

Mossberg's Investor Digest

Best Idea Profile:

MicroFinancial Incorporated (Nasdaq:MFI)

DESCRIPTION:

Headquartered in Woburn, MA; MicroFinancial, Inc., provides financing alternatives to a wide range of lessees ranging from start-up to established businesses. MFI primarily sources its originations through a nationwide network of independent equipment vendors, sales organizations, brokers and other dealer-based origination networks. MFI funds its operations through cash provided by operating activities and borrowings under a revolving line of credit. MFI finances a wide variety of products with no single product representing more than 20% of the amount financed in its portfolio. Through its operating subsidiary TimePayment Corp, MFI leases a wide variety of equipment including advertising and display equipment, security equipment, paging systems, water coolers, restaurant equipment and card-based payment authorization systems. Most of the equipment leased by, originated or acquired by MFI is non-cancelable. MFI generally originates leases on transactions referred to them by a dealer where MFI buys the underlying equipment from the referring dealer upon funding the approved application. Leases are structured with limited recourse to the dealer, with risk of loss in the event of default by the lessee residing with MFI in most cases. Throughout the term of the lease, MFI charges late fees, prepayment penalties, loss and damage waiver and other service fees, when applicable. MFI performs all processing, billing and collection functions under its leases.

KEY INVESTMENT CONSIDERATIONS:

Proven Franchise – MFI has more than 24 years of operating experience in the micro ticket leasing industry, originating more than 741,000 contracts. MFI utilizes a large network of thousands of independent vendors and brokers for its business. MicroFinancial offers a multi-tiered pricing model that allows it to offer a broader range of credit approvals than many of its competitors.

Diverse and Targeted Client Base – Small businesses continue to be the fastest growing segment of U.S. economy, accounting for more than 75% of all jobs created over the last decade. 7 of 10 small business owners start with less than \$20K, driving the need for alternative financing. MFI's typical client is a small, owner operated business (often with limited business credit history). Typical contract sizes range from \$500 to \$15,000 with an average transaction of approximately \$5,500. Average contract terms are about 44 months. MicroFinancial has a record of proven success that cuts across 15 vertical market segments, which combined represent a \$6 billion market for MFI.

Proprietary Software – MFI's TimePayment Direct is an Internet-based application processing, credit approval and dealer information tool that manages critical operational functions. The system includes a multi-tiered underwriting and pricing model along with a collections platform. This system is a competitive differentiator and enables MFI to cheaply process thousands of contracts and evaluate portfolios rapidly.

Strong Growth – In 2002, the company had approximately 4,500 total dealers providing leases. By the end of Q3, 2010, MicroFinancial's dealer base was approximately 5,900 with 2,242 active dealers (dealers that had executed a lease before).

Insider Ownership – Insiders own nearly 46% of the shares outstanding. Management and shareholder interests should be closely aligned.

VALUATION:

MFI has a record of strong cash flows and has consistently paid a dividend since 2005. With an improving operating environment affecting both revenue and credit quality, the company has an opportunity to accelerate the growth of cash flow and earnings. The current earnings multiple seems attractive for a growth company with a defensible position in a solid niche, consistent dividend along with improving fundamentals.

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Investment Data (as of 1/27/11)

Recent Price	\$4.11
52-Week Range	3.06 - 4.74
Fiscal Year End	Dec
Dividend	0.20
Yield	4.8%
Shares Outstanding	14.3MM
Average Trading Volume (3 mos)	6.6k
Market Capitalization	\$59MM
Cash	\$515K
Long Term Debt	\$60MM
Enterprise Value (EV)	\$119MM
LT Debt/ Equity	.87x
BV/ Share	\$4.82
TTM Revenue	\$23MM
P/ Revenue	2.6x
TTM EPS	\$0.35
P/ EPS	12x
TTM EBITDA	N/A
EV/ EBITDA	N/A

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