

# Zacks Small-Cap Research

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M. Marin  
312-265-9211  
mmarin@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

## Legacy Education Alliance, Inc. (LEAI-OTCBB)

**LEAI: International Growth but Lower Overall Revenue**

### OUTLOOK

The company is focused on driving growth in Southeast Asia, which management has noted remains a strong market. Legacy's October Hong Kong event achieved strong attendance, despite the negative impact of Typhoon Mangkhut, and the company plans another two near-term events in Hong Kong.

Legacy's overall comparisons were negative for the third quarter 2018 compared to the same period of 2017. However, revenue at the Other Foreign Markets unit was up slightly. The company remains optimistic about the overall outlook, as Legacy continues to focus on growing its core business and reflecting ongoing international expansion.

Current Price (11/23/18) \$0.22  
Valuation \$0.50

### SUMMARY DATA

52-Week High \$0.60  
52-Week Low \$0.19  
One-Year Return (%) -50.3  
Beta 1.96  
Average Daily Volume (sh) 10,708

Shares Outstanding (mil) 23  
Market Capitalization (\$mil) \$5  
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 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (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	23 A	27 E	100 E

### Per Share Earnings

	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	-\$0.04 A	-\$0.10 A	-\$0.05 A	\$0.04 E	-\$0.15 E

Quarters might not sum to annual reflecting rounding.  
Disclosures begin on page 8.

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## KEY POINTS

- Legacy's overall comparisons were negative for the quarter compared to the same period of 2017. However, despite some recent softness in attendance and revenue, the company remains optimistic about the balance of 2018 and beyond.
- For example, management has noted that Southeast Asia remains a strong market and the company is focused on driving growth in this geographic region. The company plans another two events in the near-term in Hong Kong.
- Moreover, the company believes that \$58.1 million in deferred revenue is another sign of future strength for Legacy.
- Revenue at the company's Other Foreign Markets segment was up slightly in the third quarter 2018 to \$4.7 million compared to \$4.69 million registered in the third quarter 2017.
- The company strives to diversify its content offering and drive proprietary and new products, initiatives that are expected to fuel future growth. One example of this is the brand ambassador agreement with Kathy Ireland, which is designed to boost consumer awareness and brand recognition of Legacy's proprietary brand.

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## 3Q18 RESULTS CONSTRAINED BY LOWER ATTENDANCE

Legacy Education Alliance reported third quarter 2018 results and hosted a conference call. Overall comparisons were negative for the quarter compared to the same period of 2017. However, some of the variances reflect the company's ongoing investment to drive future growth. Legacy has implemented several initiatives, as noted in earlier reports. These include diversifying its brand portfolio, expanding internationally and implementing greater focus on the online delivery of its courses. In a digital world, this latter initiative provides greater flexibility to customers. From a financial perspective, the anticipated growth in digital delivery is also expected to expand Legacy's margins. At the same time, the company has also focused on boosting fulfillment. Despite some recent softness in attendance and revenue, the company remains optimistic about the balance of 2018 and beyond. Management has noted that Southeast Asia remains a strong market and the company is focused on driving growth in this geographic region. The company plans another two events in the near-term in Hong Kong. Moreover, the company believes that \$58.1 million in deferred revenue is another sign of future strength.

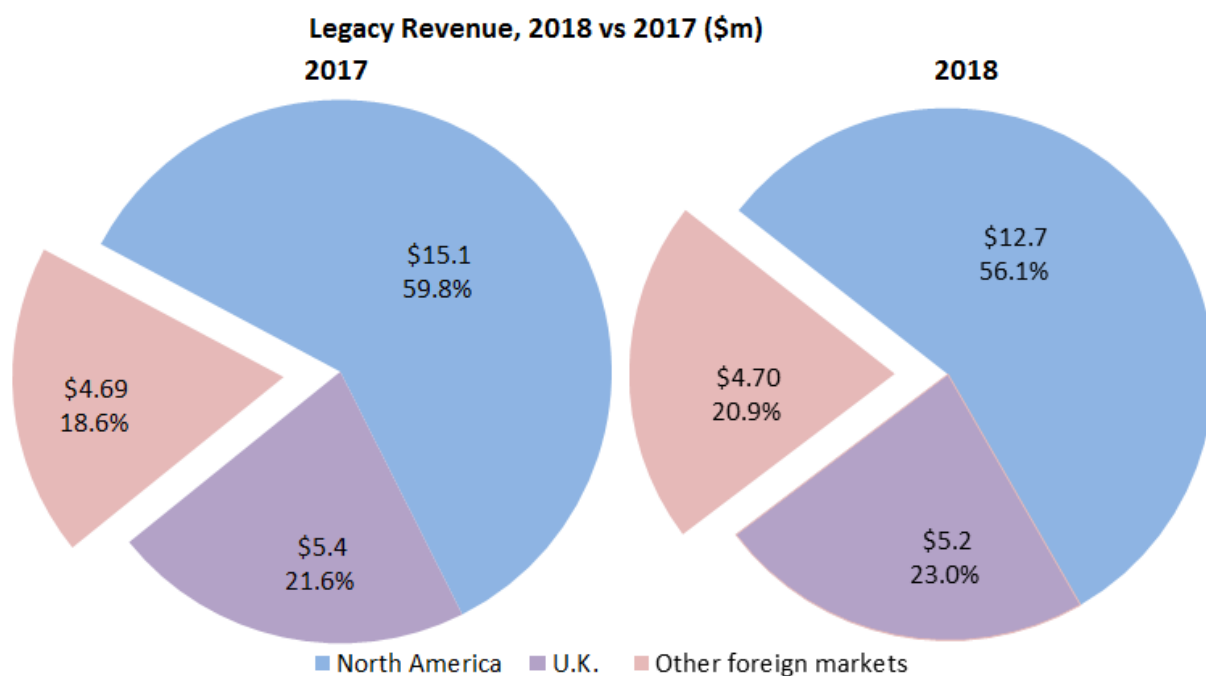
For the third quarter 2018, the company reported total revenue of \$22.6 million versus \$25.2 million recorded in the quarter ended September 30, 2017. This \$2.6 million or 10.3% revenue decrease primarily reflected a \$1.7 million or 27.3% decline in revenue from expired contracts and \$0.9 million or 5.0% decline in fulfillment. The company also recognized a 4.9% year-over-year contraction in total cash sales, which came in at \$23.3 million. This decline largely reflected a \$1.4 million contraction in the company's Other Foreign Markets segment and a \$0.6 million fall in its U.K. segment. These were partially offset by a \$0.8 million advance in the larger North America unit.

The company encountered a dip in attendance for the quarter, which may, we believe, reflect general fluctuations from time-to-time despite an overall upward trajectory. Of total revenue, the international operations – the combined UK and Other Foreign Market segments – generated revenue of \$9.9 million versus \$10.1 million generated in the third quarter of 2017. However, revenue at the Other Foreign Market segment was up slightly, as discussed below.

At the same time, the company has focused on cost containment efforts. Legacy's total operating expenses came in at \$24.4 million for the third quarter 2018 versus \$23.6 million registered in the third quarter 2017. This represents a 3.4% increase, which primarily reflected a \$0.7 million increase in advertising and sales expenses, \$0.5 million higher general and administrative expenses and a \$0.1 million advance in royalty expenses. The above-noted advance in advertising and sales expenses largely reflects the company's goal to diversify its content offering and drive proprietary and new products, initiatives that are expected to fuel future growth. The increases in these costs were partially offset by a \$0.5 million decline in direct course expenses. However, total operating expenses during the quarter were some \$3.8 million lower than \$28.2 million registered in the prior 2018 quarter. With lower revenue and higher costs, the company's net loss came in at \$1.2 million or (\$0.05) per share versus net income of \$1.4 million or \$0.06 per share recorded in 3Q17. Our full year projections change by the 3Q18 variances from our estimates and we are reducing our near-term price target to \$0.50.

Since Legacy began focusing on driving international expansion, the company's Other Foreign Markets unit has generated strong year-over-year revenue growth. Revenue at this segment was up slightly in the third quarter 2018 to \$4.7 million compared to \$4.69 million registered in the third quarter 2017. However, reflecting a 3.7% drop in U.K. revenue (to \$5.2 million), the UK and Other Foreign Market segments combined revenue of \$9.9 million for the 2018 third quarter fell 2.0% from \$10.1 million generated in the comparable 2017 quarter.

The segment breakdown of third quarter revenue is illustrated below.



Source: Company reports

### Continuing Efforts to Drive Growth

As noted, the company's goal to diversify its content offering and drive proprietary and new products, initiatives that are expected to fuel future growth. One example of this is the brand ambassador agreement with Kathy Ireland, which is designed to boost consumer awareness and brand recognition of the Legacy proprietary brand. Another example is the recently formed agreement with Get Motivated Events, LLC, which creates a new marketing channel for the company, as Legacy seeks to promote its courses at Get Motivated! large stage business seminars. Legacy also acquired two new UK investment properties in June 2018 to further its growth targets.

## Balance Sheet

Legacy ended the period with \$3.4 million in cash and \$3.7 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 driving further expansion in the delivery of courses and content via digital channels. This initiative is intended to provide greater convenience to customers, generate increased course enrollments and enhance Legacy's margins. The company's goal is consistent with industry trends, as the overall sector is shifting to greater levels of internet delivery of financial training content, according to industry studies. E-Learning, particularly in Legacy's targeted emerging markets, is enjoying rapid growth. Legacy has been increasing its social media footprint internationally. As noted, the expansion of e-learning courses is expected to have a positive impact on margins, reflecting the more economical delivery of online training.

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## RECENT NEWS

Legacy reported third quarter 2018 results on November 14, 2018

On October 19, 2018, Legacy announced Kathy Ireland as a guest speaker at its Las Vegas 2018 Hall of Fame Award ceremony, in her role as brand ambassador to promote the Legacy brand.

Legacy announced that its October Hong Kong event achieved strong attendance, despite the negative impact of Typhoon Mangkhut.

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.

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## 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	3Q18A	4Q18E	2018E
Revenue	21,965	26,208	25,235	24,322	97,730	25,755	25,222	22,557	26,633	100,167
Direct course expenses	12,863	13,220	13,411	14,478	53,972	14,214	15,397	12,929	14,142	56,682
Advertising & sales expenses	4,591	5,131	5,010	5,058	19,790	5,572	5,998	5,691	5,109	22,370
Royalty expenses	893	1,639	1,119	1,095	4,746	1,556	1,653	1,172	1,465	5,846
General & administrative expenses	4,341	4,231	4,114	4,722	17,408	4,848	5,198	4,584	4,769	19,399
Total operating costs & expenses	22,688	24,221	23,654	25,353	95,916	26,190	28,246	24,376	25,484	104,296
Income (loss) from operations	(723)	1,987	1,581	(1,031)	1,814	(435)	(3,024)	(1,819)	1,148	(4,130)
Net Interest income (expense)	(3)	(2)	(2)	(2)	(9)	(4)	(4)	(5)	(2)	(204)
Other income	83	69	(67)	4,395	4,480	(21)	(27)	(194)	52	(195)
Total other income	80	67	(69)	4,393	4,471	(25)	(31)	(199)	50	(399)
Income (loss) before income taxes	(643)	2,054	1,512	3,362	6,285	(460)	(3,055)	(2,018)	1,198	(4,529)
Income tax benefit/(expense)	333	(107)	(119)	(2,096)	(1,989)	(397)	640	797	(120)	123
Net income (loss)	(310)	1,947	1,393	1,266	4,296	(857)	(2,415)	(1,221)	1,078	(4,406)
<b>Per share data</b>										
Diluted earnings (loss) / common share	(\$0.01)	\$0.08	\$0.06	\$0.05	\$0.18	(\$0.04)	(\$0.10)	(\$0.05)	\$0.04	(\$0.15)
Diluted weighted average common shares	22,631	22,763	23,022	23,012	22,857	23,008	23,008	23,005	23,405	23,107

\*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)

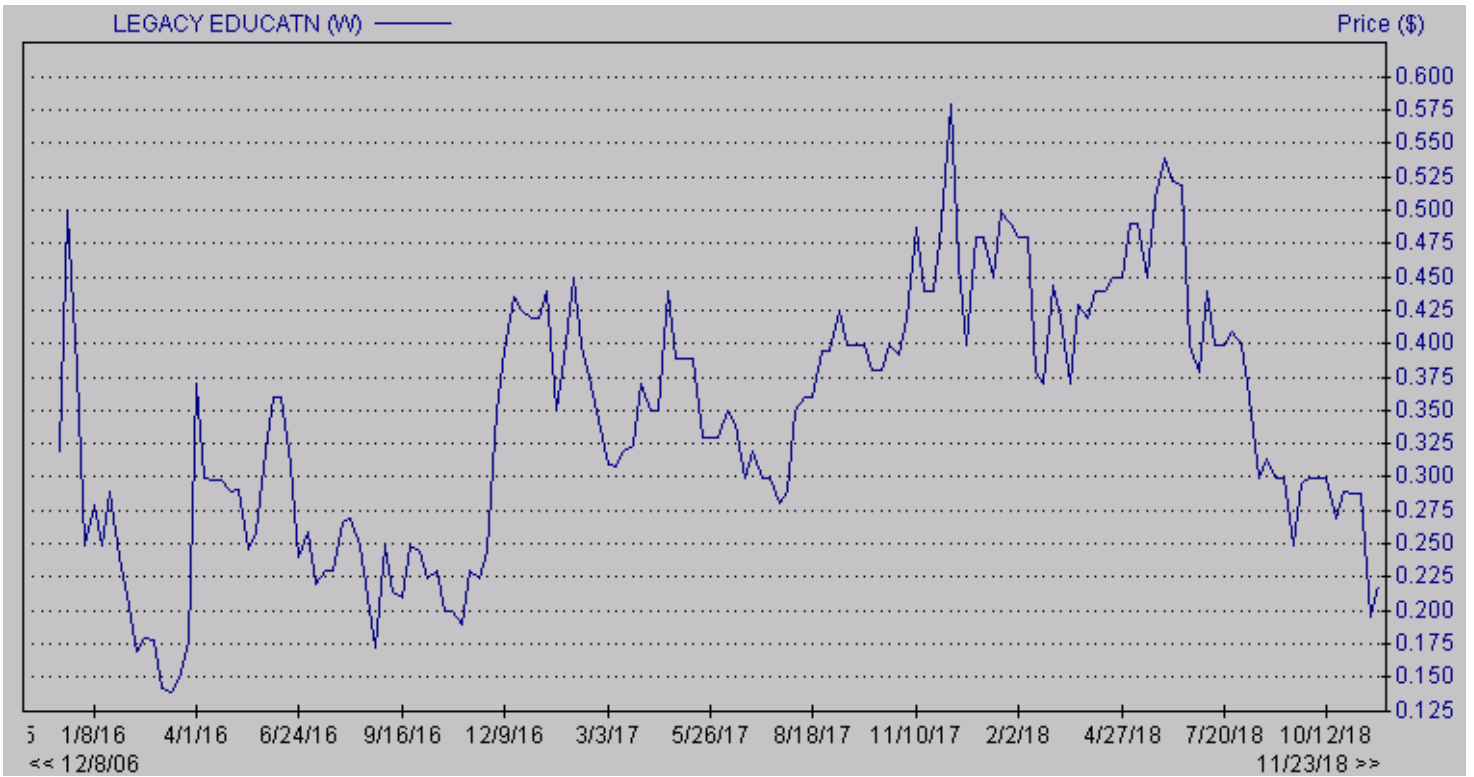
	2013	2014	2015	2016	2017	1Q18	2Q18	3Q18
Cash & cash equivalents	\$5,554	\$2,932	\$4,881	\$1,711	\$6,005	\$7,162	\$2,613	\$3,386
Restricted cash	3,061	1,843	2,946	3,148	2,899	3,127	3,476	3,684
Deferred course expenses	14,222	8,722	9,211	9,067	9,417	9,675	8,881	8,768
Prepaid expenses & other	2,101	2,528	2,169	3,458	6,408	6,355	5,179	5,623
Inventory	203	161	492	348	330	346	454	276
<b>Total current assets</b>	<b>\$25,141</b>	<b>\$16,186</b>	<b>\$19,699</b>	<b>\$17,732</b>	<b>\$25,059</b>	<b>\$26,665</b>	<b>\$20,603</b>	<b>\$21,737</b>
Property & equipment	1,292	1,324	1,226	1,130	1,187	1,188	1,597	1,907
Deferred tax asset		-	-	1,295	441	592		363
Other assets	227	217	200	207	333	341	216	211
<b>Total assets</b>	<b>\$26,660</b>	<b>\$17,727</b>	<b>\$21,125</b>	<b>\$20,364</b>	<b>\$27,020</b>	<b>\$28,786</b>	<b>\$22,416</b>	<b>\$24,218</b>
Accounts payable	2,167	2,620	2,451	3,344	2,860	3,926	2,796	2,824
Royalties payable	186	104	163	175	188	355	293	307
Accrued course expenses	1,141	1,060	1,226	1,082	1,829	2,151	2,005	2,414
Accrued salaries, wages & benefits	530	564	1,258	840	1,506	1,982	898	671
Other accrued expenses	2,221	2,967	2,372	2,052	2,430	3,514	3,756	3,088
Long-term debt, current portion	1,208	9	10	11	11	12	12	512
Deferred revenue, current portion	73,262	56,140	60,698	54,389	57,151	57,240	55,078	58,138
<b>Total current liabilities</b>	<b>\$80,715</b>	<b>\$63,464</b>	<b>\$68,178</b>	<b>\$61,893</b>	<b>\$65,975</b>	<b>\$69,180</b>	<b>\$64,838</b>	<b>\$67,954</b>
Long-term debt net of current portion	427	52	42	31	20	17	14	11
Deferred revenue net of current portion	173	238	71	235	602	306	25	9
Deferred tax liability							78	-
Other liabilities	61	126	45	379	1,188	1,269	398	37
<b>Total liabilities</b>	<b>\$81,376</b>	<b>\$63,880</b>	<b>\$68,336</b>	<b>\$62,538</b>	<b>\$67,785</b>	<b>\$70,772</b>	<b>\$65,353</b>	<b>\$68,011</b>
<b>Total stockholders' deficit</b>	<b>(\$54,716)</b>	<b>(\$46,153)</b>	<b>(\$47,211)</b>	<b>(\$42,174)</b>	<b>(\$40,765)</b>	<b>(\$41,986)</b>	<b>(\$42,937)</b>	<b>(\$43,793)</b>
<b>Total liabilities &amp; stockholders' deficit</b>	<b>\$26,660</b>	<b>\$17,727</b>	<b>\$21,125</b>	<b>\$20,364</b>	<b>\$27,020</b>	<b>\$28,786</b>	<b>\$22,416</b>	<b>\$24,218</b>

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

	2013	2014	2015	2016	2017	3Mos18	6Mos18	9Mos19
Net income/(loss)	4,329	7,365	(2,726)	3,881	4,296	(857)	(3,272)	(4,493)
Depreciation & amortization	276	216	185	146	125	29	70	108
Chg in fair value of derivatives			(136)	82	(85)	(22)	(24)	(24)
Share-based compensation	64	22	63	168	226	57	114	145
Loss on asset disposition	16	-	-	-	-	-	-	-
Deferred taxes	(462)	3	(18)	(1,297)	1,667	(69)	(270)	(1,072)
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	3,693
<b>Cash from operations</b>	<b>5,073</b>	<b>(1,652)</b>	<b>2,780</b>	<b>(1,563)</b>	<b>5,394</b>	<b>1,445</b>	<b>(2,290)</b>	<b>(1,643)</b>
Purchases of property & equipment	(169)	(187)	(81)	(55)	(181)	(29)	(480)	(839)
Proceeds from the sale of assets	1	-	-	-	-	-	-	-
<b>Cash from investing activities</b>	<b>(168)</b>	<b>(187)</b>	<b>(81)</b>	<b>(55)</b>	<b>(181)</b>	<b>(29)</b>	<b>(480)</b>	<b>(839)</b>
Principal payments on debt	(1,315)	(338)	(9)	(10)	(11)	(3)	(6)	(9)
Proceeds from issuance of securities	-	-	459	-	-	-	-	500
<b>Cash from financing activities</b>	<b>(1,315)</b>	<b>(338)</b>	<b>450</b>	<b>(10)</b>	<b>(11)</b>	<b>(3)</b>	<b>(6)</b>	<b>491</b>
Exchange rate impact	(641)	(445)	(1,200)	(1,542)	(908)	(28)	(39)	157
<b>Chg in cash &amp; equivalents</b>	<b>\$2,949</b>	<b>(\$2,622)</b>	<b>\$1,949</b>	<b>(\$3,170)</b>	<b>\$4,294</b>	<b>\$1,385</b>	<b>(\$2,815)</b>	<b>(\$1,834)</b>

Source: Company reports

# HISTORICAL STOCK PRICE



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