

### Stockhouse Inc. (TSXV: SHC; OTCBB: STKH) – Revenues in line with expectations; Cost Cutting Efforts Pay off in Q4

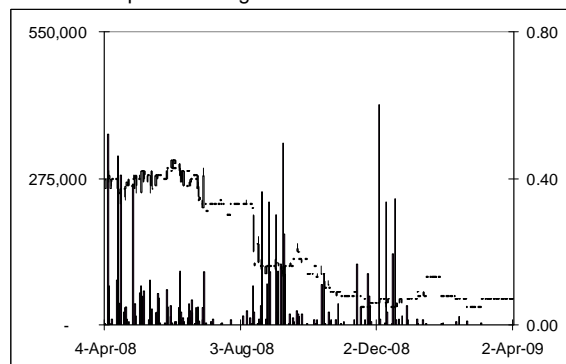
Sector/Industry: Technology Services/Financial/Internet

www.stockgroup.com

#### Market Data (as of April 3, 2009)

Current Price	C\$0.07
Fair Value	C\$0.45
Rating*	HOLD
Risk*	4 (Speculative)
52 Week Range	C\$0.05 - C\$0.44
Shares O/S	47,895,922
Market Cap	C\$3.35 million
Current Yield	N/A
P/E	N/A
P/B	-1.78
YoY Return	-82.5%
YoY TSX-V	-60.9%

\*see back of report for rating and risk definitions



#### Q4-2008 Highlights

- Although Q4 revenues dropped 35% YOY, they were in line with our estimates. SHC reported \$2.5 million in revenues in Q4 versus our forecast of \$2.4 million.
- SHC's cost cutting measures for the second half of FY2008 were reflected in Q4 as the company cut its indirect expenses (which includes sales and marketing, product development, and general and administrative) by 31% QOQ.
- Cash flow from operations in FY2008 were (\$5.30 million) versus our forecast of (\$5.65 million).
- As mentioned in our previous reports, topline growth will be hard to achieve in 2009. The company has to maintain/cut its costs from current levels to avoid any liquidity issues in 2009.
- Our models indicate the company will have to raise \$1.6 million in FY2009 to fund operations and working capital. If the company can renegotiate (which seems likely) and postpone the maturity date of their \$0.55 million debenture due in November 2009 (SHC's CEO was a major subscriber), the company will need to raise only \$1.05 million.
- We have maintained our HOLD rating and fair value at \$0.45 per share.

#### Key Financial Data (Financial Year-End Dec 31)

(US\$, '000's)	2005	2006	2007	2008E	2009E	2010E
Revenues	6,100	7,766	14,148	11,810	10,989	11,480
EBITDA	216	(622)	(4,286)	(5,295)	(2,253)	(1,665)
EBITDA Margin	3.5%	-8.0%	-30.3%	-44.8%	-20.5%	-14.5%
Net Income	(59)	(791)	(5,134)	(6,546)	(2,524)	(1,830)
EPS (Basic)	(0.00)	(0.02)	(0.13)	(0.16)	(0.05)	(0.04)
Assets	3,290	3,460	7,811	3,202	2,200	2,421
Debt to Capital	8.7%	15.1%	16.4%	-49.8%	-0.2%	0.0%
Free Cash Flow to Equity	389	(445)	(3,345)	(5,469)	(1,773)	(2,097)
ROE	-4.0%	-61.6%	-338.7%	n.a.	n.a.	n.a.

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**Q4 revenues in line with expectations**

Although Q4 revenues dropped by 35% YOY, they were in line with our estimates. SHC reported \$2.5 million in revenues in Q4 versus our forecast of \$2.4 million. For the 12 month period, revenues were \$11.81 million versus our forecast of \$11.7 million. The table below shows the segmented results.

(in US\$ 1000's)	Q4 2007	Q4 2008	Growth
<b>L &amp; S</b>	2,761	1,891	-31.5%
<b>Advertising</b>	1,101	610	-44.6%
<b>Total</b>	<b>3,862</b>	<b>2,501</b>	<b>-35.2%</b>

	2007 (12 mo)	2008 (12 mo)	Growth
<b>L &amp; S*</b>	10,870	9,210	-15.3%
<b>Advertising</b>	3,978	2,600	-34.6%
<b>Total</b>	<b>14,848</b>	<b>11,810</b>	<b>-20.5%</b>

\* *pro-forma*

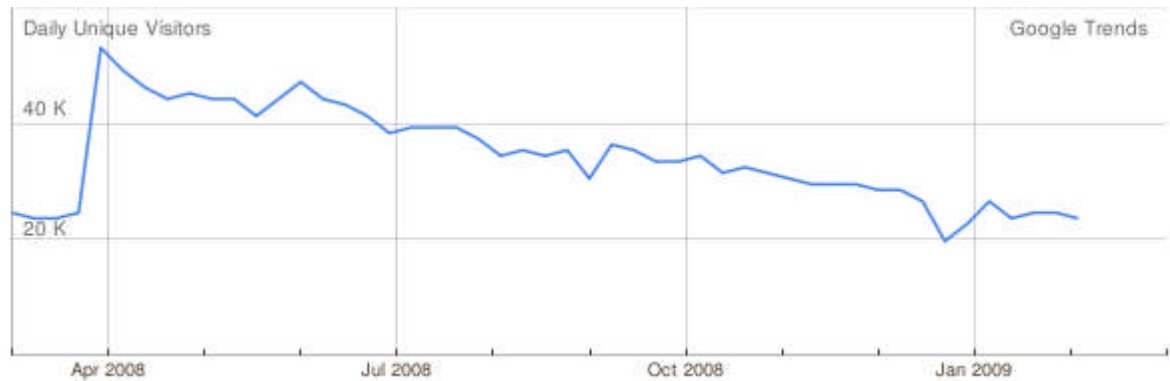
Licensing & Subscription (L&S) revenues in Q4 were slightly below our forecast (actual - \$1.89 million; forecast - \$1.92 million), while ad revenues exceeded our estimates (actual - \$0.6 million, forecast - \$0.5 million).

The primary reasons for the drop in revenues were - a) dropping pager revenue from the MFD acquisition which SHC is not focusing on, 2) significant drop in ad revenue (primarily due to market conditions), and 3) a strong US\$ with respect to the C\$.

Although we were expecting the first two factors to impact revenues, we were not expecting the US\$ to strengthen like it did. However, we continue to expect that the US\$ will depreciate with respect to the C\$ based on the recession in the U.S, negative real interest rates and inflationary pressures (which are expected to be instigated by the stimulus package).

One concern regarding Q4 revenues was that the company announced that sales to MFD Marketstream and Stockstream mobile customers increased by 17% in FY2008. As they were up 43% YOY in the first nine months of FY2008, we think that sales in this space actually dropped significantly in Q4. We have a positive outlook on this space, and to see the drop in revenues was disappointing. We have therefore lowered our L&S revenue forecasts for FY2009 accordingly.

With regard to ad revenues, the markets have started showing signs of improvement, (with commodity prices slowly picking up) in the past few weeks, and we believe that things are starting to look brighter for SHC. However, we have continued to take a conservative approach and have stuck to our previous ad revenue forecasts for FY2009. The chart below shows the decreasing trend of daily unique visitors to the Stockhouse website since April 2008 to late 2008. However, as shown in the chart, traffic has picked up since early 2009, which is encouraging.



We have lowered our revenue forecasts for FY2009 from \$12.12 million to \$10.99 million as we lower our L&S revenue forecasts. Our forecast for FY2010, which we have introduced in this report, is \$11.48 million.

**Cost cutting efforts pay off in Q4**

Gross margins in Q4 were slightly lower YOY (down from 64% to 62%), but EBITDA and net margins improved YOY as the company significantly cut general and administrative expenses (during Q3/Q4, the company terminated 32 employees, or 38%, including three members of the management team). For FY2008, gross margins were 56%, higher than our forecast of 54%.

Margins	Q4 2007	Q4 2008	2007 (12 mo)	2008 (12 mo)
Gross	64%	62%	58%	56%
EBITDA	-25%	-15%	-30%	-45%
Net	-28%	-25%	-36%	-55%

The company’s cost cutting measures in the second half of FY2008 were reflected in Q4 as the company cut indirect expenses (which includes sales and marketing, product development, and general and administrative) from \$2.83 million in Q3, to \$1.94 million in Q4, a decrease of 31% QOQ. **This is a good achievement and we have lowered our cost estimates for FY2009, but the company will have to maintain or continue to cut costs to avoid liquidity problems in FY2009.**

**EPS Forecasts**

The company reported a net loss of \$0.63 million in Q4-2008, versus \$1.1 million in Q4-2007. For FY2008, the company reported a net loss of \$6.55 million (EPS: -\$0.16) versus \$5.13 million (EPS: -\$0.13) in FY2007. Our forecast for FY2008 was a net loss of \$7.58 million. Our revised forecast for FY2009 is a net loss of \$2.5 million (EPS: -\$0.05), up from a net loss of \$2.96 million (this is because the drop in our cost estimates more than offset the drop in our revenue forecasts in FY2009). Our forecast for FY2010 is a net loss of \$1.83 million (EPS: -\$0.04)

**Cash flows and liquidity**

Cash flow from operations were (\$5.30 million) in FY2008 versus our forecast of (\$5.65 million). The company spent \$0.17 million on capital expenditures. These were funded by a \$3 million investment by PEAK6 Capital Management LLC in May 2008, a debenture issue of \$0.55 million in late 2008, and cash on hand of \$2.8 million at the end of 2007.

Cash at the end of FY2008 was \$0.86 million. The working capital deficit and current ratio were \$2.54 million and 0.5x, respectively. The table below shows a summary of the company's cash and liquidity position at the end of FY2008.

(in US\$, 000s)	2007A	2008A	2009F	2010F
Working Capital	(694)	(2,541)	(3,209)	(2,663)
Current Ratio	0.89	0.49	0.32	0.41
Debt / Capital	16.4%	-49.8%	-0.2%	0.0%

Our models indicate the company will have to raise \$1.6 million in FY2009 to fund operations and working capital. If the company can renegotiate (which seems likely) and postpone the maturity date of their \$0.55 million debenture (SHC's CEO was a major subscriber), the company will need to raise only \$1.05 million this year.

### Stock options

At the end of 2008, the company had 3.74 million stock options outstanding, with exercise prices between \$0.08 and \$0.59, and a weighted average time to maturity of 1.29 years. At current prices, none of the options are in the money.

### Valuation

Our revised DCF valuation changed little (down from \$0.45 to \$0.44 per share) as the drop in our cost estimates almost offset the drop in our revenue forecasts.

DCF Valuation Model (in US\$)								
	2009F	2010F	2011F	2012F	2013F	2014F	2015F	Terminal
<b>FFO</b>	\$ (2,117)	\$ (1,454)	\$ (609)	\$ 423	\$ 1,396	\$ 2,534	\$ 3,511	\$ 3,765
-increase in w/c	\$ 491	\$ (542)	\$ (169)	\$ (462)	\$ 85	\$ (9)	\$ 173	\$ 104
<b>=CFO</b>	\$ (1,626)	\$ (1,997)	\$ (777)	\$ (39)	\$ 1,481	\$ 2,525	\$ 3,685	\$ 3,869
-capex	\$ (147)	\$ (100)	\$ (250)	\$ (250)	\$ (250)	\$ (250)	\$ (250)	\$ (250)
<b>FCF</b>	\$ (1,773)	\$ (2,097)	\$ (1,027)	\$ (289)	\$ 1,231	\$ 2,275	\$ 3,435	\$ 3,619
<b>PV</b>	\$ (1,628)	\$ (1,719)	\$ (752)	\$ (189)	\$ 718	\$ 1,186	\$ 1,598	\$ 18,710
Discount Rate	12.00%							
Terminal Growth	3.00%							
Shares O/S	47,896							
Sum PV	17,924							
Cash - Debt	232							
<b>PV Equity</b>	<b>18,156</b>							
Value Per Share (in US\$)	\$0.38							
<b>Value Per Share (in C\$)</b>	<b>\$0.44</b>							

The industry average (average of Internet Information Providers and Information and Delivery Services) P/S is 2.6x (down from 2.9x), while SHC is currently trading at a forward P/S of only 0.3x. Based on the industry average P/S, we believe SHC should trade at \$0.49 per share. (Note that we have continued to apply a 25% discount to the industry average ratio to account for SHC's relatively smaller size). Our previous valuation based on the industry average P/S was \$0.54 per share.

**Rating**            **We have maintained our HOLD rating and fair value estimate at \$0.45 per share.**

**Risks**            **Stock market volatility affects SHC's revenue streams:** SHC's sales are tied to the public's interest in stock markets. Their licensing and subscriptions business is driven by demand for market information from customers. The number of hits on the StockHouse website is directly linked with the fortunes of the stock market.

**Threats from bigger players to replicate their business model:** SHC faces threats from bigger players, which may replicate its business model. Since online content providers thrive on innovation, SHC could lose its edge once bigger players release similar models into the market. However, since StockHouse already has a critical mass in user-generated content, we believe, entry barriers are high in this business.

**Volatile Trading:** As a small cap stock, investors may face liquidity problems

**We have raised our risk rating to 4 (Speculative).**

## Appendix

### CONSOLIDATED STATEMENT OF OPERATION

Year ended December 31

(expressed in US\$, 000's)

	2007A	2008A	2009F	2010F
<b>REVENUE</b>				
Revenues	14,148	11,810	10,989	11,480
Cost of revenues	5,986	5,236	4,945	4,937
<b>Gross profit</b>	<b>8,162</b>	<b>6,574</b>	<b>6,044</b>	<b>6,544</b>
<b>EXPENSES</b>				
Sales and Marketing	4,869	4,403	3,297	3,329
Product development	1,925	1,434	879	689
General and Administrative	5,654	6,032	4,121	4,190
<b>Total Expenses</b>	<b>12,448</b>	<b>11,869</b>	<b>8,297</b>	<b>8,208</b>
<b>EBITDA</b>	<b>(4,286)</b>	<b>(5,295)</b>	<b>(2,253)</b>	<b>(1,665)</b>
Amortization and Depreciation	951	1,717	197	168
<b>EBIT</b>	<b>(5,237)</b>	<b>(7,012)</b>	<b>(2,449)</b>	<b>(1,832)</b>
Interest and other income	180	36	26	1.9
Interest expense	(83)	(31)	(100)	(0)
Other income (expense)	10	456		-
<b>Profit before effect of change in accounting principle</b>	<b>(5,130)</b>	<b>(6,551)</b>	<b>(2,524)</b>	<b>(1,830)</b>
Cumulative effect of change in accounting principle	-	-	-	-
<b>EBT</b>	<b>(5,130)</b>	<b>(6,551)</b>	<b>(2,524)</b>	<b>(1,830)</b>
Taxes	4	(5)	-	-
<b>Net Income</b>	<b>(5,134)</b>	<b>(6,546)</b>	<b>(2,524)</b>	<b>(1,830)</b>
Earnings (loss) per share	(0.13)	(0.16)	(0.05)	(0.04)

**CONSOLIDATED BALANCE SHEET**

As at December 31

(expressed in US\$, 000's)

	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	2,821	859	63	63
Net accounts receivable	1,906	1,327	1,235	1,378
Prepaid expenses & Marketable Securities	752	253	235	382
<b>Total current assets</b>	<b>5,479</b>	<b>2,439</b>	<b>1,533</b>	<b>1,822</b>
Intangible Assets	1,530	208	208	208
Goodwill	99	-	-	-
Property and equipment, net	703	555	459	391
<b>Total Assets</b>	<b>7,811</b>	<b>3,202</b>	<b>2,200</b>	<b>2,421</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current</b>				
Bank indebtedness	-	-	-	-
Accounts payable, liabilities and accrued comp	4,642	3,646	3,639	3,337
Deferred revenue	1,341	711	1,099	1,148
Current portion of capital lease obligation	190	78	4	-
Debentures		545		
<b>Total current liabilities</b>	<b>6,173</b>	<b>4,980</b>	<b>4,742</b>	<b>4,485</b>
Capital lease obligation	66	4	-	-
Long-term payables	41	-	-	-
Long-term deferred revenues	15	103	103	103
<b>Total liabilities</b>	<b>6,295</b>	<b>5,087</b>	<b>4,845</b>	<b>4,588</b>
<b>Shareholders' equity (deficiency)</b>				
Issued and outstanding shares	18,902	21,879	23,432	25,532
Additional paid-in capital	3,652	3,820	4,031	4,239
Accumulated Profit (Deficit)	(21,038)	(27,584)	(30,108)	(31,938)
<b>Total shareholders' equity (deficiency)</b>	<b>1,516</b>	<b>(1,885)</b>	<b>(2,645)</b>	<b>(2,167)</b>
<b>Total Liabilities and Shareholder's equity</b>	<b>7,811</b>	<b>3,202</b>	<b>2,200</b>	<b>2,421</b>

**CONSOLIDATED STATEMENT OF CASH FLOW**

Year ended December 31

(expressed in US\$, 000's)

	<b>2007A</b>	<b>2008A</b>	<b>2009F</b>	<b>2010F</b>
<b>OPERATING ACTIVITIES</b>				
<b>Net income (loss)</b>	(5,134)	(6,546)	(2,524)	(1,830)
<b>Add (deduct) non-cash items</b>				
Amortization	446	340	197	168
Amortization of Intangible Assets and others	505	1,377		
Stock based compensation	216	177	211	208
<b>Funds from Operations</b>	<b>(3,967)</b>	<b>(4,652)</b>	<b>(2,117)</b>	<b>(1,454)</b>
Net change in operating assets and liabilities	1,532	(650)	491	(542)
<b>Cash provided by operating activities</b>	<b>(2,435)</b>	<b>(5,302)</b>	<b>(1,626)</b>	<b>(1,997)</b>
<b>FINANCING ACTIVITIES</b>				
Net proceeds from issuance of common stock	4,129	2,969	1,600	2,100
Proceeds on exercise of warrants	-	-	-	-
Proceeds on exercise of stock options	182	167	-	-
Notes payables/Debentures		545	(545)	-
Repayment of capital lease obligation	(158)	(174)	(78)	(4)
Share Buyback	-	-	-	-
<b>Cash provided by financing activities</b>	<b>4,153</b>	<b>3,507</b>	<b>977</b>	<b>2,096</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(324)	(192)	(100)	(100)
Acquisition of MFD	(348)			
Acquisition of Semotus	(238)	(50)	(47)	
Proceeds on disposition of property and equipment	-	75	-	-
<b>Cash used in investing activities</b>	<b>(910)</b>	<b>(167)</b>	<b>(147)</b>	<b>(100)</b>
<b>Increase in cash and cash equivalents</b>	<b>808</b>	<b>(1,962)</b>	<b>(796)</b>	<b>(1)</b>
Cash and cash equivalents, beginning of year	2,013	2,821	859	63
<b>Cash and cash equivalents, end of year</b>	<b>2,821</b>	<b>859</b>	<b>63</b>	<b>63</b>

**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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