

# Mossberg's Investor Digest

## Best Idea Profile:

## Mitel Corporation (NASDAQ:MITL)

### DESCRIPTION:

Headquartered in Ottawa, Canada; 35-year-old Mitel Corporation is an established provider of voice communications solutions for primarily small-to-medium sized businesses (businesses with less than 500 users) and has a growing presence in the larger enterprise market with a portfolio of products which supports up to 65,000 users. Mitel's Internet Protocol, or IP, based communications solutions consist of a combination of IP telephony platforms which are delivered as software appliances and desktop devices along with a suite of unified communications applications that integrate voice, video and data communications with business applications. Mitel also operates as a competitive local exchange carrier (CLEC) in 44 U.S. states, through which it offers network services. Finally, the company also has a small (\$80 million in revenue) IT distribution business for value-added resellers, in which it distributes other technology solutions such as data and video networking equipment.

### KEY INVESTMENT CONSIDERATIONS:

**New Leadership** – In January, Richard McBee was named as CEO. McBee has 20 years of IT and telecom experience and was most recently President of the Communications & Enterprise Group of Danaher Corp. Prior to McBee's arrival, Mitel had yet to fully integrate and make basic post-merger strategic moves following its acquisition of Inter-Tel in 2007. There are several strategic moves, such as a coherent go-to-market strategy and cost efficiencies, that should provide a material improvement in profitability. McBee's experience at Danaher, which is well known for its successful M&A track record, will be helpful to strategy execution at Mitel. The company has already made significant realignment initiatives.

**Leadership position in telephony virtualization... partnership with VMware** – Corporate data centers are increasingly using virtualization technology as a strategy to reduce capital and operating expenses and provide business continuity solutions. Mitel has created a unique partnership with VMware to develop virtualized solutions for IP telephony and unified communications. Data centers can now treat voice like any other business application in a Data center with Mitel's unified communications features running as virtual appliances on VMware vSphere™ 4 virtualization platform.

**Well Positioned to take market share** – Mitel was the first major vendor to fully de-couple its call control software platform from a proprietary hardware solution. As such, Mitel's software can work on standard servers, and can interact with legacy TDM infrastructure and competitive platforms. This allows customers to have a capital-efficient migration to IP telephony and unified communications versus competitive offerings, which require a much more expensive "rip and replace". Mitel's less expensive solutions can be very attractive migration alternative for customers of the larger market players, Avaya (Nortel) and Cisco. While Mitel has a small overall market share of approx. 4%, it is a significant player in pure IP market with roughly 12% of that market. This disparity reflects Mitel's relative strength in the newer IP technology, which is growing at 2-3 times the overall telephony market.

### VALUATION:

Mitel's CLEC services and their VAR distribution business are non-core assets. These are potentially sources of additional capital as the company refocuses and restructures. Combined they are likely worth over \$100 million. Excluding these businesses from the current valuation leaves an EV/ revenue ratio of about 0.7x, which is a bargain for what essentially is an established software company that is well positioned to take market share and show significant improvement in operating performance.

#### (Mitel Corporation: NASDAQ) Investment Data (as of 7/29/11)

<b>Recent Price</b>	<b>\$4.34</b>
52-Week Range	\$9.81 - \$3.79
Fiscal Year End	Apr
Shares Outstanding	53MM
Average Trading Volume (3 mos)	46.3K
Market Capitalization	\$230MM
Cash	\$74MM
Long Term Debt	\$323MM
Enterprise Value (EV)	\$479MM
BV/Share	\$0.93
TTM Revenue	\$650MM
P/Revenue	0.3x
TTM EPS	\$1.57
P/EPS	3x
TTM EBITDA	\$70MM
EV/EBITDA	6.8x

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