

Mossberg's Investor Digest

Best Idea Profile:

eGain Corporation (NASDAQ:EGAN)

DESCRIPTION:

eGain Corporation is the leading cloud provider of multichannel customer service interaction solutions. It provides collaborative customer interaction software solutions to more than 250 direct customers and 200 OEM customers worldwide. eGain provides on-premise technologies through licenses, as well as cloud-based technologies to help businesses communicate and sell to their customers. eGain targets four vertical business-to-consumer markets: telco and media, retail and branded manufacturing, insurance and retail finance, and health insurance. Significant clients in these markets, respectively, are Vodafone, Cannon, and USAA. eGain was founded in 1997, is located in Sunnyvale, California, and employs 500 people.

KEY INVESTMENT CONSIDERATIONS:

Highly Regarded Products – Gartner, Inc. puts eGain in the "Leaders" quadrant of its 2013 "Magic Quadrant for CRM Web Customer Service Applications." It recognizes the Company's "market-defining vision and the ability to execute." The Company's new technology release pulls it even further ahead of its competitors with the introduction of SuperChat. SuperChat is a pioneering customer collaboration solution that empowers businesses to proactively engage customers beyond text chat with unified auto chat, video, voice, and co-browse capabilities.

Win-Win Transition to Cloud Services – eGain's significant investment to migrate from licensed, on-premise technology to cloud-based technology is paying off. In fiscal 2011, 24% of new business was cloud-based, versus 75% today. The most recently reported quarter was the first time cloud customers were the majority of total business (60% of total revenue). Yet tremendous opportunity remains in converting the on-premise customers to the cloud. Close to two-thirds of existing customers are on-premise clients and migrating them to the cloud yields two to three times incremental revenues for eGain, and improved service and agility for the client: A winning combination for the Company and its customers.

Increased Revenue Visibility – Recurring revenue increases visibility of forward revenues and earnings. More than half of eGain's revenue in the most recently reported quarter was recurring revenue, which carries a gross margin of 85%. The quarter's backlog of \$40.5 million was up 127% over last year's comparable quarter.

Growing Distribution Channels – eGain has a myriad of growth opportunities including growing direct sales presence in current geographic markets, and entering new geographic markets, such as France and Asia Pacific. The third piece of its growth is continuing to develop and strengthen partner channels in order to reach many more opportunities early in the cycle and with the benefit of incumbency of the partners. In the most recent quarter eGain expanded its partnership with Cisco, going beyond its successful OEM relationship, to now resell the broad eGain suite as part of Cisco's solution.

VALUATION:

eGain is the only pure-play web customer service vendor with material scale and market leading technology. Its stock appears attractively valued in comparison with less fully diverse businesses in similar spaces. RightNow Technologies was acquired about a year ago by Oracle for \$1.5 billion, or 8x revenue. LivePerson (NASDAQ: LPSN) trades at 5x revenue. Comparatively, EGAN trades at less than 4x trailing revenue.

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Investment Data (as of 2/15/13)

| | |
|--------------------------------|-----------------|
| Recent Price | \$7.50 |
| 52-Week Range | \$3.31 - \$7.98 |
| Fiscal Year End | June |
| Dividend | NA |
| Yield | NA |
| Shares Outstanding | 24.7 M |
| Average Trading Volume (3 mos) | 33k |
| Market Capitalization | \$185 M |
| Cash | \$19 M |
| Long-term Debt | \$8 M |
| Enterprise Value (EV) | \$167 M |
| Book Value | \$0.10 |
| TTM Revenue | \$47.6 M |
| P/ Revenue | 3.7x |
| TTM EPS | \$(0.28) |
| P/ EPS | NA |
| TTM EBITDA | \$(4.4) M |
| EV/ EBITDA | -37.9 |

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