

Mossberg's Investor Digest

Best Idea Profile:

Points International Ltd. (NASDAQ:PCOM)

DESCRIPTION:

Points International Ltd. is a loyalty currency management company with solutions that enhance the management of loyalty programs ranging from frequent flyer miles and hotel points, to retailer and credit card rewards. More than 50 partners use its eCommerce and technology to enhance their consumer offerings and streamline their back-end operations. Points also manages a loyalty wallet where its 4 million consumers can track their loyalty programs, as well as trade, exchange and redeem their miles and points. The company has 178 employees on a full-time equivalent basis, and is headquartered in Toronto. The stock trades on the Toronto and NASDAQ markets.

KEY INVESTMENT CONSIDERATIONS:

Innovator – The loyalty membership industry has been growing rapidly; it grew more than 32% from 2011 and 2012, and has seen continued growth with a recovering economy and new programs. Points has been at the forefront as it introduced airline mileage sales online and a gift registry. It was also the first to exchange loyalty currency between programs; for example, miles for hotel stays or products. Other innovations include PayPal processing and customer call centers. It is also leading the way in loyalty programs in the digital wallet industry. It is in the advanced stages of launching its service to power the loyalty component of one of the world's leading financial institution's digital wallets by mid-2015. Leadership in loyalty programs for digital wallets represents tremendous upside potential.

Benefits Go Both Ways – Points is good for both customers and partners, and delivers revenues in three different ways. It gets revenue through reseller arrangements, transaction fees charged to consumers, and through interest income on cash flow generated by its products and services.

Plethora of New Programs – Since the beginning of 2014, Points has launched 30 products and added eight partners to its loyalty commerce platform, including Hilton, Spirit Airlines, Etihad and Jet Airways. It has had no partner attrition. The acquisition the company made in 2014, a hotel booking engine and loyalty currency aggregator built specifically for frequent travelers, has allowed it to expand relationships with several of its preexisting partners, such as JetBlue and Asia's leading travel and lifestyle reward program. Management believes its pipeline remains robust with targeted addressable opportunity representing an additional \$800

million in revenue, \$100 million of which is proposals in the hands of prospective or expanded partners today. American Airlines may be the next really big client. Points also has a partner with worldwide offices and capabilities in over 150 countries that allows Points to leverage its business development resources and product expertise to reach a larger portion of the global loyalty industry.

Strong Guidance – Guidance for full year 2014 is for revenue to grow between 25% and 40%, and adjusted EBITDA of \$16 million to \$20 million before strategic investments of \$5 to \$7 million. Points remains debt free and well equipped to execute its multi-pronged growth strategy: additional platform and product enhancements, partner developments, strategic investments or acquisitions.

Technology Upgrades – Points has invested heartily in 2014 to upgrade its technology platform, moving to a more open API-driven transactional platform that allows it to leverage access to data and expand its core business of retail and loyalty currency, and become less reliant on its partners' infrastructures.

VALUATION:

In its third quarter conference call, management addressed the possibility of employing a share repurchase plan. It is trading near its low for the year.

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Investment Data (as of 12/20/14)

Recent Price	\$12.86
52-Week Range	\$12.01 - \$32.09
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	15.3 M
Average Trading Volume (3 mos)	52k
Market Capitalization	\$196.6 M
Cash	\$55.8 M
Long-term Debt	0
Enterprise Value (EV)	\$141.7 M
Book Value	\$2.39
TTM Revenue	\$259.2 M
P/ Revenue	0.8x
TTM EPS	\$0.36
P/ EPS	35.9x
TTM EBITDA	\$7.5 M
EV/ EBITDA	18.9x

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