

Mossberg's Investor Digest

Best Idea Profile

AOL, Inc. (NYSE:AOL)

DESCRIPTION:

Headquartered in New York, AOL was spun off from Time Warner in December '09. Widely known for its dial-up internet business, over the years AOL has assembled a large portfolio of content and online advertising businesses and become a leading global web services company. AOL is currently undergoing a long-term restructuring to focus on its new strategic vision as a highly innovative provider of online content delivery and advertising services. AOL has a portfolio of businesses that collectively give it a leading footprint in the online content and advertising marketplace. As of Jan '10, AOL had the largest advertising network in the US in terms of online consumer reach. The size, scale and position of the AOL franchise gives it a strong platform from which to market new and existing services.

KEY INVESTMENT CONSIDERATIONS:

New Management - AOL has recently assembled a strong management team with a lot of depth in online media and advertising. CEO Tim Armstrong was previously the President of Americas Operations of Google. Mr. Armstrong joined Google in 2000 as VP Advertising Sales. CFO Arthur Minson previously served as EVP and Deputy CFO at Time Warner Cable. AOL has recently added a number of seasoned online media professionals, many of which are from Google.

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Investment Data (as of 6/18/10)

Recent Price	\$22.74
52-Week Range	29.45 - 19.61
Fiscal Year End	Dec
Shares Outstanding	106.7MM
Average Trading Volume (3 mos)	1.5MM
Market Capitalization	2.4B
Cash	260MM
Long Term Debt	70MM
Enterprise Value (EV)	2.2B
LT Debt/ Equity	0.02
BV/ Share	\$28.96
TTM Revenue	\$3B
P/ Revenue	0.74x
TTM EPS	\$1.89
P/ EPS	11x
TTM EBITDA	974 MM
EV/ EBITDA	2.3x

New Strategic Vision - In 2006, AOL changed its focus to attracting and engaging internet consumers and generating advertising revenues. The new management team has staked out a detailed plan to shrink the expense base, acquire and sell the appropriate companies and maximize AOL's broad digital media footprint. The first phase of this new plan (expense reduction) is nearly complete. AOL's first quarter operating expenses were down \$139 million from the prior year. AOL also exited from a number of unprofitable international markets and product offerings. AOL is now poised to enhance the consumer experience and scale the platform. AOL's new management team is rapidly moving on all fronts to create a highly competitive company in the digital media marketplace. The company has recently rolled out a sophisticated ad measurement tool (Ad tech) and an innovative integration for its users with Facebook. It's Lifestream messaging platform allows users to connect with Facebook, You Tube, Digg, Flickr and other sites. AOL also sold, or contracted to sell, Buy.ad and ICQ during 1Q. AOL recently acquired StudioNow and has made investments including Patch during 1Q. It appears that by the end of 2010 AOL will be a very different company with a more competitive and innovative platform.

Operational Reorganization - AOL has made significant progress in reorganizing its platform, product portfolio and sales force. The IT platform was upgraded from a system that was nearly 10 years old. AOL has also tested a new content management system, and realigned the sales force. AOL has stated that current revenue streams are being reduced due to the reorganization, and are not due to market conditions. The reorganization impact on revenue should last for at least two more quarters as they position the company for the future.

VALUATION:

AOL has \$123 million in cash from continuing operations and \$125 million in free cash flow during the most recent quarter. AOL has over \$262 million in cash on the balance sheet. At less than one times sales and an EV/EBITDA multiple of just over 2x, AOL is a cheap technology stock by anyone's standards. This is no doubt due to uncertainty of the new company's future. Most of the bad news appears to be out, and AOL may well be at, or near, a low point in terms of financial performance. The company could trade at substantially higher share prices later in 2010.

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