

Mossberg's Investor Digest

Best Idea Profile:

Alteva, Inc. (NYSE:ALTV)

DESCRIPTION:

Alteva began as a local telephone switchboard operator and has been evolving for the last 100 years. Earlier this year, Alteva began trading on the NYSE and changed its name from WVT Communications Group to Alteva. It provides cloud-based communications solutions for small, medium and enterprise businesses. This includes voice-over IP, unified communications and Microsoft communication services. Unified communications and collaboration integrates telephony (IP voice) with real-time communication applications such as instant messaging, video conferencing, and data sharing. Alteva is based in Philadelphia.

KEY INVESTMENT CONSIDERATIONS:

Growing Industry – The unified communications industry is predicted to grow at an annual rate of 25% through 2016, which puts it well over \$7 billion. Alteva's revenues from unified communications increased 62% in 2012 compared with 2011, and currently represent 53% of consolidated revenues.

Solid Quarter of Growth – The year 2012 represented the highest consolidated revenue level in nine years. And in the second quarter of 2013, the company returned to profitability for the first time since it began its transformation two years ago. Consolidated revenue was up 8% and UC revenue was up 21% year over year. UC revenue is now 53% of consolidated revenue and increasing as it significantly outpaces Alteva's telephone business. Gross profit was up 23% in the same period, which was double the increase seen in the first quarter. Second quarter performance shows the leverage that exists in the UC infrastructure.

Verizon Partnership Not Reflected in Value – Entry into wireless business was too capital intensive to do alone, so Alteva invested alongside Verizon Wireless and others to form the Orange County-Poughkeepsie Limited Partnership in 1987. Its share of the earnings of the O-P was \$1.8 million for the second quarter but it received a cash distribution of \$3.25 million because of a guarantee in the partnership agreement. That guarantee is in place for each of the remaining two quarters of 2013. However, in April 2014 Alteva can choose to exercise its impressive put option to sell its stake in the partnership for a minimum \$50 million payment. Or, based on expectations of the O-P performance going forward, it can let the option expire and continue to receive distributions based on actual performance. The put option gives management the ability to decide

whether the prospect of improvement in the partnership warrants forgoing the sale. Therefore, at this time, there is a total guaranteed O-P value, excluding the rest of 2013's distribution, of \$50 million, versus Alteva's market capitalization of \$41 million.

Dividend Elimination a Positive – The stock took a predictable but undeserved hit following the recent announcement that Alteva would terminate its long history of dividends. Management's reasons are sound: there is a greater use in allocating capital to improve the balance sheet and to capitalize on additional growth opportunities.

Balance Sheet will Improve – The dividend cut gives management the ability to improve the balance sheet. Additionally, the O-P partnership will generate \$6.5 million in cash to the company. There was significant investment in infrastructure, personnel and IT in 2012 and these expenses will decrease in 2013 as the current SG&A can support upwards of double the current revenue. Management targets a \$2 million reduction in expenses going forward and is on track for 2013.

VALUATION:

Prospects for increasing revenues and margins are strong. Add to that the value of the O-P put option and the stock's reaction to the dividend elimination announcement for an attractive risk/reward investment.

| Alteva, Inc. (NYSE:ALTV) | |
|---------------------------------|------------------|
| Investment Data (as of 9/23/13) | |
| Recent Price | \$7.20 |
| 52-Week Range | \$5.76 - \$13.50 |
| Fiscal Year End | Dec |
| Dividend (just eliminated) | NA |
| Yield | NA |
| Shares Outstanding | 5.7 M |
| Average Trading Volume (3 mos) | 36k |
| Market Capitalization | \$41 M |
| Cash | \$1 M |
| Long-term Debt | \$15 M |
| Enterprise Value (EV) | \$56 M |
| Book Value | \$1.86 |
| TTM Revenue | \$29 M |
| P/ Revenue | 1.4x |
| TTM EPS | \$(1.54) |
| P/ EPS | NA |
| TTM EBITDA | \$(10)M |
| EV/ EBITDA | (5.7)x |

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