

Mossberg's Investor Digest

Best Idea Profile:

Liberator Medical Holdings, Inc. (OTCBB: LBMH.OB)

DESCRIPTION:

Headquartered in Stuart, Florida; Liberator Medical Holdings, Inc. is a national direct-to-consumer provider of high quality and innovative medical supplies to Medicare-eligible seniors. Liberator Medical offers consumers a simple, reliable way to purchase medical supplies that are needed on a regular basis, with the convenience of direct billing to Medicare and private insurance. Approximately 97% of Liberator's revenues come from supplying products, service and support to meet the rapidly growing requirements of diabetes, urological, ostomy and mastectomy patients.

KEY INVESTMENT CONSIDERATIONS:

Healthcare Market – According to the Centers for Medicare and Medicaid Services (CMS), national healthcare spending will nearly double to \$2.8 trillion by 2011, up from \$1.42 trillion in 2001. As the baby boomer population ages, the medical supply industry will experience a 20-year explosion in growth. Currently, more than 90 million Americans live with chronic diseases, including Alzheimer's disease, arthritis, cancer, cardiovascular disease, chronic obstructive lung disease, and diabetes.

Growth Niche – The Company targets Medicare-eligible seniors with chronic illness. According to the U.S. Department of Health and Human Services, Medicare and Medicaid have combined annual payments of \$775 billion. First Research estimates the number of Americans over 65 will double from 34 million to 62 million between 2000 and 2025. The research firm Rand estimates the number of Americans with two or more chronic conditions will increase from 60 to 81 million between the years 2000 and 2020. Current out-of-pocket spending for Americans age 65 and over with two chronic conditions is approximately \$750 per year. The number of Medicare beneficiaries is expected to nearly double to 77 million by 2030 from 40 million in 2000, according to the Centers for Medicare and Medicaid Service.

Seasoned Management Team – The current management team has a successful and proven track record in the healthcare industry. Liberator Medical's management team includes CEO Mark Libratoro, CFO Robert Davis and COO John Leger. Mr. Libratoro is the founder of Liberty Medical Supply, Inc., Mr. Davis was its CFO from 1995 to 1999 and Mr. Leger was its Sr. Vice- President of Operations. Liberty Medical Supply was the largest diabetic supply company in the United States generating approximately \$600 million in revenue when it was sold to MedCo for \$1.3 billion in 2007.

Strong Margins with recurring revenue – Liberator's products have gross margins which range from 45% to over 70%. As the company scales it will benefit from additional volume discounts from its suppliers, which should provide margin support. Liberator's customers have regularly re-occurring and predictable supply needs, so inventory management is very efficient. (Inventory turns 2-3 times per month).

Uncertainty – LBMH will be restating its financial statements for 4Q09, 1Q10 and 2Q10, and two days ago the company reported in an SEC filing that its FY10 10K would be filed late. The restatement was due to the valuation of some convertible notes and had no impact on operating income, operating expenses, total assets or the company's cash position. The 10k filing is being delayed due to fact that LBMH's prior audit firm is no longer in operation. Accounting issues are definitely a red flag and accordingly the stock has taken a haircut in recent weeks. However, the reasons appear to be mild and as they are cleared up, the valuation of the stock should improve.

VALUATION:

LBMH appears to be at an inflection point. During FY10 the company expanded its infrastructure and became debt free. Both the OTC Bulletin Board listing and the recent financial restatements may be working together to create an interesting opportunity for investors looking for a healthcare growth story off the beaten path.

(Liberator Medical Holdings: OTCBB:LBMH) Investment Data (as of 12/30/10)

Recent Price	\$1.20
52-Week Range	\$1.06 - \$2.44
Fiscal Year End	Sep
Shares Outstanding	44.57MM
Average Trading Volume (3 mos)	18,986
Market Capitalization	\$53MM
Cash	\$7MM
Long Term Debt	NA
Enterprise Value (EV)	\$50MM
LT Debt/ Equity	NA
BV/ Share	\$.40
TTM Revenue	\$37MM
P/ Revenue	\$1.4x
TTM EPS	\$0.06
P/ EPS	20x
TTM EBITDA	\$4.3MM
EV/ EBITDA	\$11.5x

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