

Mossberg's Investor Digest

Best Idea Profile:

SMTP, Inc. (NASDAQ:SMTP)

DESCRIPTION:

SMTP, Inc. provides cloud-based email delivery services for companies that want to ensure that their marketing emails reach their customers' inboxes. Because of the proliferation of SPAM, or unwanted emails, internet service providers have continually tightened filters that have caused even legitimate emails to never reach their intended recipients. An estimated 22% of opt-in emails, or "permissioned" messages, are either wrongly sent to the junk mail folder or never reach their intended recipient. This is particularly true of the high-volume senders that SMTP targets. SMTP customers pay a monthly subscription to ensure their emails are actually delivered to their customers. SMTP became a public company through a reverse merger in 2012. It is based in Nashua, New Hampshire.

KEY INVESTMENT CONSIDERATIONS:

Growth Market – The email market is currently a \$2 billion business and is expected to be \$3 billion by 2020. SMTP intends to take a more active and integrated role in that growth and has created a much more aggressive sales organization to drive this growth. Previously it could rely on potential customers searching for simple mail transfer protocol services online and coming up with the company because its name, SMTP, is the same as the email industry acronym. Companies benefit greatly from the knowledge and technology SMTP offers because successful email delivery drives their revenues. Because of the automation of the business, email delivery is very scalable and profitable if managed well.

Acquisitions Accretive in All Respects – SMTP was historically focused only on the email delivery part of the business, but with the stated intent to branch into complementary businesses. It fortified its intent with the January 2014 secondary offering of \$11.5 million and then uplisted to the NASDAQ. This currency for acquisitions resulted in two very attractive additions. SharpSpring, acquired in August 2014, seamlessly integrates marketing automation with CRM and call tracking functionality for a fraction of the price of competitive solutions. The acquisition of GraphicMail adds email campaign management and editing and a worldwide sales and distribution team. This acquisition is set to close during the fourth quarter of 2014. The integration of all three companies significantly broadens the product offering, and broadens the sales reach from only the U.S. to 12 additional countries. The combined entities will have nearly double the revenues, a higher

growth rate and the opportunity over time to materially integrate operating synergies.

Management Favorably Aligned – SMTP hired a new chief executive officer approximately a year ago. He is skilled, entrepreneurial and attacking his charge to grow the company profitably. His compensation is primarily aligned with the stock price, as is the Chairman's. The Chairman owns 53% of the shares and takes no salary.

Dividend – SMTP's recurring revenue business model generates considerable cash, which the company pays out in an annual dividend of \$0.48 per share—a 7.7% yield. The CEO makes it clear that they intend to continue the dividend program because it differentiates the company from other microcap stocks that are not profitable.

VALUATION:

The investment community has been practically unaware of SMTP stock. Visibility should grow as the company's secondary offering in the first quarter of 2014 allowed it to move to the NASDAQ and the acquisitions raise the profile of the revenues and growth potential. The stock is attractive because of the dividend but the real investment story is one of growth and acquisitions that are accretive operationally, strategically and financially.

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Investment Data (as of 9/15/14)

Recent Price	\$6.40
52-Week Range	\$1.43 - \$10.00
Fiscal Year End	Dec
Dividend	\$0.48
Yield	7.5%
Shares Outstanding	5.0 M
Average Trading Volume (3 mos)	11k
Market Capitalization	\$32.1 M
Cash	\$11.5 M
Long-term Debt	0
Enterprise Value (EV)	\$20.7 M
Book Value	\$2.38
TTM Revenue	\$6.0 M
P/ Revenue	5.4x
TTM EPS	\$0.37
P/ EPS	17.1x
TTM EBITDA	\$1.8 M
EV/ EBITDA	11.9x

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