

Mossberg's Investor Digest

Best Idea Profile:

Carbonite, Inc. (NASDAQ:CARB)

DESCRIPTION:

Founded in 2005 by two seasoned software entrepreneurs, Carbonite provides back-up services for PCs, laptops, smartphones, and tablets, as well as servers and databases. It provides a cloud-based, easy-to-use and inexpensive service that is marketed to anyone who creates or stores important data at home, in a home office or in a small to medium-sized business. Customers pay a flat rate for unlimited storage. With subscribers in more than 100 countries, Carbonite's backup solution runs on both Windows and Mac platforms and backs up more than 300 million files each day. Carbonite became a public company in 2011, is based in Boston and has 400 employees.

KEY INVESTMENT CONSIDERATIONS:

Agility in Growing Market – More than 400 million PCs shipped in 2011, and for the first time, even more smartphones were shipped than computers. As consumers put more data on their various devices that they wouldn't want to lose, the need grows for backing up critical data for consumers.

Leverage of Business Model – Carbonite's ability to scale its business model has positioned it to grow rapidly without additional capital required. This allows it to offer competitively low pricing to millions of customers. And low cost is the key to market leadership. Carbonite is in the enviable position of rapidly decreasing the per unit cost of storage and customer service while revenues are continuing to grow, making it possible to offer unlimited data backup for as little as \$5 per month.

Growth in Small/Medium Business Market – Carbonite has shifted its center of gravity towards the small to medium-sized business market that has higher gross margins, higher retention rates and lower costs than the consumer market. It is estimated that there are six million SMBs in the U.S. and three times that many worldwide. 84% of these back up to on-site storage, providing a huge potential for Carbonite to market to those without back up or those with less secure, more expensive and less flexible on-site backup. In the fourth quarter the company purchased Zmanda, accelerating its growth in SMB sales. The CEO stated that he is "blown away" by the growth in this segment and believes SMBs could account for half of new bookings at the end of 2013.

Revenue Growing – After growing at a CAGR of 130% since 2006, revenue for 2013 is expected to grow more than 25%. Carbonite spent aggressively on capacity and advertising to reach this level of success. It has now achieved sustainable recurring revenue, high customer retention, and brand recognition three times that of its nearest competitor. The business was built around direct marketing but Carbonite now has 2,800 resellers, including Staples, Office Max and Sam's Club. Its strategic channel partners are driving significant bookings at lower costs. Further expansion internationally should fuel growth as well: Carbonite just launched service in China, targeting 25 million SMB customers.

Strong Executive and Board Leadership – The Company was founded by two entrepreneurs with a history of successful software ventures. And the rest of the board brings substantial experience in various software and retail businesses.

VALUATION:

Although it is trading near its high, CARB is attractively valued given the expectation for sustainable positive free cash flow, growing market opportunity, expanding margins and a mix of business that will get the Company to sustained profitability more quickly.

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Investment Data (as of 4/17/13)

Recent Price	\$10.00
52-Week Range	\$5.75 - \$11.35
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	25.9 M
Average Trading Volume (3 mos)	77k
Market Capitalization	\$259 M
Cash	\$55 M
Long-term Debt	\$0
Enterprise Value (EV)	\$225 M
Book Value	\$0.54
TTM Revenue	\$84.0 M
P/ Revenue	3.3x
TTM EPS	\$(0.74)
P/ EPS	NA
TTM EBITDA	\$(6.8) M
EV/ EBITDA	(33.2)

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