

April 30, 2009

### Broadview Press Inc. (TSX-V: BDP) – Q4 Exceeds Expectations

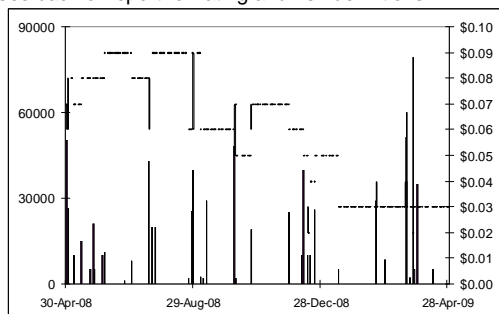
Sector/Industry: Publishing

www.broadviewpress.com

#### Market Data (as of April 29, 2009)

Current Price	C\$0.03
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\$0.36 million
Current Yield	N/A
P/E	N/A
P/B	0.21
YoY Return	-57.1%
YoY TSX-V	-58.3%

\*see back of report for rating and risk definitions



#### 2008 Highlights

- Revenues and gross margins in Q4 2008 exceeded our expectations. Gross margins continued to improve YoY and QoQ in Q4 as a result of better inventory management and an increase in print runs.
- During 2008, other margins were negatively affected by high selling & administrative expenses (as a percentage of sales) due to non-recurring expenses associated with the sales transaction with University of Toronto Press (UTP), the launch of the Freehand books, as well as accounting for expenses associated with the social science lists (that were sold to UTP) prior to its sale. We expect selling & administrative expenses to drop in 2009 from the high levels seen in 2008.
- We have raised our EPS forecasts for 2009 from a net loss of \$0.004 million (EPS: -\$0.00) to net income of \$0.03 million (EPS: \$0.00).
- At the end of 2008, debt to capital was 17%, compared to 40% at the end of 2007. We believe the company will not have to raise additional capital through equity in 2009.
- We maintain our BUY rating and fair value estimate of \$0.17 per share.

#### Key Financial Data (Fiscal Year-End December 31)

(C\$)	2005	2006	2007	2008	2009E	2010E
Total Revenue	3,633,471	4,088,845	4,339,134	3,203,104	3,267,275	3,511,144
EBITDA Margin	7.3%	1.62%	4.7%	-8.7%	3.0%	6.5%
EBIT to Interest	3.64	0.06	1.35	(5.49)	2.89	7.72
Net Margin	2.7%	-1.1%	-1.3%	0.0%	0.9%	3.2%
Net Income	97,850	(46,555)	(56,890)	257	29,238	112,334
EPS	0.01	(0.00)	(0.00)	0.00	0.00	0.01
Current Ratio	1.96	1.65	1.69	2.08	2.23	2.28
Debt to Capital	31.1%	44.5%	40.4%	17.1%	17.9%	17.1%
ROE	6.1%	-3.0%	-3.2%	0.0%	1.6%	5.9%
ROIC	9.6%	0.2%	5.2%	-14.8%	3.1%	8.6%

*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).*

**Revenues  
exceed  
expectations**

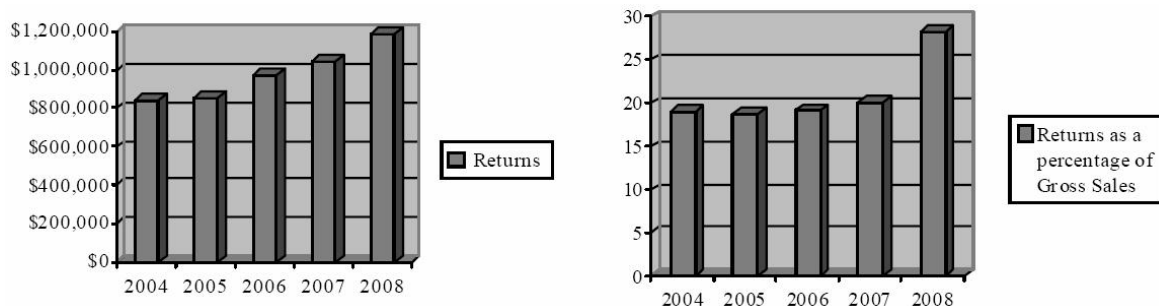
In Q4 2008 and 2008, the company reported revenues of \$0.96 million and \$3.20 million respectively, compared to our expectations of \$0.82 million for Q4 2008, and \$3.06 million for 2008. The table below shows revenues in Q4 and in 2008, versus comparable periods in previous years (these figures are not entirely comparable because revenues in previous years include revenues from the social science lists that were sold to the UTP in May 2008).

Net Sales	Q4 - 2006	% of Total	Q4 - 2007	% of Total	Q4 - 2008	% of Total
Canada	682,201	56.9%	675,330	54.3%	471,067	48.9%
U.S.	435,993	36.3%	489,415	39.3%	465,050	48.3%
Other	81,604	6.8%	79,068	6.4%	27,678	2.9%
<b>Total</b>	<b>1,199,798</b>	<b>100.0%</b>	<b>1,243,813</b>	<b>100.0%</b>	<b>963,795</b>	<b>100.0%</b>

Net Sales	2006	% of Total	2007	% of Total	2008	% of Total
Canada	2,198,699	53.8%	2,153,415	49.6%	1,450,386	45.3%
U.S.	1,645,468	40.2%	1,966,069	45.3%	1,588,163	49.6%
Other	244,678	6.0%	219,650	5.1%	164,555	5.1%
<b>Total</b>	<b>4,088,845</b>	<b>100.0%</b>	<b>4,339,134</b>	<b>100.0%</b>	<b>3,203,104</b>	<b>100.0%</b>

As shown in the table above, sales in the U.S. exceeded sales in Canada in 2008. This was partly due to the sale of the company's social science lists, which contain more titles with a Canadian focus. A stronger U.S. dollar against the Canadian dollar was another factor. In addition, the Freehand titles generated higher than expected revenues of about \$0.17 million since the first four titles were released in September 2008.

The company's net sales were negatively affected by significantly higher returns of about 28% of gross sales in 2008, as compared to about 20% in the past few years (shown below). According to the company, this was largely due to the ongoing economic crisis which resulted in lower students' disposable income (i.e. from parents and employment). Although we think returns will be higher than historical averages in 2009, we believe they will drop from the high level experienced in 2008, as the company has indicated improved returns so far in 2009. This is also in light of our assumption that the expected high unemployment rate in the U.S. and Canada may result in more student enrolments as students stay longer in educational institutions, or return to upgrade skills.



Source: Company

**We have revised our revenue forecast for 2009 to \$3.27 million from our previous estimate of \$3.21 million. In FY2010, we forecast revenues of \$3.51 million.**

**Gross margins continue to improve in Q4 2008**

Gross margins improved to 66.6% in Q4 2008, compared to 61.0% in Q3 2008, and 46.6% in Q4 2007. In 2008, gross margins improved to 56.5% from 49.5% in 2007, which exceeded our estimate of 51.6%.

Margins	2006	2007	2008	2009E	2010E	Q4 2006	Q4 2007	Q4 2008
	Gross	53.10%	49.5%	56.5%	52.5%	55.0%	53.4%	46.6%
EBITDA	1.62%	4.7%	-8.7%	3.0%	6.5%	27.4%	31.6%	-0.8%
Operating (EBIT)	0.12%	3.5%	-9.8%	2.1%	5.7%	25.8%	30.3%	-2.3%
Pre-tax	-1.72%	-1.4%	-2.1%	1.4%	4.9%	25.4%	26.8%	24.9%
Net	-1.14%	-1.3%	0.0%	0.9%	3.2%	14.9%	15.6%	20.4%
Selling & Admin to Sales	62.5%	57.9%	80.2%	61.0%	60.0%	51%	49%	61%
Interest coverage ratio	0.06	1.35	-5.49	2.89	7.72	11.07	11.93	-1.4

We think improvements in gross margins in 2008 were primarily due to the following:

- Better inventory management with a decline in inventory write-offs. We think the sales of the social science lists contributed to this improvement in 2008, since titles under social science (such as political science) usually become out dated faster than titles under humanities. This allowed the company to incur less frequent inventory write-offs. We think this will continue to have positive effects on inventory management in the future.
- Sales of the social science lists allows the company to increase print-runs for titles under humanities as the company now focuses its resources primarily on its humanities lists.
- A higher percentage of sales of BABL coming from reprinted stock.

As a result of the improvement, we have raised our gross margins forecast from 50% to 52.5% in 2009.

**Decline in Other Margins:** Although gross margins were higher, all other margins (shown in the table above) dropped in 2008 primarily due to an increase in selling and administrative costs as a percentage of sales to 80.2% in 2008, compared to 57.9% in 2007 (selling and administrative costs remained relatively flat YOY in absolute value in 2008, but revenues dropped compared to 2007, due to the sale of the social science lists). High selling & administrative expenses, we believe, are the result of the following one time expenses:

- The sale of assets to UTP contributed to an estimated \$0.30 million in selling and administrative costs.
- In 2008, BDP posted overhead costs associated with 4 subject areas for its social science listings for the first 4 months of 2008, without realizing any net revenues as the four subject areas were sold to UTP in May 2008 (since sales largely happen in Q3 and Q4 of the year).
- Substantial initial expenses were incurred for the Freehand books.

As the above factors are non-recurring events, we expect selling & administrative expenses to decrease considerably in 2009, from the level seen in 2008, and forecast that they will represent 61% of net sales in 2009 (previous forecast 60%). In addition, we are glad to see

the company has plans to control costs such as the high expenses related to promotional copies and the high costs associated with the current arrangements for its UK distribution.

### **Raising EPS Estimates**

The company reported net income of \$0.20 (EPS: \$0.00) in Q4 2008, versus \$0.20 million (EPS: \$0.00) in Q4 2007, and exceeded our net income estimate of \$0.04 million (EPS: \$0.00) for Q4 2008. In 2008, the company reported net income of \$257 (EPS: \$0.00), versus a net loss of \$0.06 million (EPS: -\$0.00) in 2007, and our forecast of a net loss of 0.15 million (EPS: -\$0.01). Despite higher selling & administrative expenses, net income in 2008 was primarily the result of a \$0.24 million gain in disposal of assets associated with the sale of BDP's social science lists.

Given all the changes discussed above, **we have raised our EPS forecasts for 2009 to net income of \$0.03 million (EPS: \$0.00) from a net loss of \$0.00 million (EPS: -\$0.00). In 2010, we forecast net income of \$0.11 million (EPS: \$0.01).**

### **Liquidity, Cash Flows, and Capital Structure**

In 2008, the company spent \$0.08 million on operations, \$0.04 million on investing activities, and paid down about \$0.83 million in total debt. The cash outflows were primarily financed by the sale of assets which generated about \$0.90 million. As a result of reduced debt, the company improved its balance sheet with improved ratios as shown in the table below. In addition, our models indicate the company's cash flow from operations will be sufficient and the company will not have to raise additional capital through equity in 2009.

<b>Liquidity</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Current Ratio	1.96	1.65	1.69	2.08
Quick Ratio	0.70	0.62	0.78	0.99
Interest Coverage (EBIT)	3.64	0.06	1.35	-5.49
Debt/Capital	31.1%	44.5%	40.4%	17.1%

### **Valuation**

Given the changes discussed above, our revised DCF model gave a fair value of \$0.23 per share, compared to \$0.20 per share in our previous report.

<b>DCF Analysis</b>		<b>2009E</b>	<b>2010E</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Terminal</b>
Funds From Operations		67,096	145,881	60,737	67,301	226,122	415,949	458,192
Investment in Working Capital		142,749	(31,033)	(30,795)	(30,501)	(30,147)	(29,728)	(29,239)
Cash From Operations		209,845	114,848	29,942	36,800	195,975	386,222	428,953
Capital Expenditures		(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Free Cash Flow to Equity		179,845	84,848	(58)	6,800	165,975	356,222	398,953
Present Value		167,256	70,770	(44)	4,562	99,868	192,234	2,532,861
Total PV	\$3,067,507							
Cash - Debt	(306,223)							
Shares O/S	12,118,607							
<b>DCF Value Per Share</b>	<b>\$0.23</b>							
					Discount Rate	12%		
					Terminal Growth Rate	3%		

The average valuation multiples of the publishing industry has improved slightly since our previous report, though the industry continues to take a bigger hit compared to the overall market (the S&P 500 Publishing and Printing Index is down 47% YOY versus a decline of 38% for S&P 500). As shown in the table below, BDP shares continue to trade well below

the industry averages in terms of P/S and P/B ratios, but approximately in line with the industry P/E ratio.

	Industry Avg	BDP	Fair Value
P/S	0.64	0.11	\$0.13
P/E	13.1	12.43	0.02
P/B	1.4	0.21	\$0.15
<b>Average</b>			<b>\$0.10</b>

Source: Capital IQ, Yahoo Finance & FRC

*Note – Industry average multiples were discounted by 25% to determine BDP’s fair value to account for its relatively smaller size. Fair value of BDP is determined based on our estimates for 2009.*

### Ratings

**Broadview is now focused on its humanities lists, which we think presents the company with opportunities to continue improving on margins and profitability going forward. Based on our revised valuation models and review of the company’s progress since our previous report, 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** — Any 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
<b>Revenues (Publications)</b>	4,088,845	4,339,134	3,203,104	3,267,275	3,511,144
COGS	1,917,676	2,192,373	1,392,902	1,551,956	1,580,015
<b>Gross Margin</b>	2,171,169	2,146,761	1,810,202	1,715,319	1,931,129
Other	200,279	256,934	148,979	133,654	143,630
Gov't Grant	248,605	313,024	332,174	241,760	259,805
Selling Expenses & Admin	2,553,749	2,511,786	2,569,475	1,993,038	2,106,687
<b>EBITDA</b>	<b>66,304</b>	<b>204,933</b>	<b>(278,120)</b>	<b>97,695</b>	<b>227,877</b>
Amortization	61,519	51,903	37,125	28,889	29,334
<b>EBIT</b>	4,785	153,030	(315,245)	68,806	198,544
Interest	85,442	113,139	57,374	23,825	25,723
FX Loss & Other Losses	(10,265)	98,940	(305,731)	-	-
<b>EBT</b>	(70,392)	(59,050)	(66,888)	44,981	172,821
Current	(18,805)	(19,050)	(69,145)	15,743	60,487
Deferred	(5,032)	16,890	2,000	-	-
Total Income Tax	(23,837)	(2,160)	(67,145)	15,743	60,487
<b>Net Income</b>	(46,555)	(56,890)	257	29,238	112,334
<b>EPS</b>	(0.004)	(0.005)	0.000	0.002	0.009

**Balance Sheets**

(All figures in C\$)

	2006	2007	2008	2009E	2010E
<b>Assets</b>					
<b>Current</b>					
Cash	2,174	105,742	57,319	266,122	353,470
Accounts Receivable	1,327,736	1,682,857	1,311,828	1,397,846	1,432,792
Inventory	2,345,763	2,156,207	1,725,671	1,409,957	1,445,206
Prepaid Expenses & Tax Recoverable	68,341	74,428	201,247	54,606	55,971
<b>Total Current Assets</b>	<b>3,744,014</b>	<b>4,019,234</b>	<b>3,296,065</b>	<b>3,128,532</b>	<b>3,287,440</b>
<b>Capital Assets</b>					
Capital Assets	88,202	78,707	72,223	73,334	74,000
Tax Recovery	81,050	64,160	-	-	-
Intangibles	55,068	39,520	-	-	-
<b>Total Assets</b>	<b>3,968,334</b>	<b>4,201,621</b>	<b>3,368,288</b>	<b>3,201,866</b>	<b>3,361,440</b>
<b>Liabilities</b>					
<b>Current</b>					
Bank Debt + Current LT Debt	1,111,683	1,134,885	346,042	392,500	395,000
Accounts Payable	1,000,408	1,145,024	1,044,136	810,549	851,077
Income Taxes Payable	-	-	-	-	-
Non-Refundable Deposit	157,938	102,967	198,057	198,057	198,057
Deferred Government Grant	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>2,270,029</b>	<b>2,382,876</b>	<b>1,588,235</b>	<b>1,401,106</b>	<b>1,444,134</b>
Long-Term Debt	138,651	59,500	17,500	-	-
Deferred Tax	-	-	-	-	-
<b>Total Liabilities</b>	<b>2,408,680</b>	<b>2,442,376</b>	<b>1,605,735</b>	<b>1,401,106</b>	<b>1,444,134</b>
<b>Equity</b>					
Share Capital	797,315	1,045,640	1,045,640	1,045,640	1,045,640
Surplus	18,973	27,129	30,180	39,149	43,362
Retained Earnings	743,366	686,476	686,733	715,971	828,305
<b>Total Equity</b>	<b>1,559,654</b>	<b>1,759,245</b>	<b>1,762,553</b>	<b>1,800,759</b>	<b>1,917,307</b>
<b>Total Liabilities and Equity</b>	<b>3,968,334</b>	<b>4,201,621</b>	<b>3,368,288</b>	<b>3,201,866</b>	<b>3,361,440</b>

**Statement of Cash Flows**

(All figures in C\$)

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
<b>Operating</b>					
Net Income	(46,555)	(56,890)	257	29,238	112,334
Depreciation	61,519	51,903	37,125	28,889	29,334
Stock Compensation	4,704	8,156	3,051	8,969	4,213
Future Tax	(5,032)	16,890	2,000	-	-
Loss From Asset Sale & Other		-	(236,967)	-	-
Non-Cash Expenses		5,867	6,000		
Inventoy Valuation Allowance	217,328	296,277	145,334		
<b>Funds From Operations</b>	<b>231,964</b>	<b>322,203</b>	<b>(43,200)</b>	<b>67,096</b>	<b>145,881</b>
<b>Working Capital Investment</b>					
Accounts Receivable	(101,630)	(355,121)	521,029	(86,018)	(34,946)
Inventory	(478,719)	(106,723)	(413,402)	315,714	(35,249)
Prepaid Expenses	(9,141)	(5,842)	4,394	146,641	(1,365)
Accounts Payable	(54,097)	144,617	(163,888)	(233,587)	40,527
Deferred Government Grant		-		-	-
Non-refundable deposits		(54,971)	95,090		
Tax Payable/Recoverable & Other	(92,553)	(245)	(83,335)	-	-
<b>Cash From Operations</b>	<b>(504,176)</b>	<b>(56,082)</b>	<b>(83,312)</b>	<b>209,845</b>	<b>114,848</b>
<b>Investing</b>					
Fixed Assets (incl acquisitions)	(41,268)	(26,859)	(37,317)	(30,000)	(30,000)
Proceeds From Disposals		-		-	-
<b>Cash Used in Investment</b>	<b>(41,268)</b>	<b>(26,859)</b>	<b>(37,317)</b>	<b>(30,000)</b>	<b>(30,000)</b>
<b>Financing</b>					
Bank Debt	519,987	(61,816)	(830,843)	28,958	2,500
Equity	3,350	248,325	-	-	-
Sales of Assets			903,049		
<b>Cash From Financing</b>	<b>523,337</b>	<b>186,509</b>	<b>72,206</b>	<b>28,958</b>	<b>2,500</b>
Change in Cash	(22,107)	103,568	(48,423)	208,803	87,348

**Fundamental Research Corp. Equity Rating Scale:**

**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%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

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

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**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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