

Canadian Small-Cap Growth Stock Research

Independent Equity Advisors

Editor: Ryan Irvine, BBA (Finance)

Associate Analyst: Aaron Dunn, CFA

Lingo Media Corporation
Focus BUY Portfolio
Price: \$0.47
Symbol: LM: TSX-V
Near Term: ▲ SPEC BUY
Long Term: ▲ SPEC BUY

Summary

Lingo Media has coined itself an EdTech company, combining education with technology. Through its two distinct business units, the company develops, markets and supports a suite of English language learning solutions consisting of web-based software licensing subscriptions, online and professional services, audio practice tools and multi-platform applications. Lingo Media continues to operate its legacy textbook publishing business from which it collects recurring royalty revenues.

Subscriptions

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Lingo Media Corporation**LM:TSX-V****Current Price (October 22/2015): \$0.47****RECOMMENDATION: SPEC BUY****FOCUS BUY PORTFOLIO**

Shares Outstanding.....27,379,177
 Fully Diluted Shares Outstanding.....31,284,490

SELECTED QUARTERLY DATA

Income Statement	Q2 2015	Q2 2014
Revenues	\$1,794,659	\$877,879
Net Earnings	\$979,103	\$217,633
EPS	\$0.04	\$0.01
Fully Diluted EPS	\$0.04	\$0.01
FCF	\$699,722	\$286,723
FCF/Share	\$0.0224	\$0.0100

Balance Sheet	Q2 2015	Q2 2014
Current Assets	\$2,335,899	\$1,122,136
Total Assets	\$3,867,996	\$2,130,756
Current Liabilities	\$1,448,073	\$1,597,992
Long-Term Debt	\$868,833	\$863,545
Total Liabilities	\$1,448,073	\$1,597,992
Shareholders' Equity	\$2,419,923	\$532,764

SELECTED ANNUAL DATA

Income Statement	2014	2013
Revenues	\$2,512,464	\$2,008,066
Net Earnings	\$144,013	\$22,943
EPS	\$0.01	\$0.00
Fully Diluted EPS	\$0.01	\$0.00
FCF	\$288,774	\$100,294
FCF/Share	\$0.01	\$0.00

Balance Sheet	2014	2013
Total Assets	\$2,423,438	\$2,214,590
Total Liabilities	\$1,679,482	\$1,703,703
Working Capital	-\$268,066	-\$537,552
Long Term Debt	\$838,833	\$819,545
Book Value	\$743,956	\$510,887
ROE	19%	20%

SUMMARY OF OPERATIONS

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EXPANDED OPERATIONS

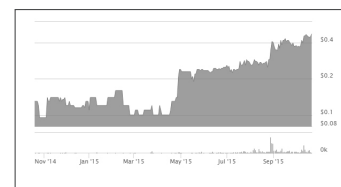
Since the beginning of 2015, Lingo Media's strategy has been to transition its business to online subscriptions and digital downloads that enable learners to bring your own device (BYOD) and look beyond paper-based textbook publishing. The company believes that these online subscription formats provide customers with an overall better learning experience, the flexibility to use the company's products on multiple platforms (i.e. beyond desktops to tablets and mobile extensions), and is a more economical and relevant way for Lingo Media to deliver its products to customers.

Lingo Media has continued to invest in language learning and leverage its industry expertise to expand into more scalable education-technology. Recent product initiatives have allowed the company to expand the breadth of its language learning product offerings and reinforced the belief that the web-based EdTech learning segment continues to present a significant opportunity for long-term value creation. Customers in this market have demands that recur each year, creating a higher likelihood of return business and predictable revenue opportunity. This demand profile also fits well with the company's suite of products and increasingly recognizable ELL Technologies brand.

As a result of strategic reorganization and realignment of the business, as of June 30, 2015, the company has integrated its businesses Speak2Me Inc., Parlo Corp., and ELL Technologies Ltd. into one segment, ELL Technologies Ltd., and now operates only two segments. Lingo Media's web-based online English language learning division is ELL Technologies Ltd. and the company's print-based English language learning textbook publishing division is Lingo Learning Inc.

ONLINE ENGLISH LANGUAGE LEARNING

ELL Technologies, acquired in 2010, now offers over 2,000 hours of interactive learning through a number of product offerings that include Winnie's World, English Academy, Scholar, Campus, Master and Business, in addition to custom solutions. ELL Technologies is marketed in 14 countries through a network of distributors and earns its

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EPS	\$0.04
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PEG Ratio	0.14
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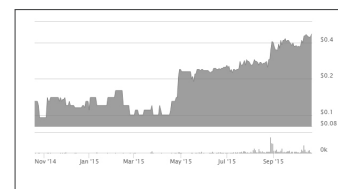
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revenues from licensing and subscription fees from its suite of web-based EdTech language learning products and applications.

At the time of the acquisition, ELL Technologies had an extensive existing product line which required substantial revisions in the technology platform and user interface. Since the acquisitions, particularly in the most recent years, Lingo Media's development team has engineered an eLearning platform and has been introducing new products to the market since the beginning of 2015, integrating cutting-edge technologies, solutions, content and pedagogy.

ELL Technologies' high-tech, easy to implement eLearning Software-as-a-Service solution has positioned the company to help teach the world English. As a result of ongoing investment into product development, management believes the company is now able to provide learners of all ages and levels of English proficiency with a platform to further their language learning development.

All of the company's products have been designed for ELL Technologies proprietary learning management system which completes the suite of products and allows the company to market and sell to academic institutions, governments and corporations. Educators who license the platform will be able to easily create, convert, edit, and arrange lessons and courses as they see fit. ELL Technologies retains all rights to user generated content to continuously expand its digital library.

ELL Technologies Ltd. Financials

In Q2 2015, ELL Technologies reported \$919,410 in online licensing sales revenue compared to \$104,904 in Q2 2014. This revenue increase from online English Language Learning is due to the fact that the company has resumed its sales efforts related to its ELL Technologies redesigned suite of products. ELL Technologies has completely redesigned the user interface, learning management system and the multi-browser delivery system for desktops and tablets for its ELL Technologies suite of products including Winnie's World, English Academy, Scholar, Campus Master and Business.

PRINT-BASED ENGLISH LANGUAGE LEARNING

The company continues to maintain its legacy textbook publishing business through Lingo Learning, a print-based publisher of English language learning programs in China since 2001. Lingo Learning earns royalty revenues from its key customer, People's Education Press and People's Education & Audio Visual Press (collectively "PEP"), who are China's State Ministry of Education's publishing arm. Lingo Learning has an established presence in China's education market of over 300 million students. To date, it has co-published more than 510 million units from its library of program titles.

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Lingo Learning Financials

Lingo Media earned royalty revenue of \$875,249 in Q2 2015 compared to \$772,975 in Q2 2014 from PEP. The legacy business is a royalty business that has five and a half years left on its contract, and it's recurring, growing in single digits. It is important to note that according to the company's current practice of recording revenues from PEP, Lingo Media recognizes no revenues from its print-based English language learning business in the first and third quarters as the sales from print-based products in China are reported semi-annually in the second and fourth quarters.

MARKET TRENDS

Lingo Media believes that the global market trends in English language learning are strong and will continue to grow at a rapid pace. Developing countries around the world, specifically in Asia and Latin America, are expanding their mandates for the teaching of English amongst students, young professionals and adults.

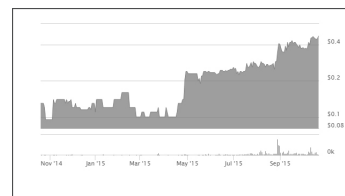
The British Council suggests that there are 1.6 billion people learning English globally. English language learning products and services are a US\$56.3 billion global market (notes Ambient Insight), who also forecast digital English learning expenditures to account for US\$3.1 billion by 2018. GSV Advisors forecast digital English learning product expenditures to be US\$2.5 billion (or 7.3%) of the global market by 2016, with Latin America representing approximately US\$260.9 million of that figure. At present, the Latin American market is a primary focus of Lingo Media.

Students attending English language training (ELT) classes in Latin America accounted for approximately 14% of worldwide revenues, or US\$321 million in 2013. Growth has been very rapid in the region and represents a particularly strong opportunity moving forward relative to other geographic regions. The remaining market for ELT is largely concentrated in Europe, the Middle East and Africa (45% of revenues or US\$1.04 billion) and the Asia Pacific region (35% of revenues or US\$825 million).

Management at Lingo Media believe the company is uniquely positioned to take advantage of the market opportunity for teaching English in Latin America, China and other countries in Asia, with its scalable web-based learning technology and solutions. Although the market outlook remains positive, there can be no assurance that this trend will continue or that the company will benefit from this trend.

RECENT CONSOLIDATED FINANCIALS

Lingo Media's revenue for the second quarter ended June 30, 2015, jumped 104% to \$1.79 million from \$877,879 in the same period of 2014. Operating expenses for the quarter

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totalled \$422,569 compared to \$319,430 for the same period in 2014, due to expanded sales and marketing initiatives. Net profit for the quarter was \$979,103 compared to \$217,633 for the same period in 2014, primarily a result of an increase in revenue of \$916,780. Total comprehensive income for the quarter was \$993,552, or \$0.04 earnings per share, based on 25.9 million shares compared to a total comprehensive income of \$200,534, or \$0.01 earnings per share, based on 21.8 million shares for the same period in 2014. Income before amortization, share-based payments, depreciation, finance charges and taxes was \$1.37 million compared to \$558,449 in 2014.

CONCLUSION

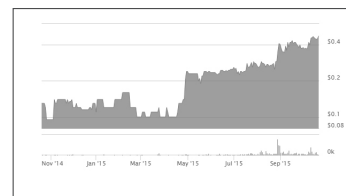
With what is expected to be just under \$5 million in sales for 2015, Lingo Media is truly a micro-cap company and a higher level of risk should be assigned to a company at this size. Having said this, the company reported only \$2.5 million in sales last year, so the growth in 2015 is impressive. Couple this with strong margins and Lingo Media is positioned for a record 2015.

The company has a small, but cash flow producing (\$1.2-\$1.6 in free cash flow annually) legacy business that is royalty based. This legacy print segment has five and a half years left on its contract, and it's recurring, growing in single digits. With a solid source of cash flow at present, the true focus and growth opportunity for Lingo Media is in the company's ELL Technologies business.

Lingo Media has undertaken a business transition which began to gather momentum during the second quarter of 2015. In fact, since 2012, the company has completely redesigned its' proprietary user interface, learning management system and the multi-browser delivery system for desktops and tablets for its ELL Technologies suite of products including Winnie's World, English Academy, Scholar, Campus Master and Business. The redesign has now been completed and full sales efforts have resumed and produced a 776% increase in revenue in the second quarter 2015 compared to the same period in 2014.

In Lingo Media's market, the key is to stay ahead of the curve technically. With the company's newly developed cutting edge technology, which is flexible and customizable and designed to work cross platform with cross browser capability and with availability in multiple countries with over 2,000+ hours of online training, management believes their ELL Technologies solutions are well positioned at the leading edge of the industry.

From a fundamental perspective, Lingo Media's shares currently trade at 11.2 times the company's earnings over the last 12-months – a reasonable, but not strikingly attractive multiple given the company's relatively small size. However,

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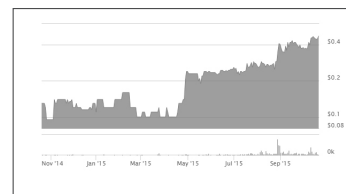
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the company's shares appear to offer value if management is able to continue to hit targets and produce a similar growth rate in profitability in the second half of 2015 as it has over the company's record first half. Management reported, in their Q2 2015 release, that during the second half of 2015, the company expects revenue growth and profitability to trend in a similar fashion as in the first half of 2015. As such, we estimate the company is positioned to make in the range of \$1.3 million, or \$0.047 per share basic, and \$0.04 diluted per share in earnings over the second half of 2015. This would leave the company with just over \$0.09 per share basic, or \$0.08 per share in diluted earnings, for 2015. Management is currently looking for growth beyond this level in 2016 and we will look for further guidance at year's end. In the \$0.45 range, Lingo Media has a low PE of around 5.2 based on our earnings estimate for 2015.

Given its small relative size and short history as a profitable entity under its new model, achieving a fair value estimate is extremely difficult and subject to a high degree of speculation. If we assign a PE of 9 to our expected 2015 EPS figure of between \$0.08 and \$0.09 we arrive at a fair value in the range of \$0.75 over the next year. As such, Lingo Media's shares appear to hold significant upside potential from their current range for patient investors with an above average tolerance for risk. We caution that earnings will be lumpy in the second half of 2015, as they were in the first half with the strongest quarter being Q4 when the royalty based print revenues are booked. We expect a profitable Q3 which will show growth year-over-year, but it will likely be closer to Q1, which produced in the range of \$0.01 per share.

As such, we are initiating coverage on Lingo Media with a SPEC BUY rating and we are placing the company in our Focus BUY Portfolio. As a micro-cap stock, we see the company as an appropriate investment only for those clients with an above average tolerance for risk. We would be patient and place limit orders initially below the \$0.52 level.

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BV (BV/Share): Book value (book value per share)

Book value per common share calculated as total shareholder's equity less preferred equity, and divided by the number of common shares outstanding. Should the company decide to dissolve, the book value per common share indicates the dollar value remaining for common shareholders after all assets are liquidated and all creditors are paid.

D/E: Debt-to-equity ratio

A measure of a company's financial leverage calculated by dividing long term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Current ratio

One of many ratios designed to evaluate short-term liquidity of a company. Calculated as current assets divided by current liabilities, this ratio gauges the level of cash resources relative to current liabilities as a measure of cash obligations.

EBITDA

Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

EPS: Earnings per share

A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

EV: Enterprise value

Enterprise value is calculated as market capitalization less cash and equivalents, plus debt. Evaluation of EV relative to the company's trailing EBITDA is used in identifying potential takeover targets.

FCF: Free cash flow

Capital expenditures are subtracted from cash flow from operating activities to arrive at free cash flow, which intends to measure the cash available to a company after making all cash outlays necessary to maintain existing productive capacity (as measured by capital expenditures on a company's cash flow statement).

Net working capital

A measure of the company's ability to carry on its normal business comfortably and without financial stringency, to expand its operations without the need of new financing, and to meet emergencies and losses. Calculated by deducting current liabilities from the current assets.

P/B: Price-to-book ratio

Calculated as a stock's market value (current closing price) divided by its latest quarter's book value. While a lower P/B ratio could mean that the stock is undervalued, it could also serve as a sign of weak fundamentals, and as with most ratios, this varies a fair amount by industry.

PEG ratio

The price/earnings to growth, or PEG ratio is calculated as P/E ratio divided by a company's annual EPS growth. The PEG ratio is used to determine a stock's value while taking into account earnings growth.

P/FCF: Price-to-free cash flow ratio

Calculated as a company's current share price divided by its free cash flow per share (i.e., free cash flow divided by the number of company's shares outstanding) over the last four quarters (called "TTM," or "trailing 12 months" calculation). It is a measure of the market's expectations regarding a firm's future financial health.

P/S: Price-to-sales ratio

It is calculated as a stock's current market price divided by its sales (revenue) per share. When calculating this ratio, we use the company's revenue from its latest four quarters, or on a TTM basis.

ROE: Return on equity

A measure of a corporation's profitability, calculated as net income divided by shareholder's equity. ROE is often useful in comparing the profitability of a company to other firms in the same industry.

Featured companies in KeyStone's Small-Cap Stock Report are evaluated on a scale of 1 to 5 on each of the following criteria:

Value: 1 - poor investment value
5 - excellent investment value

Risk/Liquidity: 1 - high exposure to liquidity concerns
5 - low exposure to liquidity concerns

Growth: 1 - poor growth potential
5 - excellent growth potential

Overall: 1 - poor fundamental characteristics
5 - excellent fundamental characteristics

Disclosure					
Stock Holding				Other	
Companies	KeyStone	KeyStone Employees	Related Companies	Investment Banking Client	Related Company Business Relationship
Lingo Media Corporation	YES	YES	NO	NO	NO

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