

Broadview Press Inc. (TSX-V: BDP) – Q1 benefits from a stronger US\$; FINAL REPORT

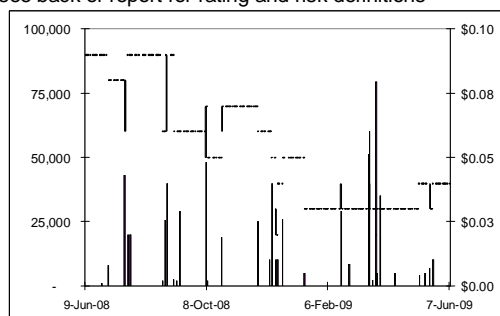
Sector/Industry: Publishing

www.broadviewpress.com

Market Data (as of June 9, 2009)

Current Price	C\$0.035
Fair Value	C\$0.17
Rating*	BUY
Risk*	3 (Average)
52 Week Range	C\$0.02 -C\$0.09
Shares O/S	12,118,607
Market Cap	C\$0.42 million
Current Yield	N/A
P/E	N/A
P/B	0.27
YoY Return	-61.1%
YoY TSX-V	-57.8%

*see back of report for rating and risk definitions



Q1-2009 Highlights

- In their most recent Management Discussion and Analysis (MD&A), the company stated that their “prospects seem brighter than was the case a year ago”. We concur with that statement, and were pleased to see strong performance in Q1-2009.
- Q1-2009 was the best quarter since the sale of BDP’s social science lists to the University of Toronto Press (UTP) in May 2008, as revenues dropped only 6% YOY, versus a 29% YOY drop in the last nine months of FY2008.
- The stronger US\$ (with respect to the C\$) was the primary revenue driver in the quarter.
- All margins improved YOY in Q1 as the company reported significant improvements in gross margins (up from 47% to 53%), and reduced selling and administrative costs by 24% YOY.
- Working capital and the current ratio at the end of Q1 were \$1.52 million and 2.04x, respectively. **BDP’s market capitalization of \$0.42 million suggests that the shares continue to trade well below the company’s working capital.**

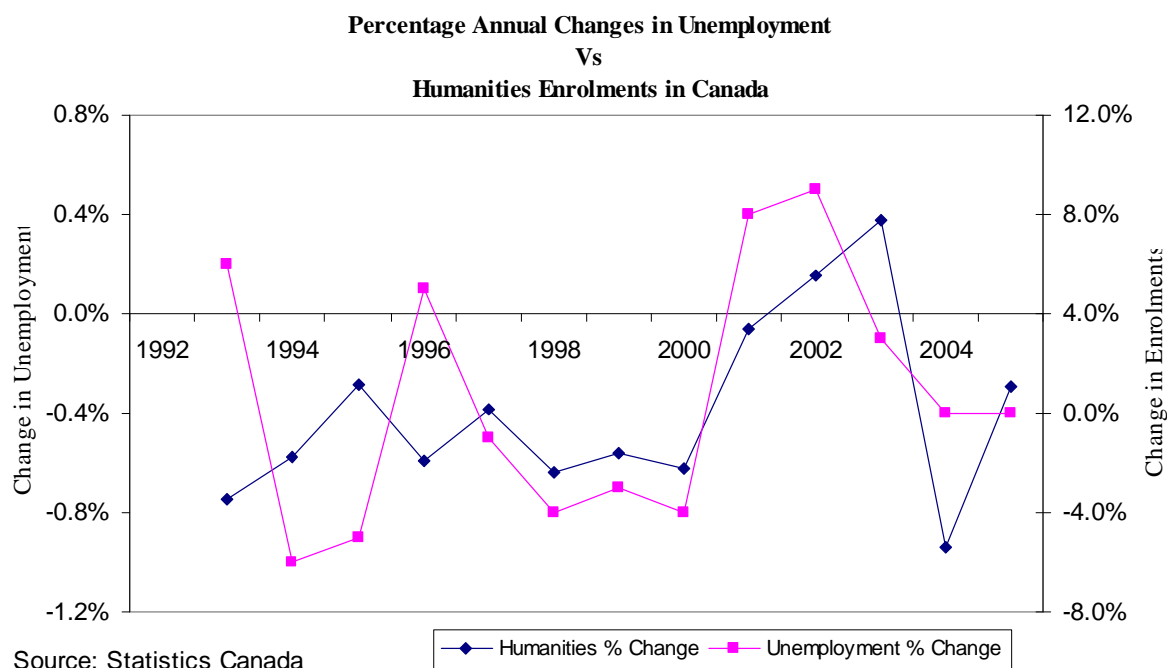
Key Financial Data (Fiscal Year-End December 31)

(C\$)	2006	2007	2008	2009E	2010E
Total Revenue	4,088,845	4,339,134	3,203,104	3,151,947	3,419,862
EBITDA Margin	1.62%	4.7%	-8.7%	-4.4%	1.1%
EBIT to Interest	0.06	1.35	(5.49)	(7.03)	0.47
Net Margin	-1.1%	-1.3%	0.0%	-3.9%	-0.2%
Net Income	(46,555)	(56,890)	257	(124,396)	(5,995)
EPS	(0.00)	(0.00)	0.00	(0.01)	(0.00)
Current Ratio	1.65	1.69	2.08	2.22	2.20
Debt to Capital	44.5%	40.4%	17.1%	14.0%	13.2%
ROE	-3.0%	-3.2%	0.0%	-7.5%	-0.4%
ROIC	0.2%	5.2%	-14.8%	-8.7%	0.4%

Broadview Press Inc. is an independent publisher focusing mainly on the academic textbook market. The company publishes textbooks primarily on humanities (English and Philosophy). The company’s revenues are derived almost equally from domestic (Canadian) sales and export sales (mainly to the United States).

Positive correlation between unemployment and student enrolments

We had mentioned in our previous reports that we expect student enrolments to increase with unemployment as students tend to stay longer, or return to educational institutions to upgrade their skills. The economic downturn, and the significant increase in unemployment in North America (as of April 2009, the unemployment rate in the US was 8.9%, and Canada was 8%) prompted us to take a deeper look into the relationship between unemployment rates and student enrolments. We used data from 1992 to 2005 in Canada to verify whether there was a significant correlation between the two. A correlation study between the two indicated that there was actually a positive correlation of 0.4 between the percentage annual changes in unemployment and college + university humanities enrolments (which is BDP's primary focus area at this time). The chart below, which shows the relationship between the two, suggests that enrolments have had a lagged response to changing unemployment rates in some periods.



The above study reinforces our opinion that there could be a positive correlation between unemployment and enrolment rates. Therefore, we expect the current environment to positively benefit humanities publishers like BDP.

We now take a look at the company's Q1 results.

Stronger US\$ and lower returns positively benefit revenues

BDP reported net sales of \$0.50 million in Q1-2009. The following table shows Q1 revenues in the comparable periods in previous years. Note that Q1-2009 revenues are not comparable to revenues in the previous years as BDP sold their social science lists to the UTP in May 2008.

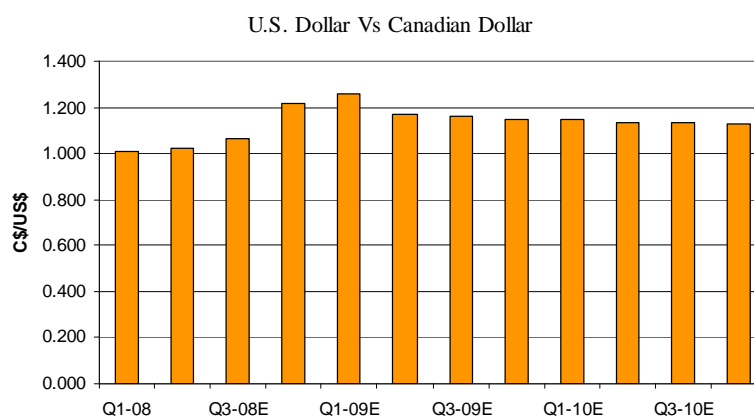
Net Sales	Q1 - 2006	% of Total	Q1 - 2007	% of Total	Q1 - 2008	% of Total	Q1 - 2009	% of Total
Canada	\$40,189	10.7%	\$15,016	2.6%	(\$54,889)	-10.2%	\$23,287	4.6%
US	\$280,388	74.8%	\$503,768	87.5%	\$512,736	95.3%	\$424,902	84.2%
Other	\$54,418	14.5%	\$56,837	9.9%	\$80,151	14.9%	\$56,366	11.2%
Total	374,995	100.0%	575,621	100.0%	537,998	100.0%	504,555	100.0%

We believe Q1-2009 was the best quarter since the transaction with the UTP, as revenues dropped only 6% YOY, while revenues in the last nine months of FY2008 had dropped by 29% YOY. Also, actual net sales in Q1-2009 (shown in the table below) dropped only 2.5% YOY. This is encouraging considering that the company had sold 34% of its total sales to the UTP.

Sales Growth	YOY Growth				
	Q1 -06	Q1-07	Q1-08	Q1-2009	Q1-2009
Gross Sales	\$674,095	\$862,169	\$867,742	732,424	-15.6%
Actual Returns	\$341,991	\$344,191	\$414,358	290,545	-29.9%
Net Sales	\$332,104	\$517,978	\$453,384	441,879	-2.5%
% Returns	50.7%	39.9%	47.8%	39.7%	

Another positive for the company in the quarter was the significant drop in returns from 48% to 40% of sales.

The stronger US\$ (with respect to the C\$) was the primary revenue driver in the quarter, as it strengthened 25% YOY (from 1.01 to 1.26). Although the US\$ has weakened significantly since the end of Q1, to its current rate of 1.10, we expect it to stay above the low levels seen in the first nine months of 2008 (the average rate in the first nine months of 2008 was 1.03) and positively benefit BDP in 2009. The following chart shows the C\$/US\$ forecasts.



Source: TD Economics

We had mentioned in our previous reports that we expect a stronger US\$, and lower returns as a percentage of gross sales, to positively benefit the company in 2009. Therefore, it was pleasing to see both factors come into play in Q1. Although Q1 revenues were inline with expectations, the significant weakening of the US\$ since the

end of Q1 led us to revise downward our revenue forecasts for FY2009, and FY2010, from \$3.27 million, and \$3.51 million, to \$3.15 million and \$3.42 million, respectively.

All margins improved

All margins improved YOY as the company reported significant improvements in gross margins (up from 47% to 53%), and reduced selling and administrative costs by 24% YOY. The following table shows margin comparisons.

Margins	Q1 2006	Q1 2007	Q1 2008	Q1 2009
Gross	54.3%	49.4%	47.0%	53.2%
EBITDA	-97.2%	-55.0%	-84.2%	-55.2%
Operating (EBIT)	-100.2%	-57.2%	-86.0%	-56.3%
Pre-tax	-104.4%	-63.3%	-84.9%	-54.9%
Net	-62.7%	-40.5%	-56.4%	-37.3%
Selling & Admin to Sales	165%	111%	139%	113%
Interest coverage ratio	-31.24	-14.11	-22.74	-29.7

Although we were expecting these improvements, selling and administrative expenses turned out to be higher than our forecasts, and as a result, we have slightly raised our forecasts for FY2009, and FY2010.

EPS Estimates

The company reported EBITDA of (\$0.28 million) in Q1-2009, versus (\$0.45 million) in Q1-2008. BDP reported a net loss of \$0.19 million (EPS: -\$0.02) in the quarter, versus \$0.30 million (EPS: \$0.03) in Q1-2008.

Increased cost and lower revenue forecasts resulted in lower EPS forecasts for FY2009 and FY2010. Our revised forecasts are a net loss of \$0.12 million (EPS: -\$0.01) in FY2009, and \$0.01 million (EPS: -\$0.00) in FY2010. Our previous forecasts were net profits of \$0.03 million and \$0.11 million, respectively.

Maintains a sound balance sheet

The company generated \$0.17 million from operations (net of capital expenditures) in Q1-2009. At the end of Q1-2009, the company had \$0.20 million in cash, up from \$0.06 million at the end of FY2008. Working capital and the current ratio were \$1.52 million and 2.04x, respectively.

	2005	2006	2007	2008	Q1-2009 (3 mo)
Cash	\$24,281	\$2,174	\$105,742	\$57,319	\$201,554
Current Ratio	1.96	1.65	1.69	2.08	2.04
Working Capital	\$1,586,747	\$1,473,985	\$1,636,358	\$1,707,830	\$1,515,132
Debt to Capital	31.1%	44.5%	40.4%	17.1%	17.8%
Interest Coverage	3.6	0.1	1.4	(5.5)	(29.7)

The company continues to be in a good cash position and we believe that they will not need to pursue any additional debt or equity financings for at least 18 months.

Valuation

Our revised DCF valuation dropped slightly from \$0.23 to \$0.22 per share as we lowered our short-term EPS forecasts.

DCF Analysis							
	2009E	2010E	2011E	2012E	2013E	2014E	Terminal
Funds From Operations	95,784	27,785	67,278	73,877	233,559	424,416	466,887
Investment in Working Capital	(141,002)	(29,063)	(28,760)	(28,398)	(27,973)	(27,481)	(26,917)
Cash From Operations	(45,218)	(1,278)	38,518	45,479	205,585	396,934	439,970
Capital Expenditures	(29,448)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Free Cash Flow to Equity	(74,666)	(31,278)	8,518	15,479	175,585	366,934	409,970
Present Value	(68,812)	(25,853)	6,314	10,291	104,697	196,227	2,579,305
Total PV	\$2,802,169						
Cash - Debt	(138,769)						
Shares O/S	12,118,607						
					Discount Rate	12%	
DCF Value Per Share	\$0.22				Terminal Growth Rate	3%	

BDP continues to trade well below industry (Publishing) average valuation multiples as shown in the table below.

	Industry Avg	BDP	Fair Value
P/S	0.7	0.1	\$0.14
P/E	13.6	-3.4	
P/B	1.6	0.3	\$0.16
Average			\$0.15

Source: Capital IQ, Yahoo Finance & FRC

Ratings

Therefore, based on the Q1 results, and our revised valuation models, we reiterate our BUY rating, and maintain our fair value estimate at \$0.17 per share.

Risks

The following risks may cause our estimates to differ from actual results (not exhaustive):

Copyright Violation and Technological Changes — High growth in the secondary trading of (used) textbooks and photocopying of textbooks may have an adverse effect on future textbook sales growth. This is mitigated by changing textbook editions every few years. Any growth in electronic books and “on-demand” publishing could also result in adverse effects. BDP notes that it is monitoring new developments and feels confident in its ability to compete electronically should the market move in that direction.

Exchange Rates - About 50% of the company’s sales are outside Canada. Therefore, the company is exposed to a rising C\$.

Seasonality and Debt Financing — The company’s sales are seasonal and it relies on bank financing to fund working capital at times. In addition, the company will invest a large amount upfront in new titles without knowing what the market demand will be.

Thin Trading — BDP is thinly traded and investors may face liquidity issues when trying to enter and exit positions.

We continue to rate the shares a Risk of 3 (Average).

Appendix

Statement of Operations

(All figures in C\$)

	2006	2007	2008	2009E	2010E
Revenues (Publications)	4,088,845	4,339,134	3,203,104	3,151,947	3,419,862
COGS	1,917,676	2,192,373	1,392,902	1,497,175	1,538,938
Gross Margin	2,171,169	2,146,761	1,810,202	1,654,772	1,880,924
Other	200,279	256,934	148,979	128,936	139,896
Gov't Grant	248,605	313,024	332,174	220,951	239,732
Selling Expenses & Admin	2,553,749	2,511,786	2,569,475	2,143,324	2,222,910
EBITDA	66,304	204,933	(278,120)	(138,664)	37,641
Amortization	61,519	51,903	37,125	28,889	29,334
EBIT	4,785	153,030	(315,245)	(167,554)	8,308
Interest	85,442	113,139	57,374	23,825	17,531
FX Loss & Other Losses	(10,265)	98,940	(305,731)	-	-
EBT	(70,392)	(59,050)	(66,888)	(191,379)	(9,223)
Current	(18,805)	(19,050)	(69,145)	(66,982)	(3,228)
Deferred	(5,032)	16,890	2,000	-	-
Total Income Tax	(23,837)	(2,160)	(67,145)	(66,982)	(3,228)
Net Income	(46,555)	(56,890)	257	(124,396)	(5,995)
EPS	(0.004)	(0.005)	0.000	(0.010)	(0.000)

Balance Sheets

(All figures in C\$)

	2006	2007	2008	2009E	2010E
Assets					
Current					
Cash	2,174	105,742	57,319	54,065	5,287
Accounts Receivable	1,327,736	1,682,857	1,311,828	1,290,877	1,323,148
Inventory	2,345,763	2,156,207	1,725,671	1,360,932	1,394,955
Prepaid Expenses & Tax Recoverable	68,341	74,428	201,247	157,597	161,537
Total Current Assets	3,744,014	4,019,234	3,296,065	2,863,471	2,884,928
Capital Assets					
Tax Recovery	88,202	78,707	72,223	73,334	74,000
Intangibles	81,050	64,160	-	-	-
	55,068	39,520	-	-	-
Total Assets	3,968,334	4,201,621	3,368,288	2,936,805	2,958,928
Liabilities					
Current					
Bank Debt + Current LT Debt	1,111,683	1,134,885	346,042	267,500	250,000
Accounts Payable	1,000,408	1,145,024	1,044,136	823,446	864,618
Income Taxes Payable	-	-	-	-	-
Non-Refundable Deposit	157,938	102,967	198,057	198,057	198,057
Deferred Government Grant	-	-	-	-	-
Total Current Liabilities	2,270,029	2,382,876	1,588,235	1,289,003	1,312,675
Long-Term Debt					
Deferred Tax	138,651	59,500	17,500	-	-
Total Liabilities	2,408,680	2,442,376	1,605,735	1,289,003	1,312,675
Equity					
Share Capital	797,315	1,045,640	1,045,640	1,045,640	1,045,640
Surplus	18,973	27,129	30,180	39,825	44,271
Retained Earnings	743,366	686,476	686,733	562,337	556,342
Total Equity	1,559,654	1,759,245	1,762,553	1,647,802	1,646,253
Total Liabilities and Equity	3,968,334	4,201,621	3,368,288	2,936,805	2,958,928

Statement of Cash Flows

(All figures in C\$)

	2006	2007	2008	2009E	2010E
Operating					
Net Income	(46,555)	(56,890)	257	(124,396)	(5,995)
Depreciation	61,519	51,903	37,125	28,889	29,334
Stock Compensation	4,704	8,156	3,051	9,645	4,446
Future Tax	(5,032)	16,890	2,000	-	-
Loss From Asset Sale & Other		-	(236,967)	-	-
Non-Cash Expenses		5,867	6,000		
Inventory Valuation Allowance	217,328	296,277	145,334		
Funds From Operations	231,964	322,203	(43,200)	(85,862)	27,785
Working Capital Investment					
Accounts Receivable	(101,630)	(355,121)	521,029	20,951	(32,272)
Inventory	(478,719)	(106,723)	(413,402)	364,739	(34,023)
Prepaid Expenses	(9,141)	(5,842)	4,394	43,650	(3,940)
Accounts Payable	(54,097)	144,617	(163,888)	(220,690)	41,172
Deferred Government Grant		-		-	-
Non-refundable deposits		(54,971)	95,090		
Tax Payable/Recoverable & Other	(92,553)	(245)	(83,335)	-	-
Cash From Operations	(504,176)	(56,082)	(83,312)	122,788	(1,278)
Investing					
Fixed Assets (incl acquisitions)	(41,268)	(26,859)	(37,317)	(30,000)	(30,000)
Proceeds From Disposals		-		-	-
Cash Used in Investment	(41,268)	(26,859)	(37,317)	(30,000)	(30,000)
Financing					
Bank Debt	519,987	(61,816)	(830,843)	(96,042)	(17,500)
Equity	3,350	248,325	-	-	-
Sales of Assets			903,049		
Cash From Financing	523,337	186,509	72,206	(96,042)	(17,500)
Change in Cash	(22,107)	103,568	(48,423)	(3,254)	(48,778)
Cash BOP	24,281	2,174	105,742	57,319	54,065
Cash EOP	2,174	105,742	57,319	54,065	5,287

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Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

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Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

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2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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