

Mossberg's Investor Digest

Best Idea Profile:

Gaiam, Inc. (NASDAQ:GAIA)

DESCRIPTION:

Gaiam is a leading producer and marketer of lifestyle-focused media and accessories. The Company's wide range of products include yoga mats and clothing; tools to improve wellness, such as light therapy and massagers; eco-friendly home products; and fitness products ranging from water bottles to balance balls. Gaiam's video topics include personal development, workout, yoga, and sustainability and green living. The Company distributes entertainment media titles it owns and those owned by third-party studios. It utilizes extensive retailer, direct-to-consumer and online distribution channels to make it the second largest non-theatrical content distributor in the United States. Gaiam dominates the health and wellness category and releases non-theatrical programming focused on family entertainment and conscious media, providing full distribution services including marketing, logistics, and sales to physical and digital online retailers

KEY INVESTMENT CONSIDERATIONS:

Accretive Acquisition – In March 2012, Gaiam acquired Vivendi Entertainment, creating the second largest non-theatrical content distributor in the U.S. with over 8,000 titles. Combining operations has yielded operational and financial synergies, including reduced third-party distribution costs and lower post-production and digital distribution costs.

Larger Scale Drives Growth – Following the Vivendi acquisition, the Company's larger scale has allowed it to win new content deals, such as two of its most recent agreements. One is with the Hallmark Channel, which provides a highly visible content library including new first-run movies. The second is with The Jim Henson Company, providing a content library for children. The Company also recently renewed its licensing agreement with Discovery Communications. This includes all of the Discovery Channel brands including TLC, Discovery and Animal Planet.

Unique Distribution Relationships – Gaiam is currently the only independent direct distributor with Target, Walmart, and Kmart, and has relationships with all meaningful digital retailers. It is the sole distributor for fitness media for the second largest mass retailer in the U.S.

Risk – GAIA is a volatile, thinly traded stock whose founder holds more than three-quarters of voting power.

Large and Growing Market Share – Gaiam is at the top of the ratings charts for fitness/wellness media with a 45% market share. This compares with 38% last year and is double the nearest competitor. At the end of the third quarter, the company held 14% market share of non-theatrical content distribution, which was up from 6.2% last year. Even excluding the Vivendi acquisition, Gaiam's market share grew to over 8%. The agreements with Hallmark, Henson and Discovery secure the company as the second largest non-theatrical distributor in the U.S., just behind Warner Communications.

Misleading Revenue Decline – Gaiam deconsolidated Real Goods Solar, Inc. on the last day of 2011. Gaiam's interest is now reflected as a single line in Gaiam's financial statements, compared with 2011's consolidation into each line of Gaiam's financial statements. Excluding the deconsolidation shows revenue increases in comparable quarters.

VALUATION:

Despite successful and impactful integration of the Vivendi acquisition, the stock continues to trade at a discount to its tangible book value of approximately \$4.75 per share. Revenue for the first nine months of the year is up 23% (13% internal growth) and with continued top line growth, the Company should turn to a profit. As the Company turns the corner on profitability the valuation should improve in line.

Gaiam, Inc. (NASDAQ:GAIA) Investment Data (as of 11/7/12)

Recent Price	\$2.94
52-Week Range	\$3.03 - \$4.38
Fiscal Year End	Dec
Shares Outstanding	22.7 M
Average Trading Volume (3 mos)	21k
Market Capitalization	\$69 M
Cash	\$11 M
Long-term Debt	\$14 M
Enterprise Value (EV)	\$75 M
Book Value	\$5.52
TTM Revenue	\$262 M
P/ Revenue	0.28x
TTM EPS	\$(1.01)
P/ EPS	NA
TTM EBITDA	\$6.4 M
EV/ EBITDA	11.8

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