

Mossberg's Investor Digest

Best Idea Profile:

Qumu Corporation (NASDAQ:QUMU)

DESCRIPTION:

Qumu Corporation was founded in 1978 and was known as Rimage Corporation until September 2013, when it changed its name to reflect its change in corporate focus on the enterprise video communications market. The majority of its business comes from offering disc-publishing technology to archive, distribute and protect content on CDs, DVDs and Blu-ray discs. Qumu's enterprise video platform can capture video from any source and then automate its secure streaming and downloading. Audiences can view via iOS, Android, tablets, smartphones and PCs. Qumu was founded in 1978 and is headquartered in Minneapolis, Minnesota.

KEY INVESTMENT CONSIDERATIONS:

Value of Legacy Business – Although the disc publishing business delivered \$69 million in revenue in 2012, it is a mature market with declining revenues. However it holds a leadership position in the high-end market and, most importantly, will continue to deliver profits and cash to the operations. This business is driven by recurring revenue and will generate \$10 million of cash in 2013. Cost reductions initiated in the second quarter of 2013 will improve profitability from \$700,000 in 2013 to \$2.8 million in 2014. The optical storage business is not going away anytime soon because demand will continue to be fueled by high switching costs and practical usage.

Transforming Business Strategy – Qumu's new business strategy is built on the premise that "Video is the new document." Qumu's software revenues are expected to grow greater than 70% in 2013 with the first half growing at greater than 200% year over year. Qumu is involved in all stages of enterprise video content management: create, manage, distribute and experience. There is extensive opportunity for horizontal growth with its customers; for example, when a company employs Qumu products to conduct a CEO's town hall meeting, it often learns the value of expanding usage of video to other aspects of its business.

Growing Industry – Qumu's transformation is well timed as its legacy business is declining and the enterprise video market is growing fast. Enterprise video industry revenue is expected to increase from \$11 billion in 2013 to \$35 billion in 2018 as companies are investing in social business initiatives to improve employee engagement and collaboration. Video is increasingly being used in C-suite town hall meetings, knowledge sharing, video blogging, sales training, new

product release training, safety and compliance training, customer service videos and employee onboarding and training. Gartner predicts that "by 2016, large companies will stream more than 16 hours of video per worker, per month."

Customer Breadth – Qumu has an impressive list of customers across a broad range of industries, from Safeway and AT&T Wireless in retail, to JPMorgan Chase and USAA in financial services. Other industries include industrial, professional services, service providers, technology and healthcare. Companies with 5,000 or more employees represent the sweet spot for Qumu customers.

Positive short-term Outlook – Management expects fourth quarter 2013 revenues will be approximately \$20 million.

VALUATION:

Generous cash generation and increasing contribution from the growing video business makes this under-the-radar company an interesting investment. Management expects 2014 to be a break-out year as it has prepared itself to manage exponential growth and has increased its sales force investment.

Qumu Corporation (NASDAQ:QUMU)

Investment Data (as of 10/29/13)

Recent Price	\$14.09
52-Week Range	\$5.59 - \$14.84
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	8.7 M
Average Trading Volume (3 mos)	58k
Market Capitalization	\$122 M
Cash	\$48 M
Long-term Debt	\$4 M
Enterprise Value (EV)	\$122 M
Book Value	\$8.15
TTM Revenue	\$82.6 M
P/ Revenue	1.5x
TTM EPS	\$(0.92)
P/ EPS	NA
TTM EBITDA	\$(5.9) M
EV/ EBITDA	(20.7)

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.