Mossberg's Investor Digest

Best Idea Profile | **S1 Corporation (NASDAQ:SONE)**

DESCRIPTION:

Headquartered in Norcross, Georgia; S1 Corporation is a leading global provider of payment and financial services software. SONE offers payment solutions for ATM, point-of-sale, card management and financial services solutions. S1 products include services for consumers, small businesses, banks, credit unions, retailers and transaction processors. S1 recently acquired PM Systems Corporation, a company that provides internet banking, bill payment and security services to credit unions. The company's long-term goal is to become a leading global provider of payments and financial services software solutions by coupling innovative products with the ability to provide large, complex enterprise-wide solutions for its clients.

KEY INVESTMENT CONSIDERATIONS:

Strong Growth Markets - All three of the company's operating segments: Payments, Large Financial Institutions (Banking) and Community Financial Institutions (Banking) are growth markets and high margin businesses. The company estimates that the Payments business alone has an addressable market estimated at $1 billion.

Business Drivers - There are a number of factors driving S1 business including new technology, the need for more secure transactions and the replacement cycle for legacy and disparate systems. These factors have resulted in both a robust replacement market and a trend toward outsourcing.

Future Growth and Improved Results – S1 reported 1Q10 revenue of $51MM vs. $58MM a year ago and a $0.02 loss vs. a $0.16 profit. These results were impacted by declining custom FI business, and a shift in revenue where more revenue is recognized under percentage of completion accounting. Investors should note that increased activity in large multi-year contracts (which requires percentage of completion accounting) is a positive development for the company. While it makes revenue comparisons difficult, these large multi-year contracts ultimately create longer term recurring revenue and added visibility.

Business Unit Turnarounds – The Large Financial Institutions business (Excluding the Custom Project Business) is in the latter stages of an operational turnaround. Also, the Community Banking Group has a new and highly competitive product with 40 migration projects currently occurring.

Proven Management - In FY06, the adjusted EBITDA loss was $17MM on $144MM in revenue. New management came on 3 years ago and delivered several years of growth in both revenue and EBITDA. For FY09, SONE reported $26MM in adjusted EBITDA on $187MM in rev. Also, S1 has achieved these results while investing in, and creating new products. Furthermore, new management has achieved a credible dialogue with investors while former management routinely missed operating expectations.

Diversified Revenue Base – S1's rev base (excluding State Farm and Custom Projects) is balanced between three operating units with Banking/Community FI at 30%, Payments at 32% and Banking/Large FI at 38%.

VALUATION:

The online banking software sector is ripe for consolidation. A number of companies with consumer banking applications have already been picked up by some core processors, but are still operating on a stand alone basis. As a premier product provider in the sector with strong growth, S1 could command premium valuation. With a $0.40 estimate for FY10, S1 has a P/E of 15x. Fundamental growth and a consolidation premium could lead to an expanding P/E multiple along with an improving bottom line.

(NASDAQ: SONE)
Investment Data (as of 7/16/10)

Recent Price	**$5.88**
52-Week Range	5.45 - 7.43
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	51.78MM
Average Trading Volume (3 mos)	403,150
Market Capitalization	304MM
Cash	50MM
Long Term Debt	6MM
Enterprise Value (EV)	260MM
LT Debt/ Equity	0.2
BV/ Share	$4.40
TTM Revenue	$232MM
P/ Revenue	1.3x
TTM EPS	$0.37
P/ EPS	16x
TTM EBITDA	34MM
EV/ EBITDA	7.6x