

Mossberg's Investor Digest

Best Idea Profile:

Points International, Ltd. (NASDAQ:PCOM)

DESCRIPTION:

Headquartered in Toronto, Canada; Points International provides a range of ecommerce and technology services to loyalty program operators by providing them with a proprietary infrastructure. The Company's services are comprised of white label or private branded ecommerce services that enable the sale of loyalty currencies (frequent flyer miles, hotel points, credit card points, etc.), on both a retail and wholesale basis. Points International also offers a consumer focused reward management website referred to by the Corporation as "Points.com". This site offers members multiple loyalty programs the ability to track and manage their loyalty currencies much like their financial assets. Points International has agreements with participating loyalty program operators.

KEY INVESTMENT CONSIDERATIONS:

Loyalty Program Trends – There is a growing worldwide trend, especially in the airline industry, to sell loyalty currency as a customer incentive to third parties. These currency sales are estimated to be over \$12 billion per year (company estimates). These rewards typically accrue ahead of redemption by 20% to 30%.

Premier Outsource Alternative – Points offers white labeled turnkey outsourcing alternatives for loyalty programs. The features on these programs engage customers and bring added value to the client's customers. End users of Point's platform can buy, gift, or sell program points. They can also transfer them or use them for upgrades or special services.

Strong Competitive Position – Points has several indirect competitors that are currently in the market with limited product offerings. These competitors offer products similar to the balance tracking features on Points.com but do not offer any of Points transaction options such as the ability to exchange currency from one program to another, or trade currency with other users. Management believes that none of these competitors are actively partnering with loyalty programs to independently provide a service similar to Points.com.

Global Points Exchange – The Company's Global Points Exchange is the world's first peer-to-peer loyalty currency trading platform. It offers client companies a strong revenue stream with no incremental liability while offering program members more flexibility with their miles.

Strong and Growing Client Base – Points currently delivers over 180 products and services to nearly 50 partners worldwide. The Company's customer base includes major airlines such as American, Delta, Mexicana, KLM and Air France. Non-airline partners include names such as Marriot, Avis and Best Buy. For the first three quarters of FY2011, Point added 5 new partners and launched 32 new products.

Financial Performance – Q3FY2011 revenues were \$28.8 million, a 23% year-over year increase. The Company reported EBITDA of \$1.9 million, a 58% year-over year increase.

Financial Strength with a Cash Generation Machine – Points has a strong balance sheet with \$41.1 million in cash and no debt.

VALUATION:

The consensus estimate for FY2012 EPS is \$0.49. That is a Px/Eps multiple of 16.3x for a company that should grow top line in excess of 25% and 100% growth in EPS. With a realistic multiple in the mid-twenties times the FY2012 estimate would equate to 50% upside from current levels.

Points International, Ltd. (NASDAQ:PCOM) Investment Data (as of 1/23/12)

Recent Price	\$8.00
52-Week Range	\$7.55 - \$12.16
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	15MM
Average Trading Volume (3 mos)	38k
Market Capitalization	\$122MM
Cash	\$41MM
Long Term Debt	NA
Enterprise Value (EV)	\$88MM
Book Value	\$1.10
TTM Revenue	\$117MM
P/ Revenue	1x
TTM EPS	\$0.15
P/ EPS	54x
TTM EBITDA	\$4MM
EV/ EBITDA	21x