



Mossberg's Investor Digest

Best Idea Profile

SmartPros (Nasdaq: SPRO)

DESCRIPTION:

Founded in 1981, SmartPros provides continuing education and corporate training to professionals in the fields of accounting/finance, engineering, securities, legal, and insurance, all of which have mandatory continuing education requirements. The company also provides governance, ethics, and compliance training for corporate customers. Courseware is offered in off-the-shelf and custom-designed programs and delivered in a variety of media types including online, video, CD-Rom, and live Webcasting. The company publishes a monthly newsletter and web portal <http://accouting.smartpros.com> for accounting and finance professionals. The site serves a user base of 350,000 profiled members. Approximately 35% to 40% of sales are derived online.

KEY INVESTMENT CONSIDERATION:

Strong cash flow generation – Most of the company's revenue is derived from subscriptions, which are billed on an annual basis and payable in advance. This generates a significant deferred revenue balance...\$5.2 million at the end of the third quarter. In addition to giving the company added visibility, payment terms allow the company to grow without the need to finance significant working capital (there is little A/R and no inventory).

Strong Balance Sheet – The company has \$6.2 million in cash and no long term debt. Recently the company authorized a \$750,000 share repurchase program.

Growth Through Acquisition – Since there is little need to finance working capital and Capex is minimal (\$100k per quarter on average), excess cash can be reinvested by acquiring new businesses. This is the most efficient way to reach the critical mass that can provide efficiencies of scale and scope. Since March of 2007, the company has made four acquisitions, totaling \$5.5 million in aggregate value. The company has indicated an appetite for acquisitions and the depressed economy may be creating a buyers market in which SPRO could more easily pick up attractive companies at bargain prices.

Strong Insider Ownership – About 35% of the stock is owned by the insiders. They have reasonable compensation and the CEO and two directors bought stock in the open market last year.

RISK:

Weakness in the economy may curtail spending on continuing education. The company reported during the third quarter that its clients had recently been taking longer to renew subscriptions. While spending in all areas is likely to decline during tough economic times, workers are likely to pursue education programs in order to add new skills that can increase their attractiveness to potential employers or improve their compensation. Also, it's important to keep in mind that continuing education is mandatory in most of the professions that are served by SmartPros courseware.

VALUATION:

Over the past two years, the company has delivered operating margin in the 6% to 7% range. While operating margin fell to 3% during the trailing 12 months, it's important to note that this was due to incremental costs associated with acquisitions and investments in new product development. Product development costs are expensed and not capitalized, which is a much more conservative accounting approach. Assuming that these costs were more one time in nature, margins should return to recent levels soon (they were 12% during 3Q08) and drive improved profitability and returns. Even so, SPRO's enterprise value is just 5x that of the depressed TTM EBITDA.

(Nasdaq: SPRO)	
Investment Data (as of 1/29/09)	
Recent Price	\$2.65
52-Week Range	2.20 - 5.80
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	4.9 MM
Average Trading Volume (3 mos)	60,000
Market Capitalization	13.3 MM
Cash	6.2 MM
Long Term Debt	0
Enterprise Value (EV)	7.1 MM
LT Debt/ Equity	N/A
BV/ Share	2.35
TTM Revenue	16.9 MM
P/ Revenue	0.8x
TTM EPS (non-GAAP)	0.23
P/ EPS	11.7x
TTM EBITDA	1.4 MM
EV/ TTM EBITDA	5.1x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.