

# A.D.A.M, Inc. ADAM (NAS)

Last Close	Industry	Sector
7.60 USD	Software - Application	Software

## Profile

Pricing data through 07 Feb 2011

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A.D.A.M., Inc. provides online information and technology solutions for employers, benefits brokers, healthcare organizations and online media companies. The company provides health information and health decision support tools. The company's solutions are delivered through a Platform as a Service-type model. The company's proprietary health information products are derived from continually enhanced online consumer health reference information libraries available. The web-based information it provides includes information on diseases, symptoms, treatments, surgical procedures, specialty medicine and topics, and alternative medicine. The company's proprietary health information solutions include a collection of more than 3,600 articles; thousands of medical images; interactive decision support - a series of tools designed to attract and engage web site; groupings of its health information designed to help healthcare organizations promote key areas of their business; and a number of specialty programs including pregnancy, heart health, chronic conditions, women's health and complementary and alternative medicine. The company's offers Benergy™ for benefits brokers, a co-branded, web-based portal for employees that communicates benefits and other company-sponsored information, improves benefits education and selection, automates benefits enrollment, manages healthcare financial accounts, such as Flexible Spending Accounts, and provides health content and decision support tools to aid in health education and awareness. The company markets its health information solutions to a number of market segments, including: Healthcare Providers, Health Plans, Online Media and Internet Search Providers, and Healthcare Information Technology. In addition to Benergy, A.D.A.M. also offers a comprehensive agency management system called AgencyWare™. With AgencyWare™, brokers can manage the entire employer client lifecycle, moving prospects through each phase of the sales process, sending requests for proposals, preparing client presentations, managing client renewals and commissions, tracking customer service issues and organizing client data. The company's software application products for education include A.D.A.M. Interactive

Anatomy, its main product for the undergraduate educational market, Interactive Physiology, also sold to the undergraduate market which it co-markets with one of its publisher partners, and a series of products designed for the K-12 market.

# A.D.A.M, Inc. ADAM

**Sales USD Mil** 28 **Mkt Cap USD Mil** 82 **Industry** Software - Application **Sector** Software

A.D.A.M. provides educational multimedia services and products containing health information services and benefit management solutions for employers and employees. This information includes its proprietary medical encyclopedia collection of articles on diseases, injuries, and nutrition, as well as Internet benefit management solutions. It also makes multimedia-software products to teach human anatomy and physiology from kindergarten to higher education.

10 10th Street NESuite 525  
Atlanta, GA 30309-3848  
Phone: 1 404 604-2757  
Website: <http://www.adam.com>

Employees: 97

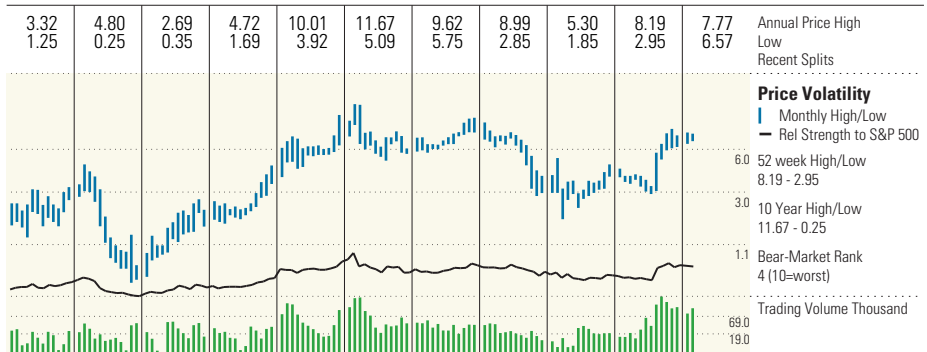
Growth Rates	Compound Annual			
	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	-2.4	19.5	27.3	16.9
Operating Income %	—	—	—	—
Earnings/Share %	—	—	—	—
Dividends %	—	—	—	—
Book Value/Share %	-39.6	-8.4	11.6	1.4
Stock Total Return %	95.4	2.4	-5.2	13.3
+/- Industry	48.1	-9.4	-12.0	13.5
+/- Market	72.2	2.7	-6.2	13.9

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	10.5	5.9	7.9
Return on Assets %	5.9	4.8	4.3	8.5
Fixed Asset Turns	17.2	29.7	9.3	7.3
Inventory Turns	236.1	97.5	45.5	14.6
Revenue/Employee USD K	286.4	261.3*	—	894.9
Gross Margin %	80.0	78.4	66.9	39.1
Operating Margin %	15.1	2.8	14.8	14.3
Net Margin %	8.4	10.5	7.4	9.5
Free Cash Flow/Rev %	24.7	21.8	20.5	0.1
R&D/Rev %	18.5	0.2	—	9.8

Financial Position	12-09 USD Mil		09-10 USD Mil	
Cash	5	—	6	—
Inventories	0	—	0	—
Receivables	3	—	2	—
Current Assets	9	—	9	—
Fixed Assets	2	—	2	—
Intangibles	23	—	23	—
Total Assets	39	—	39	—
Payables	1	—	—	—
Short-Term Debt	2	—	2	—
Current Liabilities	13	—	13	—
Long-Term Debt	6	—	2	—
Total Liabilities	20	—	15	—
Total Equity	19	—	25	—

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	33.6	—	43.5
Forward P/E	—	—	—	14.2
Price/Cash Flow	10.5	11.1	18.7	8.7
Price/Free Cash Flow	11.4	14.8	21.3	17.4
Dividend Yield %	—	—	0.4	1.7
Price/Book	3.4	2.3	4.5	2.3
Price/Sales	2.8	2.5	4.4	1.4
PEG Ratio	—	—	—	1.6

**Morningstar Rating** — **Last Price** 7.60 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —  
per share prices in USD



2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
84.6	-85.0	333.3	104.1	102.5	-24.6	37.7	-52.2	5.0	71.0	5.8	Total Return %
97.6	-61.6	306.9	95.1	99.5	-38.2	34.2	-13.7	-18.4	58.2	0.1	+/- Market
119.4	-42.2	260.9	86.8	103.6	-41.3	36.7	-13.8	-42.8	48.8	-7.4	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
20	3	15	31	66	56	80	40	42	78	82	Market Cap USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Financials
9	9	9	8	8	10	17	28	29	28	28	Revenue USD Mil
91.4	82.2	83.4	78.8	79.6	79.5	79.2	76.4	79.6	77.6	80.0	Gross Margin %
-6	0	-1	1	2	1	3	5	2	-12	4	Oper Income USD Mil
-65.4	2.0	-13.1	7.1	18.3	12.8	19.0	17.1	6.2	-40.9	15.1	Operating Margin %
-8	2	-2	1	2	7	3	4	0	-13	2	Net Income USD Mil
—	0.24	-0.22	0.07	0.19	0.75	0.25	0.38	0.00	-1.35	0.23	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
—	7	7	8	9	9	10	10	11	10	10	Shares Mil
1.09	0.85	0.98	1.12	2.10	2.53	3.08	3.22	1.95	2.27	2.27	Book Value Per Share USD
-3	-1	1	2	3	4	3	6	6	8	7	Oper Cash Flow USD Mil
0	0	0	0	0	0	-1	-2	-1	0	-1	Cap Spending USD Mil
-3	-1	1	2	3	4	2	4	5	8	7	Free Cash Flow USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Profitability
—	19.1	-16.5	6.3	13.7	40.2	6.2	6.6	0.1	-28.8	5.9	Return on Assets %
—	32.5	-23.2	9.0	19.8	54.3	12.6	14.9	0.1	-52.2	10.5	Return on Equity %
-91.1	17.9	-17.2	7.7	19.2	70.2	15.4	14.1	0.1	-47.4	8.4	Net Margin %
—	1.07	0.96	0.82	0.71	0.57	0.40	0.46	0.51	0.61	0.71	Asset Turnover
—	1.4	1.5	1.4	1.5	1.3	2.6	2.0	1.7	2.0	1.6	Financial Leverage

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	09-10	Financial Health
-1	3	1	3	4	9	3	1	-5	-4	-3	Working Capital USD Mil
—	—	—	—	—	—	24	17	8	6	2	Long-Term Debt USD Mil
3	7	6	8	9	17	23	30	32	19	25	Total Equity USD Mil
—	0.00	0.01	0.00	0.00	0.00	1.03	0.57	0.25	0.32	0.06	Debt/Equity

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
12.5	—	27.9	21.0	10.7	24.3	22.0	—	—	31.8	33.6	Price/Earnings
—	—	—	—	—	—	—	—	—	1.8	2.0	P/E vs. Market
2.2	0.4	2.0	4.1	7.5	3.7	3.1	1.5	1.5	2.7	2.8	Price/Sales
2.8	0.5	2.0	3.5	3.8	2.4	2.7	1.2	2.2	3.2	3.4	Price/Book
—	3.1	7.5	10.1	18.9	18.2	15.0	7.1	5.2	9.9	10.5	Price/Cash Flow

Quarterly Results						
Revenue USD Mil	Dec 09	Mar 10	Jun 10	Sep 10		
Most Recent Period	7.4	6.7	6.7	6.9		
Prior Year Period	7.4	6.7	7.1	7.0		
Rev Growth %	Dec 09	Mar 10	Jun 10	Sep 10		
Most Recent Period	0.3	0.8	-4.8	-1.3		
Prior Year Period	-2.9	-6.3	-1.7	-2.1		
Earnings Per Share USD	Dec 09	Mar 10	Jun 10	Sep 10		
Most Recent Period	-0.11	0.09	0.10	0.14		
Prior Year Period	-0.21	-1.28	-0.05	0.13		

Industry Peers by Market Cap				
Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%	
A.D.A.M, Inc.	82	28	33.6	10.5
Sap AG	71462	15509	25.6	24.2
Sap AG	71462	15509	25.6	24.2

Major Fund Holders		% of shares
Vanguard Explorer Inv		0.40
VALIC Company I Small Cap		0.36
DFA Tax-Managed US Small Cap		0.22

\*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ROBERT S. CRAMER, JR	Director	263,225	03 Dec 2010	241,901
DR. MARK KISHEL, M.D.	Director	15,726	22 Nov 2010	53,400
CLAY E. SCARBOROUGH	Director	10,726	03 Dec 2010	25,000
DANIEL S. HOWE	Director	3,571	18 Nov 2010	30,189
MARK B. ADAMS	CEO/President	2,000	07 Dec 2010	240,334
MR. CHRISTOPHER R. JOE	CFO	0	07 Dec 2010	10,000

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Fidelity Select Software & Comp	QQQQQ	1.04	0.07	112	31 Dec 2010
TFS Market Neutral	QQQQQ	0.78	0.12	77	31 Oct 2010
AQR Diversified Arbitrage I		0.43	0.07	43	31 Aug 2010
iShares Russell Microcap Index	Q	0.26	0.04	0	04 Feb 2011
Fidelity Spartan Extended Mkt Index Inv	QQQ	0.24	0.00	10	31 Dec 2010

#### Concentrated Holders

Quaker Event Arbitrage A	QQQQ	0.14	0.46	0	31 Dec 2010
TFS Market Neutral	QQQQQ	0.78	0.12	77	31 Oct 2010
Wilshire Micro-Cap ETF	Q	0.06	0.11	0	03 Feb 2011
AQR Diversified Arbitrage I		0.43	0.07	43	31 Aug 2010

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Fidelity Select Software & Comp	QQQQQ	1.04	0.07	112	31 Dec 2010
TFS Market Neutral	QQQQQ	0.78	0.12	77	31 Oct 2010
AQR Diversified Arbitrage I		0.43	0.07	43	31 Aug 2010
Fidelity Spartan Extended Mkt Index Inv	QQQ	0.24	0.00	10	31 Dec 2010
Fidelity Nasdaq Composite Index	QQQ	0.01	0.00	1	31 Dec 2010

#### Top 5 Sellers

iShares Russell Microcap Index	Q	0.26	0.04	0	04 Feb 2011
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## Industry Focus: Application Software

### From Data Centers to Private Clouds 29 October 2010

Sunit Gogia  
Senior Stock Analyst

Three companies are poised to be acquired as private clouds soar.

The mergers and acquisitions wave sweeping through technology-land could get larger before it subsides. The tangible economic benefits of cloud computing are driving IT investments as traditional enterprise data centers are transformed into private clouds. With server and storage virtualization as the core building blocks, private clouds offer large enterprises a step change in the efficiency of their data centers without the perceived risks associated with evolving lower-cost public cloud services.

The IT industry had long expected these investments in private clouds, but Oracle's ORCL aggressive efforts to capture a larger portion of the IT spending has left most of its competitors on the defensive. Oracle's strategy of selling integrated hardware plus software solutions has exposed the software gaps in competitors' portfolios, as can be seen in the graphic below, and is forcing them to revisit their own strategies. Already IBM IBM has made an acquisition offer for Netezza NZ to combat the tremendous market success of Oracle's Exadata appliance, and Hewlett-Packard HPO has installed a new CEO and a new chairman,

both long on software industry experience. We expect a continuing wave of hardware and software acquisitions as rivals including IBM, HP, Dell DELL, Cisco CSCO, and EMC EMC design competitive responses to Oracle's integrated solutions approach.

All acquisition candidates are not created equal--the ownership imperative is weak in some areas (such as operating systems), and sheer size and ownership considerations render some targets impractical to acquire (such as SAP SAP and SAS Institute). Additionally, stocks of some companies such as Isilon ISLN have already run up on acquisition rumors and are unlikely to offer significant acquisition premiums over their current market prices. Among potential takeouts, we think Teradata TDC, BMC BMC, and Compellent CML are likely candidates that offer investors the prospect of reasonable acquisition premiums to their current market valuations.

#### Teradata

An acquisition of Teradata could help HP or Dell compete head to head with Oracle's Exadata or IBM/Netezza's business analytics appliances. The business analytics market is heating up as enterprises try to extract information from mountains of data. For example, Oracle has stated that the pipeline for its Exadata product has grown to \$1.5 billion from \$1 billion sequentially over the past two quarters. Teradata also has proprietary database technologies that could be useful beyond its data warehousing specialty.

Any vendor attempting to compete with Oracle across the entire computing stack needs a credible database to offer its clients. This can be a tough nut to crack--independent proven database technologies that can reliably support high-end enterprise computing workloads are scarce. A lack of compelling database technology could well become the Achilles' heel of less capable rivals.

IBM's DB2, combined with its pending acquisition of

	Oracle	IBM	HP	Dell	Microsoft	Cisco, EMC, VMware*	Acquisition Candidates
Business Analytics	●	●	○	○	○	○	SAS Institute, TIBX, MSTR
Application Software	○	○	○	○	○	○	SAP, JDAS, LWSN, TDC, EPIC, PEGA, OTEX, AU
Middleware	●	●	○	○	○	○	RHT, TIBX
Database Software	●	●	○	○	○	○	PostgreSQL, Ingres
Operating System	●	●	○	○	○	○	RHT, NOVL
Virtualization (x86)	●	○	○	○	○	○	CTXS, RHT
Systems Management Software	○	○	○	○	○	○	BMC, CA, SWI, QSFT, CPWR
Application Delivery Systems	○	○	○	○	○	○	FFIV, CTXS, RDWR
Storage Solutions	○	○	○	○	○	○	ISLN, CVLT, CML, NTAP
Server Hardware	○	○	○	○	○	○	—
Networking	○	○	○	○	○	○	BRCD, JNPR
Security	○	○	○	○	○	○	CHKP, FIRE, FTNT, WBSN

\*Cisco, EMC and VMware are combined for this analysis due to their ACADIA joint venture and Cisco's equity stake in VMware.  
Source: Morningstar

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### Industry Focus: Application Software

Netezza, will hold that vendor in good stead, and SAP's recent acquisition of Sybase should reduce its dependence on Oracle in the long run. HP could continue to rely on its long-standing partnership with Microsoft to provide solutions based on SQL Server. However, a partnership approach might prove insufficient for Microsoft, HP, Dell, and other data center vendors if Oracle is able to gain Apple-esque innovation advantages from its ownership of database appliance hardware and software. Hardware vendors could look at piggybacking on some open-source database initiatives including PostgreSQL, but expensive acquisitions to gain access to talent could be hard to justify to shareholders.

Teradata would offer an acquirer proven, purpose-built analytics appliances as well as database expertise that could provide the foundation for new software solutions. Comparable transactions in the business analytics space include Hyperion's acquisition by Oracle for an enterprise value (EV) of 3.4 times trailing 12-month (TTM) sales, SAP's acquisition of Business Objects for 4.5 times EV/TTM sales and IBM's acquisition of Cognos for 4.1 times EV/TTM sales. We estimate that an acquirer of Teradata would have to pay an EV of at least 4 times TTM sales, or \$51 per share.

#### **BMC**

BMC would catapult a potential acquirer into a leadership position in IT infrastructure management tools. We see Dell, Cisco, and EMC as the most likely potential acquirers for BMC.

Comprehensive enterprise data center solutions require management tools to provision and manage IT assets. HP and IBM already have the most comprehensive management toolsets and are unlikely to venture beyond small acquisitions of niche technologies. Oracle needs to beef up its management tools portfolio, but BMC's mainframe management business (40% of revenues) would be a complete misfit in Oracle's stated strategy.

Dell, Cisco, and EMC need stronger management toolsets

to position themselves as one-stop shops for data center infrastructure. Dell has assembled an impressive portfolio of server and storage infrastructure organically and through acquisitions, but a lack of comprehensive infrastructure management tools leaves it competitively disadvantaged relative to HP and IBM. The Cisco/EMC partnership similarly lacks proprietary management tools that extend beyond network and storage systems, and an acquisition of BMC by a competitor would put their ambitions of a larger role in data centers at risk.

An acquisition of BMC would have negative implications for competitor CA CA . CA has one of the largest management tools businesses, but we think the firm's desirability to potential acquirers is compromised by its significant exposure to mainframe management revenues (60% of total revenues). CA has been attempting to diversify its revenue sources, and distributed systems management tools now account for 40% of the firm's revenues. Undoubtedly, CA would face a tougher competitive environment in the distributed systems segment, and we would reassess our current valuation assumptions for the company.

BMC shares are currently trading near our fair value estimate, but an acquisition of the company would likely fetch a higher multiple to current valuation levels. Past acquisitions in the systems management software space have commanded a wide range of multiples: HP acquired Opsware and Mercury Interactive for 13.8 times and 5.3 times EV/TTM sales, respectively, and BMC bought BladeLogic for 10.1 times EV/TTM sales. BMC is much larger compared with these takeouts, and we expect the company to command a lower premium. Applying an EV/TTM sales multiple of about 4.5, we expect BMC to command an acquisition price of about \$10.9 billion, or \$61 per share.

#### **Compellent**

An acquisition of Compellent's midrange storage arrays would enable Dell to capture a larger portion of customer's IT spend while creating value for shareholders by adding much-needed distribution prowess to Compellent's

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## Industry Focus: Application Software

technology.

After the bidding war that Hewlett-Packard and Dell fought over storage firm 3PAR PAR , the entire market is evaluating the few remaining storage entities. Compellent and Isilon are the most likely takeout candidates, and Isilon's stock has already run up on rumors that the company is in acquisition talks with storage giant EMC.

Compellent's midrange storage technology would make it an attractive target for Dell, which is committed to building its data center portfolio and lost the bidding war for 3Par. We think Compellent's storage solutions would be an easy sell into Dell's existing customer base, allowing the firm ample opportunity to create shareholder value even if it has to pay premiums in line with recent acquisitions.

Having said that, we expect the acquisition premium for Compellent to be lower than levels seen in recent transactions because we don't foresee a bidding war breaking out for the company. Large storage specialists EMC and NetApp already possess or are in the process of developing competing products, and server vendors IBM and HP are likely content with their current storage products and internal development efforts. Oracle has expressed an interest in building out its midrange storage portfolio, but we expect the firm to prefer an acquisition of Pillar Data Systems, which is slightly higher-end and happens to be owned by Oracle CEO Larry Ellison.

Recent acquisitions in the storage space have included the acquisition of EqualLogic by Dell for 12.3 times EV/TTM sales, HP's proposed acquisition of 3Par for 11.2 times EV/TTM sales, and EMC's acquisition of Data Domain for 7.1 times EV/TTM sales. We estimate Compellent could command an EV/TTM sales multiple of about 8, translating to about \$43 per share.