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Will Cars Drive the Market?

On March 1st it was reported that February's seasonally adjusted annual rate (SAAR) of light vehicle sales was 15.0 million units, the highest for any single month since it reached 15.5 million in February 2008. Analysts are raising forecasts to 14.5 million from 14.0 million in response to this surprise in what is usually one of the industry's weakest months. This compares with 2011 actual sales of 12.7 million. It is also noteworthy to mention that the February SAAR figure is also a big jump from January's 14.1 million and the 13.2 million SAAR measured in February 2011.

By all accounts, it looks like we are in a bull market for new automobiles. This is surprising given the state of the economy and considering that vehicle prices are meaningfully higher. Plus, financing incentives are not as attractive as in recent years.

It appears that there are a few factors driving the market, including higher fleet sales to rental car companies and the resurgence of sub-prime auto lending. Still, the one factor which sticks out most prominently to us is a telling statistic:

The average age of vehicles on the road in the U.S. is 10.8 years, which is a record.

Clearly, the U.S. consumer is replacing older vehicles with newer ones, including those that provide better gas mileage which could be a one of the factors keeping the present (but shaky) bull market intact.

If this trend continues, I am going to make a prediction you will not see anywhere else, at least not for a few months.

If the stock market remains vibrant, it is Obama's election to lose. If the auto business enjoys resurgence then stick a fork in the GOP. Battleground states that have a good deal of their economic fortunes tied to the automotive industry (e.g. Ohio) will wave the flag for current man in office. And if the housing market improves, it could be a cakewalk. Whether that is a good thing or a bad thing, I leave up to you.

Now, where is my passport…?

There is a way to play the auto market.

We recently recommended Autobytel (NASDAQ – ABTL.) As one of the leading online sources of information related to the purchase of automobiles, and a primary source of online consumer purchase requests and marketing resources to help car dealers and manufacturers sell cars, ABTL is uniquely positioned to benefit from the growth in auto sales in 2012.

The Company released its 4Q11 and FY11 last week, had a great quarter and the future looks even brighter in 2012, as interest in and the execution of new auto sales are some of the key revenue drivers. For the year, revenue rose 24% to $63.8M, up from $51.5M. ABTL was also net income positive for the first time since 2004. Management was very upbeat on its conference call and indicated that investors should expect top-line and bottom-line growth in 2012.

In an interesting maneuver, management noted that while it will not likely comply with the NASDAQ $1 price rule, management believes that it will likely be granted an additional 180 days to meet the criteria of ten consecutive closes above the $1.00 mark. The Company stated it is exploring initiatives including a reverse split (not a fan here) and will likely make open market purchases this week, as part of its share buyback plan.

I do not <u>ever</u> recall a management team telegraphing such a transaction before.

In any event, we are unconcerned regarding the pricing issue and if ABTL is granted an extension, it would eliminate the current cap on the stock just north of the $1.00 mark and be a great catalyst for the stock.

Add that likelihood to the Company's fundamentals, the fact that the industry is at its most favorable point in years, and the prospect of continued open market purchases by the Company is in the cards, and you have a stock that seems primed for a move higher.

Behind and Ahead

Last week we talked about the Yelp (NYSE – YELP) IPO and the misguided 13,000 DJIA and 3,000 NASDAQ Composite investor crazes fueled by the media. Yelp was a success although it did little to impact the rest of the market. Meanwhile, both the Dow and the NASDAQ Composite breached the "key" thresholds, and came right back down. Looks like narrow trading ranges are going to be with us a while longer.

If we were to brush away some of the external factors that impact trading, it seems that the market is nearing near term fair value, which lends further credence to our recent sentiment. The S&P 500 Index trades at around 13x FY12 EPS estimates while NASDAQ is just under 16x 2012 FY12 earnings. I think that most prognosticators would agree that fair value would probably top out a 15x S&P multiple and perhaps 18x NASDAQ.

Why Did NVLX Go Up?

I rarely provide commentary on our own reports and subsequent trading except to alert you to key snippets of information, in case you missed anything relevant to the companies in question. Nuvilex, Inc. (OTCQB – NVLX - $0.06) had a great week and we believe it is just the very beginning.

Clearly, investors are just starting to understand the value of the Company's underlying live-cell encapsulation technology and delivery system and that when compared to other firms, the current valuation is exceedingly low.

In the pancreatic arena, Nuvilex should be compared with other firms that are presently at the Phase 2 clinical stage and other companies using encapsulation techniques. These firms, such as Threshold (NASDAQ – THLD) and Merrimack (private) have present or proposed (currently private) market values in the hundreds of millions.

In the diabetes treatment space, Nuvilex may have hit upon a holy grail. In animal models, the Firm's live-cell encapsulation techniques may eliminate or substantially reduce the need for typical daily glucose checks and insulin injections. While a solid offering in its own right, the technology of its primary competitor is at the Phase I/IIa stage but does not appear to have as broad an application opportunity as Nuvilex.

Still, the market cap of this competitor, Living Cell Technologies (OTCQB – LVCLY) is over 70% higher than that afforded Nuvilex, which serves as further evidence that NVLX's stock has much more room to grow.

Until next week…

Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

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