Zacks Small-Cap Research

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Legacy Education Alliance, Inc. (LEAI-OTC)

LEAI: Settlement Funds Bolster Company's Growth Capital

Legacy Education Alliance announced this week that it has settled credit card litigation and will receive an aggregate sum of $5.0 million. The settlement funds will impact the company's 4Q17 financial statements.

OUTLOOK

The funds from the settlement will bolster the cash reserves that the company can tap to further its growth initiatives. Legacy has implemented several initiatives, including international expansion and increased focus on enhancing the online delivery of its courses in order to provide greater flexibility in a digital world. These measures have resulted in strong growth thus far, with1H17 total cash sales up 16.4% year-over-year. The company expects to achieve continued growth and margin expansion as it advances its strategy.

Current Price (11/2/17)	$0.46
Valuation	$0.50

SUMMARY DATA

52-Week High	**$0.48**
52-Week Low	**$0.17**
One-Year Return (%)	**142.1**
Beta	**N/A**
Average Daily Volume (sh)	**9,321**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$11**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**--**
Insider Ownership (%)	**26**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using 2016 EPS	**2.7x**
P/E using 2017 Estimate	**2.6x**
P/E using 2018 Estimate	**2.1x**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**N/A**
Industry	**Business Services**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	22 A	23 A	22 A	20 A	87 A
2016	23 A	23 A	22 A	21 A	89 A
2017	23 A	25 A	24 E	22 E	93 E
2018					96 E

Earnings Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.03 A	-$0.05 A	-$0.04 A	-$0.01 A	-$0.13 A
2016	$0.03 A	$0.04 A	$0.05 A	$0.05 A	$0.17 A
2017	$0.02 A	$0.05 A	$0.06 E	$0.05 E	$0.18 E
2018					$0.22 E

2017 EPS adjusted to exclude 1-time items.
Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 9.

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KEY POINTS

- Legacy Education Alliance announced this week that it has settled credit card litigation and will receive an aggregate sum of $5.0 million in the settlement.
- The settlement will impact the company's 4Q17 financial statements. We estimate that the funds will equate to a one-time EPS benefit of $0.18 to $0.22 per share.
- The settlement funds will bolster the company's cash reserves that it can tap to further its growth initiatives.
- Consistent with the company's goal to be the leading global provider of services and products that enable people to assume control of their finances, Legacy has implemented several growth initiatives. These include international expansion and increased focus on enhancing the online delivery of its courses in order to provide greater flexibility in a digital world.
- Thus far, the company's measures have resulted in strong growth. For example, in the first half of 2017, Legacy's total cash sales advanced 16.4% year-over-year to $51.2 million.
- The company expects to achieve continued growth and margin expansion through product mix shifts, as it expands its online course delivery and evaluates opportunities to expand its course offerings, and brand development and price level improvements.

COMPANY SETTLES CREDIT CARD LITIGATION

Legacy Education Alliance, a global educational training company that has served more than two million students internationally since it first began operations, announced this week that it has settled credit card litigation and will receive an aggregate sum of $5.0 million in the settlement. The suit was originally filed in 2013.

On October 31, 2017, Legacy entered into an agreement with several financial institutions to settle litigation that had been pending in New York. Among other things, Legacy sought to recover $8.3 million in reserve funds. Legacy agreed to settle this case for the above-noted aggregate sum of $5.0 million. The agreement stipulates that the funds will be transferred to Legacy within seven business days and will therefore be included in the company's 4Q17 financial statements. We estimate that the funds will equate to a one-time EPS benefit of $0.18 to $0.22 per share.

Funds Will Augment Company's Cash Position and Growth Capital

Consistent with the company's goal to be the leading global provider of services and products that enable people to assume control of their finances, Legacy has implemented several growth initiatives. These include international expansion and increased focus on enhancing the online delivery of its courses in order to provide greater flexibility in a digital world. The funds from the settlement will bolster the company's cash reserves that it can tap to further its growth initiatives.

Thus far, the company's measures have resulted in strong growth. For example, in the first half of 2017, Legacy's total cash sales advanced 16.4% year-over-year to $51.2 million. The company expects to achieve continued growth and margin expansion through product mix shifts, as it expands its online course delivery and evaluates opportunities to expand its course offerings, and brand development and price level improvements. Management also expects to introduce several new branded course offerings in the near-

term and has indicated that it would consider potential new business opportunities in related areas, either through organic development or acquisition. The settlement funds will help Legacy with these strategies.

With Legacy's domestic operations accounting for over 50% of total revenue, international presents a significant opportunity for growth. An important component of the company's growth strategy is to expand its operations outside of core markets. Towards this goal, Legacy has actively developed programming in markets in other countries, particularly in Australia, Africa and Asia.

Management believes that expanding its e-Learning offerings will provide greater convenience to customers and generate increased course enrollments. This goal is consistent with industry trends, as the industry overall is seeing a shift to internet delivery of financial training content, according to industry studies. Legacy has been increasing its social media footprint internationally. e-Learning, particularly in Legacy's targeted emerging markets, is enjoying rapid growth. As the company expands its offering of e-learning courses, margins are expected to expand, reflecting the more economic delivery of online training.



Source: Company reports

RECENT NEWS

Legacy settled litigation on October 31, 2017.

Legacy reported 2Q17 results on August 14, 2017.

On July 11, 2017, the company announced that the Form 10 Registration Statement that it had filed with the Securities and Exchange Commission was effective. This registration was filed in an effort to provide greater transparency to investors, as with an effective Form 10 registration statement, Legacy is now subject to SEC reporting requirements.

Legacy announced the appointment of Fred Dummar to Senior Vice President of its Company effective July 10, 2017.

On May 19, 2017, Legacy announced the release of *Assets Cubed*, a new book by Anthony C. Humpage, CEO of Legacy.

RISKS

- Competition is steep, which could make it difficult for Legacy to continue to execute its growth strategy.
- The company might not be able to convert students taking online preview workshops to advanced paid courses as rapidly as it expects, particularly in newer markets.
- New course offerings and brands might not gain traction as quickly as the company expects.
- Legacy has a clean balance sheet, with over $4.7 million in cash as of June 30, 2017 and only $37,000 in debt. However, the company has noted that it might consider potential new business opportunities in related areas, either through organic development or acquisition. An M&A transaction or the cost of investment could warrant additional spending that would result in Legacy adding debt or diluting equity shareholders.
- The Rich Dad brand accounted for 72.3% of Legacy's total consolidated revenue in the first half of 2017. If Legacy is unable to renegotiate the Rich Dad license in a timely manner, it could pressure the company's consolidated revenue.
- It may be early to purchase LEAI shares, as the company raises its profile in the investment community.

PROJECTED INCOME STATEMENT

Legacy Education Alliance Income Statement & Projections ($000s except per share data)

	2015	1Q16	2Q16	3Q16	4Q16	2016	1Q17A	2Q17A	3Q17E	4Q17E	2017E	2018E
Revenue	87,161	22,738	23,375	22,469	20,614	89,196	22,815	24,780	23,592	21,645	92,832	96,360
Direct course expenses	48,201	11,654	12,584	12,268	11,337	47,843	12,829	13,007	12,127	11,385	49,348	51,263
Advertising & sales expenses	20,293	5,267	5,322	4,618	4,277	19,484	4,591	5,131	4,766	4,372	18,860	19,465
Royalty expenses	5,446	973	1,070	1,208	1,090	4,341	893	1,639	1,180	1,082	4,794	5,300
General & administrative expenses	16,317	4,059	3,685	3,595	3,716	15,055	4,341	4,231	4,388	3,983	16,943	15,416
Total operating costs & expenses	90,257	21,953	22,661	21,689	20,420	86,723	22,654	24,008	22,460	20,822	89,944	91,444
Income (loss) from operations	(3,096)	785	714	780	194	2,473	161	772	1,132	822	2,888	4,916
Net Interest income (expense)	(7)	(3)	1	(1)	(2)	(5)	(3)	(2)	(2)	(5)	(12)	(8)
Other income	392	(179)	319	397	(65)	472	83	69	50	45	247	250
Net settlement	-	-	-	-	-	-	-	-	-	4,300	4,300	-
Total other income	385	(182)	320	396	(67)	467	80	67	48	4,340	4,535	242
Income (loss) before income taxes	(2,711)	603	1,034	1,176	127	2,940	241	839	1,180	5,162	7,423	5,158
Income tax benefit/(expense)	(15)	(10)	(9)	(8)	968	941	(21)	156	(35)	(258)	(159)	(155)
Net income (loss)	(2,726)	593	1,025	1,168	1,095	3,881	220	995	1,145	4,904	8,464	5,003
Per share data											-	
Diluted earnings (loss) / common share	($0.13)	$0.03	$0.04	$0.05	$0.05	$0.17	$0.01	$0.04	$0.05	$0.22	$0.32	$0.22
Estimated adjusted EPS (2017)*	-	-	-	-	-	-	$0.02	$0.05	$0.06	$0.05	$0.18	-
Diluted weighted avg common shares out	20,910	21,846	21,846	22,204	(43,763)	22,133	22,631	22,763	22,763	22,763	22,730	22,730

*2017 adjusted EPS excludes non-recurring item such as spending to implement an ERP system and litigation settlement benefit.

Source: Company reports, Zacks estimates

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BALANCE SHEET AND CASH FLOW STATEMENT

Legacy Education Alliance Balance Sheet ($000s)

	2013	2014	2015	2016	June-17
Cash & cash equivalents	$5,554	$2,932	$4,881	$1,711	$4,705
Restricted cash	3,061	1,843	2,946	3,148	3,403
Deferred course expenses	14,222	8,722	9,211	9,067	9,711
Prepaid expenses & other	2,101	2,528	2,169	3,458	4,083
Inventory	203	161	492	348	373
Total current assets	**$25,141**	**$16,186**	**$19,699**	**$17,732**	**$22,275**
Property & equipment	1,292	1,324	1,226	1,130	1,170
Deferred tax asset		-	-	1,295	1,563
Other assets	227	217	200	207	305
Total assets	**$26,660**	**$17,727**	**$21,125**	**$20,364**	**$25,313**
Accounts payable	2,167	2,620	2,451	3,344	3,049
Royalties payable	186	104	163	175	376
Accrued course expenses	1,141	1,060	1,226	1,082	1,840
Accrued salaries, wages & benefits	530	564	1,258	840	1,127
Other accrued expenses	2,221	2,967	2,372	2,052	2,583
Long-term debt, current portion	1,208	9	10	11	11
Deferred revenue, current portion	73,262	56,140	60,698	54,389	57,397
Total current liabilities	**$80,715**	**$63,464**	**$68,178**	**$61,893**	**$66,383**
Long-term debt	427	52	42	31	26
Deferred revenue	173	238	71	235	555
Other liabilities	61	126	45	379	479
Total liabilities	**$81,376**	**$63,880**	**$68,336**	**$62,538**	**$67,443**
Total stockholders' deficit	**($54,716)**	**($46,153)**	**($47,211)**	**($42,174)**	**($42,130)**
Total liabilities & stockholders' deficit	**$26,660**	**$17,727**	**$21,125**	**$20,364**	**$25,313**

Source: Company reports

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Legacy Education Alliance Statement of Cash Flow ($000s)

	2013	2014	2015	2016
Net income/(loss)	4,329	7,365	(2,726)	3,881
Depreciation & amortization	276	216	185	146
Chg in fair value of derivatives			(136)	82
Share-based compensation	64	22	63	168
Loss on asset disposition	16	-	-	-
Deferred taxes	(462)	3	(18)	(1,297)
Debt forgiveness	(1,652)	-	-	-
Loss from discontinued ops	525	-	-	-
Litigation settlement	-	(1,300)	-	-
Changes in working capital	1,977	(7,958)	5,412	(4,543)
Cash from operations	**5,073**	**(1,652)**	**2,780**	**(1,563)**
Purchases of property & equipment	(169)	(187)	(81)	(55)
Proceeds from the sale of assets	1	-	-	-
Cash from investing activities	**(168)**	**(187)**	**(81)**	**(55)**
Principal payments on debt	(1,315)	(338)	(9)	(10)
Proceeds from private offering of securities	-	-	459	-
Cash from financing activities	**(1,315)**	**(338)**	**450**	**(10)**
Exchange rate impact	(641)	(445)	(1,200)	(1,542)
Chg in cash & equivalents	**$2,949**	**($2,622)**	**$1,949**	**($3,170)**

Source: Company reports

HISTORICAL STOCK PRICE



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