



# PENNY STOCK BREAKOUTS

*Finding Tomorrow's Big Winners, Today.*

AUGUST 2008

## PROFIT FROM WALKING TO YOUR MAILBOX: THIS PREMIERE ADVERTISING COMPANY IS SET TO EXPLODE!

### This Month's Issue:

#### InfoGROUP (IUSA)

InfoGROUP generates more than \$600 million a year selling detailed marketing and demographic information. Buy into this fast grower and profit from what shows up in your mail box...

#### Obagi Medical (OMPI)

Here's a company selling good looks and making tons of money. Their proprietary products can make you beautiful and rich at the same time!

#### QUESTIONS OR COMMENTS?

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It's a daily ritual around the country...

We all do it. We trudge out to our mailbox and reach in to find a whole mess of stuff. Postcards, letters from friends, advertisements, and of course dreaded bills. The postman's kind enough to deliver them all.

If your house is anything like mine, you get more mail from local advertisers than your own family. The volume of advertising is nothing short of amazing.

Advertisements for new garage doors, new windows, and air conditioner servicing are sandwiched between ads for the local dentist and the new restaurant that just opened up the street.

They're all doing the same thing. They're trying to capture your business...

And it works!

Ever wonder how these companies find you? I did, and that's when I uncovered an exciting penny stock that's set to explode. The fundamentals are strong and the stock's been beaten down because of some past issues.

Now's the time to buy, and capture big gains as their business jumps into overdrive.

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## THE BUSINESS OF ADVERTISING

InfoGROUP Inc. (IUSA) is positioned right in the middle of an amazing industry. They make money hand over fist by gathering up and managing data. Sounds simple enough.

The value however is in the data.

It's the millions of customer names and addresses. The really interesting thing is their ability to slice and dice this data by demographics.

Want to target your advertising to all the married couples with a mortgage more than \$600,000 in San Diego? They can do it.

Want to target people who've just moved into a particular neighborhood? They can do that too.

But they just don't target people.

They also target businesses. According to the company, they have contact information on more than 15 million business. This kind of data is particularly attractive to other companies looking to make sales.

It's a great business in good times and bad. Everyone needs to market and advertise. The smart companies continue advertising even when the

economy is soft. That's one big reason InfoGroup is such a great company.

Businesses need the information InfoGROUP has and they're willing to pay up to get it.

So just how successful is this business?

## BIG MONEY IN BIG SALES.

Let's start at the top – revenue. In 2006 the company did more than \$434 million in sales. Management grew that number to more than \$688 million in 2007. For those of you quick on the calculator, that's a growth rate of just over 58%.

**InfoGROUP has generated almost \$1 billion in sales in the last 3 years.**

Not bad if you ask me.

The first half of the year hasn't been the greatest for our economy. So our expectations for the company need to be tempered.

IUSA still managed to post revenue of more than \$191 million in the first 3 months. Looks like they're on track to beat last year's number.

## More Growth?

IUSA is starting to expand globally. They've recently opened offices in Canada, Australia, and Europe. This will diversify their revenue base.

Big Profits

Profits for this business aren't a problem. In 2006 they posted \$0.61 cents of earnings for every share. That grew to \$0.73 per share last year. That's an earnings number of \$40 million overall.

This year earnings are steady but slowing. The company last quarter posted EPS of \$0.13. A little lower than the fourth quarter of last year which was \$0.22.

Now, I know what you're thinking... "Why do we like this company if earnings are slowing?"

Great question. The slowdown in company growth is a terrific buying opportunity. Get in now and once the economy recovers... watch out!

Now, on to the balance sheet.

I see one red flag. The company has \$278 million in long term debt. But because the business generates nice cash flow, this doesn't worry me.

POSITIVE SIGNS EVERYWHERE

Strong financials aren't the only thing InfoGROUP has going for it. In my research I uncovered some really positive news.

First off, Vinod Gupta, the company founder is still involved in the business. And he holds a huge block of stock – about 18 million shares. Management

KEY INVESTMENT DATA

Name:	InfoGroup Inc.
Ticker Symbol:	IUSA
Market Cap:	\$280 Million
Recent Price:	\$5.20

**PSB Rating System 4.2 Stars**

**Raging Revenue:** 4 stars. A soft economy might cause revenue growth to slow. IUSA has grown revenue consistently (almost \$200 million per year). I'm expecting 2008 and 2009 to be no different.

**Beautiful Books:** 3.5 stars. Earnings have grown year over year. However, expenses have been creeping up, cutting into quarterly earnings. The company also has a big slug of debt, \$300+ million, but interest payments are manageable.

**Stellar Structure:** 5 stars. The founder still owns a whopping 18 million shares. In addition, 7 of the top 10 institutional holders are adding to their positions.

**Valuation Verification:** 4 stars. The company has slightly more than 8x earnings multiple, and strong margins. This makes them attractive on a valuation basis. They're also well below their much larger (and more expensive) comparable companies.

**Meaningful Milestones:** 4.5 stars. In early 2008 the company missed its 10-K filing deadline. The problem was an informal investigation by the SEC with regard to related party transactions and expense reimbursements. They've corrected the 10-K issue, but still haven't filed their quarterly reports. Uncertainty exists, but once it's resolved the stock should move higher.

clearly has a stake in the business and their desires are aligned with shareholders.

Institutional ownership in IUSA is strong and growing. I looked at the list of top 10 holders.

More than 70% of these institutions added to their position in the last quarter. A great vote of confidence for the company.

The competitive landscape is active with two of the largest companies being Dun & Bradstreet (DNB) and Axicom (ACXM). I like seeing competition like this.

It means the market's big. IUSA can steal market share from the slower moving industry giants. As an aside, it also makes IUSA an interesting target for acquisition.

#### RISKS OF INVESTING

The company's risks are pretty straight forward. First is the economy. Everyone's starting to cut back on expenses. For some that means cutting advertising budgets. This trend might impact sales next year.

The company employs about 4,800 people to gather and screen their data. As a comparison, D&B employs the same number of people, but they do twice the sales. A big infrastructure like that might be a drag on earnings.

Another risk is debt. The company has more than \$278 million in debt. Keeping cash flows strong should be the number one focus of management. I'd like to see them pay down debt as quickly as possible.

#### WHAT THE NUMBERS SAY

I think the valuation of IUSA is attractive. Actually, I think the stock's downright cheap. Right now they have an incredible historical growth, more than 50% year over year.

Their margins are strong. With margins at a robust +50%, they aren't even the highest in industry group. We might see margins improve over time.

Valuing the company on a P/E ratio (price to earnings) gives us about 8x. The competition is anywhere between 56x and 17x. This gives IUSA lots of room for growth.

I also took a look at the P/S ratio (price to sales). IUSA is the low in its group with a P/S ratio of 0.48. The nearest competitor is Acxiom with a ratio of 0.7x. Amazingly D&B has a P/S of 2.8!

All this analysis tells me IUSA is undervalued.

So, why the sell-off in the stock at the beginning of the year?

The company missed their 10-K filing deadline.

The problem was an informal investigation by the SEC. They were looking at related party transactions and expense reimbursements. Since then, the company's filed their 10-K, but some uncertainty exists surrounding this inquiry.

It also explains why they haven't filed their first quarterly statement for the year.

Once the issue is put behind them, the stock should start to move higher.

IN SUMMARY

InfoGROUP (IUSA) is a key provider of information. Businesses all over the US need and use their data to improve advertising effectiveness.

The company should continue to post strong revenue and profit numbers. With sales over \$600 million and profits in excess of \$40 million in 2007, I think the company has a bright future.

ACTION RECOMMENDATION

InfoGROUP (IUSA) is trading at \$5.20.  
BUY up to \$6.00.

Use a stop loss at \$3.00 on this position

Don't forget your position sizing and stop-loss rules.



## BEAUTIFUL PROFITS: MAKING MONEY AND THE WORLD A MORE BEAUTIFUL PLACE - ONE FACE AT A TIME

Are you fed up with lines and wrinkles on your face? Do you wish you could look like you did in your 20's or 30's? If so, you're not alone. Millions of people feel exactly as you do. And it's not a bad thing. Looking your best can be a sign of self-respect.

And the makers of skin care products are banking on it.

People on average are living longer, healthier and more active lives. The Baby Boomer generation is getting older. These two trends are pushing up the average age of the population.

As the population ages, people have more cosmetic procedures and buy more skin care products.

The market data bears it out. The amount of money spent on cosmetic procedures and skin care products is skyrocketing.

In 2007, nearly 12 million cosmetic procedures were performed in the United States. Almost five times the number performed in 1997. That's a

whole lot of liposuctions, breast augmentations, and botox injections. The cost of today's proverbial fountain of youth... a whopping \$12 billion. This is just the beginning of a long-term trend. Americans are expected to spend \$60 billion on 70 million cosmetic procedures from 2005 to 2010.

**\$36 billion was spent  
on skin care  
products in 2006.**

No one said looking younger would be cheap.

The trends are the same for facial skin care products. A mind boggling \$36 billion was spent worldwide in 2006.

The more interesting fact:

About \$25 billion was spent on facial care products. The primary buyers, women aged 35 to 65. This is one of the fastest growing demographics. Between 1990 and 2006 it grew by 30%. More importantly, this trend will continue as Baby Boomers get older.

There's lots of companies in the industry, and it seems thousands of skin care products on the market. It's no easy task to sift the diamonds from the rough. I like to look for companies with an

innovative technology. It's important because technology can provide a competitive advantage.

Most facial skin care products are cosmetic in nature. They only mask the effects of aging and skin disorders. They don't actually treat the health of the skin. They're just a temporary improvement on the skin's surface.

The Holy Grail would be finding a product to deliver drugs below the surface of the skin. It could treat skin damage below the surface and truly heal the skin. Technology like this could change the dynamics of the entire skin care industry.

#### THE BUSINESS OF SKIN CARE

A small microcap company has developed a proprietary technology allowing healing drugs to better penetrate the skin's surface. Why's this important? We know from clinical studies improved skin penetration allows more of the drug to reach damaged tissue. Treatment becomes more effective, and the results are improved.

This cutting-edge company has several skin care systems. Each designed to treat a specific skin condition or disease. All of them use the company's innovative technology.

The results are amazing.

These skin care systems don't cover up lines and wrinkles. They work at the

cellular level to improve the skin's natural regenerative processes. Best of all, they've highly effective. Patients who use these products show fewer signs of aging and are less susceptible to skin diseases.

The company is Obagi Medical Products (OMPI). They've been helping patients reverse the effects of aging for the last 20 years.

Their leading product is the Nu-Derm System. It's more effective than other products on the market. What sets it apart?

The "prescription only" drugs the system contains. When these drugs are combined with Obagi's innovative Penetration Therapeutics technology, results are noticeable.

Patients who use the system experience what Obagi calls its "Therapeutic Cascade" of actions. Fresh cells are pushed to the surface producing smoother skin, reducing wrinkles, and increasing tolerance of harmful stimuli.

The system reduces unsightly freckles and age spots it also prevents new ones from appearing later. Cells become more uniform at the deepest layer of the skin. This provides better structure and more even skin tone. Collagen and elastin production is increased. Lastly, increased nutrients, hydration, and circulation produce supple, healthy looking skin.

Dr. Zein Obgai, an internationally renowned dermatologist, founded the company in 1988. He's known the world over for his work in correcting a wide range of skin conditions. Obagi medical develops and markets prescription based topical skin health systems under his guidance.

Besides its innovative technology, Obagi has another significant advantage over the competition. It's the market leader in the rapidly growing physician-dispensed skin care channel. This is a great strategy the company uses to market and sell its products.

Here's how it works.

The company sells its skin care systems to plastic surgeons, dermatologists, and other physicians. They in turn prescribe the products to patients. This direct sale process can't be topped. What's a better endorsement than a doctor telling a patient to use a product?

The direct sale model is a huge opportunity for the company. Only 25% of the 45,000 plastic surgeons and dermatologists in the U.S. distribute skin care products. Obagi is leveraging its position as the market leader to add more physicians to its distribution network.

As more and more plastic surgeons and physicians prescribe Obagi's products, the company's sales and earnings climb.

## KEY INVESTMENT DATA

Name: Obagi Medical Products, Inc.  
 Ticker Symbol: OMPI  
 Market Cap: \$203 Million  
 Recent Price: \$9.00

### PSB Rating System 4.5 Stars

**Raging Revenue:** 4.5 stars. A soft economy might be slowing other industries but Obagi seems to be doing well. Last quarter revenue grew 10%. I like the company's prospects for the rest of 2008.

**Beautiful Books:** 4.5 stars. Obagi's earnings are strong and steady. They have a solid cash position of more than \$21 million and virtually no long term debt. It's a great looking financial situation.

**Stellar Structure:** 5 stars. Dr. Obagi currently controls almost 10% of the company. 6 other investment funds hold another 51% of the outstanding shares. His is a great ownership structure as all holders seem to be long term investors.

**Valuation Verification:** 4.5 stars. The company has slightly more than 8x earnings multiple. This makes them attractive on a valuation basis as their big competitors have greater market values. In addition, the company's Return on Equity is strong at over 37% ... almost double the competition.

**Meaningful Milestones:** 4 stars. The company continues to actively present at a number of investor and medical conferences. New news presented during these conferences could be big drivers to the business and the stock.

## HOW PROFITABLE IS BEAUTY?

From a financial standpoint, Obagi is the kind of company investors love. They have substantial revenues, white-hot revenue growth, consistent earnings growth, and a rock solid balance sheet.

Here's the data point that caught my eye. Obagi generates three times more revenue than its nearest direct competitor.

In 2007, the company posted revenues of \$102 million. The company's annual revenues have doubled since 2003, that's an annual clip of 22%. Impressive, considering average annual revenue for the industry was just \$16 million.

Management recently projected double-digit revenue growth for all of 2008. In addition, they're planning a new product launch in the fourth quarter. That'll further accelerate revenue growth.

Sales are extremely important to any company's future growth. But there's nothing shareholders like more than earnings. Obagi doesn't disappoint. The company's posted positive net income in each of the last five years. In

2007 they had net income of \$15 million. A 158% increase over 2006.

Even with a weakening economy, first quarter net sales rose 10% to \$25.4 million. The company also posted a quarterly profit, \$3 million or \$0.13 per share.

Obagi also has a stellar balance sheet. The company is completely debt-free. Its cash position has increased by 51% since the end of 2007. They've got \$21.3 million in the bank. And, working capital has increased 11% to \$38.1 million.

While many of its competitors are struggling to stay afloat, Obagi is expanding its market share.

## HOW UNDERVALUED IS THE COMPANY?

From a valuation point of view, Obagi gets us great "Bang for the Buck!"

Return on Equity is simply a measure of how well a company is taking their assets and converting them into earnings. As you can see Obagi is very successful. It gives them great leverage in the market place.

On more formal metrics, like Price to

Industry Financials				
Company	Size (\$mm)	Return On Equity	P/S	Forward P/E
Allergan (AGN)	\$12,000	15.5%	2.72x	14.3x
Medicis Pharmaceutical (MRX)	\$837	13.5%	1.54x	9.9x
Valeant Pharmaceuticals (VRX)	\$1,650	NM	1.95x	24.6x
Obagi Medical (OMPI)	\$203	37.8%	1.77x	8.7x

Source: Yahoo Finance

Sales (P/S), Obagi's at the low end of the scale. If you ask me the 1.7x they currently trade at is way too low.

Where the value gap really shows is in earnings. Here Obagi blows the competition out of the water. The company's generating strong earnings for shareholders, yet they're not getting credit for it. Their 8.7x multiple on future earnings is almost 50% of the biggest competitor Allergan (AGN), and nearly 30% of Valent (VRX).

This tells me one thing, the company's undervalued. I'd expect a company growing its top line at 22% per year would get credit for it. Wall Street seems to be ignoring the true value of the company.

The stock's undervalued and a great buy right now!

#### THE RISKS OBAGI FACES

Every company has risks, Obagi's no different.

The biggest risk right now is a prolonged economic downturn. Patients pay for Obagi's products directly (no health insurance here). If the economy doesn't get any better, customers might put off buying products. That could cause sales to fall.

Another risk has to do with a new FDA rule. It was proposed back in 2006. Right now, their products aren't subject to FDA pre-market approval. If the rule is passed, Obagi would need to conduct very expensive clinical trials on all of their products.

The last big risk I want to point out is physician acceptance of the products. The Company needs doctors to believe in and recommend products to patients. If for some reason the company loses the support of the medical community, sales might fall.

Those are the risks.

#### ACTION RECOMMENDATION

Obagi Medical Products (OMPI) is trading at \$9.00 BUY up to \$10.00.

Use a stop loss at \$5.00 on this position

Don't forget your position sizing and stop-loss rules.



## PENNY STOCK BREAKOUTS PERFORMANCE

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Date	Company	PSB Rating	Buy Price	Current Price	Peak Price	Peak Return	Stop Loss	Status
Aug-08	InfoGroup (IUSA)	4.2	\$5.20	NEW	NEW	NEW	\$3.00	Buy up to \$6.00
Aug-08	Obagi Medical Products (OMPI)	4.5	\$9.00	NEW	NEW	NEW	\$5.00	Buy up to \$10.00

Data as of 7/30/08

Performance Table Notes:

- 1) Buy price is the closing price on the date the recommendation was released. Your prices may be higher or lower. Entry Prices have been adjusted for dividends.
- 2) Current Price is as of the update.
- 3) Peak price is the highest point a stock has traded at since the recommendation.
- 4) Trailing stop loss orders are used on all positions.

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