

# Mossberg's Investor Digest

## Best Idea Profile:

## RPX Corp. (NASDAQ:RPXC)

### DESCRIPTION:

RPX Corp. provides a subscription-based patent risk management solution to help corporations manage their exposure to companies litigating intellectual property rights for financial gain. RPX provides an alternative to traditional litigation by acquiring potential problem patents for the purpose of reducing patent assertions directed at its network of over 120 clients. RPX has invested more than \$490 million in 30,000 patents. The cost of this type of patent litigation has grown rapidly, from \$1 billion in 2005 to almost \$6 billion in 2011, and has expanded from a focus on large corporations to include start-up companies with substantial funding. The number of suits filed from these entities increased 82% from 2010 to 2011. RPX clients include companies that design, make, or sell technology-based products and services, as well as companies that use technology in their businesses. RPX was founded in 2008 and is headquartered in San Francisco. The company went public in 2011.

### KEY INVESTMENT CONSIDERATIONS:

**Rapid Growth in Patent Acquisitions** – RPX acquired more than \$100 million in patent assets in 2011 alone, which is significantly more than its main competitor, Acacia Research Corporation (Nasdaq: ACTG). This brings the total dollars invested to almost half a billion. Rapid patent acquisition is critical to RPX success as it increases the value of an RPX contract to corporations seeking protection from patent assertion litigation and attracts additional clients. Increased subscriptions to RPX services are then available to fund further patent acquisitions.

**Impressive and Growing Customer List** – RPX has a growing consortium of customers including Best Buy, Google, eBay, Microsoft and Novell, that can collectively benefit from the library of RPX patents by lowering the number of assertions of patent infringement from non-performing entities whose sole business is to make costly patent assertions. RPX has identified 275 near-term client prospects to expand this client network and fund further patent acquisitions through subscription revenue.

**Long-term Visibility of Revenue**– RPX employs a predictable, subscription-based model and has multi-year contracts with its clients (2.8-years on average) at annual subscription rates that range from \$65,000 to \$6.9 million. The fees are generally paid annually in advance with revenue recognized ratably over the membership year. RPX's growth strategy includes a target to lengthen the duration of existing relationships and deploy complementary risk management services to its existing client base. All of these factors point to predictable revenue.

**Strong Balance Sheet and Profitable Growth** – RPX has \$220 million in cash, or approximately \$4 per share. Total debt is at \$5 million. Non-GAAP net income grew from \$2.2 million in 2009 to \$37.1 million in 2011. The latest quarter's income of \$15.4 million indicates a continued trend of rapid growth, with earnings per share estimates for 2012 averaging \$0.82.

### VALUATION:

RPX was slow to deliver on its story, but is now. The Company is fast-growing in an exploding niche industry with recurring revenue and earnings visibility. Yet, the stock continues to trade at low valuations. Comparatively ACTG trades at 9x EV/ EBITDA versus 2x multiple assigned to RPXC.

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Investment Data (as of 10/25/12)

<b>Recent Price</b>	<b>\$9.68</b>
52-Week Range	\$9.31 - \$20.38
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	50.6 M
Average Trading Volume (3 mos)	281k
Market Capitalization	\$468 M
Cash	\$219.9 M
Long-term Debt	0
Enterprise Value (EV)	\$261.8 M
Book Value	\$6.59
TTM Revenue	\$179.9 M
P/ Revenue	2.68
TTM EPS	\$0.69
P/ EPS	13.48
TTM EBITDA	\$133.8 M
EV/ EBITDA	1.96

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