

Mossberg's Investor Digest

Best Idea Profile:

Blue Phoenix Solutions Ltd. (NASDAQ:BPHX)

DESCRIPTION:

Headquartered in Israel; Blue Phoenix Solutions is a leading developer of enterprise legacy IT modernization solutions, provides professional services to selected customers and sells knowledge management solutions. BPHX's IT legacy modernization solutions enable customers to automate the process of modernizing and upgrading mainframe and distributed IT infrastructure to more effectively compete. BPHX has a combination of comprehensive tools and services, along with a unique methodology, which provides customers an efficient and cost-effective process for extending the return on investment of existing enterprise IT assets. BPHX's solutions allow companies to fully leverage their current systems and applications and speed up and reduce the cost of the renewal process. This allows customers to effectively update their systems in order to be more agile when having to adapt to new business demands. BPHX supports companies from a variety of vertical markets such financial services, insurance, automotive, manufacturing, and retail. Customers include Aflac, DaimlerChrysler, Danish Commerce Agency, Europe Assistance, Lawson Products, LA County Employees Retirement Association, Merrill Lynch and Rothschild Bank.

KEY INVESTMENT CONSIDERATIONS:

Solving the "Legacy Dilemma" – IT infrastructures have evolved from mainframes, to client servers to internet applications over the last 40 years. Since the capital costs were so large and some of the applications were mission critical, many systems were not replaced. This has led to a situation where many disparate systems are layered on top of one another, even when they were not intended for that purpose. This problem is known in the industry as "The legacy dilemma". Blue Phoenix solves this problem.

Proven Service Provider – BPHX has over 20 years of experience in legacy applications. The company currently has a core competency in major legacy systems for applications, databases, platforms and data (including VSAM, COBOL and Mainframes). BPHX also has domain expertise in the recent IT applications such as Oracle, Java and .Net (and many more). BPHX has the technical knowhow to work with any legacy issue.

Recently Improved Results – 2Q10 results showed marked improvement. Though revenue declined year-over-year, the company cut its losses in half to \$1 million by implementing cost reduction programs.

Bringing ROI Efficiencies to Market – Solving IT legacy problems can include anything from users experience enhancement to a total rewrite for a new infrastructure. The ROI (Return on Investment) or "payback" on these investments can run from 6 months to 5 years. Blue Phoenix is focusing on modernizing architectures and databases. These projects have ROI's of 1.5 to 2 years. This area of work provides a major enhancement to companies and organizations IT infrastructure and offers a quick payback.

Intellectual Property – Blue Phoenix has had a very active research and development program, and along with acquisitions, has built a base of intellectual property that has become a significant asset to the company. The company has over \$52.4 million in goodwill and \$14.4 million in intangible assets on the balance sheet. These assets include Intellectual Property of high value to many other IT companies.

VALUATION:

BPHX has \$19.3 million in cash and \$10 million in long term debt. BPHX has made significant strides in costs cutting since the recessionary trough and had some major contract wins including a recent \$6.2 million win with a tier 1 banking institution in Europe. Trading at just 4.8x EV to EBITDA, shares appear attractive at the current valuation.

(NASDAQ: BPHX)

Investment Data (as of 8/18/10)

Recent Price	\$1.45
52-Week Range	1.16 - 3.97
Fiscal Year End	DEC
Shares Outstanding	23.6MM
Average Trading Volume (3 mos)	100,000
Market Capitalization	33MM
Cash	19MM
Long Term Debt	10MM
Enterprise Value (EV)	24MM
LT Debt/ Equity	0.1
BV/ Share	\$12.23
TTM Revenue	\$72MM
P/ Revenue	0.5x
2011 EPS Estimate	\$0.11
P/ EPS	13.2x
TTM EBITDA	\$5MM
EV/ EBITDA	4.8x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.