

# Mossberg's Investor Digest

## Best Idea Profile

## Dynamex (Nasdaq: DDMX)

### DESCRIPTION:

Headquartered in Dallas, Texas; Dynamex Inc. provides same-day delivery and logistics services in the U.S. and Canada. Dynamex also offers outsourcing services for fleet and facilities management, and services for transporting, sorting and delivering customers' products on a local and multi-city basis. The same-day delivery and logistics industry in the United States and Canada consists of several thousand small and independent businesses which serve local or regional markets. Dynamex' strategy is to reap the advantages of being a national operator in a growing and fragmented market. In 2006, the company began to franchise its technology and certain business processes primarily to small, privately held same-day transportation companies in order to increase market share, penetrate new markets and increase operational efficiencies.

### KEY INVESTMENT CONSIDERATIONS:

**Well Positioned in a Large and Fragmented Market** – DDMX has a unique position within its supply chain niche in the delivery and logistics industry. The industry in the U.S. and Canada is composed of several thousand small, independent operators that serve local markets and a small number of multi-location regional, or national operators. Due to its size and footprint DDMX has several competitive advantages including national brand identity, professional management, and the ability to service accounts on a multi-market basis.

**Asset Light Model and Variable Cost Structure** – Due to the nature of its market and product offerings, Dynamex does not have the capital investment or fixed cost requirements of many other delivery operators. Purchased transportation (where Dynamex uses other operators) was just over 64% of sales for the first 6 months of the current fiscal year. This leaves DDMX with lower capital needs and the ability to consistently produce returns in the mid teens. The company also gets to benefit from the abundant capacity and aggressive cost cutting in the transportation market for this component of its expenses.

**Stronger Capital Structure and Acquisitions** - Dynamex is financially strong. The company has \$12.6 million in cash and no debt. The current economic environment leaves many smaller operators with a scarcity of cash. The recessionary market environment leaves Dynamex with the opportunity to both expand its sales aggressively at the expense of other operators and look for attractive consolidation opportunities.

**Strong and Steady Business** - A large component of the company's business is recurring in nature. In addition to an economically challenging environment, the company had to contend with some unusual storm activity in some markets and a restructuring program during the MRQ. Despite of all this, Dynamex reported net income of \$2.2 million or \$0.23 per share for 2Q10 and a 7% increase in operating income.

**Improving Pipeline** - During its recent conference call management stated that it was seeing some potential new business in the company's sales pipeline. DDMX expects third quarter FY10 (next quarter) sales to be higher both sequentially and on a year-over-year basis. The company is planning on additional investments in sales and marketing for FY10.

### VALUATION:

The anticipation and realization of a general economic slowdown has left DDMX consistently underperforming the Russell 2000 the last four years-sometimes by discounts well in excess of 20%. The company currently trades at a multiple of 13x the FY10 estimate. A leaner cost structure and an improving pipeline of business could lead to some upside in earnings along with an expanding multiple. The company's business model gives it the ability to produce ROE in the mid teens, so a similar multiple of earnings seems justified. 16x the current FY10 estimate yields at least 25% upside.

### (Nasdaq: DDMX)

Investment Data (as of 3/8/10)

<b>Recent Price</b>	<b>\$15.50</b>
52-Week Range	10.31 - 19.75
Fiscal Year End	July
Dividend	.N/A
Yield	N/A
Shares Outstanding	9.7 MM
Average Trading Volume (3 mos)	30,000
Market Capitalization	150 MM
Cash	13 MM
Long Term Debt	N/A
Enterprise Value (EV)	137 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	\$5.56
TTM Revenue	\$386 MM
P/ Revenue	0.4x
FY10 EPS (estimate)	1.22
P/ EPS	13x
TTM EBITDA	17.5 MM
EV/ EBITDA	8x

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