



Mossberg's Investor Digest

December 2008

Issue #6

From the Editor...

The fundamentals for the agricultural industry appear to be fairly strong going into the New Year.

People still need to eat...secular trends point to long-term growth in agricultural demand – The world's population grows by 80 million people per year. That's 220,000 new mouths to feed each day. They aren't making more land, and in fact the amount of agricultural land is shrinking due to economic development particularly India, Asia and other emerging economies.

While crop prices have fallen from record levels, they are at, or near, prices achieved during 2007, a year that was very profitable for farmers. For example, corn prices have fallen from \$5 per bushel to the around \$3.5, which is well above the 20 year trend. Farmers are also benefiting from lower input costs including fuel and fertilizer. In addition, U.S. farm debt is at very manageable levels. According to the USDA, the debt to equity ratio of U.S. farmers is 10%, a historic low.

In this month's issue, we highlight a couple of ideas, Titan Machinery (Nasdaq: TITN) and Intrepid Potash (NYSE: IPI), that should benefit from these fundamentals.

Thank you for your interest in Mossberg's Investor Digest. I welcome your feedback.

Dave Mossberg

December 2008 Issue

eHealth (Nasdaq: EHTH)

December 14, 2008 Page 2 – eHealth is essentially on line agent for health insurance. The business model has recurring revenue streams, is highly scaleable and requires limited capital for growth. Top line growth has been impressive over the past several years and it appears there are some counter-cyclical trends that may actually spur growth in individual policies. The company also has a strong balance sheet (\$143 million in cash/ no debt) and generates significant cash flow, which are being used to finance an aggressive stock repurchase program.

H&R Block (NYSE: HRB)

December 24, 2008 Page 3 – Refund anticipation loans (RAL) are a very important and profitable piece of H&R block's business. So much so, that while RAL's have generated just 4% and 5% of revenue over the past two years, they have generated a much larger portion of profitability...14% and 24% of pretax income, respectively. Other competitors have had difficulties securing financing to offer these types of loans, which gives H&R Block significant advantage and the ability to take market share.

Titan Machinery (Nasdaq: TITN)

December 24, 2008 Page 4 – Titan Machinery has a 28 year operating history as a dealer of farm and construction equipment. The company has a strong track record of making and profitably integrating acquisitions. The company's "strong store" operating model keeps decision making at the store level, and centralizes support infrastructure such as HR, Marketing, and IT. This model has been key to success of integrating acquisitions and it is also very scalable. According to the company, this model can "easily" scale to over \$1 billion in sales.

Intrepid Potash (NYSE: IPI)

December 26, 2008 Page 5 – IPI is the largest producer of potash in the U.S. Potash is one of three major nutrients essential to plant formation and growth. Shares are 40% below the April IPO more than 70% below the high set in June, which is consistent with price trends of comparables MOS and POT. However, IPI is a potash pure play and highly leveraged to the price of the commodity, which has increased 14% since mid summer and have remained unchanged in the last 3 months.

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Best Idea Profile

eHealth (Nasdaq: EHTH)

DESCRIPTION:

eHealth offers health insurance agency services to individuals, families and small businesses via its e-commerce platform, which is accessible via the internet sites www.ehealth.com and www.ehealthinsurance.com. These sites allow users to compare and purchase over 10,000 health insurance products from 180 of eHealth's carrier relationships. Approximately 90% of the company's revenue stream comes from commissions the company earns on selling health insurance policies. The remaining 10% of revenue comes from sponsors placing adds on EHTH's sites and licensing EHTH's e-commerce platform to insurance carriers.

KEY INVESTMENT CONSIDERATION:

Highly scaleable business with limited capital requirement. EHTH currently has 600,000 members (individuals covered by health insurance), which represents only one half of one percent of the company's addressable market and leaves lots of room for growth. Supporting this growth requires very little capital because this is an internet-based business. EHTH has already made the investments in e-commerce and the support infrastructure and has reached critical mass to more than cover the fixed costs of its operations. The company has a call center, but 80% of the business is generated with no human interaction. The largest variable cost is customer acquisition, representing approximately 40% of sales, (\$65 per submitted member). The payback on this investment is just 6 ½ months.

Strong Recurring Revenue Streams – Just like other insurance brokers, eHealth is paid 15% to 25% of the monthly insurance premium for the first year of the policy and about half of that rate as long as the customer continues to pay on the policy. With an average life of 2 years, this represents an attractive recurring revenue stream.

Counter-cyclical trends may support continued growth - While the pace of growth has slowed, the top line still grew an impressive 24% in the most recent quarter. In addition, it appears some counter-cyclical trends may actually spur growth in individual policies, including 1) **layoffs** force people to look at individual policies. 2) **cost cutting by small employers** – the cost of health insurance continues to be the #1 issue that small businesses face (National Federation of Independent Business). In a tough economy, it's likely that small business will cut back on providing insurance, leaving employees to find individual policies.

Strong Balance sheet and aggressive share repurchase plan provide downside support for the stock – With \$143 million in cash (\$5.72 per share), no debt, and significant cash flow generation (\$30 million in the trailing twelve month period), EHTH has a strong balance sheet. Last month, EHTH put in place a share repurchase program that authorizes the repurchase up to 10% of EHTH stock, or \$30 million, whichever is less.

POTENTIAL CATALYST:

Tax deductibility for individual health insurance – Why shouldn't individuals receive a tax deduction for health insurance, much like business does? Deductibility, or other tax incentives, could be a major motivating factor for the 46 million uninsured in the U.S., a significant target market for eHealth.

VALUATION:

With an enterprise value to EBITA multiple of 6.4x, shares are attractive, but not overly cheap relative to the current market. However, with the level of uncertainty at unprecedented levels, companies, like eHealth, that have recession resistant businesses offer investors some level of security. Combined with a strong growth rate and a solid balance sheet, these shares could command much higher multiples over the next 12-18 months.

(Nasdaq: EHTH)	
Investment Data (as of 12/14/08)	
Recent Price	\$11.19
52-Week Range	8.38 - 36.44
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	25 MM
Average Trading Volume (3 mos)	180,000
Market Capitalization	281 MM
Cash	143 MM
Long Term Debt	0
Enterprise Value (EV)	138 MM
LT Debt/ Equity	N/A
Tangible BV/ Share	5.99
TTM Revenue	106 MM
P/ Revenue	2.7x
TTM EPS (non-GAAP)	1.27
P/ EPS	8.8x
TTM EBITDA	21.6 MM
EV/ TTM EBITDA	6.4x

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Idea Profile

H&R Block (NYSE: HRB)

DESCRIPTION:

Through its network of 13,000 company-owned and franchised offices, H&R block is the largest provider of income tax return preparation services in the United States. The company generates approximately 70% of its revenue from income tax return preparation and related services. An additional 20% of revenue is generated from the company's Business Services segment, which provides accounting, tax and business consulting services for middle-market companies under the RSM McGladrey name. The remaining 10% of revenue comes from retail banking at H&R Bank. Founded in 1955, H&R Block is headquartered in Kansas City, Missouri.

KEY INVESTMENT CONSIDERATIONS:

Restructuring plan is proceeding as planned – Over the past two years, the company has disposed of its sub-prime mortgage business (Option One) and divested its brokerage business. These divestitures increase HRB's focus on its core tax preparation business, reduces risk and improves liquidity.

Jackson/Hewlett and other competitors have limited financing to fund RALs (Refund Anticipation Loans) – Refund anticipation loans are a very important and profitable piece of H&R block's business. The loans allow customers to receive tax refunds immediately or within a few days, instead of having to wait the several weeks for the U.S. government to process the return and send out the check. The fees H&R block receives for these loans, around \$100 for a \$3,000 loan, are highly profitable. So much so, that while RAL's have generated just 4% and 5% of revenue over the past two years, they have generated a much larger portion of profitability...14% and 24% of pretax income, respectively. Considering the loan is only outstanding for a couple of weeks, the annualized return can be higher than 80%. H&R block has a long-term agreement with HSBC, in which HSBC is obligated to fund \$3 billion in funding for RAL through June of 2011. Other competitors have had difficulties securing financing to offer these types of loans, which gives H&R Block significant advantage and the ability to take market share.

Ability to buy back stock begins in February, 2009 – The board has authorized management to buy back up to \$2 billion in stock over the next four years.

KEY RISK:

Mortgage exposure declining, but still there – The company stopped originating mortgage loans in January 2008 and has sold its mortgage servicing arm earlier this year. However, the company still owns approximately \$800 million in mortgages in its bank subsidiary portfolio. These loans are geographically concentrated with approximately 50% for properties in Florida, California, and New York. In addition, the majority of these mortgages are non-conforming, which means there is greater exposure to loss with respect to default.

VALUATION:

Management has recently re-affirmed EPS guidance of \$1.60 to \$1.70 for fiscal 2009, which equals a 13x multiple at the midpoint. Given the company's 5-year ROE above 30%, these shares should easily command higher multiples. In addition, management's focus on its core tax business, gives the company clear direction, making it easier for investors to understand the merits and risks...which often leads to higher valuation multiples. It's also important to note that the company pays a regular dividend, which is currently almost a 3% yield. In a bear market, dividend paying stocks tend to fair better because dividends signal a high quality of earnings and yields can provide downside support.

(NYSE: HRB) Investment Data (as of 12/24/08)	
Recent Price	\$21.91
52-Week Range	15.00 - 27.97
Fiscal Year End	April
Dividend	\$0.60
Yield	2.7%
Shares Outstanding	339 MM
Average Trading Volume (3 mos)	2.8 MM
Market Capitalization	7.5 B
Cash	0.7 B
Long Term Debt	1.85 B
Enterprise Value (EV)	8.6
LT Debt/ Equity	2.2
BV/ Share	2.46
TTM Revenue	4.4
P/ Revenue	1.7x
TTM EPS (non-GAAP)	0.69
P/ EPS	31.8x
TTM EBITDA	971 MM
EV/ TTM EBITDA	8.9x

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Idea Profile

Titan Machinery (Nasdaq: TITN)

DESCRIPTION:

Headquartered in Fargo, North Dakota, Titan Machinery has a 28 year operating history as a dealer of farm and construction equipment. The company completed its public offering a year ago in December of 2007, a follow on offering in May of 2008, and has used part of the proceeds to double the size of its store base through acquisitions. The company currently has 61 dealers located in the upper Midwest...North Dakota, South Dakota, Minnesota, Iowa and Nebraska. Titan is a dealer for CNH Global (NYSE: CNH), for the brands Case and New Holland. Approximately 75% of the company's revenue comes from new equipment sales and the remaining 25% from parts and service.

KEY INVESTMENT CONSIDERATION:

Consolidator in a buyers market – The agricultural and construction equipment industries are fragmented and consist of many relatively small, independent businesses serving local markets. For example, TITN is the largest CNH dealer, but comprises less than 2% of the total CNH dealer base in North America. The company has a strong track record of making and profitably integrating acquisitions. Over the past 5 years the company has made approximately 20 acquisitions consisting of about 2/3 of its store base. The company's "strong store" operating model keeps decision making at the store level, and centralizes support infrastructure such as HR, Marketing, and IT. This model has been key to success of integrating acquisitions and it is also very scalable. According to the company, this model can "easily" scale to over \$1 billion in sales. Purchasing these businesses at the right price is also a significant determinate of success. Acquisitions have been made near asset value, and very little has been paid in premiums. As evidence, there is just \$10.2 million goodwill on the balance sheet, which equates to about \$300,000 per acquired location.

Customers in strong financial position – While corn prices have fallen from \$5 per bushel to around \$3.5, they still remain well above the 20 year trend. In addition, gasoline makers must blend 10.5 billion gallons of ethanol in 2009 and 12 billion in 2010 under the new Renewable Fuels Standard. This ethanol mandate effectively puts in a floor for corn and soybean prices. Check out the following article from Iowa State Volume 13, No. 4 ([how low will corn prices go?](#)) Farmers are also benefiting from lower input costs including Fuel and fertilizer. In addition,

U.S. farm debt is at very manageable levels. According the USDA, the debt to equity ratio of U.S. farmers is 10%, a 48 year low. This leaves plenty of room to buy new, productivity enhancing, farm equipment.

KEY RISK:

Supplier concentration – Approximately 75% of revenue is derived from sales of CNH equipment. In addition, the company is dependent on CNH to finance its inventory. Changes in CNH's competitive position or relationship with Titan could have a significant adverse affect on the company's results.

VALUATION:

Shares currently trade at 11X the current consensus estimate for FY10 (ending in January) of \$1.19. Keep in mind those analysts estimates include little if any acquisition growth in their models. Considering the company's potential for growth and significant returns (TTM ROE of 16%), shares could easily command higher multiples.

(Nasdaq: TITN) Investment Data (as of 12/24/08)	
Recent Price	\$12.71
52-Week Range	7.75 - 34.49
Fiscal Year End	January
Dividend	N/A
Yield	N/A
Shares Outstanding	17.7 MM
Average Trading Volume (3 mos)	350,000
Market Capitalization	230 MM
Cash	92 MM
Long Term Debt	175 MM
Enterprise Value (EV)	314 MM
LT Debt/ Equity	1.0
Tangible BV/ Share	8.88
TTM Revenue	637 MM
P/ Revenue	0.4x
TTM EPS (non-GAAP)	1.01
P/ EPS	13.0x
TTM EBITDA	37 MM
EV/ TTM EBITDA	8.6x

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Idea Profile

Intrepid Potash (NYSE: IPI)

DESCRIPTION:

Intrepid Potash is the largest producer of potassium chloride in the U.S. Also known as potash, potassium chloride is one of three major nutrients essential to plant formation and growth. The company owns five active potash production facilities—three in New Mexico and two in Utah, which have capacity to produce up to 1.2 million tons of potash annually. The company sells potash into three different markets. Approximately 64% of sales are made to the agricultural market, 25% to industrial and 8% to livestock feed markets. The company completed its initial public offering in April 2008 at \$32 per share, with 85% of the proceeds going to the selling shareholders. The selling shareholders maintain a 53% ownership interest in the new company.

KEY INVESTMENT CONSIDERATIONS:

Pure play on Potash - IPI is a pure play in the potash market, unlike its near comparables, Potash (NYSE: POT) and Mosaic (NYSE: MOS), which only count potash as 33% and 24% of total production, respectively. Despite the recent drop off in commodity prices, potash prices have actually increased 14% since mid summer and have remained relatively unchanged at \$800 per ton since September. Among the reason for this...

- 1. Mature market with disciplined, well capitalized players** – The top 5 producers represent approximately 2/3 of the market. Instead of reacting to a temporary weakness in demand, the major players have been cutting production, using their balance sheets to build inventories, and maintaining pricing discipline.
- 2. Demand is likely to outstrip supply in a few years** – There are only 25 deposits in the world with large deposits of potash and it's not likely that new large sources will be found soon. Given that global production is expected to grow at just 3.5% and demand is expected to grow at 5%, it's likely that demand will outstrip supply during the next several years.

Farmers will have to buy in February - In anticipation that prices will fall just like other commodities, farmers have cut back on buying potash. While this is an effective strategy for the near term, farmers will have to buy come February when the planting season begins.

Agricultural industry fundamentals are quite strong – While crop prices have fallen from record levels, they are at, or near, prices achieved during 2007, a year that was very profitable for farmers. For example, corn prices have fallen from \$5 per

bushel to the around \$3.5, which is well above the 20 year trend. Farmers are also benefiting from lower input costs including fuel and fertilizer. In addition, U.S. farm debt is at very manageable levels. According to the USDA, the debt to equity ratio of U.S. farmers is 10%, a historic low.

Organic Growth Opportunities – The company has two assets under development in New Mexico, that will allow for a 31% increase in production capacity over the next 5 years to 7 years.

People still need to eat...secular trends point to long-term growth in agricultural demand – The world's population grows by 80 million people per year. That's 220,000 new mouths to feed each day. They aren't making more land, and in fact the amount of agricultural land is shrinking due to economic development particularly India, Asia and other emerging economies. The only way to boost food production is to increase yields, which requires more fertilizer.

VALUATION:

Shares are 40% below the April IPO more than 70% below the high set in June, which is consistent with price trends of comparables MOS and POT. However, IPI is a potash pure play and highly leveraged to the price of the commodity. This discrepancy will be corrected in one of two ways....potash prices will fall, or the stock price will rise. It looks like the latter scenario is the most probable.

(NYSE:IPI)	
Investment Data (as of 12/26/08)	
Recent Price	\$18.07
52-Week Range	13.80 - 76.24
Fiscal Year End	December
Dividend	N/A
Shares Outstanding	75 MM
Average Trading Volume (3 mos)	1.7 MM
Market Capitalization	1.5 B
Cash	139 MM
Long Term Debt	0
Enterprise Value (EV)	1.2 B
LT Debt/ Equity	N/A
BV/ Share	8.29
TTM Revenue	359 MM
P/ Revenue	4.2x
TTM EPS (non-GAAP)	1.10
P/ EPS	18.2.x
TTM EBITDA	179 MM
EV/ TTM EBITDA	6.7x

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The value proposition of the digest is essentially an "Idea Generator". During the course of my 13-year career in capital markets, I've had the chance to meet and work closely with some very smart professional investors who have consistent track records of outperforming the market indexes. Some of these investors, which include mutual fund managers, hedge fund managers, and other professional investors, are kind enough to share their best ideas with me. I conduct my own analysis of their ideas and publish summaries of those ideas I think represent timely investment opportunities. Over time, I trust the majority of these ideas will pan out and help subscribers generate index-beating returns.

The goal of the Best Idea Profiles in this newsletter is to describe all of relevant investment merits and risks of a company in one page. It is not intended to be an exhaustive report including every detail of a company. With limited space available, I am forced to include only those data points that I feel are most important for subscribers to know before they begin their own due diligence. Thank you for your interest in Mossberg's Investor Digest.

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