

Mossberg's Investor Digest

Best Idea Profile

Rambus Inc. (Nasdaq: RMBS)

DESCRIPTION:

Headquartered in Los Altos, CA, Rambus Inc. designs and develops chip interface technologies that are foundational for most digital electronic products. For example, Rambus' technologies are used to improve performance in the Sony PlayStation, HDTVs, and smart phones. The company is a leading innovator in the memory logic and chip interface market with over 867 US and foreign patents along with another 607 patents pending. The company's products are used by leading semiconductor companies around the world such as AMD, Fujitsu, Intel and Toshiba. In recent years Rambus has been involved in extensive and expensive patent infringement litigation. A recent settlement with Samsung Electronics Ltd. will bring Rambus \$900 million of cash over the next five years and establishes Samsung as a major industry partner for Rambus.

KEY INVESTMENT CONSIDERATIONS:

Leading Franchise for Technology Innovation – Rambus typically "brings" its chip interface technologies to the market via innovation. These innovations are then used by major semiconductor companies in the development and manufacturing of their own products. With 867 patents awarded and 607 patents pending the company has a strong and extended pipeline of new technology. Rambus does business with major electronics manufacturers such as IBM and Intel. RMBS is an established provider of innovation in the industry.

(Nasdaq: RMBS)

Investment Data (as of 2/19/10)

Recent Price	\$22.45
52-Week Range	26.00 - 5.99
Fiscal Year End	December
Shares Outstanding	105 MM
Average Trading Volume (3 mos)	3.8 MM
Market Capitalization	2.4 B
Cash	460 MM
Long Term Debt	109 MM
Enterprise Value (EV)	2 B
LT Debt/ Equity	0.85
BV/ Share	13
2009 Revenue	113 M
P/ Revenue	21x
TTM EPS	-0.88
P/ EPS	N/A
TTM EBITDA (Adjusted)	-76 MM
EV/ EBITDA	N/A

Samsung Settlement - The Samsung settlement marks a turning point in the company's history and future business development. RMBS has been in a period of aggressive and expensive litigation protecting its technology with patent and licensing claims. On January 19th, Samsung and Rambus entered in a settlement whereby Samsung will pay Rambus \$200 million in cash during the current quarter. Samsung will also enter into a licensing agreement to pay Rambus \$25 million per quarter for the next 5 years and purchase \$200 million in Rambus stock. The settlement is worth \$900 million to Rambus. Investors should also note that Rambus will now have a major industry partner that will introduce Rambus products into the marketplace, while at the same time, generate significant recurring revenues from licensing. The settlement could also pressure other litigants, Hynix, Micron and Nvidia, to settle quickly with Rambus. Any future award or settlement with these companies could prove substantial. The settlement should also reduce litigation expense. Rambus had general litigation expense of \$56 million in 2009 and \$55 million in 2008. With Samsung now party to a settlement and progress made on other cases, Rambus may be at a point of declining legal costs.

Large and Growing Markets – The market for superior chip interface technology is large and growing. New electronic products continue to demand more and faster memory. New products in mobile telecommunications and next generation HDTV's are good examples of new product arenas which RMBS could successfully penetrate.

VALUATION:

With \$460 million in cash and hundreds of millions in cash pledged from Samsung, the company has a strong and growing cash position. Rambus has the potential to generate significant amounts of incremental cash through royalty payments and several billion dollars of legal claims. By subtracting \$700 MM from the Samsung settlement alone, enterprise value declines to \$1.4B. Similar sized settlements could make RMBS a real bargain at current levels. Shares of Rambus increased nearly 16% off the news of the last settlement. A similar effect from settling with any of the other defendants should increase the value of the shares. The value of Rambus' technology along with its cash could also make the company a growth stock or a takeover target.

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