Zacks Small-Cap Research

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Legacy Education Alliance, Inc.

(LEAI-OTC)

LEAI: Zacks Company Report

Legacy Education Alliance is a global educational training company that has implemented several growth initiatives, including international expansion and increased focus on enhancing its online delivery of courses.

Current Price (09/5/17)	$0.40
Valuation	$0.50

OUTLOOK

Reflecting the company's growth-oriented measures, Legacy's total cash sales advanced 16.4% year-over-year in the first half of 2017 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, brand development and price level improvements, as well as potential new business opportunities in related areas, either through organic development or acquisition.

SUMMARY DATA

52-Week High	**$0.48**
52-Week Low	**$0.14**
One-Year Return (%)	**66.67**
Beta	**N/A**
Average Daily Volume (sh)	**24,524**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$9**
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 TTM EPS	**2.4x**
P/E using 2017 Estimate	**2.3x**
P/E using 2018 Estimate	**1.8x**
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 spending.
Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 21.

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KEY POINTS

- Legacy Education Alliance is a global educational training company that has implemented several growth initiatives, including international expansion and increased focus on enhancing its online delivery of its courses. Reflecting these and other measures, Legacy's total cash sales advanced 16.4% year-over-year in the first half of 2017 to $51.2 million and its Other Foreign Markets unit accounted for 25% of total revenue, up from 18% in the prior year period.

- 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, as well as potential new business opportunities in related areas. Management expects to introduce several new branded course offerings in the near-term.

- The company also has cost containment efforts underway that are expected to drive margin improvements. The benefits of these cost cutting measures have been masked in 2017 by a $1.2 million investment in an ERP (Enterprise Resource Planning) system that Legacy is implementing to drive efficiencies.

- We believe it is difficult to compare Legacy to most publically-traded educational or training companies, as Legacy's focus on financial and real estate investment training differs from these others. That said, Legacy shares trade at a substantial discount to other public companies with operations in training and education.

- Given the current valuation gap between Legacy and other companies that provide educational or training services, we believe the risk / reward ratio could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon. If Legacy can deliver growth on the initiatives discussed in this report, in success we would anticipate share price appreciation over time.

OVERVIEW

Founded in 1996 with corporate and executive offices in Cape Coral, Florida, Legacy Education Alliance is a global educational training company that has served more than two million students internationally since it first began operations. The company strives 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, as discussed in this report, including international expansion and increased focus on enhancing the online delivery of its courses in order to provide greater flexibility in a digital world. Reflecting these and other measures, Legacy's total cash sales advanced 16.4% year-over-year in the first half of 2017 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 expects to introduce several new branded course offerings in the near-term. Management has also indicated that it contemplates potential new business opportunities in related areas, either through organic development or acquisition.

Legacy has a global reach of 26 countries, which supports students from more than 150 countries, providing educational training on topics including personal finance, entrepreneurship, real estate and financial markets investing strategies and techniques. The company provides courses through several formats and channels, including free-preview workshops, basic training classes, symposiums, telephone mentoring, one-on-one mentoring, coaching and e-learning. The company has three primary categories for its programming – basic, Elite for advanced students and individualized mentoring programs. Price points vary depending on program level, with the average Elite advanced course at roughly $19,000 to $21,000. As the company expands its

offering of e-learning digital online courses, the overall average price per course is expected to decline but margins are expected to expand, reflecting the more economic delivery of online training.

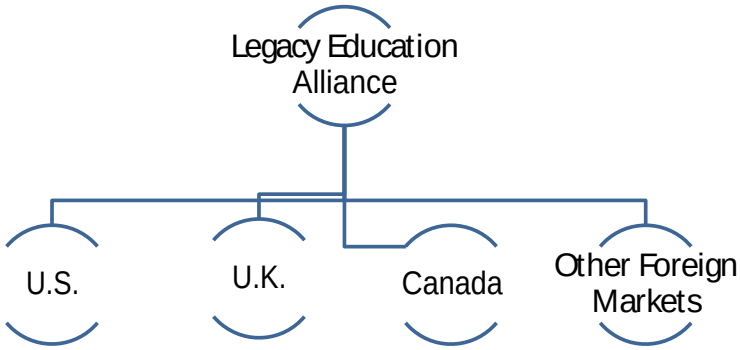
LEGACY
Education Alliance, Inc.

Programming Formats

- Basic training live and online courses,
- Elite (advanced) level live and online training courses , and
- Individualized mentoring programs.

Source: Company reports

Legacy's domestic operations account for over 50% of total revenue. That is not surprising, as the U.S. is the largest market for self-help training programming including financial training. According to market research firm Marketdata Enterprises, "there is no shortage of demand for products and programs that will allow Americans, especially affluent female Baby Boomers, to make more money… [and] improve their … business skills… They want to be more in control of their … financial lives." Forbes notes that Americans spent $11 billion on self-improvement programming in 2008, up 13.6% compared to 2005. This figure is corroborated by Marketdata, which found that the "total self-improvement market (including revenues of weight loss programs)" was estimated to be worth $9.9 billion.



The U.K. and other foreign nations are key markets for the company, as well. 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.

The company provides educational training designed to help people improve their financial positions and strategies. Training topics range from personal finance and entrepreneurship to strategies and techniques for investing in real estate and financial markets. Legacy offers programs through several formats, including free-preview workshops, basic training classes, symposiums, telephone mentoring, one-on-one mentoring and e-learning. Many of its programs are based on brands underpinned by the credentials of well-known financial authors or celebrities.

Rich Dad® Education

Legacy's single largest revenue generator is the company's Rich Dad brand. Revenue from the Rich Dad brand was $34.4 million or 72.3% of total consolidated revenue for the six months ended June 30, 2017. The Rich Dad training program was created in 2006 under a license agreement with the author of the best-selling *Rich Dad Poor Dad* book, Robert Kiyosaki. The book ranked at the top of the *New York Times* paperback advice chart for over 95 weeks. In addition to Rich Dad, the company has several other training programs, including *Martin Roberts*, *Robbie Fowler Property Academy, The Independent Woman,*

Women in Wealth and *Brick Buy Brick*. Adding new brands both organically and through acquisitions is a key component of the company's growth strategy.

Students pay for their courses in full upfront or through payment agreements with independent third parties. As a result, the company has little to no exposure to bad debt write-offs. In addition to group training sessions, Legacy provides one-on-one mentoring where a mentor interacts with the student individually in-person or by phone to provide instruction and guidance. An example would be a mentor helping a student complete their first real estate transaction.

The company also offers symposiums where it conducts multiple training sessions in one venue simultaneously to obtain cost efficiencies and enable networking opportunities for students, as well as bonus events and activities. In turn, management expects these factors to increase customer retention. According to Forbes, there is a strong tendency of repeat business from prior customers of self-help products. For example, publishing statistics indicate that roughly 80% of self-help book consumers are repeat purchasers, according to U.K. newspaper the Guardian. An estimated 30% of Legacy's customers take an additional company training course after completing the first program, according to management.

Legacy obtains most of its potential customers primarily through internet advertising via banner ads and direct email, mail or text campaigns, as well as through media including radio, TV, social media and print. The majority of Legacy customers have attended free preview workshops that are live onsite two-hour workshops offered in various metropolitan areas in the U.S., the U.K., Canada and other foreign markets. The company's experience has been that offering the free preview workshops as a first step is an effective way to promote the basic training courses that can be purchased. Once a person has completed a basic training course, Legacy continues to market its more advanced programs to these customers to encourage them to progress to the company's Elite training classes and mentorships.

With more than 20 years of experience, Legacy is one of the most established companies in the field of educational financial and investment training. The company has also implemented several initiatives to fuel growth. Reflecting the success of these initiatives, particularly its international expansion, Legacy's cash sales advanced by 16.4% in 1H17, as noted, led by a 57.5% year-over-year advance in the Other Foreign Markets segment. At the same time, the company also has cost containment efforts underway that are expected to drive margin improvements. The benefits of these cost cutting measures have been masked in 2017 by a $1.2 million investment in an ERP (Enterprise Resource Planning) system that Legacy is implementing to drive efficiencies.

GROWTH STRATEGY AND TAILWINDS OF POSITIVE INDUSTRY TRENDS



Source: Company reports

The company's strategy is focused primarily on:

- **Developing International Markets** while simultaneously continuing to develop its domestic businesses. The company's international expansion began in 2014. As the company has gained traction in several of its new markets, in each consecutive year Legacy has increased the number of events it has held.

- **Brand Development and Diversification** The company operates under nine different brands, targeting different brands to specific demographic groups to optimize price points and sales channels. Management believes this strategy allows the company to minimize individual brand-fatigue while maintaining market share.

- **Optimizing Customer Fulfillment** Driving increased fulfillment represents significant opportunities in revenue recognition through the accelerated conversion of deferred revenue. Towards this goal, the company has expanded the options for course fulfillment, increasing the number of courses offered online and via live symposiums. With these measures, management expects to reduce the number of expired contracts the company registers. While Legacy does not offer refunds on these expired contracts, the company cannot recognize revenue on the unused portion of a contract until it expires. Thus, by enabling and encouraging customers to take the course and thereby fulfill their commitment, Legacy can accelerate its revenue recognition on these contracts. Legacy has also improved its outreach to existing customers to encourage their attendance at a course so they can fulfill their contract sooner and boost fulfillment and the associated recognized revenue. The company also expects to accelerate revenue recognition by shortening course package contracts.

- **Increase online digital training or e-Learning** 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.

INTERNATIONAL EXPANSION: CORE GROWTH INITIATIVE

Legacy's Growing International Footprint

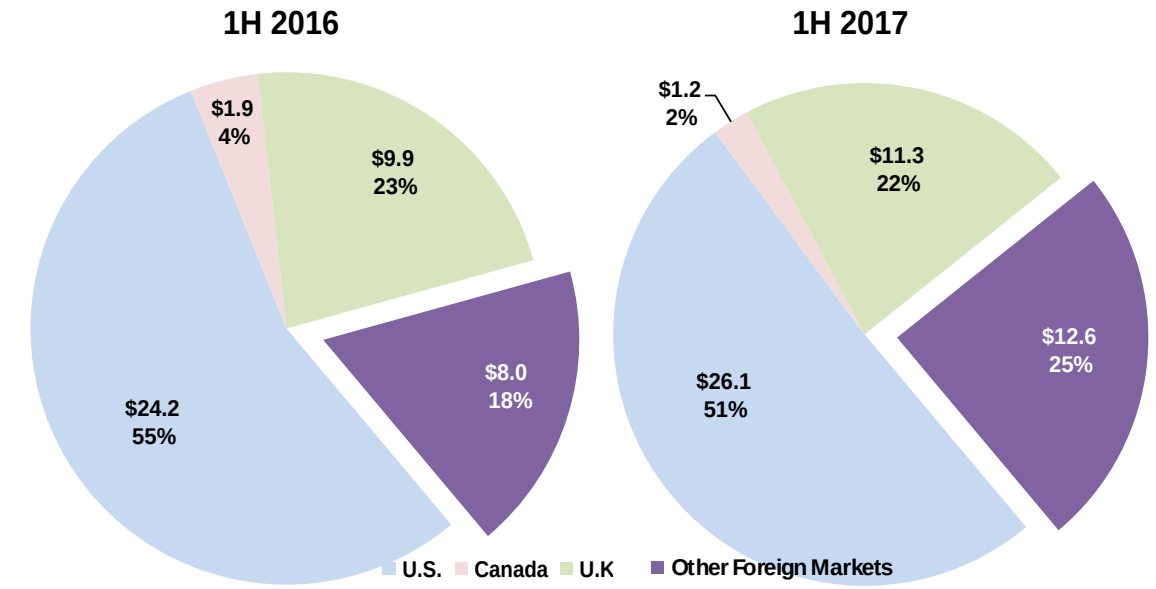


*New Offices in 2015

Source: Company reports

In implementing its growth strategies, Legacy is benefitting from several positive trends including rising interest in financial training within emerging markets and the industry shift to online delivery of training courses. International expansion has become an important initiative for the company, as noted. The company can thereby leverage its expertise in new markets and, at the same time, benefit from positive underlying trends in several emerging markets as more people in these markets are interested in financial training. In 2014, Legacy entered markets in Africa, Europe, and Asia, hosting events in 21 countries. The company opened new offices in South Africa and Hong Kong in the first half of 2015 and expanded its footprint into five new countries in 2015, achieving a global reach of 26 countries. Legacy continues to increase the number of training events in these new markets as it gains traction with customers. The company is also leveraging certain secular trends in implementing its strategic international expansion. For instance, Africa has become one of the fastest growing e-learning markets in the world, according to recent studies, while Asia is also growing rapidly.

Legacy Cash Sales 1H 2017 Versus 1H 2016



Source: Company reports

The benefits of this strategy can be seen in the company's results for the first six months of 2017. Total cash sales of $51.2 million advanced 16.4% compared to $44.0 million registered in the same period of 2016. While all of the company's geographic divisions with the exception of Canada experienced growth, cash sales from Other Foreign Markets was up 57.5% year-over-year to $12.6 million and this unit accounted for roughly 25% of total cash sales, up from 18% in the prior year period.

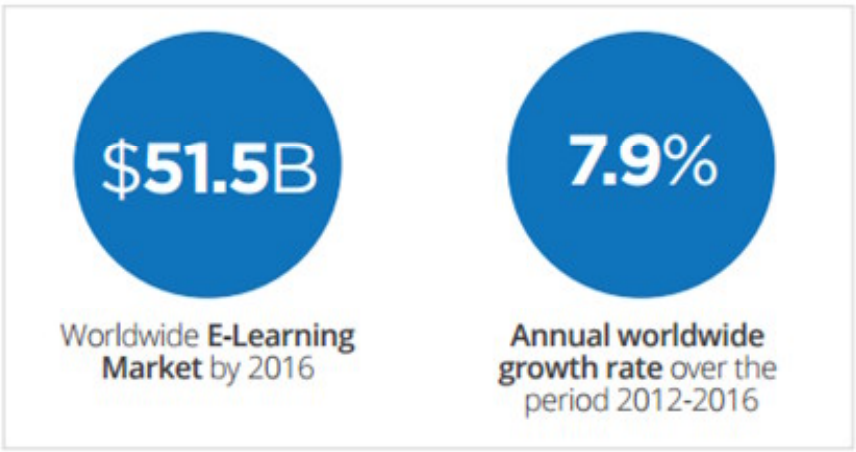
E-LEARNING INDUSTRY BACKGROUND

For the overall training industry, live training seminars represent annual revenue estimated in excess of $400 million, according to market research from Marketdata Enterprises and others. However, for the industry as a whole, revenue from live events has declined over the past few years as webinars gain in popularity, reflecting their generally lower price points and greater convenience as students can attend webinars on a more flexible schedule.

According to e-Learning provider Docebo, "the worldwide market for self-paced e-Learning reached $35.6 billion in 2011[1]" and was tracking at $51.5 billion in 2016, with a five-year compound annual growth rate estimated at over 7%. The highest growth rate (17.3%) Docebo cites is in Asia, one of the regions that Legacy has targeted for its international expansion. Africa enjoys 15.2% growth and is another market Legacy has earmarked for international expansion, with a new office opened in 2015 in South Africa.

[1] The Docebo figures include corporate training and continuing education.

Worldwide e-Learning Market



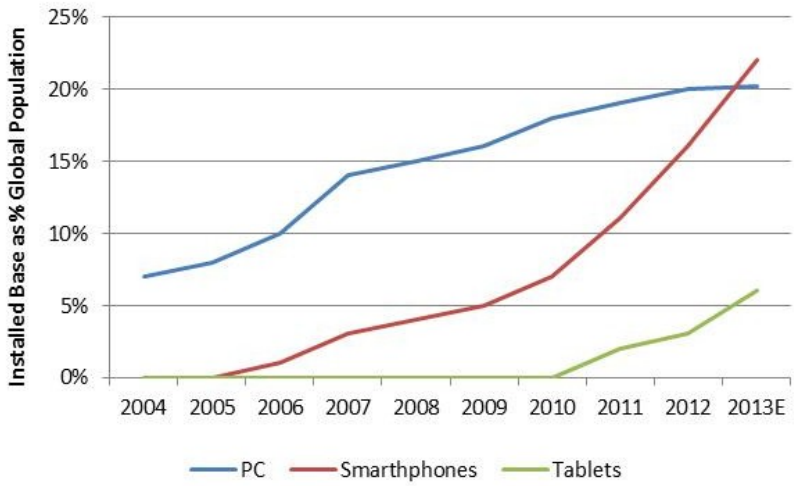
Source: Docebo

According to Allos South Africa, “Surveys indicate that the African population is willing to engage with new technology-based tools to improve their education and knowledge. However, the continent’s infrastructure proves to be a large challenge, undermining the long-term benefits of Internet and Mobile learning strategies. A new mindset is required to adopt ‘Cloud’ technologies, with African youth pushing favorably towards new learning methodologies that would allow them to catch up with their intercontinental counterparts.”

According to a study titled, *The Africa Market for Self-paced e-Learning Products and Services*, “Africa has become the most dynamic e-learning market in the world.” The report noted that “the overall growth rate for self-paced e-learning in Africa is 15.2%.” The highest growth rates are in the African nations of Senegal at 30.4%, Zambia (27.9%), Zimbabwe (25.1%) and Kenya (24.9%). African e-learning revenues reached $250.9 million in 2011. Asia, another region where Legacy has focused in recent years, is also a high-growth market. According to this same study, “Asia has the highest growth rate for e-learning in the world at 17.3%.” E-Learning revenue in Asia reached US$5.2 billion in 2011. Other markets where Legacy has found strong success implementing its international strategy include New Zealand and Australia.

Increasing use of mobile and social media are major growth drivers of e-Learning in many of these markets. Increasing penetration of internet and smart devices is expected to continue.

Global Device Penetration Per Capita



Source: BI Intelligence, Gartner, IDC, Strategy Analytics, World Bank 2013

Mobile technology penetration has grown dramatically over the past decade. Adoption rates of mobile devices such as smartphones and tablets are tracking significantly ahead of that of other technology platforms such as PCs or broadband. Smartphones took only 8-years to reach 20+% penetration globally. The growth in mobile devices has surpassed device adoption of other prior electronic devices.

Students in Legacy's Other Foreign Market segment primarily attend advanced training courses online. Legacy's efforts in course delivery innovation are focused on expanding online course delivery. The company expects to attain margin improvements and cost efficiencies through the digital and online delivery of its offerings. The company has facilitated online previews in basic training course offerings as an alternative option for students attending live preview and basic training events. In the second quarter 2017, the company also doubled its capacity to offer additional live streaming of its advanced training courses and increased the number of web-based classes that it offers.

BRAND DIVERSIFICATION STRATEGY AIMED AT MINIMIZING BRAND FATIGUE

Legacy offers training under nine different brands, with Rich Dad being the leading franchise currently. Some of the company's programming brands are highlighted below.

Rich Dad® Education – flagship brand
Robert Kiyosaki first published his book, *Rich Dad, Poor Dad*, in the 1990s. *Rich Dad Poor Dad* outlines the author's views on how to attain financial independence by investing in high-yielding assets, particularly real estate, and developing businesses. The book became a New York Times best-seller, as noted. He subsequently published several follow-up books such as *Retire Young, Retire Rich,* and *Midas Touch.* The latter was co-authored with Donald Trump. In total, Robert Kiyosaki has authored more than 15 books with aggregate sales in excess of 26 million copies, according to Legacy. By licensing the Rich Dad brand to Legacy, Robert Kiyosaki can extend his reach, benefitting both the brand and Legacy.

Legacy first launched its Rich Dad series in 2006 and has subsequently re-negotiated the licensing agreement with Robert Kiyosaki in 2010 and 2013. The current agreement expires on August 31, 2018, but continues thereafter on a yearly basis unless one of the parties terminates. On April 22, 2014, the company settled certain claims it had against Robert Kiyosaki and his affiliates, including Rich Dad Operating Company, LLC (RDOC), that stemmed from their promotion of a series of live seminars and related products marketed as *Rich Dad:GEO,* as Legacy alleged that they infringed on its exclusive rights under the 2013 license agreement. As part of the settlement, Robert Kiyosaki, and his affiliates agreed to terminate further activity related to the *Rich Dad:GEO* program and also amended the 2013 License Agreement to halve the royalty to 2.5% for 2014, as well as to cancel roughly $1.3 million in debt that Legacy owed to RDOC, as well as to reimburse Legacy for legal fees it had incurred in the matter. In addition, RDOC's right to appoint one member of the Legacy board of directors was terminated.

Under the Rich Dad brand umbrella, the company also offers Rich Dad Stock Education, where Legacy teaches students how to develop personal trading plans that are compatible with their current financial situation, the level of risk they are comfortable with, and their long-term financial goals.

Making Money from Property with Martin Roberts™
The company's Making Money from Property program is a property-based curriculum focused on how and why to buy property at auction in the U.K. It is designed to educate people about proven strategies to buy at auction, as well as the difference between income and capital growth strategies, negotiating transactions, and buying properties overseas. Martin Roberts is a well-known TV personality in the U.K. His book, *Making Money from Property*, is the underlying basis of Legacy's programming. He is also a TV personality and the host of a BBC series, *Homes Under the Hammer*, in which he educates viewers on how to profit from real estate investments. As part of the company's programming, instructors focus on a range of topics related to real estate, including purchasing property at auction, financing and structuring deals.

Brick Buy Brick™
Initially launched in the U.K., Brick Buy Brick is now also available in the U.S. Canada and the other foreign markets in which the company operates. The program introduces Legacy's students to the tools and strategies used by successful investors to make money work for them through real estate investing.

Building Wealth™
Building Wealth is a program that offers students training on how to build and preserve wealth, start or manage a business, and benefit through investing in property regardless of market conditions.

Robbie Fowler Property Academy™
The Robbie Fowler Property Academy curriculum is designed to teach investment strategies individuals can use to achieve a potential path towards long-term wealth. The goal of this training program is to provide a comprehensive property investment education. The company teaches students investment strategies currently implemented throughout the U.K., such as Social Housing, Buy-To-Let, Lease Options, and Land Development.

Women In Wealth™
Legacy developed Women In Wealth for women interested in investing in real estate and developing financial independence. The target market comprises women from a variety of backgrounds and age groups. The program was introduced in the U.K. in 2008 and then expanded to the U.S. and Canada.

The Independent Woman™
Similar to objectives of Women In Wealth™, The Independent Woman program benefits from key secular trends: 1) that women comprise a high percentage of people who use self-help financial tools, and 2) the percentage of American women who are single and therefore have to take charge of their finances has increased. In fact,

47% of the overall population is single, compared to 28% in 1970, according to the Census Bureau. The company's marketing tag line for this programming is, "By introducing women to the wealth creation power of real estate investing, The Independent Woman is empowering women to create abundance in every area of their lives." This is particularly compelling, we believe, as "not only has debt doubled for women in their 50s since the early 1990s, but twice as many 50-something females have *less* than $25,000 in savings," according to the George Washington University Global Financial Literacy Excellence Center. At the same time, Marketdata research firm found that self-improvement customers are most likely female, middle-aged, affluent, and live on the two U.S. coasts. 70% of self-help books buyers and seminar participants are women. This brand was developed based on the popular book *Rich Woman and It's Rising Time* written by Kim Kiyosaki.

Trade Up Investor Education™
This program is conducted through a partnership with daily financial newspaper Investor's Business Daily®. Instructors provide training designed to help students expand their knowledge of stock and options trading.

LICENSED PROGRAMS

Legacy conducts many of its training programs under license agreements with well-known financial experts and advisors. Robert Kiyosaki is probably the company's single most important licensor. Legacy has an agreement with the Rich Dad Operating Company, LLC (RDOC), which is affiliated with Robert Kiyosaki. Legacy's CEO Anthony Humpage previously was CFO of RDOC.

The license agreement was renewed in 2013, as noted, and extends until August 31, 2018. It continues after August 31, 2018 on an annual basis unless terminated by either party. Management believes that Legacy is an important source of revenue for RDOC and expects to renew the license when it expires.

The company's right to use the Robbie Fowler name expires on January 1, 2020. Legacy first obtained licensing rights to the Martin Roberts brand In 2009. The agreement expires on October 20, 2017 and continues after unless either party terminates.

COMPETITORS

With few barriers to entry, there are many other companies in the online and event educational space. Some of Legacy's competitors in the financial and real estate investing training have brands that are recognized and promoted through television or radio programming. For example, the founders of Flipping Formula host a real estate show on A&E called Flipping Boston. However, management believes that with its high-profile brands such as Rich Dad, it has a prominent position within the industry. Management also believes that the company adheres to higher standards. For instance, according to Legacy, unlike many competitors that offer real estate services, it does not offer or promote any services that its courses discuss in training.

Over the past several years, the Department of Education has passed regulations to protect students considering enrollment in online universities that offer degrees or certificates of completion, according to US News and World Reports. However, organizations such as Legacy that do not offer degrees or certificates are not regulated currently. Nevertheless, Legacy conducts its own internal compliance program, according to management, to maintain standards that management believes sets the company apart from many others and is a partial factor behind its more than 20-years of successful operating history in an industry that sees a relatively high attrition rate among new entrants.

For example, the hosts of HGTV's real estate show *Flip or Flop* license their brand to Advanced Real Estate Education, a company that conducts real estate seminars. *Flip or Flop* was forced to cancel seminars in the Portland, Oregon market reflecting negative publicity and weak conditions in the local real estate and housing market.

Highlighted below are some of the company's competitors in training people in real estate investing.

Fortune Builders
According to its website, privately-held FortuneBuilders was founded by recognized real estate investors who developed the systems and tools "to accelerate new and existing real estate investor businesses."

Flipping Formula
Flipping Formula is another privately-held online e-training program. Flipping Formula's founders, Dave Seymour and Peter Souhleris, host a real estate show on A&E, *Flipping Boston*. Their website cites USA Today statistics noting that "house flippers grossed $29,342 per flip on average in 2012, [with] many markets…showing even higher profits, like New York City."

Winning the Property War
Founder Doug Hopkins has been featured on local and national television discussing real estate, according to the website. He also has a radio program about flipping real estate.

The following are publically traded companies that offer live or online courses in a variety of subjects, although they are not apples-to-apples benchmarks for Legacy, in our view.

Franklin Covey Co.
Franklin Covey is a global company specializing in performance improvement. The company helps organizations and individuals achieve "lasting behavioral change" in areas including leadership, execution, productivity, sales performance and customer loyalty, among others. The company generated net sales of $200.1 million for the fiscal year ended August 31, 2016. Its shares trade on the New York Stock Exchange under the symbol FC.

Learning Tree International
Learning Tree International provides individual, team and organization-wide IT training and management training to business and government organizations globally. The company's shares trade under the symbol LTRE.

Tarena International
Tarena International is a leading provider of professional education services in China, with its core strength in IT professional education services. The company offers live instruction, classroom-based tutoring and online learning.

Smart Pros
Established in 1981, SmartPros is a leading provider of accredited professional education and training to Fortune 500 companies in topics such as accounting, auditing, business law, economics, ethics, finance, management services, and tax.

Santeon Group
Santeon Group is a Virginia-based technology company offering products and services to optimize federal and commercial enterprise performance. Santeon's goal is to serve emerging markets.

Lincoln Technical Institute
Lincoln Technical Institute was founded in 1946 and describes itself as "one of the nation's leading providers of career education and training." Lincoln Educational Services training is designed to help

people attain workplace skills. The company offers programs in five areas, including health sciences, automotive technology, skilled trades, hospitality services and business and information technology. Lincoln operates 28 campuses in 15 states under five different brands.

Capella Education Company
Capella is an educational services company that provides access to education through online post-secondary degree programs and job-ready skills. Capella's online programs designed primarily for working adults who cannot attend courses in person. The company offers training in business and technology, education, nursing and health sciences, public service leadership and social and behavioral sciences, among others. Capella shares trade under the symbol CPLA.

Aspen Group
Aspen Group, Inc. is an online postsecondary education company. Aspen offers certificate programs and associate, bachelors, masters, and doctoral degree programs in studies that include nursing, business, education and technology, among others. The shares trade under the symbol ASPU.

FINANCIAL

First Half of 2017
The company's financial results in the first half of 2017 reflect the benefits of its international strategy. As noted, total cash sales advanced 16.4% year-over-year to $51.2 million. Revenue of $47.6 million for 1H 2017 increased 3.3% year-over-year compared to the same period in 2016. The company reported net income of $1.2 million for the first six months of 2017 versus net income of $1.6 million. The $0.4 million decrease primarily reflected a $0.6 million increase in general and administrative expenses related to the company's implementation of its new ERP system. Excluding this spending, adjusted net income would have been an estimated $1.8 million. Legacy registered diluted EPS of $0.05 versus $0.07 for the same period of 2016. Excluding ERP spending, adjusted 2017 EPS would have been higher. The company expects to complete the implementation of the new ERP system by year-end 2017.

Second Quarter of 2017

For 2Q17, revenue was $24.8 million, up from $23.4 million recorded in the second quarter of 2016. Non-U.S. revenue advanced 27.6% compared to the prior year quarter to $11.1 million, with revenue in the company's Other Foreign Markets segment improving 47.1% compared to 2Q16. Net cash from operating activities was $3.2 million during the first half of 2017 versus ($0.6) million in the first half of 2016. Net income of $995,000 was down slightly from $1.0 million registered in 2Q16. Diluted EPS of $0.04 was flat. However, the 2017 results include approximately $300,000 or $0.01/share of spending to implement the company's ERP system.

Balance Sheet
Legacy has a clean balance sheet, with only $37,000 of debt, which includes $11,000 of current 2017 portion and $26,000 of long-term debt, against annual revenue of nearly $90 million in 2016. The company has pared long-term debt from $427,000 at year-end 2013. We believe the company has the financial flexibility to execute its goal of adding new brands both organically and through strategic acquisition.

VALUATION

We believe it is difficult to compare Legacy to most publically-traded education or training companies. Legacy's focus is financial and real estate investment training. Other companies that offer the kinds of financial and real estate investing courses similar to Legacy's courses are generally private, implying no meaningful apples-to-apples peers.

That said, Legacy shares trade at a substantial discount to other public companies that provide training and educational services. At their current $0.40 share price, LEAI shares trade at 0.1x 2016 revenue, which is significantly below the average 2.1x average that the group presented in the table below commands. On a forward looking basis, LEAI shares trade at 0.1x our 2017 and 2018 forecasts, while peers trade at 1.8x and 1.5x, respectively. On a P/E basis the shares trade at 2.4x 2016 EPS compared to an average multiple of 18.0x for peers. LEAI shares trade at 2.3x and 1.8x 2017E and 2018E versus 16.0x and 17.3x for comparable companies.

If Legacy can deliver growth on the initiatives discussed above, in success we would anticipate share price appreciation over time. At the same time, the company has recently engaged CORE investor relations firm to help raise its profile within the investor community. Given the current valuation gap between Legacy and similar companies, we believe the risk / reward ratio could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon. A $0.50 share price would put the shares at 2.8x and 2.3x our 2017E and 2018E EPS forecasts, which is still well below the average peer multiples noted above.

Legacy Education Alliance Peer Analysis

		9/1/2017	Revenue ($M)			EPS		
Company	**Ticker**	**Price**	**2016A**	**2017E**	**2018E**	**2016A**	**2017E**	**2018E**
American Public Education	APEI	18.85	313	294	287	1.82	1.02	0.97
Aspen Group	ASPU	5.99	14	22	43	(0.05)	0.07	0.18
Bridgepoint Education	BPI	8.89	527	485	469	0.18	0.64	0.50
Capella Edu	CPLA	66.85	429	442	458	3.58	3.54	3.68
Career Education	CECO	9.62	704	600	596	(0.22)	0.18	0.62
Franklin Covey	FC	18.75	200	190	205	0.47	(0.46)	0.22
Grand Canyon Education	LOPE	81.67	873	965	1,050	3.15	3.83	4.09
Lincoln Education	LINC	2.80	197	263	263	(0.09)	0.46	0.11
Tarena Inter'l	TEDU	14.27	240	296	368	0.83	0.82	1.09
Legacy	LEAI	0.40	89	93	96	0.17	0.18	0.22

	52-Week		Mkt	Price / Revenue			P/E		
	High	**Low**	**Cap ($M)**	**2016A**	**2017E**	**2018E**	**2016A**	**2017E**	**2018E**
American Public Education	27.20	14.75	297.35	0.9x	1.0x	1.0x	10.4x	18.5x	19.4x
Aspen Group	7.75	2.28	79.80	5.6x	3.6x	1.9x	nm	85.6x	33.3x
Bridgepoint Education	15.85	5.38	247.83	0.5x	0.5x	0.5x	49.4x	13.9x	17.8x
Capella Edu	99.25	56.88	772.68	1.8x	1.7x	1.7x	18.7x	18.9x	18.2x
Career Education	12.59	6.25	663.83	0.9x	1.1x	1.1x	nm	53.4x	15.5x
Franklin Covey	22.45	15.20	259.17	1.3x	1.4x	1.3x	39.9x	nm	85.2x
Grand Canyon Education	85.94	39.07	3,900	4.5x	4.0x	3.7x	25.9x	21.3x	20.0x
Lincoln Education	3.74	1.56	66.74	0.3x	0.3x	0.3x	nm	6.1x	25.5x
Tarena Inter'l	19.25	12.52	807	3.4x	2.7x	2.2x	17.2x	17.4x	13.1x
Peer averages				*2.1x*	*1.8x*	*1.5x*	*18.0x*	*16.0x*	*17.3x*
Legacy	0.48	0.14	10	0.1x	0.1x	0.1x	2.4x	2.3x	1.8x

2017 Legacy EPS adjusted to exclude 1-time ERP spending. Averages exclude outliers.

Source: Company reports, Yahoo Finance, Thomson Reuters, Zacks

MANAGEMENT

Anthony Humpage, CEO
Anthony Humpage has served as the company's Chief Executive Officer and Director since November 10, 2014, having been CEO of the predecessor company since September 4, 2012. Previously, he was CFO of the Rich Dad Operating Company, LLC, which now licenses the Rich Dad® brand to Legacy. Mr. Humpage was previously Executive Vice President and Chief Financial Officer of Government Liquidation, the leading online auction website for federal government surplus and scrap assets, from 1998 to 2011. Earlier in his career, he worked in the construction materials, manufacturing and professional service industries specializing in early-stage and troubled organizations.

Christian Baeza, CFO
Christian Baeza joined Legacy Education Alliance in April 2015. Before that he held various senior finance positions including Director of Financial Reporting and Assistant Corporate Controller at Kraton Performance Polymers, Inc. From 2003 to 2008 he held various finance positions at Spectra Energy Corporation. He started his career at Arthur Andersen in 1995 through 1998.

Iain Edwards, COO
Iain Edwards has been the company's COO since November of 2014. Prior to that, he was COO of the company's predecessor company, having first joined it in 2002. He was promoted to U.K. Managing Director in 2004 and subsequently to President of International Operations in 2006.

INSIDER HOLDINGS

Anthony C. Humpage, the company's CEO, is its largest shareholder, with 16.8% of the company's shares. Including an aggregate 25.8% of shares held by the company's officers and directors plus other 5% shareholders, over 50% of LEAI shares are closely held. While this likely ties insider interests to those of other shareholders, it also limits the liquidity of the shares. Over time, we would expect some reduction in insider holdings in order to improve the trading and liquidity of the stock.

Legacy Education Alliance Insider Holdings

	Common Stock Beneficial Owned	
	Number	**%**
Anthony C. Humpage	3,802,312	16.8%
James E. May	530,206	2.3%
Cary Sucoff	373,750	1.7%
Iain Edwards	314,375	1.4%
Christian Baeza	198,750	0.9%
Peter W. Harper	195,000	0.9%
James K. Bass	177,611	0.8%
Officers & directors as a group	5,822,913	25.8%
Day One LLC	2,279,530	10.1%
Ingrid Whitney	2,279,799	10.1%
Lazarus Investment Partners LLLP	1,352,760	6.0%
Lazarus Macro Micro Partners LLP	6,507	-

Source: Company reports

RECENT NEWS

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.

The company reported first quarter 2017 results on May 15, 2017.

On February 17, 2017, Legacy announced that its board of directors had adopted a limited duration Shareholder Rights Plan intended to ensure that the board have sufficient time to consider any proposal that might lead to a change in control in order to ensure that all stockholders receive fair treatment and to encourage any potential acquirer to negotiate with the board.

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
Total other income	385	(182)	320	396	(67)	467	80	67	48	40	235	242
Income (loss) before income taxes	(2,711)	603	1,034	1,176	127	2,940	241	839	1,180	862	3,123	5,158
Income tax benefit/(expense)	(15)	(10)	(9)	(8)	968	941	(21)	156	(35)	(30)	69	(155)
Net income (loss)	(2,726)	593	1,025	1,168	1,095	3,881	220	995	1,145	832	4,392	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	$0.04	$0.14	$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 EPS excludes non-recurring spending to implement an ERP system.

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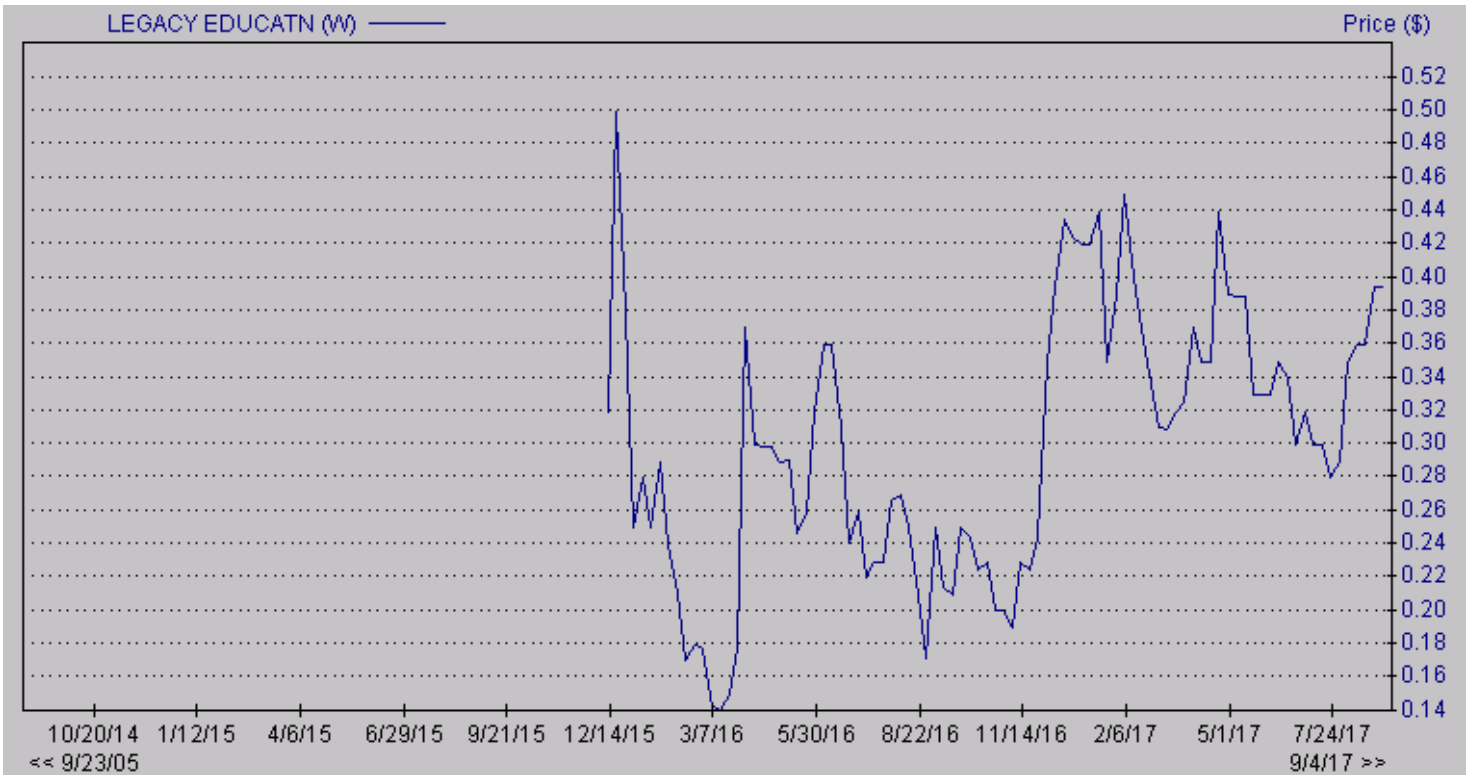
Legacy Education Alliance Statement of Cash Flow ($000s)

	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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