

Mossberg's Investor Digest

Best Idea Profile:

DESCRIPTION:

Headquartered in Hackensack, New Jersey; Innodata Isogen, Inc. is a leading producer of eBooks and currently serves leading publishers, as well as top manufacturers of eBook reading devices. Innodata has two reporting segments. 1) The Content Solutions Segment provides support services for the creation, enhancement, and re-purposing of digital content. These services include highly accurate conversions to digital text and the enhancement of legal, financial, medical and technical information. 2) The Innodata Advanced Data Solutions segment offers a range of document and data analysis services that are tailored to a variety of industries including the financial, healthcare, medical and insurance industries. Innodata distributes eBooks to more than 20 top distributors across North America, the United Kingdom, Australia and 24 countries in the European Union.

KEY INVESTMENT CONSIDERATIONS:

Digitizing the World – According to Aptara survey, one out of five eBook publishers generates more than 10% of their sales from eBooks. The eBook market is already sizable, projected to grow to \$12.7 billion in 2013 (source: Outsell Inc.) and with less than 10% penetration, has a lot of room for growth. Innodata is the largest producer of eBooks for the world's leading eBookstores and specialized publishers such as Bloomberg, Amazon, Apple and Thompson Reuters.

Mobile Driver – The demand for digital content such as e-books, e-textbooks, e-journals and other content by users of smart mobile devices is increasing. These changes are driving an additional demand for Innodata's specialized services for creating, managing and distributing content.

Well-known Customer list provides Competitive advantage – Innodata currently serves seven of the top 10 publishing and information providers including Apple, Amazon and Sony. The Company has produced over 1.2 million eBooks

Turnkey Digital Provider – Innodata provides turnkey digital data creation, enhancement and distribution. They can source, create, enhance and help distribute digital data which collectively creates a strong value proposition. The Company has over 7,000 employees and uses global delivery model with offices in US, Philippines, India, Sri Lanka, Europe and Israel.

Innodata Isogen, Inc. (Nadaq:INOD)

New Products – The Company launched the new Innodata Advanced Solutions division in 2Q11 to provide high quality advanced analytics to the financial services (including Derivatives) and medical industries. Sales efforts have started and Innodata received \$600k in revenues from a new test engagement for 1Q12.

Reaching Critical mass – The Company just reported \$25.1 million in revenue and 4.6 million in EBITDA for 1Q12, reaching an annual run rate in excess of \$100mm. In addition, the stock has appreciated and the current market cap of \$134 million will likely qualify the Company for inclusion in the Russell 2000 index for the first time, making it investible for a larger audience of investors.

VALUATION:

Innodata is solidly profitable and has a strong balance sheet despite spending \$2.1mm on new infrastructure in 1Q12. Innodata has \$23mm in cash and no debt. The Company currently trades at 16.4x this year's estimate of \$0.33, yet first quarter revenues grew by 71% on a year-over-year basis. Given the company's growth prospects, and double digit return on capital, a mid-20's multiple of earnings should easily be attainable, which would yield a share price more than twice its current level.

Innodata Isogen, Inc. (Nasdaq:INOD)

Investment Data (as of 5/28/12)

Recent Price	\$5.41
52-Week Range	\$2.40 - \$6.24
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	24.8MM
Average Trading Volume (3 mos)	47k
Market Capitalization	\$134MM
Cash	\$23MM
Long Term Debt	NA
Enterprise Value (EV)	\$111MM
Book Value	\$1.85
TTM Revenue	\$84MM
P/ Revenue	1.61x
TTM EPS	\$0.31
P/ EPS	17x
TTM EBITDA	\$12.3mm
EV/ EBITDA	9x

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