

Mossberg's Investor Digest

Best Idea Profile

Innerworkings, Inc (Nasdaq: INWK)

DESCRIPTION:

Founded in 2001, Innerworkings pioneered the print procurement outsourcing business and is the largest buyer of print in the US. INWK has over 8,000 suppliers and has been profitable for 23 consecutive quarters. INWK leverages its proprietary technology, extensive supplier base and domain expertise to procure, manage and deliver printed products as part of a comprehensive outsourced solution. Innerworkings utilizes excess capacity and other inefficiencies in the traditional print supply chain to obtain favorable pricing for high-quality print products. With its large supplier base and an array of service offerings, Innerworkings can help companies reduce overhead costs, redeploy internal resources and obtain favorable pricing and service terms. INWK also provides clients with print procurement information on an enterprise-wide-basis which gives greater visibility into and control of their print expenditures. Innerworkings is strategically positioned to benefit from the growing trend of outsourcing in the commercial print market.

KEY INVESTMENT CONSIDERATIONS:

A large market – INWK is addressing a massive market. INWK believes the US market for commercial printing is worth \$100 billion and includes approximately 36,000 printing plants. Even with the effects of the current recession, some estimates have total printing sales leveling off and being in the \$157 billion range in 2020. Only 2% of all North American printing is currently run through print management channels.

A Strong Value Proposition – Increasing competition and the recession are creating strong interest in cost reduction in various industries. Innerworkings offers turnkey outsourcing solutions on a job based or an enterprise wide basis. INWK has combined patented (or pending patents) algorithms with supplier and pricing databases. These assets, along with Innerworkings' domain expertise, enable commercial print purchasers to find the most efficient print solution, get more pricing transparency and eliminate the middleman in the process. Efficient outsourcing also enables companies to reduce internal headcount for further cost reductions.

Strong Cash Flow with Low Capital Needs – Innerworkings is a technology and service company. Unlike printing companies, the Innerworkings' business model does not need large capital expenditures and generates strong cash flow. For FY2009, the company had cash flow from operations of \$14.9 million with capital expenditures being only 1.8% of revenues. The only need for cap ex is technology enhancements.

Recurring Revenue and Strong Growth –

Innerworkings has a stable and growing client base that generates strong recurring revenues. From 2002 to 2008 INWK had a compound annual growth rate of 88%. After experiencing a 4.4% revenue decline in FY2009, it appears the company is experiencing a return to growth. For the fourth quarter, revenue increased over 3%. The company provided 2010 revenue guidance in the \$440 million to \$470 million range, with earnings per share in the range of \$0.24 to \$0.29. INWK's current 3 to 5 year goal is to generate organic revenue growth of 15% with EBITDA margins of 8-9%.

Innovative Industry Leader – Though some venture based competitors have entered the marketplace, Innerworkings has a first to market, size and domain expertise advantage. Innerworkings may have some M&A opportunities with regional print procurement companies and believes that it is the only credible buyer in the marketplace at this time.

VALUATION:

Innerworkings currently serves the print industry, but is really more like a software as a service company. The company has strong growth prospects, which may not be factored into current expectations. Leverage from increased sales should allow margins to approach targeted levels. At targeted levels, the company should be able to produce \$35 MM to \$50 million in EBITDA. At current values, that is only 4x to 7x enterprise, which seems attractive for a growth company.

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Investment Data (as of 3/12/10)

Recent Price	\$5.30
52-Week Range	3.13 - 7.45
Fiscal Year End	December
Shares Outstanding	46 MM
Average Trading Volume (3 mos)	194,000
Market Capitalization	242 MM
Cash	26 MM
Long Term Debt	N/A
Enterprise Value (EV)	215 MM
BV/ Share	\$3.20
TTM Revenue	\$400 MM
P/ Revenue	0.6x
FY10 EPS (estimate)	0.35
P/ EPS	21x
TTM EBITDA	22.3 MM
EV/ EBITDA	10x

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