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Legacy Education Alliance, Inc. (LEAI-OTCBB)

LEAI: Revenue Decline Masks Continued International Growth

Legacy Education Alliance reported a 3.8% y/y decline in total 2Q18 revenue to \$25.2 million. However, this decline masks revenue growth in the company's international operations. Specifically, revenue in the company's UK segment advanced 2.7% y/y, while revenue in Other Foreign Markets was up 17.1%.

OUTLOOK

As Legacy continues to focus on its core business and reflecting ongoing international expansion, management expects cash sales to continue to climb in 2018. Additionally, to drive growth, the company launched a new initiative with Kathy Ireland. Furthermore, Legacy previously announced that it formed an agreement with Get Motivated Events, LLC. This creates a new marketing channel for the company, as Legacy seeks to promote its courses at Get Motivated! large stage business seminars.

Current Price (08/20/18) \$0.29
Valuation \$0.65

SUMMARY DATA

52-Week High \$0.60
52-Week Low \$0.29
One-Year Return (%) -27.5
Beta 1.24
Average Daily Volume (sh) 9,346

Shares Outstanding (mil) 23
Market Capitalization (\$mil) \$7
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 N/A
P/E using 2018 Estimate N/A
P/E using 2019 Estimate N/A

Zacks Rank N/A

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

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2016	23 A	23 A	22 A	21 A	89 A
2017	22 A	26 A	25 A	24 A	98 A
2018	26 A	25 A	28 E	27 E	105 E

Per Share Earnings

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(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	-\$0.04 A	-\$0.10 A	\$0.07 E	\$0.04 E	-\$0.02 E

Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 10.

KEY POINTS

- Legacy Education Alliance reported second quarter 2018 results last week. While overall comparisons were negative for the quarter compared to the same period of 2017, some of the variances reflect the company's ongoing investment to drive future growth. Legacy has implemented several initiatives, including diversifying its brand portfolio, international expansion and increased focus on enhancing the online delivery of its courses. The company has also focused on boosting fulfillment.
- During the second quarter 2018, the company incurred upfront expenses to develop and promote new brands and products. For example, in June 2018, the company forged a joint marketing alliance with Kathy Ireland® Worldwide to promote their brands, with Kathy Ireland acting as an ambassador for the Legacy brand. Legacy also invested in the development of its new U.K. property investment subsidiary in 2Q18.
- As Legacy's newer brands gain traction and reflecting ongoing international expansion, management expects cash sales to continue to climb in 2018. The company also continues to launch new initiatives to drive growth such as that with Kathy Ireland. In addition, Legacy formed an agreement with Get Motivated Events, LLC. This creates a new marketing channel for the company, as Legacy seeks to promote its courses at Get Motivated! large stage business seminars.
- Lower attendance contributed to a 3.8% year-over-year decline in total revenue to \$25.2 million for the quarter. This annual revenue decline masks revenue growth in the company's international operations. Specifically, revenue in the company's UK segment advanced 2.7% year-over-year, while revenue in Other Foreign Markets was up 17.1%.

2Q18 RESULTS CONSTRAINED BY GROWTH SPENDING AND LOWER ATTENDANCE

Legacy Education Alliance reported second quarter 2018 results last week and hosted a conference call. While overall comparisons were negative for the quarter compared to the same period of 2017, some of the variances reflect the company's ongoing investment to drive future growth. Legacy has implemented several initiatives, including diversifying its brand portfolio, international expansion and increased focus on enhancing the online delivery of its courses. This latter initiative provides customers greater flexibility in a digital world and also enhances margins. The company has also focused on boosting fulfillment.

During the second quarter 2018, the company incurred upfront expenses to develop and promote new brands and products such as the recently established agreement with Kathy Ireland. Specifically, in June 2018, the company forged a joint marketing alliance with Kathy Ireland® Worldwide to promote their brands, with Kathy Ireland acting as an ambassador for the Legacy brand.

Legacy also invested in the development of its new UK property subsidiary in 2Q18. During the quarter, the company acquired several UK residential properties to grow its real estate investment and development portfolio. At the same time, the company incurred integration costs associated with the continued rollout of its new ERP/CRM system. Going forward, Legacy expects to manage its investments and upfront costs to better align them with projected cash sales. Separately, despite weak attendance during the second quarter 2018, the company remains 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 climb in 2018. The company also continues to launch new initiatives to drive growth such as the above-noted agreement with Kathy Ireland. In addition, Legacy formed an agreement with Get Motivated Events, LLC. This creates a new marketing channel for the company, as Legacy seeks to promote its courses at Get Motivated! large stage business seminars.

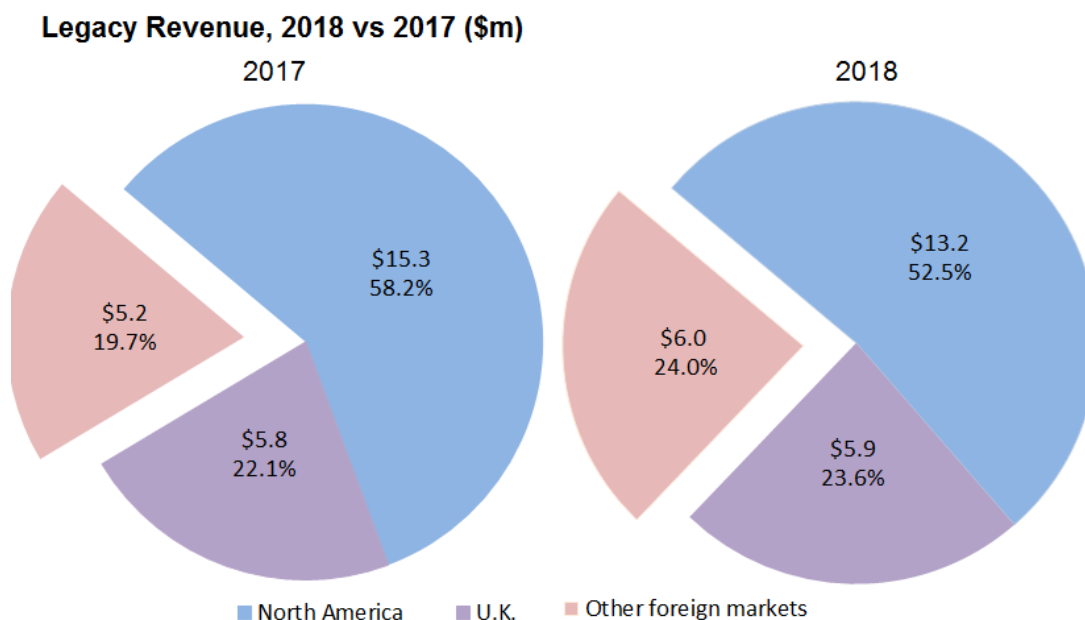
Mirroring spending on these and other measures, total 2Q18 operating expenses of \$28.2 million rose 16.5% year-over-year. The company recorded higher spending to drive future growth at the same time as it experienced a revenue decline. The company encountered a dip in attendance for the quarter, despite record attendance achieved at certain events. For instance, during the weekend of April 20, 2018, a Legacy symposium held in the UK established a new symposium attendance record for the company. The decline in attendance during 2Q18 likely reflects general fluctuations from time-to-time, despite an overall upward trajectory, we believe.

The attendance decline contributed to a 3.8% year-over-year decline in total revenue to \$25.2 million for the quarter. This annual revenue decline masks revenue growth in the company’s international operations. 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.

Specifically, revenue in the company’s UK segment advanced 2.7% year-over-year, while revenue in Other Foreign Markets was up 17.1%. However, the company’s North American segment is still the major driver of consolidated revenue. Despite ongoing international diversification, it accounts for over 50% of total revenue. During the second quarter 2018, North American revenue fell 13.3%.

Since Legacy began focusing on driving international expansion, the company’s Other Foreign Markets unit has generated strong year-over-year revenue growth. For example, in addition to the growth this segment experienced in the second quarter 2018, 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 first quarter, up from \$9.3 million generated in the comparable 2017 quarter, representing a 5.6% year-over-year advance.

The segment breakdown of second quarter revenue is illustrated below.



Source: Company reports

The company also recognized a 7.8% year-over-year contraction in total cash sales, which came in at \$24.7 million. A decrease in total cash sales was experienced in each of the company's geographic segments. Specifically, total cash sales declined \$0.8 million in the company's UK segment, \$0.7 million in its North America unit and \$0.6 million in the Other Foreign Markets segment.

As a result of the factors noted above that affect GAAP net income, the company reported a net loss of (\$2.4) million or (\$0.10) per share for the quarter ended June 30, 2018 versus net income of \$2.0 million or \$0.09 per share for the quarter ended June 30, 2017. We believe these results also underscore the operating leverage inherent in the company's business. Our full year 2018 projections change by the variance from our estimates in the second quarter 2018 actual results.

First Half 2018 Results Boosted by Strong First Quarter

Despite the softness in the second quarter, total revenue for the first half 2018 was up compared to the same period of 2017. Revenue for the first six months of 2018 came in at \$51.0 million versus \$48.1 million for the comparable period of 2017. That represents a 6.0% year-over-year improvement, primarily reflecting increased revenue from expired contracts, partially offset by a 1.0% decline in attendance. Cash sales of \$52.3 million increased 2.1%, fueled largely by the company's North America segment.

Continuing Efforts to Drive Growth

Legacy ended the period with \$2.6 million in cash and \$3.5 million in restricted cash compared to \$6.0 and \$2.9 million, respectively, at year-end 2017. 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

Legacy reported second quarter 2018 results on August 14, 2018

Legacy announced the acquisition of two new UK investment properties on June 21, 2018

Legacy formed a joint marketing arrangement with Kathy Ireland, which it announced on June 13, 2018

On May 21, 2018, Legacy announced that a symposium held in the UK set a new attendance record

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

RISKS

We believe risks include those outlined below, among others.

- 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 initiatives, 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.
- The company could experience further declines in attendance that could, in turn, pressure total 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	2Q18A	3Q18E	4Q18E	2018E
Revenue	21,965	26,208	25,235	24,322	97,730	25,755	25,222	27,557	26,633	105,166
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	5,998	5,110	5,109	21,789
Royalty expenses	893	1,639	1,119	1,095	4,746	1,556	1,653	1,516	1,465	6,189
General & administrative expenses	4,341	4,231	4,114	4,722	17,408	4,848	5,198	4,196	4,769	19,012
Total operating costs & expenses	22,688	24,221	23,654	25,353	95,916	26,190	28,246	25,648	25,484	105,568
Income (loss) from operations	(723)	1,987	1,581	(1,031)	1,814	(435)	(3,024)	1,909	1,148	(402)
Net Interest income (expense)	(3)	(2)	(2)	(2)	(9)	(4)	(4)	(2)	(2)	(12)
Other income	83	69	(67)	4,395	4,480	(21)	(27)	49	52	53
Total other income	80	67	(69)	4,393	4,471	(25)	(31)	47	50	41
Income (loss) before income taxes	(643)	2,054	1,512	3,362	6,285	(460)	(3,055)	1,956	1,198	(361)
Income tax benefit/(expense)	333	(107)	(119)	(2,096)	(1,989)	(397)	640	(196)	(120)	(72)
Net income (loss)	(310)	1,947	1,393	1,266	4,296	(857)	(2,415)	1,760	1,078	(433)
Per share data										
Diluted earnings (loss) / common share	(\$0.01)	\$0.08	\$0.06	\$0.05	\$0.18	(\$0.04)	(\$0.10)	\$0.07	\$0.04	(\$0.02)
Diluted weighted average common shares	22,631	22,763	23,022	23,012	22,857	23,008	23,008	24,057	24,457	23,633

*Restated

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

Source: Company reports and Zacks estimates

BALANCE SHEET AND CASH FLOW STATEMENT

Legacy Education Alliance Balance Sheet (\$000s)

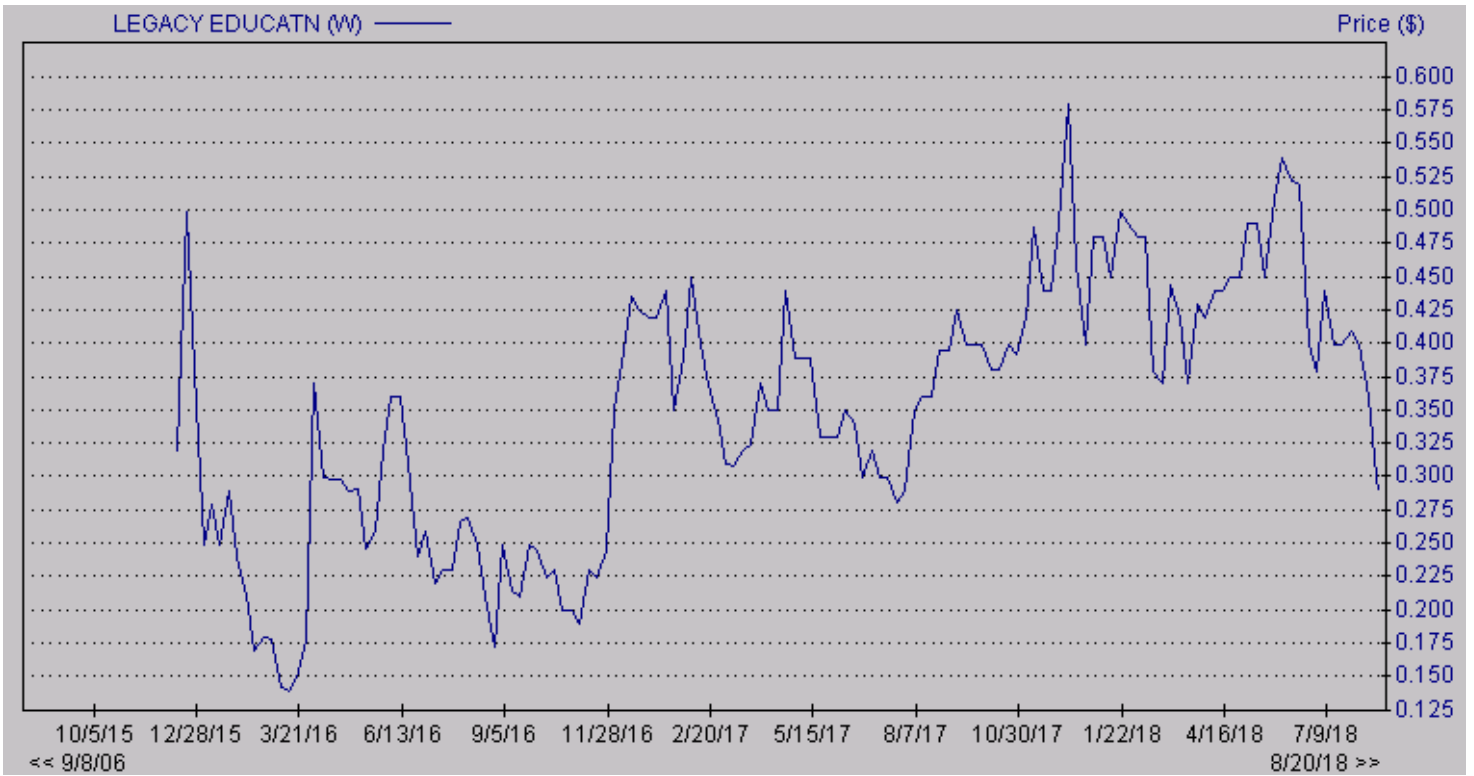
	2013	2014	2015	2016	2017	1Q18	2Q18
Cash & cash equivalents	\$5,554	\$2,932	\$4,881	\$1,711	\$6,005	\$7,162	\$2,613
Restricted cash	3,061	1,843	2,946	3,148	2,899	3,127	3,476
Deferred course expenses	14,222	8,722	9,211	9,067	9,417	9,675	8,881
Prepaid expenses & other	2,101	2,528	2,169	3,458	6,408	6,355	5,179
Inventory	203	161	492	348	330	346	454
Total current assets	\$25,141	\$16,186	\$19,699	\$17,732	\$25,059	\$26,665	\$20,603
Property & equipment	1,292	1,324	1,226	1,130	1,187	1,188	1,597
Deferred tax asset		-	-	1,295	441	592	
Other assets	227	217	200	207	333	341	216
Total assets	\$26,660	\$17,727	\$21,125	\$20,364	\$27,020	\$28,786	\$22,416
Accounts payable	2,167	2,620	2,451	3,344	2,860	3,926	2,796
Royalties payable	186	104	163	175	188	355	293
Accrued course expenses	1,141	1,060	1,226	1,082	1,829	2,151	2,005
Accrued salaries, wages & benefits	530	564	1,258	840	1,506	1,982	898
Other accrued expenses	2,221	2,967	2,372	2,052	2,430	3,514	3,756
Long-term debt, current portion	1,208	9	10	11	11	12	12
Deferred revenue, current portion	73,262	56,140	60,698	54,389	57,151	57,240	55,078
Total current liabilities	\$80,715	\$63,464	\$68,178	\$61,893	\$65,975	\$69,180	\$64,838
Long-term debt net of current portion	427	52	42	31	20	17	14
Deferred revenue net of current portion	173	238	71	235	602	306	25
Deferred tax liability							78
Other liabilities	61	126	45	379	1,188	1,269	398
Total liabilities	\$81,376	\$63,880	\$68,336	\$62,538	\$67,785	\$70,772	\$65,353
Total stockholders' deficit	(\$54,716)	(\$46,153)	(\$47,211)	(\$42,174)	(\$40,765)	(\$41,986)	(\$42,937)
Total liabilities & stockholders' defici	\$26,660	\$17,727	\$21,125	\$20,364	\$27,020	\$28,786	\$22,416

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

	2013	2014	2015	2016	2017	3Mos18	6Mos18
Net income/(loss)	4,329	7,365	(2,726)	3,881	4,296	(857)	(3,272)
Depreciation & amortization	276	216	185	146	125	29	70
Chg in fair value of derivatives			(136)	82	(85)	(22)	(24)
Share-based compensation	64	22	63	168	226	57	114
Loss on asset disposition	16	-	-	-	-	-	-
Deferred taxes	(462)	3	(18)	(1,297)	1,667	(69)	(270)
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	1,092
Cash from operations	5,073	(1,652)	2,780	(1,563)	5,394	1,445	(2,290)
Purchases of property & equipment	(169)	(187)	(81)	(55)	(181)	(29)	(480)
Proceeds from the sale of assets	1	-	-	-	-	-	-
Cash from investing activities	(168)	(187)	(81)	(55)	(181)	(29)	(480)
Principal payments on debt	(1,315)	(338)	(9)	(10)	(11)	(3)	(6)
Proceeds from private offering of securities	-	-	459	-	-	-	-
Cash from financing activities	(1,315)	(338)	450	(10)	(11)	(3)	(6)
Exchange rate impact	(641)	(445)	(1,200)	(1,542)	(908)	(28)	(39)
Chg in cash & equivalents	\$2,949	(\$2,622)	\$1,949	(\$3,170)	\$4,294	\$1,385	(\$2,815)

Source: Company reports

HISTORICAL STOCK PRICE



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