



# Mossberg's Investor Digest

## Idea Profile

### i2 Technologies (Nasdaq: ITWO)

#### DESCRIPTION:

Dallas-based i2 Technologies is a leading provider of Supply Chain Management (SCM) software. ITWO has approximately 500 customers that span multiple industries. In December, ITWO agreed to terminate a merger agreement with JDA Software, and received a \$20 million breakup fee in consideration. The merger had valued i2 at a price of \$14.86 per share.

#### KEY INVESTMENT CONSIDERATION:

**Large portfolio of Intellectual Property** – Over the years, ITWO has spent over \$1 billion in building a large patent portfolio. The company has over 140 U.S. patents and more than 155 pending. In June, ITWO successfully settled a patent infringement law suit with SAP and received \$83.3 million in cash.

#### VALUATION:

There is more than one way to calculate enterprise value depending on how you look at the value of ITWO's convertible preferred stock.

1) The first way is to assume that someone else will come along and buy ITWO, triggering the conversion and the conversion premium of the preferred stock. Here are the calculation and assumptions.

**\$141 million:** Market capitalization 21.8 million common shares X \$6.49 stock price

+ **\$86 million:** Face value of long term debt on the balance sheet as of September 30, 2008

+ **\$120 million:** Conversion of preferred stock – Today, the preferred shares are convertible into 4.7 million common shares at a price of \$23.15 per share. This calculation also includes a 10% penalty premium that would need to be paid assuming a change of control.

- **\$228 million:** Cash on the balance sheet as of September 30, 2008

- **\$20 million:** Cash breakup fee paid by JDA Software subsequent to the end of the quarter  
= **\$99 million in Enterprise Value**

2) If we assume that the company will continue to operate as a stand alone business past 2014, when the preferred shares automatically convert into common shares, the enterprise value is just \$14 million. Here is the second calculation, assuming the business continues as a standalone entity.

**\$141 million:** Market capitalization 21.8 million common shares X \$6.49 stock price

+ **\$86 million:** Face value of long term debt on the balance sheet as of September 30, 2008

+ **\$35 million:** Conversion of preferred stock – In 2014, the preferred shares are convertible into 5.4 million shares. (increases from 4.7 million due to in-kind dividend). Here is the value at the current stock price of \$6.49.

- **\$228 million:** Cash on the balance sheet as of September 30, 2008.

- **\$20 million:** Cash breakup fee paid by JDA Software subsequent to the end of the quarter

= **\$14 million in Enterprise Value**

While the outlook for spending on ITWO's products /services is not attractive for 2009, the valuation is. Depending on what discount rate you use, the present value of the ITWO's \$1.8 billion net operating loss (NOL) alone, is somewhere between \$75 million to \$100 million to an acquiring company. For a company with a strong base of recurring revenue, and solid cash flow generation to be trading at 3x EV/EBITDA or less, seems like a real bargain. The valuation probably reflects a number of factors including; 1) extreme pessimism about ITWO's prospects; 2) some non-fundamental reason, such as selling by the arbitrage players, forced selling, or anticipation of forced selling by existing holders, and/or 3) difficulty in understanding the capital structure.

#### (Nasdaq: ITWO)

Investment Data (as of 1/9/09)

<b>Recent Price</b>	<b>\$6.49</b>
52-Week Range	5.50 - 14.60
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	21.8 MM
Average Trading Volume (3 mos)	320,000
<b>Market Capitalization</b>	<b>142 MM</b>
Cash	221 MM
Long Term Debt	85 MM
Enterprise Value (EV)	99 MM
LT Debt/ Equity	0.81
Tangible BV/ Share	4.05
TTM Revenue	255 MM
<b>P/ Revenue</b>	<b>0.6x</b>
TTM EPS (non-GAAP)	0.76
<b>P/ EPS</b>	<b>8.5x</b>
TTM EBITDA	32.3 MM
<b>EV/ TTM EBITDA</b>	<b>3.1x</b>

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