



# Mossberg's Investor Digest

## Best Idea Profile

ePlus Inc. (Nasdaq: PLUS)

### DESCRIPTION:

Headquartered in Herndon, Virginia, ePlus is an IT services company. The company sells, installs and services IT hardware and software solutions. Hewlett Packard and Cisco are the company's two major vendors, accounting for 22% and 38% of sales, respectively. The company also offers lease-financing solutions to its customers. ePlus has 2,500+ mid to large scale enterprise customers, none of which accounts for more than 5% of sales. The company employs 650 people in a network of more than 20 offices nationwide.

### KEY INVESTMENT CONSIDERATION:

**Strong growth track record** – While growth rates have slowed recently, the company has a strong track record of delivering above market growth rates. From 2003 to 2008, revenue grew at a compound annual rate of 23%. In the current recessionary environment, customers are more likely to do business with better capitalized vendors, which should allow ePlus to continue to outperform.

**Credit risk from lease business may be misunderstood** – More than 60% of the company's investment in leases is financed with non-recourse loans. ePlus introduces the lessee to the financial institution that provides most of the financing and assumes the credit risk for that financing. Upon default, the financial institution has recourse against the lessee only. As the name implies, ePlus is generally not responsible for repayment of a non-recourse loans if the customer does not pay.

**Strong balance sheet provides stability and ability to take advantage of acquisitive opportunities** – The company has \$87 million in cash and no non-recourse debt. This represents a considerable war chest that the company could use to make acquisitions. The company has also used excess cash to repurchase shares. Through the end of December, the company had repurchased approximately 300,000 of a 500,000 share repurchase authorization at an average price of \$9.65 per share. The authorization represents about 6% of the company's outstanding shares.

**Intellectual Property** – In addition to reselling hardware and software from other providers, ePlus has a portfolio of patent-protected intellectual property. This intellectual property competitively differentiates how ePlus goes to market by allowing customers the ability to more effectively manage their IT infrastructure. The company recently sued SAP for patent infringement and won \$54 million including a license agreement from SAP.

### RISK:

The company has relationships with financial institutions, including GE Capital, which provide financing for the company's leasing business. A continuation or worsening of the current financial crunch could have a material negative affect on ePlus' operations.

### VALUATION:

By any metric this stock appears very cheap. On an asset basis, the company trades at roughly 60% of its tangible book value. On a multiple of earnings, the company trades at 3 EV/ EBITDA and 7x EPS. It's also questionable whether or not to include the non-recourse debt as part of enterprise value. With \$87 million in cash on the balance sheet, there appears to be significant margin of safety.

#### (AMEX: PLUS)

Investment Data (as of 4/29/09)

<b>Recent Price</b>	<b>\$12.00</b>
52-Week Range	7.88 - 14.00
Fiscal Year End	March
Dividend	N/A
Yield	N/A
Shares Outstanding	8.0 MM
Average Trading Volume (3 mos)	12,000
<b>Market Capitalization</b>	<b>96 MM</b>
Cash	87 MM
Long Term Debt	143 MM
Enterprise Value (EV)	153 MM
LT Debt/ Equity	0.5
Tangible BV/ Share	19.06
TTM Revenue	752 MM
<b>P/ Revenue</b>	<b>0.1x</b>
TTM EPS	1.75
<b>P/ EPS</b>	<b>6.9x</b>
TTM adjusted EBITDA	48 MM
<b>EV/ TTM EBITDA</b>	<b>3.0x</b>

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