

Mossberg's Investor Digest

Best Idea Profile:

Guidance Software, Inc. (NASDAQ:GUID)

DESCRIPTION:

Guidance Software provides digital investigative solutions for e-discovery, computer forensics and data security. Forensics includes internal investigations, fraud, human resources and compliance applications. E-discovery applications include litigation, regulatory inquiries and government matters. Cybersecurity deals with system integrity and sensitive data to help safeguard an organization's business by mitigating the costs and risks of an intrusion. Nearly two-thirds of Fortune 100 companies use the EnCase Enterprise platform and 40% use EnCase eDiscovery. Other customers include global governmental agencies, such as Internal Revenue Service, Federal Bureau of Investigation, Department of Justice, EU Council and NATO.

KEY INVESTMENT CONSIDERATIONS:

Market Growing Rapidly – Guidance serves a multi-billion market that is growing up to 10% per year. Organizations and corporations have an increasing need to search, collect and preserve electronic data in a timely and cost effective manner. Guidance continues to build its sales force in anticipation of growth. It is expanding its distribution opportunities through building new partnerships. Currently, the company generates only 30% of their business through partners, but has a goal of 70%.

Recovery from Poor Quarter– Guidance reported a disappointing first quarter. However, it was mostly explainable and was NOT a result of weakness in its competitive position. First of all, this business is seasonal and the first half is slower. Beyond this, however, a significant amount of deals slipped into future quarters as customers were hesitant to spend. The company has a strong \$43 million of deferred revenue and is not seeing pricing pressure. Also impacting the quarter was the federal sequestration and development costs of a product unveiled just last week. Management has revised guidance to assume some of this weakness has continued in the second quarter but the revised trend in year-over-year growth is still upward.

Excitement About New Product – EnCase Analytics was introduced on May 20. It is a complete security intelligence solution that provides organizations unprecedented visibility and situational awareness of security risks and exposure to unknown threats. It focuses on end-user devices and servers enterprise-wide that are used in "big data" organizations. Big data

security analytics has historically been hard to achieve, but EnCase Analytics' unique approach makes it more effective. This approach looks at all endpoints of the network and generates a data and process map that provides a holistic view of what is going on in a network, rather than relying on signatures and behaviors that are easily identified and evolved. Additionally, this security software business better positions Guidance to compete in markets outside of the U.S.

Federal Sequestration Impact Will Fade – Approximately 20% of revenues come from the federal government. The federal sequestration impacted purchases by government agencies in the first quarter and may continue for the rest of the first half. However, this market should strengthen again in the typically stronger second half.

Financial Strength – Guidance has \$26 million in cash and no debt.

VALUATION:

Guidance Software's transition into the security software business will make it easier for investors to make comparisons with comparable companies and should enhance the multiples afforded the company. The stock took a heavy hit earlier this year. The positive financial comparisons expected later this year should lift the stock.

Guidance Software, Inc. (NASDAQ:GUID) Investment Data (as of 5/24/13)

Recent Price	\$9.23
52-Week Range	\$7.50 - \$13.08
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	28.2 M
Average Trading Volume (3 mos)	87k
Market Capitalization	\$260 M
Cash	\$26 M
Long-term Debt	\$0.4 M
Enterprise Value (EV)	\$234 M
Book Value	\$1.21
TTM Revenue	\$130.4 M
P/ Revenue	2.0x
TTM EPS	\$(0.20)
P/ EPS	NA
TTM EBITDA	\$2.1 M
EV/ EBITDA	109

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