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Zacks Small-Cap Research

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Legacy Education Alliance, Inc. (LEAI-OTCQB)

LEAI: Expanding International Operations Drive Growth

Legacy Education Alliance reported 2017 results, recognizing a 9.5% year- over-year revenue advance for the full year to $97.7 million. This improvement reflects the benefits of the company's growth strategy, including international expansion, increased focus on online delivery of courses and improving fulfillment.

OUTLOOK

As evidenced by the company's 2017 results, Legacy continues to execute on its international, digital and other growth measures. With funds from operations, as well as from a recent settlement, the company can use its strong cash reserves to advance its growth initiatives. At the same time, Legacy has also indicated a possible interest in growing its business through strategic transactions, a move that could complement organic growth. Management has noted, however, that it would be conservative regarding any potential transaction.

Current Price (04/17/18)	$0.44
Valuation	**$0.65**

SUMMARY DATA

52-Week High	**$0.60**
52-Week Low	**$0.23**
One-Year Return (%)	**25.71**
Beta	**1.31**
Average Daily Volume (sh)	**39,664**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$10**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
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	**2.3**
P/E using 2018 Estimate	**1.8**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**N/A**
Industry	**Edu & Training Svcs**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	23 A	23 A	23 A	21 A	89 A
2017	22 A	26 A	25 A	24 A	98 A
2018	24 E	29 E	28 E	27 E	107 E

Price/Sales Ratio (Industry = 2.5x)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	$0.03 A	$0.04 A	$0.05 A	$0.05 A	$0.17 A
2017	($0.01) A	$0.08 A	$0.06 A	$0.05 A	$0.18 A
2018	$0.03 E	$0.09 E	$0.07 E	$0.04 E	$0.24 E

Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 10.

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KEY POINTS

- Legacy Education Alliance reported full year 2017 results this month and hosted a conference call. For the full year, the company recognized a 9.5% year-over-year improvement in revenue to $97.7 million.

- The company's financial results reflect the benefits of its growth strategy. Legacy has implemented several expansion 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 and on increasing fulfillment.

- The company's Other Foreign Markets segment continues to generate strong year-over-year revenue growth. Total consolidated cash sales came in at $99.2 million for the year ended December 31, 2017, up from $86.8 million in 2016, and roughly 44% of the advance was attributable to growth in Legacy's Other Foreign Markets segment. The Other Foreign Markets segment accounted for 25.0% of total cash sales, up from 22.4% in 2016.

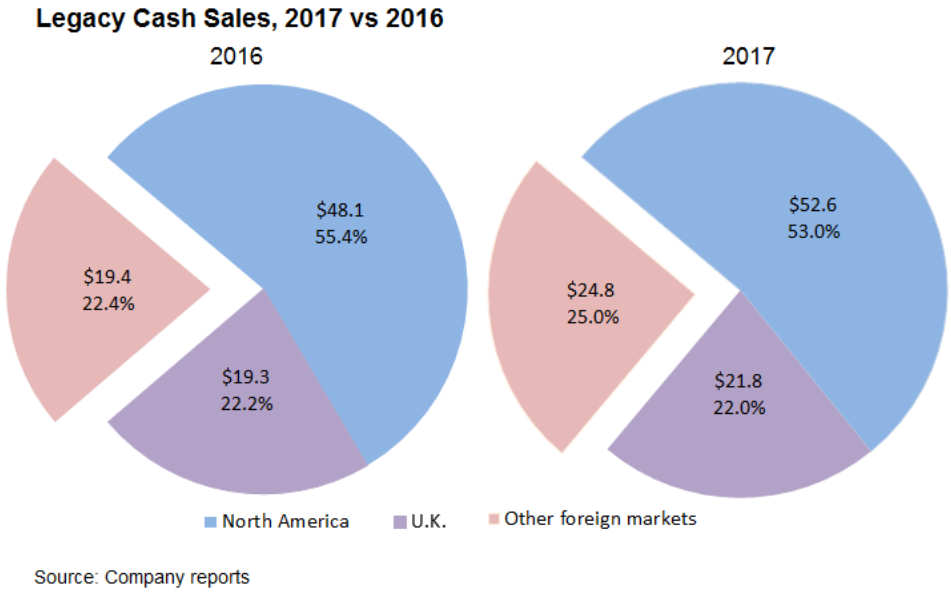
- International continues to represent a significant opportunity for growth, as the company opens new markets – often through digital channels. Legacy has actively developed programming in markets in other countries, particularly in Australia, South Africa and Asia.

FULL YEAR 2017 RESULTS BENEFIT FROM COMPANY'S INITIATIVES

Legacy Education Alliance reported full year 2017 results this month and hosted a conference call. For the full year, the company recognized a 9.5% year-over-year improvement in revenue to $97.7 million. The company's financial results reflect the benefits of its growth strategy. Legacy has implemented several expansion 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 and on increasing fulfillment. The 2017 revenue improvement reflected these measures, as well as an increase in recognition of revenue from expired contracts. Total cash sales advanced 14.3% year-over-year to $99.2 million. With strong cash sales, the company also generated robust cash from operations.

Strong International Growth

In the fourth quarter 2017, Legacy began to combine results from operations in the United States and Canada, which previously had been reported as two separate segments, into one North America segment. As a result, the company now reports the results of three operating segments: North America, the United Kingdom (UK), and Other Foreign Markets. The Other Foreign Markets segment continues to generate strong year-over-year revenue growth. To illustrate, total consolidated cash sales came in at $99.2 million for the year ended December 31, 2017, as noted, up from $86.8 million in 2016, and roughly 44% of the $12.4 million advance was attributable to growth in Legacy's Other Foreign Markets segment. The Other Foreign Markets segment accounted for 25.0% of total cash sales, up from 22.4% in 2016, as illustrated below.



Source: Company reports

Management expects cash sales to continue to advance in 2018, as the company's newer brands gain traction and reflecting ongoing international expansion.

International continues to represent a significant opportunity for growth, as the company opens new markets – often through digital channels. 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, South Africa and Asia.

In total, reported revenue from the company's UK and Other Foreign Market segments came in at $40.6 million, up an impressive 31.0% compared to the prior year. As a result, international revenue comprised 41.5% of total revenue, up from 34.8% the prior year.

Legacy produced a net income improvement on the higher revenue base. Net income came in at $4.3 million for 2017, up from $3.9 million in the prior year. Diluted EPS came in at $0.18 compared to $0.17. The 2017 results include several non-recurring factors, such as an approximately $2.9 million – or $0.13 per diluted share – increase in income tax expense compared to the prior year, $1.2 million of spending to implement the ERP system and the positive impact of the settlement of litigation.

Reflecting the strong 2017 performance, we are increasing our 2018 revenue forecast to $106.8 million from our earlier forecast of $96.4 million. On the higher expected revenue, our revised 2018 EPS forecast increases to $0.24, up from our earlier projection of $0.22. While we expect higher year-over-year comparisons in most quarters, we note that the fourth quarter of 2017 included the aforementioned one-time settlement that we believe might obscure the ongoing EPS improvement. Moreover, the company anticipates that it will begin to realize the benefits of the new ERP system in terms of improved efficiencies in sales, marketing, accounting and customer service, among other factors.

Balance Sheet

Legacy strengthened its balance sheet during 2017, ending the period with $6.0 million of cash and long-term debt of only $20,000 and $11,000 of current 2017 portion. The company generated $5.4 million of cash from operations in 2017, including the proceeds from the settlement of litigation.

Specifically, during the year Legacy settled credit card litigation and received an aggregate sum of $5.0 million in the settlement, $4.3 million net of related fees. 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 funds from the settlement bolstered the company's cash reserves and enhance its financial flexibility to further its growth initiatives, we believe. The company intends to continue to fund its working capital, capital expenditures, and 2018 key strategic initiatives with internally generated cash and cash from its strong balance sheet.

Continued Brand Diversification and e-Learning

Legacy extended its 2013 licensing agreement with Rich Dad Operating Company, LLC (RDOC). The Rich Dad content still contributes a major portion of the company's total revenue. With the ongoing brand diversification, however, we expect the percentage contribution to decline over time, although Rich Dad likely will remain critical to the company's operations. The company's goals for 2018 and going forward include further expansion in the delivery of courses and content via digital channels.

Management believes that expanding its digital 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 economical delivery of online training.

The company also entered into an agreement with Get Motivated Events, LLC. This creates a new marketing channel for the company. Legacy intends to promote its courses at *Get Motivated!* large stage business seminars.

RECENT NEWS

Legacy reported full year 2017 results on April 2, 2018.

Legacy held their Fiscal Year 2017 Shareholder Conference Call on April 4, 2018.

In February of this year, Legacy announced that it entered into an agreement with Get Motivated Events LLC to present their products at the Get Motivated large stage business seminars.

Legacy extended its licensing agreement with Rich Dad Operating Company, LLC on January, 25 2018.

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. 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 still accounts for a majority of Legacy's total consolidated revenue. If Legacy is unable to extend the Rich Dad license agreement in the future 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)

	1Q17A*	2Q17A*	3Q17A	4Q17A	2017A	1Q18E	2Q18E	3Q18E	4Q18E	2018E
Revenue	21,965	26,208	25,235	24,322	97,730	23,986	28,619	27,557	26,633	106,794
Direct course expenses	12,863	13,220	13,411	14,478	53,972	12,904	15,397	14,825	14,142	57,269
Advertising & sales expenses	4,591	5,131	5,010	5,058	19,790	4,683	5,285	5,110	5,109	20,187
Royalty expenses	893	1,639	1,119	1,095	4,746	1,319	1,660	1,516	1,465	5,960
General & administrative expenses	4,341	4,231	4,114	4,722	17,408	4,428	4,189	4,196	4,769	17,582
Total operating costs & expenses	22,688	24,221	23,654	25,353	95,916	23,334	26,531	25,648	25,484	100,997
Income (loss) from operations	(723)	1,987	1,581	(1,031)	1,814	652	2,089	1,909	1,148	5,797
Net Interest income (expense)	(3)	(2)	(2)	(2)	(9)	(2)	(2)	(2)	(2)	(8)
Other income	83	69	(67)	4,395	4,480	51	61	49	52	213
Total other income	80	67	(69)	4,393	4,471	49	59	47	50	205
Income (loss) before income taxes	(643)	2,054	1,512	3,362	6,285	701	2,148	1,956	1,198	6,002
Income tax benefit/(expense)	333	(107)	(119)	(2,096)	(1,989)	70	(129)	(196)	(120)	(374)
Net income (loss)	(310)	1,947	1,393	1,266	4,296	771	2,019	1,760	1,078	5,628
Per share data										
Diluted earnings (loss) / common share	($0.01)	$0.08	$0.06	$0.05	$0.18	$0.03	$0.09	$0.07	$0.04	$0.24
Diluted weighted average common shares	22,631	22,763	23,022	23,012	22,857	23,257	23,657	24,057	24,457	23,857

*Restated **2017 EPS includes non-recurring ERP spending & settlement.

Source: Company reports and Zacks estimates

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BALANCE SHEET AND CASH FLOW STATEMENT

Legacy Education Alliance Balance Sheet ($000s)

	2013	2014	2015	2016	2017
Cash & cash equivalents	$5,554	$2,932	$4,881	$1,711	$6,005
Restricted cash	3,061	1,843	2,946	3,148	2,899
Deferred course expenses	14,222	8,722	9,211	9,067	9,417
Prepaid expenses & other	2,101	2,528	2,169	3,458	6,408
Inventory	203	161	492	348	330
Total current assets	**$25,141**	**$16,186**	**$19,699**	**$17,732**	**$25,059**
Property & equipment	1,292	1,324	1,226	1,130	1,187
Deferred tax asset		-	-	1,295	441
Other assets	227	217	200	207	333
Total assets	**$26,660**	**$17,727**	**$21,125**	**$20,364**	**$27,020**
Accounts payable	2,167	2,620	2,451	3,344	2,860
Royalties payable	186	104	163	175	188
Accrued course expenses	1,141	1,060	1,226	1,082	1,829
Accrued salaries, wages & benefits	530	564	1,258	840	1,506
Other accrued expenses	2,221	2,967	2,372	2,052	2,430
Long-term debt, current portion	1,208	9	10	11	11
Deferred revenue, current portion	73,262	56,140	60,698	54,389	57,151
Total current liabilities	**$80,715**	**$63,464**	**$68,178**	**$61,893**	**$65,975**
Long-term debt net of current portion	427	52	42	31	20
Deferred revenue net of current portion	173	238	71	235	602
Other liabilities	61	126	45	379	1,188
Total liabilities	**$81,376**	**$63,880**	**$68,336**	**$62,538**	**$67,785**
Total stockholders' deficit	**($54,716)**	**($46,153)**	**($47,211)**	**($42,174)**	**($40,765)**
Total liabilities & stockholders' defi	**$26,660**	**$17,727**	**$21,125**	**$20,364**	**$27,020**

Source: Company reports

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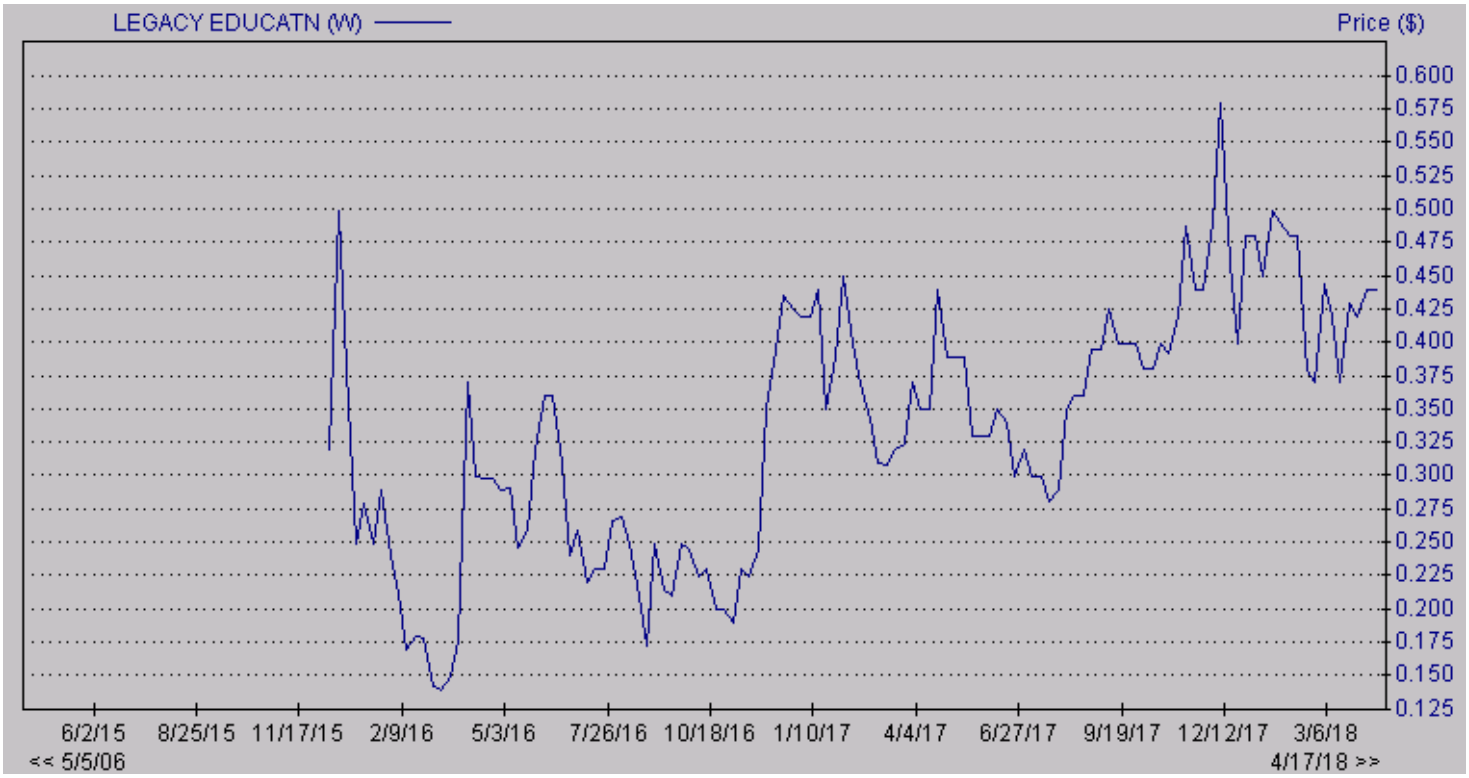
Legacy Education Alliance Statement of Cash Flow ($000s)

	2013	2014	2015	2016	2017
Net income/(loss)	4,329	7,365	(2,726)	3,881	4,296
Depreciation & amortization	276	216	185	146	125
Chg in fair value of derivatives			(136)	82	(85)
Share-based compensation	64	22	63	168	226
Loss on asset disposition	16	-	-	-	
Deferred taxes	(462)	3	(18)	(1,297)	1,667
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)	(835)
Cash from operations	**5,073**	**(1,652)**	**2,780**	**(1,563)**	**5,394**
Purchases of property & equipment	(169)	(187)	(81)	(55)	(181)
Proceeds from the sale of assets	1	-	-	-	-
Cash from investing activities	**(168)**	**(187)**	**(81)**	**(55)**	**(181)**
Principal payments on debt	(1,315)	(338)	(9)	(10)	(11)
Proceeds from private offering of securities	-	-	459	-	-
Cash from financing activities	**(1,315)**	**(338)**	**450**	**(10)**	**(11)**
Exchange rate impact	(641)	(445)	(1,200)	(1,542)	(908)
Chg in cash & equivalents	**$2,949**	**($2,622)**	**$1,949**	**($3,170)**	**$4,294**

Source: Company reports

HISTORICAL STOCK PRICE



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