

CYBERPLEX Q1 RESULTS: MAINTAINS REMARKABLE MOMENTUM

Friday, May 8, 2009

When a micro-cap company reports an anomalous blow-out quarter (like Cyberplex did for Q4 2008 results), investors often become nervous about successive quarterly results. Is the blow-out quarter evidence of a single lucky event, or is it a true sign of progress? Experienced investors have been burned in the past by false trends disguised as inflection points, so Q1 performance was an important gauge of true progress.

Based on the Q1 results reported by Cyberplex (CX-TSX) last night, investors should be heartened that the company has hit a significant inflection point and has progressed from a story with future potential, to one measured by earnings performance for investors. Sales for the quarter increased to \$32.1 million, up 307% from sales reported for Q1, 2008. EBITDA was reported at \$4.3 million, and net income came in at \$4.1 million or \$0.07 EPS for the quarter. By comparison, the company reported EPS of \$0.00 for Q1, 2008, and \$0.11 for Q4, 2009. As a reminder, typically, one-third of sales and earnings occur during the Q4 reporting period. Earnings margins, excluding foreign exchange fluctuations were reported at 12% versus 13% for Q4, 2008, while gross margins came in at 31%, down 1% from Q4, 2008. The margin fluctuation should be considered in-line with analysts expectations.

During the conference call, Management continued to stress that performance-based advertising is relatively new to the market and is at the early stages of adoption by marketers and advertising agencies. Campaign concentration has decreased for Q1, with the top ten campaigns representing 55% of revenues versus 67% during Q4, 2008. As more campaigns are adopted by more advertisers, investors should continue to see less campaign concentration over the coming quarters, which should strengthen the quality of revenue streams as they grow. Management reported that approximately 70% of Q1 campaigns were repeated from the previous quarter, which infers that clients are maintaining investments in CPA-based online marketing.

Net income for Q2 onward should be impacted by taxes, measured at approximately 30%. As well, seasonality should impact performance for both Q2 and Q3, where traditional dips in online activity occur, with Q4 generating 30% of sales and earnings for the year.

Based on the [earnings preview](#) from earlier this week, the Company exceeded expectations for this quarter in both sales and earnings. Clearly, the market has been anticipating a solid quarter, although performance may still have exceeded elevated expectations. Currently, the shareprice is trading at approximately 5.7x run-rate EBITDA and 7.5x fully taxed run-rate EPS for FY 2009. The P/E ratio for the TSX Equity index is currently 15.6 with many issuers reporting earnings declines for Q1, 2009. With its impressive earnings growth, and apparently robust outlook, the stock appears to continue to be undervalued relative to the TSX based on a P/E comparison, despite its

recent share price run. Adding to this, high growth earnings stocks typical trade higher than the index mean.

Investors may still be concerned about fragile revenue streams due to campaign and product category concentration. However, with new publishers, affiliates, and advertisers coming on, and a 21% sequential decline in reported concentration, this risk appears to be diminishing.

Finally, the Company has \$4.7 million in cash and generated approximately \$0.05 per fully diluted share of free cashflow for the quarter.

Investors should anticipate that performance exceeded most analysts elevated expectations for Q1 results.