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Zacks Small-Cap Research

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Legacy Education Alliance, Inc.

(LEAI-OTCBB)

LEAI: Another Strong Quarter

Legacy Education Alliance reported a 17.4% year-over-year revenue advance in 1Q18. Reflecting its growth strategy, which includes international expansion, increased focus on online course delivery and boosting fulfillment, the company continues to generate improving results. Legacy also has set new records in terms of sales and attendance at recent events.

OUTLOOK

As Legacy continues to execute on its international, digital and other growth measures, the company continues to show improved financial results. The company can use its strong cash position, $7.2 million at the end of March 2018, to further its growth initiatives. The company is also optimistic about its brand development initiatives. As Legacy's newer brands gain traction and reflecting ongoing international expansion, management expects cash sales to continue to improve in 2018.

Current Price (05/22/18)	$0.46
Valuation	**$0.65**

SUMMARY DATA

52-Week High	**$0.60**
52-Week Low	**$0.23**
One-Year Return (%)	**39.39**
Beta	**1.29**
Average Daily Volume (sh)	**26,621**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$11**
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	**1.7**
P/E using 2018 Estimate	**2.7**
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	23 A	25 A	25 A	24 A	98 A
2018	26 A	29 E	28 E	27 E	109 E

Net Income (Loss) Per Share

	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	$0.04 A	$0.06 A	$0.19 A	$0.31 A
2018	-$0.04 A	$0.09 E	$0.07 E	$0.04 E	$0.17 E

Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 9.

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KEY POINTS

- Legacy Education Alliance reported a 17.4% year-over-year improvement in first quarter 2018 total revenue to $25.7 million. This was ahead of our forecast of $24.0 million. The company's financial results reflect the benefits of growth initiatives such as international expansion, increased focus on online delivery of its courses and on boosting fulfillment.

- The company also achieved a 13.1% year-over-year total cash sales advance to $27.6 million. With strong cash sales, the company generated robust cash from operations.

- The company is optimistic about its brand development initiatives. Its goals for 2018 and beyond also include further expansion in the delivery of content via digital channels, an initiative that is expected to drive margin expansion.

- International continues to represent a significant opportunity for growth. Legacy recently announced that a basic training class it hosted in March in Hong Kong produced record sales for the company. The company intends to continue to introduce additional products and brands in Hong Kong and other offshore markets in 2018.

- In total, reported revenue from the company's UK and Other Foreign Market segments came in at $9.8 million, up 5.6% compared to the prior year. This International revenue comprised 38.0% of total revenue compared to a 42.3% contribution in the prior year quarter.

- Legacy strengthened its balance sheet during the first quarter of 2018, ending the period with $7.2 million of cash, up from $6.0 million at the end of the fourth quarter of 2017.

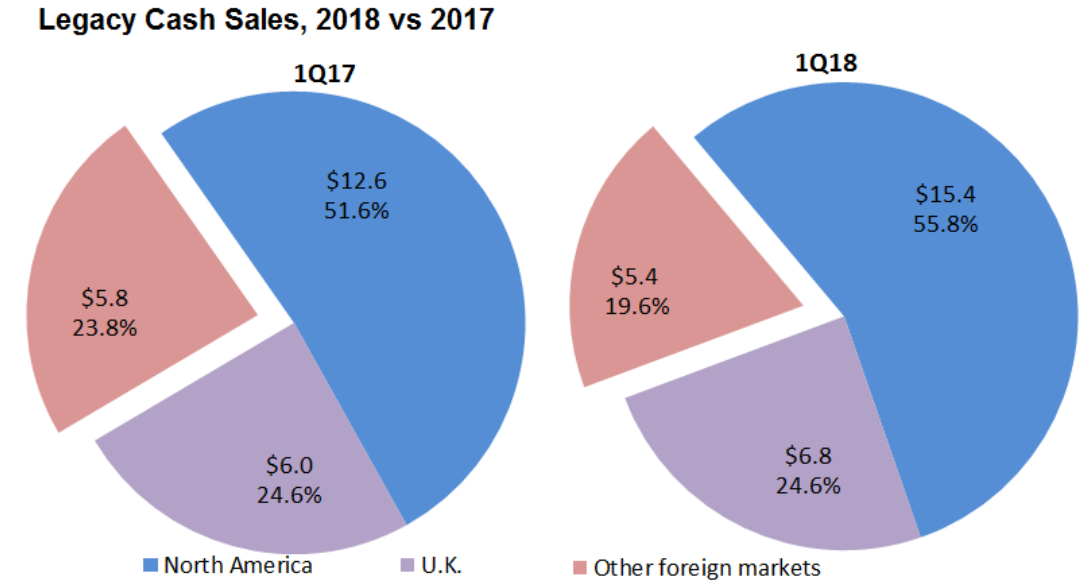
RESULTS - BENEFITS OF IMPROVED FULFILLMENT AND INTERNATIONAL GROWTH

Legacy Education Alliance reported first quarter 2018 results last week and yesterday hosted a conference call. For the quarter, the company recognized a 17.4% year-over-year improvement in total revenue to $25.7 million. The company's financial results reflect the benefits of its growth strategy. 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 company has also focused on boosting fulfillment. The first quarter 2018 revenue improvement reflected these measures, as well as an increase in recognition of revenue from expired contracts. The company also achieved a 13.1% year-over-year total cash sales advance to $27.6 million. With strong cash sales, the company generated robust cash from operations.

International Advances Contribute to Improvements

Since Legacy began focusing on driving international expansion, the company's Other Foreign Markets unit has generated strong year-over-year revenue growth. The company reports the results of three operating segments: North America (in the fourth quarter 2017, Legacy started combining the results from its operations in the United States and Canada, which previously had been reported through two separate segments), the United Kingdom (UK), and Other Foreign Markets. The Other Foreign Markets segment produced revenue of $4.5 million in the first quarter 2018, up from $3.9 million registered in the first quarter 2017. Together, the UK and Other Foreign Market segments produced revenue of $9.8 million for the 2018 quarter, up from $9.3 million generated in the 2017 quarter. This represented a 5.6% year-over-year advance.

Cash sales from the Other Foreign Markets segment came in at $5.4 million for the quarter ended March 31, 2018, compared to $5.8 million in the quarter ended March 31, 2017. The segment breakdown of first quarter cash sales is illustrated below.



Source: Company reports

Separately, the company is optimistic about its brand development initiatives. As Legacy's newer brands gain traction and reflecting ongoing international expansion, management expects cash sales to continue to advance in 2018. The company also continues to launch other new initiatives to drive growth. For example, Legacy's recent agreement with Get Motivated Events, LLC creates a new marketing channel for the company. Legacy intends to promote its courses at *Get Motivated!* large stage business seminars.

Setting New Records

Moreover, 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. Legacy recently announced that a basic training class it hosted in March in Hong Kong produced record sales for the company. In addition, a Legacy student symposium held in the UK last month also established a new attendance record for the company. The company intends to continue to introduce additional products and brands in Hong Kong and other offshore markets in 2018.

In total, reported revenue from the company's UK and Other Foreign Market segments came in at $9.8 million, as noted, up 5.6% compared to the prior year. International revenue comprised 38.0% of total revenue compared to a 42.3% contribution in the prior year quarter.

The company narrowed its operating loss to ($435,000) from ($723,000) on the improved revenue. Legacy reported a net loss of ($857,000) versus ($310,000) on higher tax expense in the 2018 period. Diluted LPS came in at ($0.04) compared to ($0.01). Going forward, 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 and Cash Flows

Legacy strengthened its balance sheet during the first quarter of 2018, ending the period with $7.2 million of cash, up from $6.0 million at the end of the fourth quarter of 2017. The company generated $1.4 million of cash from operations in the first quarter of 2018. This compares to cash from operations of $1.9 million produced in the first quarter of 2017. Cash from operations declined year-over-year largely reflecting a decrease in current liabilities for deferred revenue in the 2018 quarter.

Outlook

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 overall sector 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.

RECENT NEWS

On May 21, 2018, Legacy announced record attendance at a UK event.

On May 17, 2018, Legacy announced record sales at an educational event in Hong Kong.

Legacy reported first quarter 2018 results on May 15, 2018.

Legacy reported full year 2017 results on April 2, 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, if the company engages in an M&A transaction or other capital intensive initiative, it could 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	1Q18A	2Q18E	3Q18E	4Q18E	2018E
Revenue	21,965	26,208	25,235	24,322	97,730	25,755	28,619	27,557	26,633	108,563
Direct course expenses	12,863	13,220	13,411	14,478	53,972	14,214	15,397	14,825	14,142	58,578
Advertising & sales expenses	4,591	5,131	5,010	5,058	19,790	5,572	5,285	5,110	5,109	21,076
Royalty expenses	893	1,639	1,119	1,095	4,746	1,556	1,660	1,516	1,465	6,196
General & administrative expenses	4,341	4,231	4,114	4,722	17,408	4,848	4,189	4,196	4,769	18,002
Total operating costs & expenses	22,688	24,221	23,654	25,353	95,916	26,190	26,531	25,648	25,484	103,853
Income (loss) from operations	(723)	1,987	1,581	(1,031)	1,814	(435)	2,089	1,909	1,148	4,711
Net Interest income (expense)	(3)	(2)	(2)	(2)	(9)	(4)	(2)	(2)	(2)	(10)
Other income	83	69	(67)	4,395	4,480	(21)	61	49	52	141
Total other income	80	67	(69)	4,393	4,471	(25)	59	47	50	131
										-
Income (loss) before income taxes	(643)	2,054	1,512	3,362	6,285	(460)	2,148	1,956	1,198	4,842
Income tax benefit/(expense)	333	(107)	(119)	(2,096)	(1,989)	(397)	(129)	(196)	(120)	(841)
Net income (loss)	(310)	1,947	1,393	1,266	4,296	(857)	2,019	1,760	1,078	4,000
										-
Per share data										-
Diluted earnings (loss) / common share	($0.01)	$0.08	$0.06	$0.05	$0.18	($0.04)	$0.09	$0.07	$0.04	$0.17
Diluted weighted average common shares	22,631	22,763	23,022	23,012	22,857	23,008	23,657	24,057	24,457	23,795

*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	1Q18
Cash & cash equivalents	$5,554	$2,932	$4,881	$1,711	$6,005	$7,162
Restricted cash	3,061	1,843	2,946	3,148	2,899	3,127
Deferred course expenses	14,222	8,722	9,211	9,067	9,417	9,675
Prepaid expenses & other	2,101	2,528	2,169	3,458	6,408	6,355
Inventory	203	161	492	348	330	346
Total current assets	**$25,141**	**$16,186**	**$19,699**	**$17,732**	**$25,059**	**$26,665**
Property & equipment	1,292	1,324	1,226	1,130	1,187	1,188
Deferred tax asset		-	-	1,295	441	592
Other assets	227	217	200	207	333	341
Total assets	**$26,660**	**$17,727**	**$21,125**	**$20,364**	**$27,020**	**$28,786**
Accounts payable	2,167	2,620	2,451	3,344	2,860	3,926
Royalties payable	186	104	163	175	188	355
Accrued course expenses	1,141	1,060	1,226	1,082	1,829	2,151
Accrued salaries, wages & benefits	530	564	1,258	840	1,506	1,982
Other accrued expenses	2,221	2,967	2,372	2,052	2,430	3,514
Long-term debt, current portion	1,208	9	10	11	11	12
Deferred revenue, current portion	73,262	56,140	60,698	54,389	57,151	57,240
Total current liabilities	**$80,715**	**$63,464**	**$68,178**	**$61,893**	**$65,975**	**$69,180**
Long-term debt net of current portion	427	52	42	31	20	17
Deferred revenue net of current portion	173	238	71	235	602	306
Other liabilities	61	126	45	379	1,188	1,269
Total liabilities	**$81,376**	**$63,880**	**$68,336**	**$62,538**	**$67,785**	**$70,772**
Total stockholders' deficit	**($54,716)**	**($46,153)**	**($47,211)**	**($42,174)**	**($40,765)**	**($41,986)**
Total liabilities & stockholders' defi	**$26,660**	**$17,727**	**$21,125**	**$20,364**	**$27,020**	**$28,786**

Source: Company reports

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

	2013	2014	2015	2016	2017	1Q18
Net income/(loss)	4,329	7,365	(2,726)	3,881	4,296	(857)
Depreciation & amortization	276	216	185	146	125	29
Chg in fair value of derivatives			(136)	82	(85)	(22)
Share-based compensation	64	22	63	168	226	57
Loss on asset disposition	16	-	-	-		
Deferred taxes	(462)	3	(18)	(1,297)	1,667	(69)
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)	2,307
Cash from operations	**5,073**	**(1,652)**	**2,780**	**(1,563)**	**5,394**	**1,445**
Purchases of property & equipment	(169)	(187)	(81)	(55)	(181)	(29)
Proceeds from the sale of assets	1	-	-	-	-	-
Cash from investing activities	**(168)**	**(187)**	**(81)**	**(55)**	**(181)**	**(29)**
Principal payments on debt	(1,315)	(338)	(9)	(10)	(11)	(3)
Proceeds from private offering of securities	-	-	459	-	-	-
Cash from financing activities	**(1,315)**	**(338)**	**450**	**(10)**	**(11)**	**(3)**
Exchange rate impact	(641)	(445)	(1,200)	(1,542)	(908)	(28)
Chg in cash & equivalents	**$2,949**	**($2,622)**	**$1,949**	**($3,170)**	**$4,294**	**$1,385**

Source: Company reports

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HISTORICAL STOCK PRICE



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