

This note summarizes some of our commentary on specific stocks and markets during the month of October.¹

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MEDIAMIND (MDMD) RESEARCH SNAPSHOT

Originally posted October 18th, 2010

[MediaMind](#) had a so-so IPO back in August. The shares traded up about 50% in September before settling back down recently. We had time to catch up with this one and complete our analysis and IV estimates. This one is worth a look because they have built a valuable asset in a desirable market. Management style keeps us from seeing this as a classic like the Mars bar or M&M's but every now and again a Charleston Chew can hit the spot.

The Wrapper: MediaMind provides a technology platform for advertising agencies to manage campaigns that leverage digital and online channels. The solution improves reach by including multiple channels, improves targeting and impact and helps to measure results and optimize placements. Company is expected to report just over \$80M in revenues and generate nearly \$20M in EBITDA for 2010. Current market capitalization is \$250M. Positioned as a neutral (non-publisher owned) platform. Company has over 7,000 advertisers, over 3,000 agencies and over 5,000 publishers in their network. 95% gross margins, 25% EBITDA margins, 348 employees, US HQ is NYC, founded in Israel with offices in many major international cities.

Recipe Story: MediaMind was founded ten years ago at the end of the great dot-com bubble. Without doing a history paper, it looks like the company was in development mode until about 4 years ago when they started to raise substantial capital, expand the board and the management team. The company changed their name from Eyeblander on June 15th, 2010 after their IPO was filed and underway.

Yummy Ingredients:

1. The online advertising market is large and growing. Advertising spend still lags consumer time spent online. There are several years of “built in” secular growth.
2. MediaMind has exploited the fragmentation and complexity of the online space to provide a solution for agencies that improves their effectiveness in terms of reach, engagement, measurements and optimization. As a “neutral” platform provider they offer something different than publisher-owned solutions from companies like Google and Microsoft.
3. Margins are very high. With 95% gross margins and 20% operating margins, MediaMind is generating high returns on capital.
4. A new version of the core product (2.0) was recently released and has received strong reviews and may help cement the company's position as a leading third party advertising platform.

¹ To receive these comments as they are published via email please visit <http://blog.research2zero.com>

5. Overall, MediaMind offers a more integrated, more international, and an enhanced ability to use richer advertising mediums than other solutions.

Sour Tastes:

1. It's not clear that the company is building a culture and a management style for the long haul. Their results and execution have been good, but the overall vibe coming out of the company is that turnover is high, communication is poor and advancement opportunities are limited. This is no Zappos.
2. There appear to be quite a few companies engaged in helping to solve many of the same problems in the online advertising space. It's not clear how "sticky" the MediaMind platform is with agencies yet.
3. Even though we are not active in the advertising space, we were mildly surprised by the number of people in the business who responded with "never heard of them" when asked. Normally we'd say this is just because it's an early stage company but this is an advertising effectiveness firm, yes?
4. Rightly or wrongly, many investors factor in some sort of discount for companies coming over from Israel. We have already factored that into our intrinsic valuation analysis.

Candy Verdict: Charleston Chew – Adding to IPO Candy Folio

Setting aside the somewhat anti-nurture style of the management team, the company has built a very attractive business that the market appears to be undervaluing based on our IV estimate of \$25.

The positioning and margins also make the company a desirable acquisition in what is a very strategic space for companies in media, advertising and technology. This factor helps to mitigate downside risk and probably provides some hard-to-quantify upside to our IV estimate.

[Disclosure: The IPO Candy Folio holds a long position in MediaMind. More information about the IPO Candy Folio can be found at <http://ipocandy.com/invest>]

REVERSE ANGLE ON MICRON (MU)

Originally posted on October 21, 2010

Back in April I wrote a post called "[When will Micron buy into some growth?](#)" that expressed our exasperation over the lack of a growth story at the company, leaving it with basically a cyclical commodity investment thesis that hasn't worked out since the mid-1990s. With that I more or less gave up paying attention to MU. At the time the shares were trading just over \$10.

Then yesterday the word on the street was that private equity investors might be thinking about taking the company private. That catalyzed a different view of the company which makes much more sense to me. It also helps that the share price has fallen to below \$8/share.

Some basic numbers make it clear why a PE deal would make sense. MU is trading at just under tangible book value, about 1x revenue and 2.5x [EBITDA](#). (Figures based on a [Total Enterprise Value](#), TEV, of \$9B that includes the \$2.9B in cash and \$2.4B in debt.)

As one of my old professors [Roy Smith](#) (ex-Goldman Sachs) would say, "There's plenty of juice in there."

More specifically, assuming a 20% premium to the current TEV the buyers would be paying about 3x EBITDA which is a bargain – and that's just for starters.

Private ownership might allow MU to get more strategic in terms of their business mix and a growth strategy. Even if it doesn't, the cash flow returns to the PE firm and their partners would be handsome

indeed. Imagine if MU started issuing a dividend linked to their EBITDA generation in the \$1.00 to \$2.00 range for 2011. That would clearly put the shares up to \$15 on yield alone.

So we can't say that I know anything really new, but looking at MU from the reverse angle of value, cash flow and yield, we can see why the shares at these levels look very attractive. Given that the shares have fallen to these levels, even the rumors of PE firm interest might serve as a catalyst for MU management to finally figure out how to create some shareholder value.

[Disclosure: The author has taken a small, speculative and probably very short-term position in the shares of MU.]

MISSED MIPS

Originally posted on October 26, 2010

Being pretty focused on mobile Internet, I've spent a good deal of time with Qualcomm and ARM Holdings but didn't see the [MIPS Technologies](#) train leaving the station. And based on our IV analysis, it looks like we are too late. Still, the situation at MIPS is now one that we will have to watch and add to our coverage of the mobile Internet ecosystem. The positioning of the company may encourage momentum investors to pile into this one and push it further past our own IV estimates. The company reported a good quarter last night and is indicated up another 10% this morning even after the strong run that it has had.



So what is the positioning?

MIPS has been around since the mid-1980's when there was major debate around [Complex Instruction Set Computing](#) (CISC), with the Intel x86 architecture being the primary example, and [Reduced Instruction Set Computing](#), which had a number of players, including ARM, which some might say eclipsed MIPS in terms of overall success.

Overall, one would have to say that the x86 approach has won out in desktop and server computing. Apple was one of the last mainstream users of RISC architecture based on the PowerPC instruction set from IBM. However, the market for processors outside of desktops, laptops and servers is massive and growing rapidly. Processors are embedded in communication gear, TVs and set-top boxes, automobiles, medical devices, appliances, etc. And there are now myriad companies making embedded processors for all of these markets.

The key is that all these chip makers need to decide on a standard instruction set so that their chips can be easily programmed and integrated into designs. The market has boiled down to four: x86, PowerPC, ARM and MIPS. Both ARM and MIPS can be viewed as "pure play" companies in the embedded market. Both follow a licensing model whereby chip makers license the designs so that they can make devices that support the architecture and instruction sets that end-market customers require.

The rise of the smartphone has raised the stakes and the interest level in this market. Up until recently, MIPS has been a fairly quiet and ignored player compared to ARM. However, the company hired a new CEO from Cavium, a networking chip supplier that has become a very hot stock (sporting a \$1.3B market cap and a 12x price/sales multiple as I write this.) Cavium is a MIPS licensee so the CEO has gone in with both eyes open and a vision for the company.

Thanks to an improvement in the underlying business and some stated goals to become a major player in the smartphone market MIPS is being looked at differently.

Maybe we missed it, maybe we didn't...

The first stop for me in looking at MIPS was to crank out a quick Intrinsic Value which came to \$11.70. Thanks to the strong report last night the stock should run past that figure today. But I've upped it on our watch list within the mobile Internet segment of our ecosystem.

Looked at another way, though, it might be tempting as either a takeover target or a pairs trade (short ARM, long MIPS) here. For example, ARM has a market cap of just over \$8B and is trading at about 16x sales. On a relative basis at least it makes MIPS look cheap with a \$440M EV and a 5.6x TEV/sales ratio. So a pairs trade here makes sense. And for any player wanting to get into this market an acquisition of MIPS is pretty manageable and well under \$1B at this point versus the possible \$10B needed for ARM. MIPS looks less risky with more upside for a buyer on that basis.

[Disclosure: none at the time of this writing]

MOT FINALLY SHOWS TOP LINE GROWTH

Originally posted on October 28, 2010

Just reviewing the quarterly report and conference call right now without any deep analysis. Company continues to make steady progress. We noted some downgrades in the last few weeks. However, the numbers and posted growth seem to be fairly positive news.

Beyond the improved income statement, the balance sheet got stronger as well. Operating cash flow of \$502M and reduced debt increased net cash to \$5.6B or \$2.35/share.

Enterprise Mobility remained a steady performer with little growth but solid 16.5% operating margins. This is not a segment of the business we are excited about but the results, orders and fundamentals are all solid and will support the value we ascribe to this division in the context of the coming corporate spin-off in 1Q2011. Expectations are for 7-9% growth; some reductions in operating expenses are going to be done as well.

Mobile Devices was profitable for the first time in over 3 years (on a non-GAAP basis.) Smartphone shipments were 3.8M units which is **up 40% sequentially**. Twelve new devices were launched during the course of the quarter and position the company well for the holiday season. On the negative side, this suggests that the basic phone business is dropping off fast.

The company now expects to hit the "upper end" of their guide range of 12 to 14 million smartphone devices.

The Home division even showed some growth and improved margins both YoY and sequentially. Company will remain focused on measured enhancement of the portfolio and promoting better converged experiences. Expectations for the Home division in Q4 are for continued improvement.

In the Q&A, it's clear that many analysts are worried about the impact of the iPhone at Verizon on the Motorola business there. With that coming in a seasonally weak Q1, and just at the time of the separation, this might create some jitters.

The relationship with Ericsson sounds like a pretty strategic move and the company is making decisions in a clear and stock-friendly fashion.

Enterprise will become a greater focus for Mobile Devices and the company will be marketing more there both directly and indirectly via their existing partners.

We continue to see the story unfold towards our IV of \$11/share. The major obstacles are the impact of the iPhone at Verizon and the perception that the company will have a hard time differentiating itself enough on the Android platform.

[Disclosure: Long positions in MOT equity.]

Research^{2.0}

Research 2.0 specializes in positioning emerging technologies and companies in a business and investment context for institutional investors. The two founders each have over 30 years of experience in applying emerging technology, company research, equity capital markets and investment management.

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