

Mossberg's Investor Digest

Best Idea Profile

DJSP Enterprises, Inc. (NASDAQ:DJSP)

DESCRIPTION:

DJSP Enterprises is one of the largest providers of processing services for the mortgage and real estate industries in the U.S. The company was incorporated in Feb '08 as a "blank check" company with plans to acquire businesses in China. When the global financial occurred, management changed strategy and in January 2010, acquired the assets of its current operations. The Company currently provides a wide range of services in connection with mortgages, mortgage defaults, title searches, abstracts, related litigation and other services. DJSP's principal customer is the Law Offices of David J. Stern, P.A. (DJS) whose clients include all of the top 10 and 17 of the top 20 mortgage servicers in the U.S.. DJSP has approximately 1,000 employees and contractors, with operations in Florida, Louisville, Kentucky and San Juan, Puerto Rico. DJSP's is strategically positioned as a scalable, low-cost business model with back office operations in the Philippines that provides document preparation and support.

KEY INVESTMENT CONSIDERATIONS:

A unique play for diversification – Revenue generated from DJSP's foreclosure services are directly related to the volume of mortgage foreclosures referrals received. This volume varies based on a number of factors including general economic conditions as well as government sponsored programs to reduce mortgage foreclosures. Nearly all of the company's title related services, conducted through PTA LLC, are performed in connection with the foreclosure files that are being processed. Therefore, the revenues DJSP receives from title related services are also directly related to the volume of mortgage foreclosures, principally in the Florida market. This makes DJSP a unique play on the housing market and counter-cyclical to the general economy. DJSP should provide an inverse correlation to many other businesses and add unique diversification to an investment portfolio.

Foreclosures Continue to Grow – 2009 revenues increased by \$61.1 million, or 30.7% as compared to 2008. These results were achieved because of the increase in mortgage foreclosures and related activities in the Florida market. For 2009, DJAP received 70,382 foreclosure files vs. 70,328 such files in 2008. If the real estate market and unemployment do not significantly improve, many loans currently in the modification process will likely result in re-default increasing the number of foreclosures.

A Growing Market – DJSP has opportunities for future growth from increases in foreclosure volumes in Florida and its largest client David J Stern PA. As the company continues to develop and market its services additional opportunities should arise. DJSP is forecasting foreclosure volumes and file referrals to increase for at least the next few years.

VALUATION:

"30% off sale" – On Friday (May 28), the stock fell nearly 30%, mirroring a similar sized reduction in EBITDA guidance the day before (May 27). Revenue from foreclosure-related revenue has slowed due to temporary government intervention and a system conversion at one of DJSP's largest clients. Management's emphasized that this was a temporary condition, and growth would resume at its recent pace soon. However, on the conference call, investors expressed skepticism of management's new guidance and the timing of disclosure. The company currently has a share price which is 2.5x its FY10 EBITDA guidance. This valuation is most likely the result of a short operating history, its reliance on a key relationship with DJS, and recently added investor skepticism. Still, the company has strong growth prospects and operating cash flow. Should current foreclosure trends continue the stock could command a substantially higher price.

(NYSE: DJSP)

Investment Data (as of 5/28/10)

Recent Price	\$6.38
52-Week Range	5.78 - 13.65
Fiscal Year End	Dec
Shares Outstanding	11MM
Average Trading Vol (3 mos)	260,000
Market Capitalization	68 MM
Cash	4 MM
Long Term Debt	85 MM
Enterprise Value (EV)	149 MM
LT Debt/ Equity	N/A
BV/ Share	N/A
TTM Revenue	\$260 MM
P/ Revenue	0.3x
2010 EPS Guidance	\$1.32
P/ EPS	5x
2010 EBITDA Guidance	\$60 MM
EV/ EBITDA	2.5x

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