

## Opinion Research Corporation

NASDAQ-ORCI- \$5.99  
(www.opinionresearch.com)

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### 3Q03 Results

## '03 Disappointing but Economic Recovery Expected to Produce EPS Growth in '04

Current Data		EPS		P/E	
Fiscal Year End	Dec	2002	\$ 0.55	10.9	
Current Price	\$ 5.99	2003E	\$ 0.48	12.4	
52-Week Range	6.7-3.55	2004E	\$ 0.67	8.9	
Shares Out (Mill)	4.91	Valuation		Current	LTM
Ave Volume LTM	2,672	P/E (Next FY)	12.37	14-6	
Market Cap. (Mill)	\$ 29.43	P/B	1.38	1.2-0.6	
LTD/Total Capital	34.0%	Price/Sales	0.21	0.2-0.1	
Institutional Hldgs	41%	Oper. Data		This Qtr	LTM
Insider Holdings	20%	Sales Growth	1.7%	1.4%	
Book Value	\$ 4.36	EBITDA Marg.	7.8%	8.3%	
10Yr Bond	4.40%	Net Inc. Grwth	47%	-356%	

Source: Baseline except for EPS estimates, researchstock.com



Source: Baseline

### Key Investment Points

- Strong performance in Social Research offset continued weakness in US Market Research and Teleservices.
- Operating cash flows remain strong; debt reduced \$7.7 million vs. 3Q02.
- 2003 EPS forecast does not include special charges (expected in 4Q03).
- We reiterate our 12-18 month target price of \$7.00 based upon the assumption of a strong 2H04.

### Company Description

Princeton, New Jersey-based Opinion Research Corporation (ORCI) is one of the leading global market research firms in the US, providing business-to-business (B2B) and public (government) markets with sophisticated market research and teleservices. ORCI's services help firms improve customer loyalty, branding, corporate reputation, and evaluate market demand for new or existing products. The Company focuses on projects that require continuous updating, thus resulting in a stable client base and recurring revenue streams (we estimate approximately 60% of revenues are from recurring projects). The Company's client base is comprised of Fortune 50 multinational firms such as IBM, EDS, and General Motors in addition to government agencies. Founded in 1938 by market research pioneer Claude Robinson, the Company had its IPO in 1993. During the last four years, the Company entered the telemarketing and government research services sectors via strategic acquisitions and has been successful in realizing cross-selling opportunities.

**Please read important disclaimers on at the end of this report.**

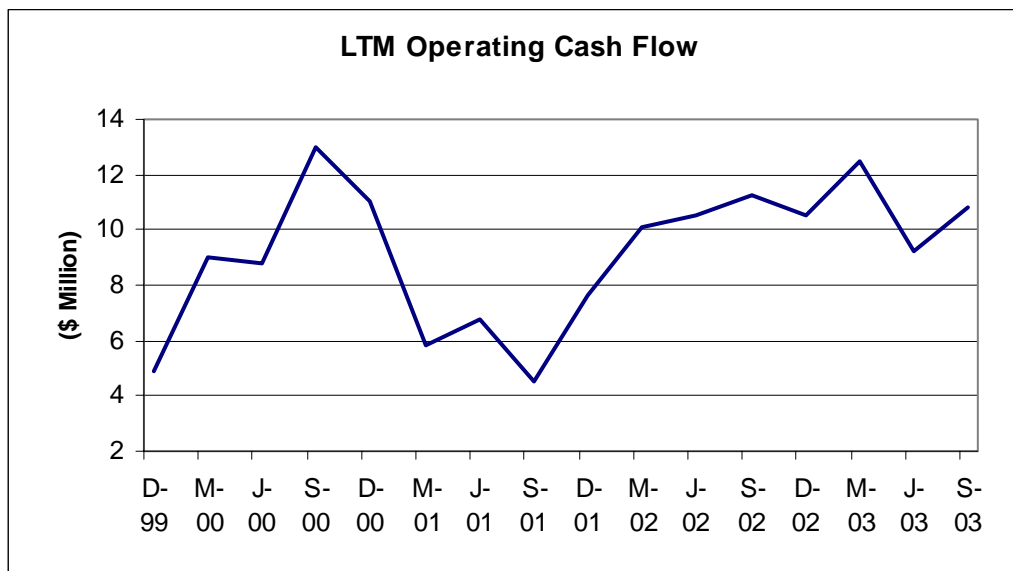
### The Bottom Line

2003 will not likely be a banner year for ORCI. Comparable earnings before expected charges are likely to be \$0.48 versus a pro forma (ours) of \$0.55 in 2002. Management also announced that several charges would be taken in 4Q03, but no other details were disclosed except for a unamortized debt fee (which we think could be \$0.04 per share).

On the bright side 2004 is looking better. The US Market Research business continues to be in a slump but this negative is offset by strength in the other segments. If the economic data continues to be positive, we expect companies to increase their market research spending in 2004. This, coupled with a weak US dollar should produce good EPS growth versus a weak 2003.

ORCI remains a good cash flow machine. Operating cash flows were down 4% from 3Q02 but increased 18% from 2Q03 (see Fig 1).

Fig. 1



### 3Q03 Results:

Operating results were lower than we expected due mainly to a higher effective tax rate (53% versus 44%) and additional diluted shares outstanding (6.3 million versus our expectation of 6.1 million). EPS for 3Q03 was \$0.11 versus our forecast of \$0.13 and \$0.15 booked in 3Q02.

Total segment revenues increased 3.9% as Social Research (+10%) and UK Market Research (+21.8%) offset weakness in US Market Research (-7.4%), and Teleservices (-1.1%). Continued weakness in the US economy and the implementation of the "Do Not Call" List were the main reasons for the poor US showing. Social Research remained strong because the government sector appeared unaffected by the domestic economy. Part of the growth in the UK business was probably due to favorable foreign exchange rates and a rebound in that economy. Fig 2 and Fig 3 (next page) show the quarterly sales trend and momentum.

Fig 2

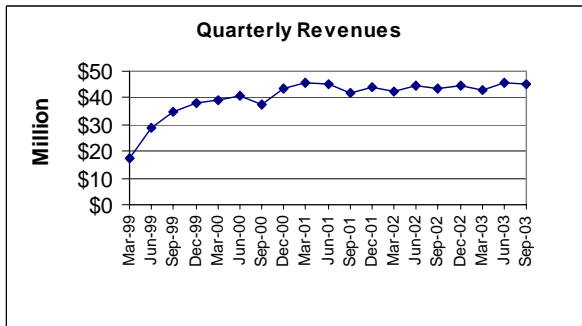
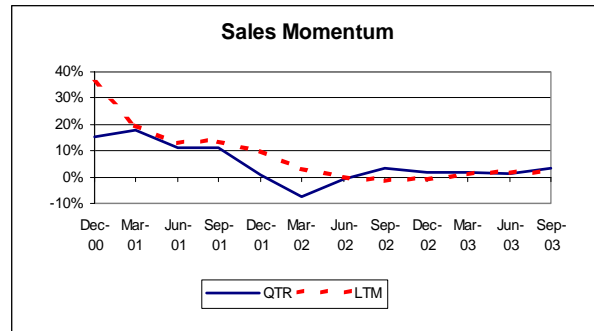
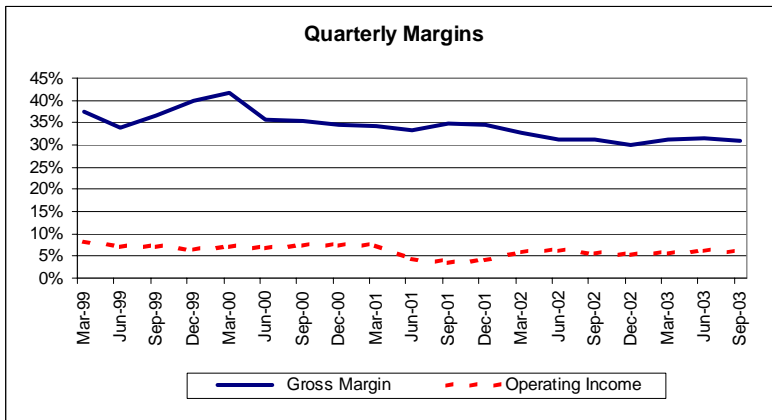


Fig 3



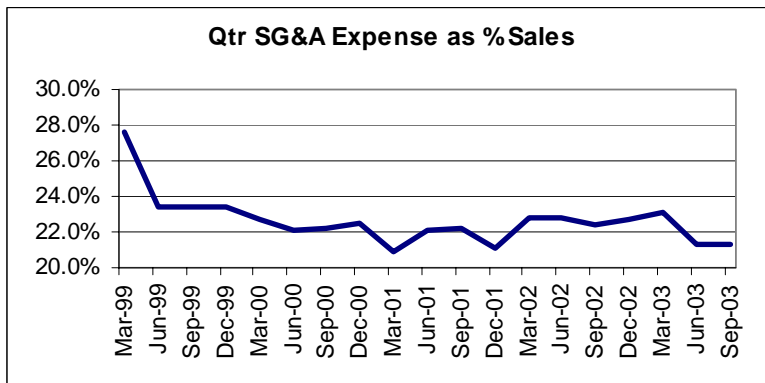
Operating margins improved to 6.1% from 5.8% at 3Q02 due largely to control over SG&A expenses (see Fig 3). The gross margin declined to 29.7% from 30.9% due to the combination of low sales volumes, increased percentage of Social Research (carries a lower gross margin) in the total mix, and perhaps some pricing pressure, in the US.

Fig 3



SG&A expenses declined in both absolute terms and as a percent of sales as management reduced operating expenses (see Fig 4).

Fig 4



The effective tax rate jumped to 53% from 30% as the result of higher state taxes, loss of some tax benefits, and as ORCI used the quarter to adjust taxes (“catch up”) to the annual expected rate.

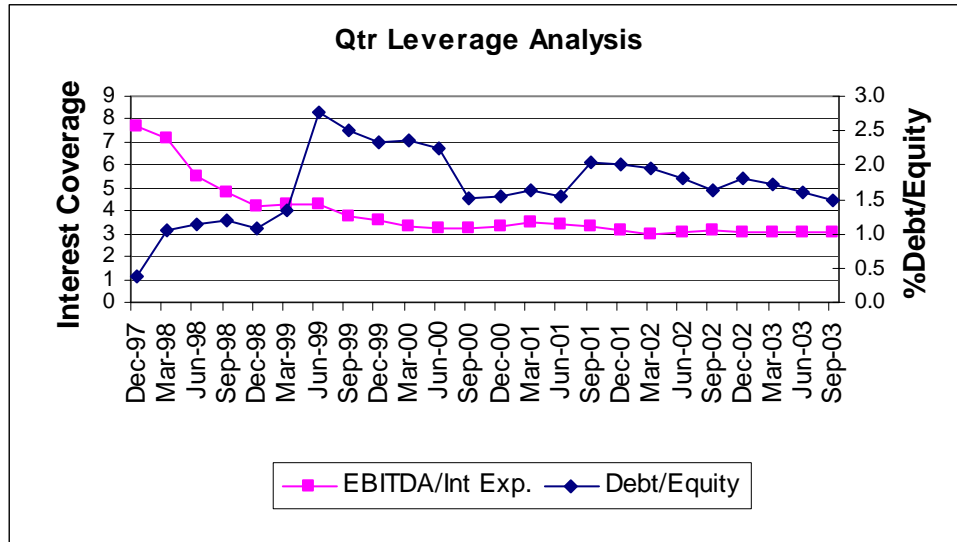
Table 2 compares the quarter’s results with those of 2002.

<b>Table 2: Quarterly Operating Comparison</b>			<b>Q/Q</b>
(\$ Million)	<b>9/02</b>	<b>9/03</b>	<b>Growth</b>
Market Res-US	7.878	5.722	-27.4%
Market Res-UK	4.462	5.433	21.8%
Global MR	12.340	11.155	-9.6%
Teleservices	3.800	3.757	-1.1%
Social Research	26.272	29.144	10.9%
Total Seg.	42.412	44.056	3.9%
Other	0.929	0.811	-12.7%
Revenues	43.341	44.867	3.5%
Cost of Goods Sold	29.947	31.561	5.4%
Gross Profit	13.394	13.306	-0.7%
SG&A	9.716	9.542	-1.8%
Depreciation	1.152	1.018	-11.6%
Operating Income	2.526	2.746	8.7%
Interest Expense	1.253	1.242	-0.9%
Other Income/Expenses	0.000	0.000	
PreTax Income	1.273	1.504	18.1%
Income Taxes	0.382	0.793	107.6%
Extraord	0.000	0.000	
Net Income*	0.891	0.711	-20.2%
* EPS: FAS 142 Equivalen	\$0.15	\$0.11	-24.0%
<b>Diluted EPS</b>	\$ 0.15	\$ 0.11	-24.0%
FAS 142 Equivalent	\$ 0.15	\$ 0.11	-24.0%
Diluted Shares	6.02	6.32	5.1%
Eff. Tax Rate	30%	53%	75.7%
<b>Margin Analysis</b>			
Gross	30.9%	29.7%	
EBIDTA	8.5%	8.4%	
Operating	5.8%	6.1%	
Net	2.1%	1.6%	

### Financial Condition

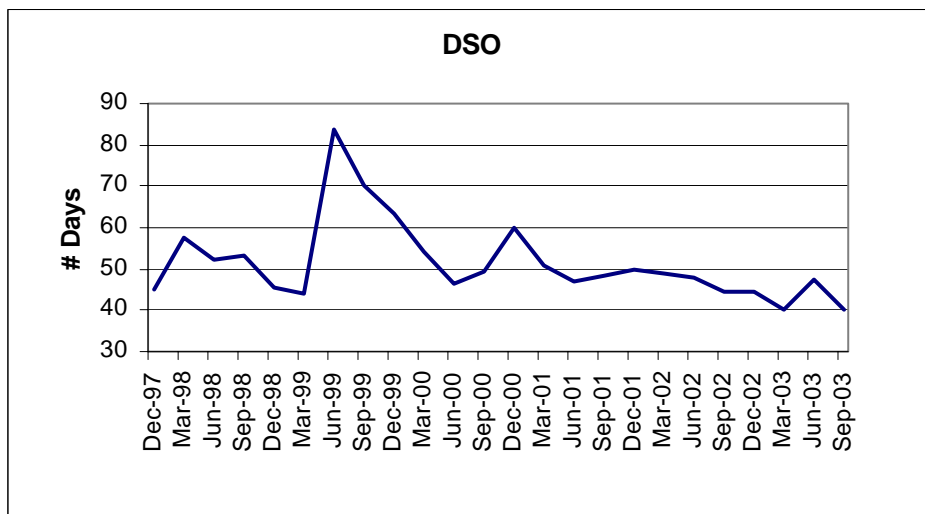
ORCI's financial condition improved as debt levels fell 15% versus 3Q02 as ORCI utilized operating cash flows to repay debt. As shown in Fig 5, leverage (as measured by the debt/equity ratio) continues to decline as times interest earned remained steady at 3.0x.

Fig. 5



Part of the improvement in operating cash flows is the trend in Days Sales Outstanding ("DSO"). DSO decreased to 45 days in 3Q03 from 45 days at 3Q02 and 48 for 2Q03 (see Fig. 6).

Fig. 6



## Peer Group Comparison

On a net/net basis, we feel that ORCI has done a very respectable job of maintaining earnings and cash flow growth despite the economic challenges that restrained sales growth. As shown in Table 3, some of the peers posted some impressive results, usually as the result of acquisitions and/or easy comparisons with periods where large charge offs occurred. Leverage, while higher than most of the peers, does not appear to be excessive and interest coverage appears more than adequate.

Company Name	TKR	Sales \$Mill.	%Sales Growth	EBITDA Margin	Op Cash Flow		EPS		Debt/ Capital	Net Debt/ EBITDA	Int. Cover
					(Mill.)	Change	\$	Change			
<b>OPINION RESEARCH</b>	<b>ORCI</b>	<b>178.2</b>	<b>2.1</b>	<b>5.3%</b>	<b>\$20.0</b>	<b>12%</b>	<b>\$0.49</b>	<b>4%</b>	<b>0.3</b>	<b>7.5</b>	<b>3.0</b>
Ave. Marketing Services		2165.5	-0.5	22.6%	\$120.3	61%	\$2.46	58%	0.3	2.1	27.2
Ave. Business Services		742.6	13.3	12.5%	\$193.2	-277%	\$0.52	-1%	0.2	2.4	32.4
<b>Marketing Services</b>											
OMNICOM GROUP	OMC	8,233.6	11.4	15.6%	-\$141.6	77%	\$3.51	5%	0.4	7.0	20.1
INTERPUBLIC GROUP	IPG	6,020.0	-3.7	-	\$396.0	-76%	\$0.02	-98%	0.5	-	-
INFORMATION RESOURCE	ERIC	557.4	0.6	29.6%	\$399.2	6%	\$0.16	-16%	0.0	0.7	-
CORPORATE EXECUTIVE	EXBD	195.9	28.0	34.2%	\$194.3	29%	\$0.98	31%	-	1.0	-
HARRIS INTERACTIVE	HPOL	133.5	-	11.2%	\$27.8	268%	\$0.16	278%	-	-	-
MKTG SERVICES	MSGI	15.1	17.9	22.5%	-\$9.9	76%	\$12.54	146%	-	0.9	34.3
NET PERCEPTIONS	NETP	2.9	-57.2	-	-\$23.7	44%	-\$0.14	60%	-	1.0	-
<b>Business Services</b>											
TELETECH HLDG	TTEC	988.5	-0.1	2.9%	\$118.5	-27%	\$0.09	-74%	0.3	4.9	-
WEST	WSTC	933.0	15.5	22.2%	\$415.9	33%	\$1.13	1%	0.2	1.5	32.4
NAVIGANT CONSULTING	NCI	306.4	24.4	12.4%	\$45.2	-838%	\$0.34	70%	-	0.8	-

Source: Baseline

## Outlook

We are lowering our 2003 EPS forecast to \$0.48 from the \$0.49 (set in our report of November 11, 2003) due to the impact of reduced sales expectations and a higher effective tax rate (now using 47% instead of 44% for reasons noted above). PLEASE NOTE: This estimate does not include charges for FAS 142, restatements and unamortized debt fees which management said they expected to take in 4Q03. According to the 10-Q, the unamortized debt fee is estimated at \$441,000 or about \$0.04 per share after taxes.

For 2003, our key assumptions are as follows:

- Revenues are expected to grow 1.9% to about \$178.5 million.
- Operating margins are expected to be 5.9%. This is lower than the historical average of 7% but within the range of the last five years. The gross margin is assumed to be 30% (lower than the historic average due to growing impact of Social Research).
- Interest expense grows slightly as higher debt levels.
- The effective tax rate is 47.3%.
- Outstanding shares increase from 5.9 million in 2002 to 6.2 million in 2003.

Our 2004 EPS estimate was "fine-tuned" to \$0.67 from \$0.77 as the net result of the lower expected 2003 "base" and reduced expectations for teleservices. Our main assumptions are:

- Revenues increase 3.1% (lower than our previous assumption), driven by 8% growth in Social Research. US Market Research is expected to be relatively flat while the Do Not Call law and competitive pressures reduce Teleservice sales 15%. Offsetting some of these declines will be UK Market Research, which will benefit from a weaker US dollar.
- Operating margins improve to 6.7% as SG&A costs increase at a 3% annual rate.
- The Effective tax rate is 42%.
- Outstanding shares increase 3.0% versus FYE03.

Our annual EPS model is detailed in Table 4, and quarterly estimates in Table 5, below.

<b>Table 4: Annual Earnings Model</b>								
(\$MM)	1997	1998*	1999	2000	2001	2002	2003e	2004e
Revenues	56.67	73.17	118.62	160.91	176.91	175.26	<b>178.55</b>	<b>184.02</b>
Cost of Goods Sold	34.37	44.81	75.85	105.98	121.53	120.71	<b>125.02</b>	<b>127.90</b>
Gross Margin	22.30	28.36	42.77	54.93	55.38	54.56	<b>53.53</b>	<b>56.13</b>
SG&A	16.84	19.41	28.50	36.00	38.13	39.74	<b>38.99</b>	<b>39.93</b>
Depreciation	2.66	4.14	5.81	7.28	8.43	4.60	<b>3.98</b>	<b>3.90</b>
Operating Income	2.80	4.81	8.46	11.65	8.82	10.22	<b>10.56</b>	<b>12.29</b>
Interest Expense	0.67	1.87	4.01	5.68	5.41	4.78	<b>4.85</b>	<b>4.90</b>
Other Income/Expenses	0.00	2.47	0.00	0.00	0.00	5.94	<b>0.00</b>	<b>0.00</b>
PreTax Income	2.13	0.47	4.46	5.97	3.41	-0.50	<b>5.70</b>	<b>7.39</b>
Income Taxes	0.98	0.49	1.94	2.67	1.80	2.12	<b>2.70</b>	<b>3.11</b>
Extraord	0.00	0.15	0.09	0.00	0.00	-0.29	<b>0.00</b>	<b>0.00</b>
Net Income	1.15	-0.17	2.42	3.30	1.62	-2.91	<b>3.01</b>	<b>4.29</b>
EPS-Diluted	\$ 0.28	\$0.0 *	\$ 0.58 **	\$ 0.65	\$ 0.27	\$ (0.49)	<b>\$ 0.48</b>	<b>\$ 0.67</b>
Cash EPS (F142 Equiv.)			\$ 0.90	\$ 1.06	\$ 0.74	\$ 0.55	<b>\$ 0.48</b>	<b>\$ 0.67</b>
			* Includes charges related to ex-CEO.					
			**Excludes debt re-structuring charges					
Diluted Shares	4.146	4.202	4.332	5.053	5.992	5.949	<b>6.215</b>	<b>6.401</b>
Tax Rate	45.8%	104.3%	43.6%	44.7%	52.6%	-425.3%	<b>47.3%</b>	<b>42.0%</b>
<b>Boldfaced data are estimates</b>								
<b>Growth Rates</b>								
Revenues	19.9%	29.1%	62.1%	35.6%	9.9%	-0.9%	<b>1.9%</b>	<b>3.1%</b>
EBIDTA	14.5%	63.9%	59.4%	32.7%	-8.8%	-14.1%	<b>-1.9%</b>	<b>11.4%</b>
Net Inc.	42.7%	nm	nm	36.3%	-51.1%	-280.3%	<b>-203.3%</b>	<b>42.5%</b>
EPS	45.0%	nm	nm	12.7%	-58.8%	-281.6%	<b>-198.9%</b>	<b>38.4%</b>
<b>Margin Analysis</b>								
Gross	39.4%	38.8%	36.1%	34.1%	31.3%	31.1%	<b>30.0%</b>	<b>30.5%</b>
EBIDTA	9.6%	12.2%	12.0%	11.8%	9.8%	8.5%	<b>8.1%</b>	<b>8.8%</b>
Operating	4.9%	6.6%	7.1%	7.2%	5.0%	5.8%	<b>5.9%</b>	<b>6.7%</b>
Net	2.0%	-0.2%	2.0%	2.1%	0.9%	-1.7%	<b>1.7%</b>	<b>2.3%</b>

(\$MM)	3/02	6/02	9/02	12/02	3/03	6/03	9/03	12/03
Revenues	42.45	44.78	43.34	44.69	43.16	45.48	44.87	<b>45.04</b>
Cost of Goods Sold	29.14	30.66	29.95	30.96	29.81	31.95	31.56	<b>31.71</b>
Gross Margin	13.31	14.12	13.39	13.73	13.36	13.54	13.31	<b>13.33</b>
SG&A	9.66	10.22	9.72	10.14	9.97	9.68	9.54	<b>9.80</b>
Depreciation	1.15	1.13	1.15	1.16	0.95	1.01	1.02	<b>1.01</b>
Operating Income	2.50	2.77	2.53	2.43	2.44	2.85	2.75	<b>2.52</b>
Interest Expense	1.19	1.14	1.25	1.21	1.17	1.14	1.24	<b>1.30</b>
Other Income/Expenses	0.00	0.00	0.00	5.94	0.00	0.00	0.00	<b>0.00</b>
PreTax Income	1.32	1.63	1.27	-4.72	1.27	1.71	1.50	<b>1.22</b>
Income Taxes	0.53	0.65	0.38	0.56	0.53	0.79	0.79	<b>0.58</b>
Extraord	-0.29	0.00	0.00	0.00	0.00	0.00	0.00	<b>0.00</b>
Net Income	0.50	0.98	0.89	-5.28	0.73	0.92	0.71	<b>0.64</b>
EPS-Diluted	\$ 0.08	\$ 0.16	\$ 0.15	\$ (0.88)	\$ 0.12	\$ 0.15	\$ 0.11	<b>\$ 0.10</b>
Cash EPS (F142 Equiv.)	\$ 0.08	\$ 0.16	\$ 0.15	\$ 0.11	\$ 0.12	\$ 0.15	\$ 0.11	<b>\$ 0.10</b>
Diluted Shares	6.004	6.121	6.019	6.007	6.068	6.144	6.324	<b>6.324</b>
Tax Rate	40%	40%	30%	-12%	42%	46%	53%	<b>47%</b>

**Boldfaced data are estimates**

## Valuation

We are reiterating our 12-18 month target price because despite the reduced earnings forecast, we feel that the improving economy should provide more upside during 2H04 and possibly better valuations. Our target price is based upon the valuation multiples (which we have not changed) and the lowered 2004 forecast.

However, the key caveat is that we think the stock will trade at current levels until ORCI posts improved results. This means that the stock could trade within a tight band for the next two quarters, or longer.

	Multiples		2003e			2004e		
	LTM	Current	Est.	per share	Price Range	Mult. Est.	per share	Price Range
	<b>Revenues</b>	0.23	0.21	0.25	\$ 28.73	\$ 7.18	0.25	\$28.75
	0.12		0.12		\$ 3.45	0.12		\$ 3.45
<b>EPS (Dil.)</b>	14.6	12.4	13.0	\$ 0.48	\$ 6.29	15.0	\$0.67	\$ 10.05
(LTM)	-13.0		7.0		\$ 3.39	10.0		\$ 6.70
<b>EBITDA</b>	2.8	2.6	2.9	\$ 2.34	\$ 6.78	2.9	\$2.53	\$ 7.34
	1.4		1.8		\$ 4.21	1.8		\$ 4.55
			<b>Average Est. Target Price Range</b>					
			High	\$	6.75	High	\$	8.19
			Low	\$	3.68	Low	\$	4.90
			Ave.	\$	5.22	Ave.	\$	6.55

We chose valuation multiples that are slightly higher than the trailing 12 month range to reflect our expectations of better economic times ahead versus 2003. Table 7 provides comparative valuation multiples for the peer group.

**Table 7: Comparable Valuation Metrics**

Company Name	TKR	Price	P/E				P/B	P/S
			LTM	2002	2003e	2004e		
<b>OPINION RESEARCH</b>	<b>ORCI</b>	<b>\$ 5.99</b>	<b>12.2</b>	<b>10.9</b>	<b>12.2</b>	<b>8.9</b>	<b>1.0</b>	<b>0.20</b>
Ave, Marketing Services		\$ 23.93	123.8	53.8	22.3	26.5	3.3	2.80
Ave. Business Services		\$ 17.34	62.9	45.4	373.5	29.6	3.3	1.67
<b>Marketing Services</b>								
OMNICOM GROUP	OMC	\$ 84.07	24.0	24.4	23.4	20.4	5.1	1.94
INTERPUBLIC GROUP	IPG	\$ 14.40	720.0	26.7	-18.7	21.5	2.9	0.94
INFORMATION RESOURCE	IRIC	\$ 4.97	31.1	41.4	na	na	0.7	0.28
CORPORATE EXECUTIVE	EXBD	\$ 50.01	51.0	62.5	44.7	37.6	8.1	9.51
MKTG SERVICES	MSGI	\$ 6.95	0.6	na	na	na	2.4	0.50
HARRIS INTERACTIVE	HPOL	\$ 6.76	42.3	169.0	39.8	na	3.0	2.84
NET PERCEPTIONS	NETP	\$ 0.36	-2.6	-1.1	na	na	0.8	3.59
*na-not available								
<b>Business Services</b>								
TELETECH HLDG	TTEC	\$ 10.60	117.8	32.1	1060.0	46.1	2.9	0.80
WEST	WSTC	\$ 24.73	21.9	24.5	18.9	14.4	2.6	1.78
NAVIGANT CONSULTING	NCI	\$ 16.70	49.1	79.5	41.8	28.3	4.3	2.44

Source: Baseline

### Corporate Governance

ORCI's management has an established track record of transparent reporting which is a welcome change to many companies that try to obscure core-earning trends. Even before FAS 142 took effect, Management provided information that makes it easy to compare core earnings on an "apples-to-apples" basis. We have found few companies that have adopted such an open and consistent approach to reporting results.

### Risk Consideration

Investors should read the risk disclosures in the company's SEC filings. In addition to the company's disclosures, we feel some of the key factors are:

- The shares are not very liquid and can experience significant price volatility.
- By some measures, debt levels are higher than sector averages. While we do not consider leverage to be extreme and interest coverage is more than adequate, the current debt load could impair ORCI's financial flexibility.
- The stock is not followed by many analysts. This means that there is little information available to investors and the market may be mis-pricing the stock. However, due to market inefficiencies, any mis-pricing may last for an indeterminate time.

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