

# Mossberg's Investor Digest

## Best Idea Profile:

## SWK Holdings Corporation (OTCQB:SWKH)

### DESCRIPTION:

SWK Holdings is a specialty finance company focused on monetizing revenue streams in the life science sector with \$49.2 million in income producing assets after its most recent transactions. SWK partners with ethical product marketers and royalty holders to provide flexible financing solutions at an attractive cost of capital to create long-term value for both SWK's business partners and its investors. SWK considers a broad range of healthcare related companies and products with innovative intellectual property; including biotechnology, medical device, medical diagnostics, animal health and pharmaceutical industries. Its business partners are primarily engaged in selling products that directly or indirectly cure diseases and/or improve people's or animals' wellness. SWK is based in Dallas and has three full-time employees.

### KEY INVESTMENT CONSIDERATIONS:

**Business Plan Succeeding** – The Company inherited the cash of a publicly traded shell, and adopted a new corporate strategy in July of 2012. SWK completed six transactions during 2013, deploying \$33 million of capital. This brings the total to \$57.5 million in nine transactions over the last 15 months. Its transaction success proves its strategy of focusing on a particular industry niche and size.

**Underserved Niche Strategy** – SWK specifically targets life science companies, and within that industry niche, looks to invest in companies in the sub-\$50 million transaction size. Management believes its competitors, who are generally larger in size, are unable to efficiently serve these smaller transactions, which opens opportunities for SWK. Additionally, these competitors do not offer similar types of long-term financing options to fill the demand of the sub-\$50 million market.

**Capable Management** – SWK's management has extensive experience in doing these structures. The chief executive officer cofounded an investment management business investing in pharmaceutical royalties and healthcare equities and has more than a decade of experience investing in the area.

**Net Operating Loss** – Management views its ability to carry forward its \$433 million net operating losses as an important and substantial asset. At the end of 2013

management concluded that it would be able to realize approximately \$9.8 benefit in the future, and, as a result, released that amount of the valuation allowance against its net deferred tax assets. Management has stated that it expects to produce taxable income that will permit SWK to utilize the NOLs. The NOLs, if not offset against future income, will not begin to materially expire until 2021. SWK entered into a rights agreement in 2006, which continues through 2015, in order to protect this ability.

**Impressive 2013 Financials** – Total revenue for the year increased 912%. Total income producing assets were 49.2 million, compared with \$12.5 million at the end of 2012. The impact of the benefit to net income from the release of the valuation allowance on net deferred tax assets is excluded from these results. SWK also increased its transaction capacity by \$15 million via a new credit facility, with an additional \$15 million available upon SWK raising \$10 million in net equity proceeds.

### VALUATION:

Although SWKH has the risks that all micro-cap companies have, it has proven its business strategy in the last year and a half. Its potential for growth is tremendous if it can continue to find success in the small transaction niche field it is addressing.

#### SWK Holdings Corporation (OTCQB:SWKH) Investment Data (as of 4/29/14)

<b>Recent Price</b>	<b>\$1.05</b>
52-Week Range	\$0.73 - \$1.25
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	41.4 M
Average Trading Volume (3 mos)	46k
Market Capitalization	\$43.4 M
Cash	\$7.7 M
Long-term Debt	\$5.0 M
Enterprise Value (EV)	\$39.9 M
Book Value	\$1.22
TTM Revenue	\$6.5 M
P/ Revenue	6.7 x
TTM EPS	\$0.31
P/ EPS	3.4 x
TTM EBITDA	\$3.3 M
EV/ EBITDA	8.5 x

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