5x	2.5x	3.5x	3.0x	2.9x	2.9x	3.2x	3.3x	4.0x	4.0x	4.0x	4.0x
A/P Days Payable	28	30	32	26	32	39	31	33	34	31	31	31	33	33	33	33
<b>Book &amp; Cash Value (per share)</b>																
Book Value per Share (diluted)	\$4.24	\$4.41	\$4.29	\$4.79	\$5.04	\$5.44	\$5.15	\$5.29	\$5.66	\$5.84	\$6.17	\$6.44	\$6.83	\$7.24	\$7.67	\$8.01
Cash per Share (diluted)	\$2.34	\$2.40	\$1.79	\$2.26	\$1.91	\$2.10	\$1.26	\$1.32	\$1.77	\$1.72	\$2.04	\$3.12	\$3.56	\$3.80	\$4.02	\$4.98
Net cash per Share (diluted)	\$1.27	\$1.35	\$0.76	\$1.27	\$0.96	-\$0.11	-\$1.97	-\$2.04	-\$1.53	-\$1.50	-\$1.14	-\$0.03	\$0.45	\$0.74	\$0.99	\$1.99

Source: Company reports and Ascendant Capital Markets estimates

**Pro-Dex, Inc.**

Cash Flow Statement (\$ mils)	Sep-19	Dec-19	Mar-20	Jun-20	2020	Sep-20	Dec-20	Mar-21	Jun-21	2021	Sep-21	Dec-21	Mar-22	Jun-22	2022	Sep-22	Dec-22	Mar-23	Jun-23	2023
Fiscal Year End: June 30	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2E	Q3E	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E
<b>Cash flow from operating activities</b>																				
Net income	1.10	1.25	1.21	2.55	6.11	1.27	0.34	2.00	0.85	4.45	1.06	0.93	1.25	1.04	4.28	1.57	1.67	1.79	1.46	6.48
Depreciation	0.14	0.14	0.14	0.15	0.57	0.15	0.17	0.18	0.18	0.69	0.18	0.20	0.20	0.20	0.78	0.20	0.20	0.20	0.20	0.80
Amortization	0.02	(0.01)	0.00	0.00	0.01	0.00	0.00	0.04	0.00	0.05	0.00			0.00	0.00					0.00
Stock comp	0.01	0.01	0.07	0.19	0.29	0.03	0.04	0.44	0.39	0.90	0.30	0.30	0.30	0.30	1.20	0.30	0.30	0.30	0.30	1.20
Provision for bad debts	0.01	0.01	(0.01)	(0.01)	0.00	0.00	(0.01)	0.01	0.00	0.01	0.01			0.00	0.01					0.00
Deferred income taxes	(0.04)	0.14	0.27	(0.39)	(0.02)				(0.18)	(0.18)			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other gains/losses				(0.03)	(0.03)	(0.01)		(0.78)	(0.53)	(1.33)	(0.15)				(0.15)					0.00
Impairment					0.00					0.00					0.00					0.00
Acquisition expense					0.00					0.00					0.00					0.00
Other		0.02	0.16	(0.14)	0.04	0.01	0.01	0.01	0.01	0.03	0.01				0.01					0.00
<b>Changes in operating assets and liabilities:</b>																				
Accounts receivable	0.93	0.47	(1.48)	(0.99)	(1.06)	(0.99)	1.52	(7.30)	0.99	(5.78)	0.83	1.24	(0.65)	1.70	3.13	(1.06)	(0.53)	(0.69)	1.80	(0.47)
Due from factor					0.00					0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unbilled receivable					0.00					0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred costs	(0.06)	0.00	0.10	0.24	0.28	0.01	0.01	(0.04)	(0.02)	(0.04)	0.01	(0.24)	0.00	0.00	(0.23)	0.00	0.00	0.00	0.00	0.00
Inventory	(0.61)	(0.96)	(0.84)	0.41	(2.00)	(0.08)	(0.84)	0.78	(0.07)	(0.20)	(0.47)	(0.38)	0.28	1.91	1.34	0.79	(0.38)	(0.49)	1.28	1.21
Prepaid expenses & other curre	0.39	0.04	(0.43)	0.48	0.48	(0.20)	(0.05)	(0.72)	0.65	(0.31)	0.28	(0.89)	(0.08)	0.20	(0.48)	(0.12)	(0.06)	(0.08)	0.21	(0.05)
Other assets					0.00					0.00		2.54	0.00	0.00	2.54	0.00	0.00	0.00	0.00	0.00
Accounts payable	(1.04)	0.27	1.17	0.21	0.60	(0.77)	0.66	0.90	(0.69)	0.11	0.18	(0.16)	0.17	(0.44)	(0.26)	0.28	0.14	0.18	(0.47)	0.12
Accrued expenses					0.00					0.00		(0.38)	0.13	(0.35)	(0.60)	0.22	0.11	0.14	(0.37)	0.10
Deferred revenue	0.03	0.12	(0.45)	0.29	(0.02)				(0.05)	(0.05)	0.14	0.29	0.00	0.00	0.43	0.00	0.00	0.00	0.00	0.00
Other liabilities	0.03	0.16	(0.19)	0.64	0.64	(0.32)	0.13	0.59	(0.81)	(0.41)	0.31	0.19	0.00	0.00	0.50	0.00	0.00	0.00	0.00	0.00
<b>Net cash (used in) provided by</b>	<b>0.91</b>	<b>1.65</b>	<b>(0.26)</b>	<b>3.60</b>	<b>5.90</b>	<b>(0.89)</b>	<b>1.97</b>	<b>(3.89)</b>	<b>0.73</b>	<b>(2.08)</b>	<b>2.70</b>	<b>3.64</b>	<b>1.61</b>	<b>4.56</b>	<b>12.51</b>	<b>2.17</b>	<b>1.45</b>	<b>1.36</b>	<b>4.41</b>	<b>9.39</b>
<b>Cash flow from investing activities</b>																				
Purchases of property and equip	(0.06)	(0.26)	(0.11)	(0.10)	(0.52)	(0.09)	(0.23)	(0.56)	(0.90)	(1.77)	(0.85)	(0.30)	(0.30)	(0.30)	(1.75)	(0.30)	(0.30)	(0.30)	(0.30)	(1.20)
Purchases of short-term investm	(1.26)	(0.01)	(0.54)	(0.88)	(2.69)			3.01	1.59	4.60	(0.01)				(0.01)					0.00
Acquisitions	(0.00)	(0.02)	0.00	0.02	0.00	(0.00)	(6.50)	0.00	0.00	(6.50)	(0.01)				(0.01)					0.00
Other				(0.03)	(0.03)	0.12		(0.13)	(0.03)	(0.04)					0.00					0.00
<b>Net cash used in investing activ</b>	<b>(1.32)</b>	<b>(0.29)</b>	<b>(0.64)</b>	<b>(0.99)</b>	<b>(3.24)</b>	<b>0.03</b>	<b>(6.73)</b>	<b>2.33</b>	<b>0.67</b>	<b>(3.71)</b>	<b>(0.87)</b>	<b>(0.30)</b>	<b>(0.30)</b>	<b>(0.30)</b>	<b>(1.77)</b>	<b>(0.30)</b>	<b>(0.30)</b>	<b>(0.30)</b>	<b>(0.30)</b>	<b>(1.20)</b>
<b>Cash flow from financing activities</b>																				
Issuance of debt	(0.16)	(0.16)	(0.16)	(0.16)	(0.63)		5.18	3.96		9.14		(0.31)	0.00	0.00	(0.31)	0.00	0.00	0.00	0.00	0.00
Repayment of debt					0.00	(0.16)	(0.10)	(0.05)	(0.05)	(0.35)	(0.31)				(0.31)					0.00
Issuance of stock					0.00					0.00		(0.60)	0.00	0.00	(0.60)	0.00	0.00	0.00	0.00	0.00
Repurchase of common stock	(0.68)	(1.53)	(0.76)	(0.41)	(3.39)			(4.04)	(1.50)	(5.54)	(0.10)				(0.10)					0.00
Proceeds from stock option exe	0.02		0.02		0.04	(0.20)	0.00	0.03	0.00	(0.16)	0.03				0.03					0.00
Other					0.00					0.00		(2.36)			(2.36)					0.00
Dividends and distributions					0.00					0.00					0.00					0.00
<b>Cash provided by (used in) fina</b>	<b>(0.83)</b>	<b>(1.69)</b>	<b>(0.90)</b>	<b>(0.57)</b>	<b>(3.98)</b>	<b>(0.36)</b>	<b>5.08</b>	<b>(0.09)</b>	<b>(1.54)</b>	<b>3.09</b>	<b>(0.37)</b>	<b>(3.27)</b>	<b>0.00</b>	<b>0.00</b>	<b>(3.64)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Effect of exchange rate on cash					0.00					0.00					0.00					0.00
<b>Net increase (decrease) in cash</b>	<b>(1.24)</b>	<b>(0.33)</b>	<b>(1.80)</b>	<b>2.04</b>	<b>(1.32)</b>	<b>(1.22)</b>	<b>0.32</b>	<b>(1.65)</b>	<b>(0.15)</b>	<b>(2.70)</b>	<b>1.456</b>	<b>0.08</b>	<b>1.31</b>	<b>4.26</b>	<b>7.10</b>	<b>1.87</b>	<b>1.15</b>	<b>1.06</b>	<b>4.11</b>	<b>8.19</b>
<b>Beginning cash and equivalents</b>	<b>7.74</b>	<b>6.50</b>	<b>6.18</b>	<b>4.38</b>	<b>7.74</b>	<b>6.42</b>	<b>5.20</b>	<b>5.52</b>	<b>3.87</b>	<b>6.42</b>	<b>3.72</b>	<b>5.18</b>	<b>5.25</b>	<b>6.56</b>	<b>3.72</b>	<b>10.82</b>	<b>12.69</b>	<b>13.84</b>	<b>14.89</b>	<b>10.82</b>
<b>Ending cash and equivalents</b>	<b>6.50</b>	<b>6.18</b>	<b>4.38</b>	<b>6.42</b>	<b>6.42</b>	<b>5.20</b>	<b>5.52</b>	<b>3.87</b>	<b>3.72</b>	<b>3.72</b>	<b>5.18</b>	<b>5.25</b>	<b>6.56</b>	<b>10.82</b>	<b>10.82</b>	<b>12.69</b>	<b>13.84</b>	<b>14.89</b>	<b>19.01</b>	<b>19.01</b>

Source: Company reports and Ascendant Capital Markets estimates

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## Pro-Dex, Inc.



Source: <https://bigcharts.marketwatch.com/>

Report	Report Date	Rating	Price Target
6	2/12/2018	B	10.00
7	5/15/2018	B	9.50
8	9/7/2018	B	12.00
9	11/9/2018	B	15.00
10	2/8/2019	B	19.00
11	5/13/2019	B	20.00
12	9/8/2019	B	19.00
13	11/11/2019	B	18.00
14	2/7/2020	B	22.00
15	5/13/2020	B	23.00
16	8/31/2020	B	30.00
17	11/12/2020	B	40.00
18	2/13/2021	B	37.00
19	5/11/2021	B	41.00
20	9/6/2021	B	39.00
21	11/16/2021	B	34.00

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Risks to attainment of our share price target include changes and demand for technology, investor sentiment for investing in technology stocks, and consumer sentiment and industry growth for technology manufacturing companies, competition, and changing macroeconomic factors.

## Ascendant Capital Markets, LLC Rating System

**BUY:** We expect the stock to provide a total return of 15% or more within a 12-month period.

**HOLD:** We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

**SELL:** We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

## Ascendant Capital Markets, LLC Rating System

*Prior to January 31, 2014, ASCM used the following rating system:*

**Strong Buy:** We expect the stock to provide a total return of 30% or more within a 12-month period.

**Buy:** We expect the stock to provide a total return of between 10% and 30% within a 12-month period.

**Neutral:** We expect the stock to provide a total return of between minus 10% and plus 10% within a 12-month period.

**Sell:** We expect the stock to provide a total return of minus 10% or worse within a 12-month period.

**Speculative Buy:** This rating is reserved for companies we believe have tremendous potential, but whose stocks are illiquid or whose equity market capitalizations are very small, often in the definition of a nano cap (below \$50 million in market cap). In general, for stocks ranked in this category, we expect the stock to provide a total return of 50% or more within a 12-month period. However, because of the illiquid nature of the stock's trading and/or the nano cap nature of the investment, we caution that these investments may not be suitable for all parties.

Total return is defined as price appreciation plus dividend yield.



### Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of January 15, 2022)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	40	98%	16	40%
Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	41	100%	16	39%

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