



Pro-Dex, Inc.

Initiating Coverage with BUY and \$7 Target

With strong revenue momentum from major contract win, we believe risk/reward favorable. Recent and potential contracts can be major catalyst for the stock.

Initiating with BUY: We are Initiating coverage of Pro-Dex with BUY rating. 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 the past two years (+24% in FY15 and +51% in FY16). The management team has done a good job developing the Pro-Dex Design & Manufacturing Solutions, which has helped to reverse the declining sales by winning new product contracts and returning the company to strong growth. Pro-Dex has had large share price appreciation of ~+94% in 2016, and we believe this momentum is likely to continue in 2017.

Recent execution positive: Pro-Dex's recent financial performance has been positive with strong revenue growth over the past two years. In its recent Q1 FY17 report, the company again reported solid results. Q1 revenue was \$5.4 million, up 32% y-o-y, due to the production ramp of its largest customer's unique surgical hand piece designed to be used for orthopedic surgical applications.

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.

Estimates reasonable: For FY17, we expect revenues of \$24 million and EPS of \$0.22, while in FY18, we expect revenues of \$27 million and EPS of \$0.30. The company does not provide specific quarterly financial guidance, but has generally guided for continued growth in 2017.

However, challenges exist: Pro-Dex operates in a highly competitive environment and competes against a wide range of other medical device and motion control related companies. Also as a provider of outsourced services, Pro-Dex also competes with its customers' own internal development and manufacturing assets.

High revenue concentration: A large portion of Pro-Dex's revenue is derived from a few customers and products. If Pro-Dex were to lose a key customer or product contract, it would have a material negative impact on its business and financials. We note that recently, Pro-Dex's former largest customer informed them that they will be replacing a primary product that it sells with one that they will manufacture internally resulting in significant declining revenues for this product. In Q1 FY17, its largest product accounted for 41% of revenues.

Positive valuation: Our \$7 price target is based on a forward P/E multiple of 20x our FY19 EPS estimate of \$0.35. We believe this 20x 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

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COVERAGE INITIATION

Rating: Buy

Ticker: PDEX

Price: \$5.00

Target: \$7.00

Stock Data

Exchange:	NasdaqCM
52-week Range:	\$2.23 – 6.68
Shares Outstanding (million):	4
Market cap (\$million):	\$20
EV (\$million):	\$18
Debt (\$million):	\$0
Cash (\$million):	\$2
Avg. Daily Trading Vol. (\$million):	\$0.1
Float (million shares):	2
Short Interest (million shares):	0
Dividend, annual (yield):	\$0 (NA%)

Revenues (US\$ million)

	<u>2016A</u>	<u>2017E</u>	<u>2018E</u>
	<u>(Cur.)</u>	<u>(Cur.)</u>	<u>(Cur.)</u>
Q1 Sep	4A	5A	6E
Q2 Dec	5A	6E	7E
Q3 Mar	5A	6E	7E
Q4 Jun	<u>5A</u>	<u>6E</u>	<u>7E</u>
Total	20A	24E	27E
EV/Revs	0.9x	0.8x	0.7x

Earnings per Share (pro forma)

	<u>2016A</u>	<u>2017E</u>	<u>2018E</u>
	<u>(Cur.)</u>	<u>(Cur.)</u>	<u>(Cur.)</u>
Q1 Sep	(0.03)A	0.07A	0.07E
Q2 Dec	0.09A	0.08E	0.08E
Q3 Mar	0.09A	0.02E	0.09E
Q4 Jun	<u>0.05A</u>	<u>0.05E</u>	<u>0.07E</u>
Total	0.20A	0.22E	0.30E
P/E	25x	23x	17x

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 12.

Exhibit 1: Pro-Dex's Stock Price (5-Years)



Source: Nasdaq.com

INVESTMENT THESIS

We are initiating coverage of Pro-Dex with a BUY rating and a 12-month price target of \$7.00.

Based in Irvine, CA, Pro-Dex provides OEMs outsourcing design, development, and manufacturing services in the surgical, dental, and industrial markets. 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 the past two years (+24% in FY15 and +51% in FY16). The management team has done a good job developing the Pro-Dex Design & Manufacturing Solutions, which has helped to reverse the declining sales by winning new product contracts and returning the company to strong growth. Pro-Dex has had large share price appreciation of ~+94% in 2016, and we believe this momentum is likely to continue in 2017.

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 the medical products that Pro-Dex designs and manufactures, we believe they are better able to compete and add value. By winning major contracts, the company should be better able to diversify and grow its revenues.

After the turnaround two years ago, the company has had seven consecutive quarters of +20% revenue growth and four consecutive quarters of positive operating income. It currently trades at 23x our FY17 EPS estimate of \$0.22, within the range of comparable companies despite our view that the company's near term earnings growth rate should be higher. The company's balance sheet has been steady, most recently with \$2 million in cash and no debt and positive free cash flow.

Our investment thesis factors in an uncertain product contract proposal process and very competitive industry which is offset by the large potential upside opportunities created from successful product proposals (usually several years duration for a product win). We believe that the current valuation for Pro-Dex has already factored in many of its risks (principally loss of existing product contracts) but is under valuing its overall growth prospects and product portfolio, resulting in a positive risk versus reward scenario for an investment in Pro-Dex.

We believe the current valuation is attractive.

Our \$7 price target is based on a forward P/E multiple of 20x our FY19 EPS estimate of \$0.35. We believe this 20x multiple is reasonable as it is comparable to other publicly traded contract manufacturing companies as well as its estimated near-term earnings growth rate (implying a PEG ratio of 1 (P/E to growth rate)). Based on our expectations and assumptions, our calculated 12-month price target for shares of Pro-Dex of \$7 represents significant upside from the current share price. We believe this valuation appropriately balances out the company's risks with the company's growth prospects and large upside opportunities.

Exhibit 2: Pro-Dex's Products



Source: Company reports.

INVESTMENT RISKS

Concentrated Revenue

A large portion of Pro-Dex's revenue is derived from a few customers and products. If Pro-Dex were to lose a key customer or product contract, it would have a material negative impact on its business and financials. In FY16, Pro-Dex's top 20 customers accounted for 87% of its sales, with its largest customer accounting for 25%. We note that recently, Pro-Dex's former largest customer informed them that they will be replacing a primary product that it sells with one that they will manufacture internally resulting in significant declining revenues for this product for Pro-Dex shortly. In Q1 FY17, its largest product accounted for 41% of revenues.

Exhibit 3: Representative Customers



Source: Company reports.

Concentrated Ownership

Two of Pro-Dex's directors hold significant ownership and voting power in the company. As of August 31, 2016, these two directors, Nicholas J. Swenson and Raymond E. Cabillot, control 41.8% (27.9% and 13.9%, respectively) of the outstanding common stock. Mr. Swenson is associated with AO Partners, LLC, while Mr. Cabillot is associated with Farnam Street Capital, Inc., both of which are investment firms based in Minneapolis, MN. The two of them collectively have significant voting influence with the company, and it would be difficult for other shareholders to make major business decisions for Pro-Dex without their approval.

High Level of Competition

Pro-Dex operates in a highly competitive environment and competes against a wide range of other medical device and motion control related companies. Many of these competitors are much larger or have greater resources, name recognition, and proprietary technology; which could result in lower projected sales for its products and higher costs, reduced margins, and lowered profitability for the company. Also as a provider of outsourced services, Pro-Dex also competes with its customers' own internal development and manufacturing assets.

Regulatory Risks

The manufacture and distribution of medical and dental devices are subject to state and federal regulations, including the FDA, and state medical and dental boards. The FDA designates all medical devices into one of three classes (Class I, II or III) based on the level of control necessary to assure the safety and effectiveness of the device (with Class I requiring the lowest level of control and Class III requiring the greatest). Pro-Dex's surgical instrumentation that it manufactures are generally classified into Class I, and its dental instrumentation are generally classified into Class II, so any sudden or unanticipated changes to regulations can have an adverse impact on its products and its revenues.

Economic Uncertainty

While healthcare costs tends to be less correlated with economic activity and income levels due to their nondiscretionary nature, major deterioration in economic conditions tends to result in an overall decline in consumer and business spending. This was demonstrated during the 2008 and 2009 Great Recession and global economic slowdown. While consumer and business spending levels have rebounded, the global macroeconomic environment remains fragile (particularly in Europe). Further economic weakness may result in depressed consumer spending levels; this may have a negative impact on Pro-Dex, its business customers, and consumers.

VALUATION

We are initiating coverage of Pro-Dex with a BUY rating and a 12-month price target of \$7, which is based on a forward P/E multiple of 20x our FY19 EPS estimate of \$0.35. We believe this 20x multiple is reasonable as it is comparable to other publicly traded contract manufacturing companies as well as its estimated near-term earnings growth rate (implying a PEG ratio of 1 (P/E to growth rate)). Because the company is much smaller than its peers and its heavy customer concentration, we believe traditional valuation metrics by themselves are not as useful (NPV or comparable multiples). We also note that multiples vary significantly between comparable companies; the variance is likely reflective of current financial performances and future growth expectations. We believe a forward EPS provides a more accurate valuation as it takes into consideration the potential value of its existing and potential product contract pipeline.

We do acknowledge that this valuation requires a large number of forward assumptions that we have to estimate that may be imprecise and may vary significantly from actual results. However, we believe our assumptions are fair and provide a reasonable basis for our valuation analysis. As the company is likely to make significant progress in growing its product contracts over the next several years, we believe this will result in much improved visibility into future cash flows.

Even with large share price appreciation of +94% in 2016 (based on share price of \$4.70 on 12/30/16 and \$2.42 on 12/31/15), we believe that there is still significant upside to the current share price. We expect valuations for Pro-Dex to improve as visibility into cash flow generation becomes clearer, resulting in significant upside to the current share price.

Exhibit 4: Leading U.S. Publicly Traded Contract Manufacturing Companies

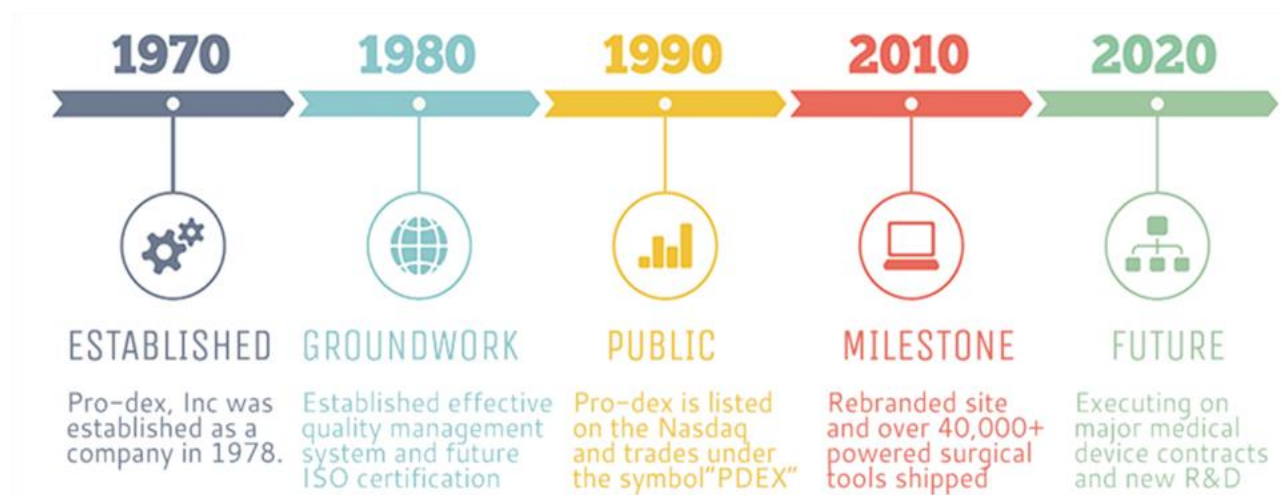
Company	Ticker	Market Cap. (blns)	Annual Revenues (blns)	Market Cap. / Revenues	Closing Price (as of 1/3/17)	EPS	P/E
Celestica Inc.	CLS	\$ 1.7	\$ 5.9	0.3x	\$ 11.77	\$ 0.88	13.4x
Flex Ltd.	FLEX	\$ 7.9	\$ 24.4	0.3x	\$ 14.40	\$ 0.57	25.3x
Jabil Circuit, Inc.	JBL	\$ 4.5	\$ 18.3	0.2x	\$ 23.98	\$ 1.10	21.8x
Plexus Corp.	PLXS	\$ 1.8	\$ 2.6	0.7x	\$ 53.94	\$ 2.24	24.1x
Sanmina Corporation	SANM	\$ 2.7	\$ 6.5	0.4x	\$ 36.20	\$ 2.38	15.2x
Average				0.4x	Average		19.9x
Median				0.3x	Median		21.8x

Source: Yahoo! Finance, company reports, and Ascendant Capital Markets estimates

COMPANY

Based in Irvine, CA, Pro-Dex provides OEMs outsourcing design, development, and manufacturing services in the surgical, dental, and industrial markets. Pro-Dex was founded in 1978 and has cumulatively delivered over 40,000 powered devices. As of June 30, 2016, the company had 76 employees.

Exhibit 5: Company Timeline



Source: Company reports

MANAGEMENT TEAM

Rick Van Kirk, age 56, Chief Executive Officer and President. Mr. Kirk was appointed Chief Executive Officer in January 2015. He joined Pro-Dex in January 2006 and was named Pro-Dex's Vice President of Manufacturing in December 2006. In April 2013, he was appointed as the Chief Operating Officer. Mr. Van Kirk's career includes over 13 years of management experience in manufacturing including at Comarco, Inc. Mr. Van Kirk earned a B.A. in Business Administration at California State University, Fullerton and an MBA from Claremont Graduate School.

Alisha Charlton, age 47, Chief Financial Officer. Ms. Charlton joined the company in January 2014 as Senior Director of Finance and was promoted to Chief Financial Officer in January 2015. Prior to Pro-Dex, Ms. Charlton held various accounting positions at Comarco, Inc. from October 2000 to January 2014 culminating in her appointment as Chief Accounting Officer in April 2011. Ms. Charlton holds a B.A. in Business Economics from the University of California, Santa Barbara and a CPA license (inactive) from California.

Exhibit 6: Pro-Dex's Financial Highlights

FYE June 30					
(in millions except EPS)	2012A	2013A	2014A	2015A	2016A
Total Revenue	17.257	12.249	10.812	13.383	20.158
Operating income (loss)	(1.365)	(1.895)	(0.814)	(0.902)	0.526
Net income	(0.876)	(1.784)	(0.488)	(0.365)	0.822
EPS	\$ (0.27)	\$ (0.54)	\$ (0.14)	\$ (0.09)	\$ 0.20

Source: Company reports

PRODUCTS

Pro-Dex specializes in the design, development, and manufacture of powered rotary drive surgical and dental instruments used in the orthopedic, spine, maxocranial facial and dental markets.

The company has four segments:

- Pro-Dex, located in Irvine, CA, provides primarily medical and dental instruments.
- OMS, located in Beaverton, OR, provides multi-axis motion control applications.
- Finline, located in San Dimas, CA, is a manufacturer of plastic injection molds.
- Engineering Services Division provide engineering and manufacturing placement and contract services.

Its OMS division designs and manufactures embedded motion control systems serving the medical, factory automation, semi-conductor and scientific research markets. Its Finline Molds division manufactures plastic injection molding for a variety of industries. Pro-Dex's products are found in hospitals, dental offices, medical engineering labs, scientific research facilities and high tech manufacturing operations worldwide. Pro-Dex also provides quality, regulatory, and engineering consulting and placement services through its Engineering Services Division.

Exhibit 7: Pro-Dex Design & Manufacturing Solutions



Source: Company reports

FINANCIALS

Pro-Dex's fiscal year ends on June 30. The company currently generates most of its revenues in the U.S. and from sales of its medical products, but has in the past had greater sales in international and other industries. Pro-Dex's near-term plans for growth is to increase revenue through winning proposals for new medical device products with new and existing customers.

In FY16, Pro-Dex received a two-year contract worth \$24 million (in revenue) with one of its large medical device customers. However, in FY15, one of its largest customers (18% of FY16 revenue) will be replacing one of its products that Pro-Dex sells with one that they will manufacture internally.

Recent Results (fiscal Q1 ending September 2016)

Pro-Dex's recent financial performance has been positive with strong revenue growth over the past two years. In its Q1 FY17 report (on November 10, 2016), the company again reported solid results. Q1 revenue was \$5.4 million, up 32% y-o-y, due to the production ramp of its largest customer's unique surgical hand piece designed to be used for orthopedic surgical applications (accounting for \$2.2 million in Q1). Gross margin was 29.7%, up from 25.8% last year due to better revenue leverage. Operating expenses were \$1.3 million, +12% y-o-y due to a ramp up in revenue. Net income was \$0.3 million, up from \$(0.1) million last year. Q1 EPS was \$0.07, compared with Q1 FY16's \$(0.03) and Q4 FY16's \$0.05.

The company does not provide specific quarterly financial guidance, but has generally guided for continued growth in 2017. We expect the company to continue to experience strong revenue growth in 2017 as it fulfills its major contract, and to grow more moderately in FY18 from new and existing contracts. We have modeled relatively steady operating costs over the next two years, resulting in margins expansion. For FY17, we expect revenues of \$24 million and EPS of \$0.22, while in FY18, we expect revenues of \$27 million and EPS of \$0.30.

We believe that the biggest potential variable in our financial model is the ability of the company to get new product contracts. It is these contracts that are ultimately how Pro-Dex will be able to generate and grow revenue. If the company can make significant progress towards gaining new product contracts, then revenue and earnings will likely be able to grow significantly (as high or even higher than it is currently). However, if the company has difficulties in getting new contracts, then revenue and earnings will likely grow at a much more moderate rate (or even decline).

The company's balance sheet is steady with \$2 million in cash and no debt as of September 2016 (about the same as the past several quarters). The company has ~\$4 million of NOLs, so its cash income taxes for the next several years are likely to be minimal.

Exhibit 8: Pro-Dex's Recent Quarterly Trends

FYE June 30 (in millions except EPS)	Sep-14 Q1A	Dec-14 Q2A	Mar-15 Q3A	Jun-15 Q4A	Sep-15 Q1A	Dec-15 Q2A	Mar-16 Q3A	Jun-16 Q4A	Sep-16 Q1A
Total Revenue	2.595	2.792	3.922	4.074	4.097	5.439	5.337	5.285	5.412
Growth % (y/y)	2%	6%	63%	27%	58%	95%	36%	30%	32%
Gross margin	31.9%	24.9%	26.6%	27.9%	25.8%	28.3%	25.5%	27.4%	29.7%
Operating margin	-7.3%	-14.1%	-9.9%	1.7%	-2.9%	7.3%	0.9%	3.8%	5.4%
EPS	\$ (0.04)	\$ (0.05)	\$ (0.02)	\$ 0.02	\$ (0.03)	\$ 0.09	\$ 0.09	\$ 0.05	\$ 0.07

Source: Company reports

FINANCIAL MODEL

Pro-Dex, Inc.

Income Statement (\$ mils)	Sep-14	Dec-14	Mar-15	Jun-15	2015	Sep-15	Dec-15	Mar-16	Jun-16	2016	Sep-16	Dec-16	Mar-17	Jun-17	2017	Sep-17	Dec-17	Mar-18	Jun-18	2018
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
Total Revenue	2.595	2.792	3.922	4.074	13.383	4.097	5.439	5.337	5.285	20.158	5.412	6.255	6.244	6.183	24.095	5.953	6.880	6.869	6.802	26.504
Cost of Revenues	1.767	2.096	2.877	2.94	9.679	3.039	3.900	3.977	3.839	14.755	3.804	4.503	4.683	4.514	17.505	4.286	4.954	4.911	4.897	19.049
Gross Profit	0.828	0.696	1.045	1.135	3.704	1.058	1.539	1.360	1.446	5.403	1.608	1.751	1.561	1.670	6.590	1.667	1.926	1.958	1.905	7.455
Sales and marketing	0.142	0.186	0.363	0.284	0.975	0.214	0.256	0.195	0.233	0.898	0.162	0.281	0.262	0.260	0.965	0.250	0.296	0.295	0.272	1.113
General and administrative	0.491	0.459	0.592	0.421	1.963	0.534	0.452	0.420	0.476	1.882	0.564	0.563	0.562	0.557	2.245	0.554	0.640	0.639	0.626	2.458
Research and development	0.384	0.444	0.480	0.360	1.668	0.429	0.435	0.450	0.538	1.852	0.476	0.563	0.624	0.618	2.282	0.524	0.619	0.618	0.680	2.441
Restructuring and other					0.000			0.245		0.245		0.113			0.113					0.000
Total operating expenses	1.017	1.089	1.435	1.065	4.606	1.177	1.143	1.310	1.247	4.877	1.315	1.407	1.449	1.435	5.606	1.328	1.555	1.552	1.578	6.013
Operating income (loss)	(0.189)	(0.393)	(0.390)	0.070	(0.902)	(0.119)	0.396	0.050	0.199	0.526	0.293	0.344	0.112	0.235	0.984	0.339	0.372	0.405	0.326	1.443
Interest income (expense)	(0.001)	0.002		(0.001)	0.000	(0.006)	(0.019)	(0.010)	(0.002)	(0.037)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other income (expense)	0.011	0.070	0.412		0.493	0.014	0.344			0.358	0.000				0.000					0.000
Income before income taxes	(0.179)	(0.321)	0.022	0.069	(0.409)	(0.125)	0.391	0.384	0.197	0.847	0.293	0.344	0.112	0.235	0.984	0.339	0.372	0.405	0.326	1.443
Income taxes	(0.009)	(0.129)	0.098	(0.004)	(0.044)			0.016	0.009	0.025	0.007	0.026	0.008	0.018	0.059	0.025	0.028	0.030	0.024	0.108
Net income (loss)	(0.170)	(0.192)	(0.076)	0.073	(0.365)	(0.125)	0.391	0.368	0.188	0.822	0.286	0.318	0.104	0.217	0.926	0.314	0.344	0.375	0.302	1.334
Nonrecurring/noncash adjustments					0.000					0.000					0.000					0.000
Net income (pro forma)	(0.170)	(0.192)	(0.076)	0.073	(0.365)	(0.125)	0.391	0.368	0.188	0.822	0.286	0.318	0.104	0.217	0.926	0.314	0.344	0.375	0.302	1.334
EBITDA	(0.054)	(0.258)	(0.248)	0.253	(0.307)	0.053	0.560	0.444	0.332	1.389	0.547	0.496	0.274	0.397	1.714	0.541	0.574	0.607	0.528	2.251
Shares, Basic	4.209	4.170	4.158	4.140	4.169	4.141	4.143	4.151	4.131	4.141	4.062	4.112	4.162	4.212	4.137	4.262	4.312	4.362	4.412	4.337
Shares, Diluted	4.209	4.170	4.158	4.153	4.169	4.142	4.165	4.195	4.177	4.174	4.103	4.153	4.203	4.253	4.178	4.303	4.353	4.403	4.453	4.378
EPS Basic (Pro forma)	(\$0.04)	(\$0.05)	(\$0.02)	\$0.02	(\$0.09)	(\$0.03)	\$0.09	\$0.09	\$0.05	\$0.20	\$0.07	\$0.08	\$0.02	\$0.05	\$0.22	\$0.07	\$0.08	\$0.09	\$0.07	\$0.31
EPS Diluted (Pro forma)	(\$0.04)	(\$0.05)	(\$0.02)	\$0.02	(\$0.09)	(\$0.03)	\$0.09	\$0.09	\$0.05	\$0.20	\$0.07	\$0.08	\$0.02	\$0.05	\$0.22	\$0.07	\$0.08	\$0.09	\$0.07	\$0.30
Margins																				
Gross margin	31.9%	24.9%	26.6%	27.9%	27.7%	25.8%	28.3%	25.5%	27.4%	26.8%	29.7%	28.0%	25.0%	27.0%	27.4%	28.0%	28.0%	28.5%	28.0%	28.1%
Sales and marketing	5.5%	6.7%	9.3%	7.0%	7.3%	5.2%	4.7%	3.7%	4.4%	4.5%	3.0%	4.5%	4.2%	4.2%	4.0%	4.2%	4.3%	4.3%	4.0%	4.2%
General and administrative	18.9%	16.4%	15.1%	10.3%	14.7%	13.0%	8.3%	7.9%	9.0%	9.3%	10.4%	9.0%	9.0%	9.0%	9.3%	9.3%	9.3%	9.3%	9.2%	9.3%
Research and development	14.8%	15.9%	12.2%	8.8%	12.5%	10.5%	8.0%	8.4%	10.2%	9.2%	8.8%	9.0%	10.0%	10.0%	9.5%	8.8%	9.0%	9.0%	10.0%	9.2%
Operating margin	-7.3%	-14.1%	-9.9%	1.7%	-6.7%	-2.9%	7.3%	0.9%	3.8%	2.6%	5.4%	5.5%	1.8%	3.8%	4.1%	5.7%	5.4%	5.9%	4.8%	5.4%
Tax rate, GAAP	5.0%	40.2%	44.5%	-5.8%	10.8%	0.0%	0.0%	4.2%	4.6%	3.0%	2.4%	7.5%	7.5%	7.5%	6.0%	7.5%	7.5%	7.5%	7.5%	7.5%
Net margin	-6.6%	-6.9%	-1.9%	1.8%	-2.7%	-3.1%	7.2%	6.9%	3.6%	4.1%	5.3%	5.1%	1.7%	3.5%	3.8%	5.3%	5.0%	5.5%	4.4%	5.0%
YY % change																				
Total Revenue					24%	58%	95%	36%	30%	51%	32%	15%	17%	17%	20%	10%	10%	10%	10%	10%
Gross margin					25%	28%	121%	30%	27%	46%	52%	14%	15%	15%	22%	4%	10%	25%	14%	13%
Sales and marketing					67%	51%	38%	-46%	-18%	-8%	-24%	10%	34%	11%	8%	54%	5%	13%	5%	15%
General and administrative					15%	9%	-2%	-29%	13%	-4%	6%	25%	34%	17%	19%	-2%	14%	14%	12%	9%
Research and development					13%	12%	-2%	-6%	49%	11%	11%	29%	39%	15%	23%	10%	10%	-1%	10%	7%
Operating income (loss)					11%	-37%	-201%	-113%	184%	-158%	-346%	-13%	125%	18%	87%	16%	8%	261%	39%	47%
Net income (loss)					-25%	-26%	-304%	-584%	158%	-325%	-329%	-19%	-72%	16%	13%	10%	8%	261%	39%	44%
EPS Diluted (Pro forma)					-37%	-25%	-304%	-580%	156%	-325%	-331%	-18%	-72%	14%	12%	5%	3%	244%	33%	38%

Source: Company reports and Ascendant Capital Markets estimates.

Pro-Dex, Inc.

Balance Sheet (\$ mils) Fiscal Year End: June 30	Sep-14 Q1A	Dec-14 Q2A	Mar-15 Q3A	Jun-15 Q4A	Sep-15 Q1A	Dec-15 Q2A	Mar-16 Q3A	Jun-16 Q4A	Sep-16 Q1A	Dec-16 Q2E	Mar-17 Q3E	Jun-17 Q4E	Sep-17 Q1E	Dec-17 Q2E	Mar-18 Q3E	Jun-18 Q4E
Assets																
Cash and cash equivalents	3.609	1.973	1.475	0.697	0.493	1.053	1.452	2.294	2.168	1.441	0.786	1.704	2.235	1.994	2.308	2.516
Short term investments																
Accounts receivable, net	1.094	1.115	2.099	2.326	0.759	1.831	2.169	1.469	1.542	2.085	2.567	1.718	1.654	1.911	1.908	1.889
Due from factor					1.442	0.912	1.581	1.419	2.119	2.119	2.119	2.119	2.119	2.119	2.119	2.119
Unbilled receivable	1.228	1.415	1.398	0.853	1.094	0.108	0.123									
Deferred costs								0.238	0.493	0.493	0.493	0.493	0.493	0.493	0.493	0.493
Inventory	2.587	2.880	3.444	4.310	4.251	4.481	4.118	3.573	3.370	4.053	4.215	4.201	3.858	4.458	4.420	4.408
Deferred income taxes	0.115	0.146	0.139	0.070	0.043	0.043			0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Prepaid expenses and other	0.115	1.438	1.440	0.152	0.191	0.132	0.242	0.225	0.126	0.152	0.125	0.124	0.119	0.138	0.137	0.136
Total current assets	8.748	8.967	9.995	8.408	8.273	8.560	9.685	9.218	9.818	10.343	10.305	10.358	10.477	11.113	11.385	11.561
Property and equipment, net	1.473	1.562	1.604	1.470	1.337	1.225	1.198	1.286	1.583	1.733	1.873	2.013	2.113	2.213	2.313	2.413
Intangibles, net	0.165	0.334	0.577	0.547	0.512	0.480	0.442	0.451	0.336	0.336	0.336	0.336	0.336	0.336	0.336	0.336
Goodwill			0.353	0.353	0.353	0.353	0.112	0.112	0.112	0.112	0.112	0.112	0.112	0.112	0.112	0.112
Long term investments	1.082	1.002		1.652	1.709	1.461			0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other	0.077	0.080	0.086	0.086	0.086	0.088	0.080	0.080	0.080	0.080	0.080	0.080	0.080	0.080	0.080	0.080
Total assets	11.545	11.945	12.615	12.516	12.270	12.167	11.517	11.147	11.929	12.604	12.706	12.899	13.118	13.854	14.226	14.502
Liabilities and stockholders' equity																
Accounts payable	0.617	0.830	1.534	1.867	1.209	1.286	1.132	0.841	1.184	1.368	1.366	1.353	1.302	1.505	1.503	1.488
Accrued expenses	1.211	1.352	1.686	1.202	1.257	1.036	0.892	1.076	1.094	1.264	1.262	1.250	1.203	1.391	1.388	1.375
Deferred revenue	0.247	0.501	0.530	0.594	0.620	0.282	0.117	0.212	0.319	0.319	0.319	0.319	0.319	0.319	0.319	0.319
Deferred income tax	0.048						0.003	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Capital lease	0.009	0.011	0.009	0.007	0.004	0.001			0.030	0.030	0.030	0.030	0.030	0.030	0.030	0.030
Other									0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Short term debt			0.024	0.024	0.524	0.522	0.024	0.026	0.026	0.026	0.026	0.026	0.026	0.026	0.026	0.026
Total current liabilities	2.132	2.694	3.783	3.694	3.614	3.127	2.168	2.156	2.653	3.008	3.003	2.978	2.881	3.271	3.266	3.238
Deferred income taxes	0.115	0.146	0.144	0.070	0.043	0.043			0.045	0.045	0.045	0.045	0.045	0.045	0.045	0.045
Other long term liabilities	0.236	0.222	0.210	0.204	0.188	0.173	0.157	0.068	0.105	0.105	0.105	0.105	0.105	0.105	0.105	0.105
Long term debt			0.076	0.070	0.065	0.058	0.052	0.046	0.150	0.150	0.150	0.150	0.150	0.150	0.150	0.150
Total other liabilities	0.351	0.368	0.430	0.344	0.296	0.274	0.209	0.114	0.150	0.150	0.150	0.150	0.150	0.150	0.150	0.150
Common stock	18.587	18.497	18.408	18.411	18.418	18.434	18.440	17.988	17.951	17.953	17.955	17.957	17.959	17.961	17.963	17.965
Additional paid-in capital																
Retained earnings	(9.738)	(9.930)	(10.006)	(9.933)	(10.058)	(9.668)	(9.300)	(9.111)	(8.825)	(8.507)	(8.403)	(8.185)	(7.872)	(7.528)	(7.153)	(6.851)
Accumulated other comprehensive income	0.213	0.316														
Other																
Total stockholders' equity	9.062	8.883	8.402	8.478	8.360	8.766	9.140	8.877	9.126	9.446	9.552	9.772	10.087	10.433	10.810	11.114
Total stockholders' equity and liabilities	11.545	11.945	12.615	12.516	12.270	12.167	11.517	11.147	11.929	12.604	12.706	12.899	13.118	13.854	14.226	14.502

Balance Sheet Drivers

	Sep-14 Q1A	Dec-14 Q2A	Mar-15 Q3A	Jun-15 Q4A	Sep-15 Q1A	Dec-15 Q2A	Mar-16 Q3A	Jun-16 Q4A	Sep-16 Q1A	Dec-16 Q2E	Mar-17 Q3E	Jun-17 Q4E	Sep-17 Q1E	Dec-17 Q2E	Mar-18 Q3E	Jun-18 Q4E
Prepaid as % of total rev	4%	52%	37%	4%	5%	2%	5%	4%	2%	2%	2%	2%	2%	2%	2%	2%
Accounts payable as % of total rev	24%	30%	39%	46%	30%	24%	21%	16%	22%	22%	22%	22%	22%	22%	22%	22%
Inventories as % of cost of rev	146%	137%	120%	147%	140%	115%	104%	93%	89%	90%	90%	93%	90%	90%	90%	90%
Accrued expenses as % of total rev	47%	48%	43%	30%	31%	19%	17%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Activity Ratios																
A/R Days Sales Outstanding	38	36	48	51	17	30	37	25	26	30	37	25	25	25	25	25
Inventory Turnover	2.7x	2.9x	3.3x	2.7x	2.9x	3.5x	3.9x	4.3x	4.5x	4.4x	4.4x	4.3x	4.4x	4.4x	4.4x	4.4x
A/P Days Payable	31	36	48	57	36	30	26	20	28	27	26	27	27	27	28	27
Book & Cash Value (per share)																
Book Value per Share (diluted)	\$2.15	\$2.13	\$2.02	\$2.04	\$2.02	\$2.10	\$2.18	\$2.12	\$2.22	\$2.27	\$2.27	\$2.30	\$2.34	\$2.40	\$2.45	\$2.50
Cash per Share (diluted)	\$0.86	\$0.47	\$0.35	\$0.17	\$0.12	\$0.25	\$0.35	\$0.55	\$0.53	\$0.35	\$0.19	\$0.40	\$0.52	\$0.46	\$0.52	\$0.56
Net cash per Share (diluted)	\$0.86	\$0.47	\$0.33	\$0.15	-\$0.02	\$0.11	\$0.33	\$0.53	\$0.50	\$0.32	\$0.16	\$0.37	\$0.49	\$0.43	\$0.49	\$0.54

Source: Company reports and Ascendant Capital Markets estimates

Pro-Dex, Inc.

Cash Flow Statement (\$ mils)	Sep-14	Dec-14	Mar-15	Jun-15	2015	Sep-15	Dec-15	Mar-16	Jun-16	2016	Sep-16	Dec-16	Mar-17	Jun-17	2017	Sep-17	Dec-17	Mar-18	Jun-18	2018
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
Cash flow from operating activities																				
Net income	(0.170)	(0.192)	(0.076)	0.073	(0.365)	(0.125)	0.390	0.368	0.189	0.822	0.286	0.318	0.104	0.217	0.926	0.314	0.344	0.375	0.302	1.334
Depreciation	0.127	0.132	0.139	0.180	0.578	0.169	0.165	0.147	0.133	0.614	0.139	0.150	0.160	0.160	0.609	0.200	0.200	0.200	0.200	0.800
Amortization					0.000			0.245		0.245					0.113					0.000
Stock comp	0.008	0.003	0.003	0.003	0.017	0.003	(0.001)	0.002		0.004	0.002	0.002	0.002	0.002	0.008	0.002	0.002	0.002	0.002	0.008
Provision for bad debts	0.005	(0.008)	0.004	0.006	0.007	0.004	(0.020)	(0.002)	0.002	(0.016)	(0.005)				(0.005)					0.000
Deferred income taxes		(0.077)	0.082	(0.005)	0.000					0.000		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other gains/losses		(0.060)	(0.396)		(0.456)		(0.014)	(0.344)		(0.358)	(0.003)				(0.003)					0.000
Acquisition expense					0.000					0.000					0.000					0.000
Other					0.000					0.000					0.000					0.000
Changes in operating assets and liabilities:																				
Accounts receivable	0.688	(0.015)	(0.986)	(0.241)	(0.554)	0.118	(0.501)	(0.999)	0.859	(0.523)	(0.696)	(0.543)	(0.482)	0.849	(0.872)	0.064	(0.258)	0.003	0.019	(0.172)
Due from factor															0.000	0.000	0.000	0.000	0.000	0.000
Unbilled receivable	(0.155)	(0.187)	0.018	0.324	0.000		0.745	(0.015)	(0.730)	0.000					0.000	0.000	0.000	0.000	0.000	0.000
Deferred costs					0.220	(0.241)	0.241		0.615	0.615	(0.255)	0.000	0.000	0.000	(0.255)	0.000	0.000	0.000	0.000	0.000
Inventory	0.013	(0.288)	(0.564)	(0.866)	(1.705)	0.059	(0.230)	0.363	0.545	0.737	0.203	(0.683)	(0.162)	0.014	(0.628)	0.343	(0.601)	0.038	0.012	(0.206)
Prepaid expenses & other curre:	0.015	(0.118)	0.020	0.061	(0.022)	(0.036)	0.036		0.005	(0.005)	0.027	(0.026)	0.027	0.001	0.029	0.005	(0.019)	0.000	0.001	(0.012)
Other assets					0.000					0.000					0.000	0.000	0.000	0.000	0.000	0.000
Accounts payable	(0.018)	0.344	1.026	(0.156)	1.196	(0.618)	(0.160)	(0.314)	(0.196)	(1.288)	0.338	0.184	(0.002)	(0.013)	0.507	(0.050)	0.203	(0.003)	(0.015)	0.135
Accrued expenses					0.000					0.000		0.170	(0.002)	(0.012)	0.156	(0.047)	0.187	(0.002)	(0.014)	0.125
Deferred revenue	0.015	0.254	0.029	0.064	0.362	0.026	(0.338)	(0.165)	0.095	(0.382)	0.107	0.000	0.000	0.000	0.107	0.000	0.000	0.000	0.000	0.000
Other liabilities	(0.005)	(0.048)			(0.053)			0.003	(0.002)	0.001	(0.001)	0.000	0.000	0.000	(0.001)	0.000	0.000	0.000	0.000	0.000
Net cash (used in) provided by	0.523	(0.260)	(0.701)	(0.337)	(0.775)	(0.641)	0.313	(0.711)	1.505	0.466	0.255	(0.427)	(0.355)	1.218	0.691	0.831	0.059	0.614	0.508	2.012
Cash flow from investing activities																				
Purchases of property and equip	(0.025)	(0.184)	(0.033)	(0.002)	(0.244)		(0.021)	(0.085)	(0.205)	(0.311)	(0.316)	(0.300)	(0.300)	(0.300)	(1.216)	(0.300)	(0.300)	(0.300)	(0.300)	(1.200)
Purchases of short-term investr	(0.012)		0.089	(0.417)	(0.340)					0.000					0.000					0.000
Acquisitions	(0.060)	(1.415)	0.560	(0.015)	(0.930)	(0.001)	0.191	1.692	(0.001)	1.881	(0.013)				(0.013)					0.000
Other		0.319	(0.319)	0.001	0.001	(0.057)	0.071	0.004		0.018	0.003				0.003					0.000
Net cash used in investing activ	(0.097)	(1.280)	0.297	(0.433)	(1.513)	(0.058)	0.241	1.611	(0.206)	1.588	(0.326)	(0.300)	(0.300)	(0.300)	(1.226)	(0.300)	(0.300)	(0.300)	(0.300)	(1.200)
Cash flow from financing activities																				
Issuance of debt					0.000	0.500				0.500		0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Repayment of debt	(0.002)	(0.002)	(0.002)	(0.009)	(0.015)	(0.009)	(0.011)	(0.505)	(0.005)	(0.530)	(0.016)				(0.016)					0.000
Issuance of stock	(0.003)			0.001	(0.002)					0.000		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Repurchase of common stock	(0.094)	(0.060)	(0.060)	(0.154)	(0.154)		(0.002)	(0.452)	(0.454)	(0.049)					(0.049)					0.000
Proceeds from stock option exercises		(0.032)			(0.032)	0.004	0.017	0.006		0.027	0.010				0.010					0.000
Other					0.000					0.000					0.000					0.000
Dividends and distributions					0.000					0.000					0.000					0.000
Cash provided by (used in) fina	(0.005)	(0.096)	(0.094)	(0.008)	(0.203)	0.495	0.006	(0.501)	(0.457)	(0.457)	(0.055)	(0.000)	(0.000)	(0.000)	(0.055)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Effect of exchange rate on cash					0.000					0.000					0.000					0.000
Net increase (decrease) in cash	0.421	(1.636)	(0.498)	(0.778)	(2.491)	(0.204)	0.560	0.399	0.842	1.597	(0.126)	(0.727)	(0.655)	0.918	(0.590)	0.531	(0.241)	0.314	0.208	0.812
Beginning cash and equivalents	3.188	3.609	1.973	1.475	3.188	0.697	0.493	1.053	1.452	0.697	2.294	2.168	1.441	0.786	2.294	1.704	2.235	1.994	2.308	1.704
Ending cash and equivalents	3.609	1.973	1.475	0.697	0.697	0.493	1.053	1.452	2.294	2.294	2.168	1.441	0.786	1.704	1.704	2.235	1.994	2.308	2.516	2.516

Source: Company reports and Ascendant Capital Markets estimates

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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.

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Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	36	88%	4	11%
Hold	5	12%	0	0%
Sell	0	0%	0	0
Total	41	100%	4	10%

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Our analysts use various valuation methodologies including discounted cash flow, price/earnings (P/E), enterprise value/EBITDAS, and P/E to growth rate, among others. Risks to our price targets include failure to achieve financial results, product risk, regulatory risk, general market conditions, and the risk of a change in economic conditions.

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