

Mossberg's Investor Digest

Best Idea Profile:

Mandalay Digital Group, Inc. (NASDAQ:MNDL)

DESCRIPTION:

Mandalay Digital Group, Inc. provides mobile content solutions for wireless carriers and original equipment manufacturers globally to help them monetize mobile content. It has Digital Turbine products: DT Ignite is an application management tool that lets operators customize the preloaded applications on a smartphone; DT IQ manages user discovery and organizes apps; DT Content provides application stores and content; and DT Pay manages content and mobile payments. Headquarters are in Los Angeles, serving more than 30 million customers each month across more than 20 global operators.

KEY INVESTMENT CONSIDERATIONS:

Dynamic and Growing Market – In oversimplification, Mandalay makes its money by helping smartphone operators make money off of advertising on smartphones or getting applications onto phones. So the fact that the smartphone market has a long way to go in terms of sheer penetration is a key to the company's growth. Smartphone users are still only 30% of the total 5.2 billion mobile users. And the 300 million smartphones in the U.S. are only 5% of the global opportunity. The focus for the company is on the operators as they have the most to gain, and to lose, in this market.

Many people expected mobile use would look more like desktop use; however, they are actually very different as the vast majority of mobile time is spent on apps versus the web. Facebook and Google are the only companies that have successfully capitalized on the amount of ad spend they have, compared with the amount of time consumers spend on their apps. Other apps have the opportunity to do the same. App installs is the focus of Mandalay. Other mediums' (television, print, internet) ratio of advertising spending/time spent shows the potential opportunity to increase mobile ad spend by more than \$30 billion.

Importance of Big-name Customers – In mid-August, Mandalay Digital added a tier-one U.S. carrier to its list of customers: it launched DT Ignite with Verizon on LG G3, with more than \$6.5 million of media committed for summer device launches globally. The relationship with Verizon will increasingly impact revenues as it is ramped over the next few quarters. But it is also a tremendous boost for further U. S. and global penetration as other global operators see that Verizon is implementing full multi-year deployment of its products.

Also in the last quarter Mandalay confirmed deployment of DT IQ on all T-Mobile Android devices.

Mandalay has the big-name global customers that many in the U.S. might not recognize. A year ago the largest mobile operator in Australia launched the company's products. One of the premier communications services providers in Asia, SingTel, is also a user of Digital Turbine products.

Making Customers and Suppliers Happy – Digital Turbine products are particularly powerful as they provide the whole ecosystem; from recommending apps, such as music or games, based on what a consumer has loaded, to collecting payments. On the supply side, the company has sold \$6.5 million of media and advertising because partners are excited to be able to get directly to the home screen of consumers' devices. They pay Mandalay for that opportunity either for just putting the app on the phone or for each time a customer opens the app.

VALUATION:

With cash of nearly \$19 million, Mandalay significantly improved its balance sheet in the last year by raising more than \$33 million. It is essentially debt free. There are many variables that can significantly impact financial results, particularly related to the Verizon ramp, but solid future results will attract investors.

Mandalay Digital Group, Inc. (NASDAQ:MNDL) Investment Data (as of 9/23/14)

Recent Price	\$4.91
52-Week Range	\$2.28 - \$6.47
Fiscal Year End	Mar 31
Dividend	NA
Yield	NA
Shares Outstanding	37 M
Average Trading Volume (3 mos)	499k
Market Capitalization	\$184 M
Cash	\$19 M
Long-term Debt	0
Enterprise Value (EV)	\$162 M
Book Value	\$0.78
TTM Revenue	\$25 M
P/ Revenue	7x
TTM EPS	(\$0.82)
P/ EPS	NA
TTM EBITDA	(\$14 M)
EV/ EBITDA	-12x

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