

Mossberg's Investor Digest

Best Idea Profile

Art Technology Group, Inc. (NASDAQ:ARTG)

DESCRIPTION:

Headquartered in Cambridge, Massachusetts; Art Technology Group, Inc. develops and markets e-commerce software that drives increased online revenue and profitability. Client companies can use Art Technology to power e-commerce websites, attract prospects, convert sales, increase order sizes and encourage return customers. The company's products provide more control over the online channel, and enable customer service agents to provide consumers with more consistent and personalized assistance. Art Technology solutions deliver consistency and relevancy by capturing and maintaining information about consumers' personal preferences, online activity and transaction history for use in a more personalized and contextual way. ARTG delivers services on a SaaS basis via a perpetual license. The company's 1200 Customers are principally Global 2000 companies in four primary verticals retail, telecommunications, media and entertainment, distribution, and consumer goods manufacturing. Art Technology has 1,200 clients, including AT&T, Best Buy, Conde Nast, CVS, DirecTV, Intuit, JC Penney and Sprint.

KEY INVESTMENT CONSIDERATIONS:

Secular growth in shopping on line – Increased availability of broadband is driving consumers to purchase more products on the internet. As the quality of web applications improves, consumers are expecting a richer and more sophisticated shopping experience to meet their expectations for a user friendly and useful experience. According to comScore, ecommerce growth has resumed during 1H10 at approximately 10%, versus no growth last year. Forrester expects growth to remain at 10% through 2014.

Current Economic Environment: Outsourcing of the customer experience to Art Technology speeds up development and deployment timetables. Also, with ARTG's SaaS model, clients do not have to make major capital investments in development or maintenance of customer related systems. This is a meaningful value proposition in today's tough economic environment.

Larger customers view ARTG as a thought leader:

The Company has 1200 clients including category leaders such as American Eagle Outfitters, AT&T, Best Buy, Chico's, Conde Nast, Continental Airlines, CVS, DirecTV, Finish Line, France Telecom, Games Workshop and HSBC. ARTG's partners also include some top global systems integrators such as Accenture, Acquity Group, Capgemini, CGI, and Deloitte Consulting.

Recent sales trends are positive: The company reported revenues of \$49 million for 2Q10, an 11% increase over last year. Deferred revenue grew 23% on a y-o-y basis during the same period, indicating a big pick up in the demand for future services. The company currently sees "healthy demand" for its products for the last half of FY10.

Multiple Vertical Markets: Art Technology has expanded beyond the retail vertical, which accounts for 1/3 of the business and into additional verticals including: telecom, media and entertainment, distribution, and consumer goods industries.

VALUATION:

ARTG has a solid balance sheet with over \$145 million in cash and no long-term debt. With gross margin in excess of 67%, and a solid increase in demand for its services, the company could be in front of a significant expansion in earnings. The company may also be an attractive acquisition target in an industry that has seen significant consolidation. ARTG is poised to benefit from both improving fundamentals and greater visibility within the investment community. An EV/Revenue multiple of 2.6x seems an attractive price for this growing software company.

(NASDAQ: ARTG)

Investment Data (as of 9/24/10)

Recent Price	\$3.80
52-Week Range	2.98 - 4.88
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	158MM
Average Trading Volume (3 mos)	1.2MM
Market Capitalization	600MM
Cash	145MM
Long Term Debt	NA
Enterprise Value (EV)	475MM
LT Debt/ Equity	NA
BV/ Share	\$1.52
TTM Revenue	\$187MM
P/ Revenue	3.2x
TTM EPS	\$0.11
P/ EPS	37x
TTM EBITDA	25.5
EV/ EBITDA	19x

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