

Mossberg's Investor Digest

Best Idea Profile:

Actua Corporation (NASDAQ:ACTA)

DESCRIPTION:

Actua has acquired and built cloud companies that target vertical markets and processes, versus the traditional horizontal markets. This situates Actua in the center of the second wave of Software as a Service implementation, dealing with vertical instead of horizontal markets. SaaS is the software distribution model in which applications are hosted in the cloud. The vertical markets it is focused on are government communications, through GovDelivery; wealth management, through FolioDynamix; compliance, through MSDSONline; and insurance, through Bolt Solutions. Founded in 1996, the company changed its name from ICG Group, Inc. in September 2014. It is based in Radnor, Pennsylvania.

KEY INVESTMENT CONSIDERATIONS:

Transforming Vertical Markets – The initial, horizontal wave of cloud computing is automating applications in disciplines such as accounting, CRM and human resource; those processes inside the four walls of the enterprise. The second wave of SaaS is the vertical wave where Actua is focused: it is where the company provides industry-specific expertise to help automate and streamline the marketplace outside of the enterprise, such as the supply chains, customer chains, and distribution chains. Actua is building leading brands in vertical markets, including insurance, government, environmental health and safety and financial services. It is able to add customers at low customer acquisition costs, with extremely good retention. Therefore, investments in sales and marketing are efficient, and benefit the tremendous economies of scale generated by the growth.

Targeted Businesses – Actua looks for large, fragmented, non-automated, low market penetration markets where the cloud can have great impact. The more complex the business the better, where doing things the old way no longer works. Its targeted businesses are early in adoption and probably less than 10% penetrated, with significant growth opportunity. Actua has many examples of success with tuck-in acquisitions, moving into adjacent markets that expand cross-selling opportunities and expand the total addressable market. Actua has integrated well. Looking at its current businesses, they were growing at less than 25% in aggregate when acquired. Today they are growing organically more than 30%, despite the larger base of comparison.

Recent Addition – Acquired in November 2014, FolioDynamix added a fourth brand that is similar in size to Actua's other three, and is immediately accretive with strong growth potential despite its substantial existing scale. It offers a comprehensive web-based wealth management technology platform for managing all aspects of the business. Unlike other wealth management platforms, it empowers advisors with a single platform to efficiently manage customer accounts. Management has stated that Folio will increase the company's overall organic growth rate; it appears to be a wise use of the company's substantial cash position.

Good Business Model – High retention rates of more than 95%, recurring revenue rates of over 85%, low acquisition costs, economies of scale, and gross margins above 70% indicate an attractive business model. Guided by veteran leadership, Actua is growing rapidly, but has strong cash and no debt.

VALUATION:

ACTA offers a direct and pure-play opportunity to participate in the growth of SaaS as it is oriented around vertical markets. Management has indicated its belief in the stock's value through consistent stock buybacks of 5.7 million shares since 2008. It acquired \$10 million in stock in 2014. Fourth quarter earnings will be reported on February 26, with guidance of a loss of \$0.39 to \$0.41 per share.

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Investment Data (as of 2/25/15)

| | |
|--------------------------------|-------------------|
| Recent Price | \$15.38 |
| 52-Week Range | \$13.24 - \$22.73 |
| Fiscal Year End | Dec |
| Dividend | NA |
| Yield | NA |
| Shares Outstanding | 37 M |
| Average Trading Volume (3 mos) | 108 k |
| Market Capitalization | \$574 M |
| Cash (before 11/14 acq.) | \$292 M |
| Long-term Debt | \$500 K |
| Enterprise Value (EV) | \$306 M |
| Book Value | \$11.45 |
| TTM Revenue | \$76 M |
| P/ Revenue | 7.5x |
| TTM EPS | \$4.49 |
| (includes discontinued op) | |
| P/ EPS | 3.4x |
| TTM EBITDA | \$(36) M |
| EV/ EBITDA | \$(8) M |

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