

June 5, 2008

The mobile Internet has been in gestation for many years now and many of our investment clients wait for a turn into the “mainstream” to mark an inflection point in the business where they feel that technology is no longer a primary risk. We are here.

It's easy to get distracted while looking for the next big thing to miss the current one. Virtualization and data center consolidation is good but it touches only a small fraction of the world. The mobile Internet will touch everyone and cross both enterprise and consumer technology markets. This is a “fat pitch”, as my partner Steve Waite likes to say, and it's been floating towards the plate for a year or two now.

If you think this is old hat, there isn't any reason to read further unless you don't already own substantial positions in at least Apple and Research in Motion. There is also a broader ecosystem of companies that range from content to services to applications to components that will help us unearth a larger list of investment names. We have to insist on Apple and RIM as a starting point. If you are not currently fully invested in this space please take the time to read on and then take action.

Why now? The simple answer is that the applications to drive adoption of mobile Internet devices are here. Up until recently we only had mobile email, which is a niche, and SMS, which doesn't really require more than a simple phone. Now we have the web, maps, location services, video, music, and imaging all on a device that can be had for a few hundred dollars. More reasonable service plans and the ability to exploit increasingly ubiquitous Wi-Fi networks are also important contributing factors.

The other important top name to hold in this space is Google. Not for the potential for Google phones or devices in the mobile Internet space itself, but rather the amplifying effect that the spread of the mobile Internet will have on their core business. This is a very big deal and we've seen it before. Decades ago we discovered that bringing in thousands of personal computers into a mainframe environment actually increases demand for mainframe cycles. The net effect is from the more powerful requests coming in with more frequency than human users could ever strive for on dumb terminals. The spread of smart networked devices that can be used on the go is a dramatic positive for Google. (We'd probably throw in Amazon here too but we still have more work to do on it.)

As for the great Apple/RIM debate we see the market as very large and likely to support two to four major players as we see in other developed markets like personal computers, storage and application software. To us it's pretty clear that both of these companies are likely to be long-term winners in the space. Right now the products are pretty different in both form and substance. They may converge over time but clients will select as they always have. We know consumers who make a device decision based on color. The net here is that the debate just gets in the way of making money when it's a simple matter to just own both stocks.

Nokia is an obvious name in this space but they have a large basic handset business as does Motorola. NOK shares have declined substantially recently so there's probably a strong argument for it on a valuation basis but we haven't done our work on it yet. If we had to speculate on one name it would probably be PALM. The company has retrenched far away from the spotlight and largely counted out. However they still occupy an interesting position with a team of interested and capable staff. Given the valuation PALM may be the play for small cap value investors.

Our fair value estimates using our LTV methodology for these three names are: GOOG \$800, AAPL \$250 and RIMM \$195.

Ecosystem

From the core holdings we describe above we will branch out to examine the overall ecosystem from chips to service providers and applications. There are likely to be major winners and losers in this multi-year transition. Today the investment activity around applications and software is intense. Although many of these efforts are likely to be absorbed by the larger players, a few may become new standalone companies in the space. This is a preliminary list and we welcome comments, ideas and suggestions.

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Company (Stock)	Stock Price	TEV	Fiscal Yr. Date	Fiscal Yr. EPS Est.	Fiscal Yr. EPS Est.+1	PE on AVG of FY and FY+1 EPS	Fiscal Yr. Rev Est.	Fiscal Yr. Rev Est.+1	AVG of FY and FY+1 Rev	Fiscal Yr. EBITDA Est.	Fiscal Yr. EBITDA Est.+1	PEBITDA on AVG of FY and FY+1
Devices												
Apple Inc. (NasdaqNM:AAPL)	\$ 185.37	143,978.5	Sep-29-2007	\$ 5.25	\$ 6.42	32x	32,785.5	39,681.0	4.0x	6,804.7	8,157.5	19.2x
Garmin Ltd. (NasdaqNM:GRMN)	\$ 52.87	10,785.4	Dec-29-2007	\$ 4.01	\$ 4.43	13x	4,149.1	5,039.7	2.3x	1,126.3	1,262.2	9.0x
Motorola Inc. (NYSE:MOT)	\$ 9.10	17,722.5	Dec-31-2007	\$ 0.04	\$ 0.41	40x	32,361.4	35,112.8	0.5x	1,206.9	2,223.9	10.3x
Nokia Corp. (HLSE:NOK1V)	\$ 27.83	94,790.4	Dec-31-2007	\$ 2.54	\$ 2.71	11x	83,818.9	86,695.8	1.1x	14,115.0	15,193.5	6.5x
Palm, Inc. (NasdaqNM:PALM)	\$ 6.57	1,084.7	May-31-2007	\$ (0.33)	\$ (0.21)	NM	1,325.1	1,444.4	0.8x	(32.8)	23.0	NM
Research In Motion Ltd. (NasdaqNM:RIMM)	\$ 133.51	73,702.3	Mar-1-2008	\$ 3.86	\$ 5.27	29x	10,302.0	13,967.0	6.1x	3,185.2	4,186.7	20.0x
Networks												
Alcatel-Lucent (ENXTPA:ALU)	\$ 7.56	17,530.4	Dec-31-2007	\$ 0.41	\$ 0.64	14x	26,873.5	27,570.7	0.6x	2,126.4	2,958.3	6.9x
Alvarion Ltd. (NasdaqNM:ALVR)	\$ 7.67	336.2	Dec-31-2007	\$ 0.19	\$ 0.45	24x	292.3	362.7	1.0x	15.1	33.1	14.0x
Ceragon Networks Ltd. (NasdaqNM:CRNT)	\$ 10.20	296.8	Dec-31-2007	\$ 0.57	\$ 0.73	16x	206.7	248.9	1.3x	19.3	27.6	12.7x
Cisco Systems, Inc. (NasdaqNM:CSCO)	\$ 26.34	138,139.0	Jul-28-2007	\$ 1.54	\$ 1.70	16x	39,496.7	43,804.2	3.3x	12,317.5	13,693.1	10.6x
LM Ericsson Telephone Co. (OM:ERIC B)	\$ 13.58	37,558.9	Dec-31-2007	\$ 0.90	\$ 1.10	14x	32,039.8	33,354.2	1.1x	4,584.4	5,625.6	7.4x
Novatel Wireless Inc. (NasdaqNM:NVTI)	\$ 10.88	204.3	Dec-31-2007	\$ 0.76	\$ 0.99	12x	385.0	439.8	0.5x	39.2	44.9	4.9x
Sierra Wireless Inc. (TSX:SW)	\$ 16.91	341.0	Dec-31-2007	\$ 1.43	\$ 1.61	11x	615.9	698.2	0.5x	73.5	81.7	4.4x
Texas Instruments Inc. (NYSE:TXN)	\$ 31.57	39,882.8	Dec-31-2007	\$ 1.95	\$ 2.17	15x	13,738.1	14,495.2	2.8x	4,563.5	5,003.2	8.3x
Components												
Analog Devices Inc. (NYSE:ADI)	\$ 35.19	9,024.2	Nov-3-2007	\$ 1.79	\$ 1.97	19x	2,602.7	2,807.0	3.3x	775.2	855.1	11.1x
Atheros Communications Inc. (NasdaqNM:ATHR)	\$ 32.54	1,700.3	Dec-31-2007	\$ 1.31	\$ 1.56	23x	514.0	615.9	3.0x	97.2	126.7	15.2x
Broadcom Corp. (NasdaqNM:BRCM)	\$ 27.50	12,205.9	Dec-31-2007	\$ 1.42	\$ 1.48	19x	4,477.8	5,020.9	2.6x	657.6	761.0	17.2x
Intel Corp. (NasdaqNM:INTC)	\$ 22.94	119,887.3	Dec-29-2007	\$ 1.26	\$ 1.53	16x	39,995.9	42,898.3	2.9x	15,363.8	17,051.3	7.4x
Marvell Technology Group Ltd. (NasdaqNM:MRVL)	\$ 17.30	10,213.8	Feb-2-2008	\$ 0.92	\$ 1.10	17x	3,455.6	3,951.1	2.8x	676.9	790.2	13.9x
PMC-Sierra Inc. (NasdaqNM:PMCS)	\$ 8.32	1,675.5	Dec-30-2007	\$ 0.38	\$ 0.44	20x	543.7	607.4	2.9x	161.0	198.1	9.3x
QUALCOMM Inc. (NasdaqNM:QCOM)	\$ 46.99	70,039.2	Sep-30-2007	\$ 2.10	\$ 2.40	21x	10,323.6	11,564.8	6.4x	3,835.0	4,576.9	16.7x
RF Micro Devices Inc. (NasdaqNM:RFMD)	\$ 4.07	1,462.2	Mar-29-2008	\$ 0.24	\$ 0.36	14x	1,027.9	1,102.4	1.4x	144.7	183.0	8.9x
SiRF Technology Holdings Inc. (NasdaqNM:SIRF)	\$ 7.23	318.1	Dec-31-2007	\$ (0.27)	\$ 0.23	NM	268.8	289.3	1.1x	(46.1)	(33.1)	NM
Texas Instruments Inc. (NYSE:TXN)	\$ 31.57	39,882.8	Dec-31-2007	\$ 1.95	\$ 2.17	15x	13,738.1	14,495.2	2.8x	4,563.5	5,003.2	8.3x
Service Providers												
Amdocs Ltd. (NYSE:DOX)	\$ 32.05	5,906.3	Sep-30-2007	\$ 2.34	\$ 2.63	13x	3,124.2	3,443.2	1.8x	696.6	783.8	8.0x
AT&T Inc. (NYSE:T)	\$ 38.78	301,919.0	Dec-31-2007	\$ 3.13	\$ 3.51	12x	125,343.5	129,857.8	2.4x	46,979.7	50,426.4	6.2x
Brightpoint Inc. (NasdaqNM:CELL)	\$ 9.48	1,062.2	Dec-31-2007	\$ 0.85	\$ 1.11	10x	5,520.8	6,227.4	0.2x	198.7	208.1	5.2x
BT Group plc (LSE:BT.A)	\$ 4.36	54,678.8	Mar-31-2008	\$ 0.47	\$ 0.49	9x	41,133.9	41,583.1	1.3x	11,563.4	11,741.4	4.7x
China Mobile Limited (SEHK:941)	\$ 14.73	273,004.5	Dec-31-2007	\$ 0.84	\$ 0.99	16x	62,058.9	72,155.5	4.1x	33,378.9	38,423.9	7.6x
Clearwire Corporation (NasdaqNM:CLWR)	\$ 13.70	2,791.3	Dec-31-2007	\$ (4.05)	\$ (4.99)	NM	226.7	442.7	8.3x	(300.8)	(355.0)	NM
Deutsche Telekom AG (DB:DTE)	\$ 16.39	134,735.2	Dec-31-2007	\$ 1.17	\$ 1.32	13x	95,690.8	96,804.5	1.4x	29,619.6	30,169.4	4.5x
France Telecom (ENXTPA:FTE)	\$ 29.89	141,423.9	Dec-31-2007	\$ 3.08	\$ 3.31	9x	82,902.9	84,343.8	1.7x	29,859.2	30,413.1	4.7x
Mobile Telesystems OJSC (NYSE:MBT)	\$ 85.48	35,607.7	Dec-31-2007	\$ 6.48	\$ 7.43	12x	10,394.6	11,967.9	3.2x	5,264.1	5,920.5	6.4x
Sprint Nextel Corp. (NYSE:S)	\$ 9.38	46,284.4	Dec-31-2007	\$ 0.09	\$ 0.08	NM	36,324.1	35,340.2	1.3x	7,557.6	7,535.8	6.1x
Telefonica SA (CATS:TEF)	\$ 28.09	208,373.1	Dec-31-2007	\$ 2.49	\$ 2.87	10x	90,926.2	95,199.8	2.2x	34,881.0	36,655.5	5.8x
Telkom SA Ltd. (JSE:TKG)	\$ 19.59	12,247.8	Mar-31-2007	\$ 2.09	\$ 2.14	9x	7,154.3	7,503.2	1.7x	2,665.5	2,695.2	4.6x
Telstra Corp. Ltd. (ASX:TLS)	\$ 4.49	70,417.5	Jun-30-2007	\$ 0.29	\$ 0.31	15x	23,650.9	24,284.9	2.9x	9,976.3	10,632.4	6.8x
Verizon Communications Inc. (NYSE:VZ)	\$ 37.36	168,302.5	Dec-31-2007	\$ 2.61	\$ 2.90	14x	97,587.3	101,502.8	1.7x	33,194.3	35,287.1	4.9x
Vodafone Group plc (LSE:VOD)	\$ 3.20	211,749.5	Mar-31-2007	\$ 0.26	\$ 0.28	12x	77,491.5	81,383.9	2.7x	28,460.5	29,700.6	7.3x