

January 7, 2011

**Dear clients and colleagues,**

As we write this comment, the International Consumer Electronics Association show (CES) is on in Las Vegas. Held for over 40 years, this year's show is the biggest yet with over 2700 exhibitors demonstrating the latest gadgets and innovations. An expected 1.6 million visitors will visit the show over 4 days.

Last year, Apple's iPhone stole the show. This year, it is Tablet madness, with over a dozen manufacturers, including Research In Motion (RIM), presenting over 80 different tablets. TV sets have always been a mainstay of the show, being the most important entertainment appliance in most households. This year is the 'Year of 3D' – Again. Another trend to watch this year is 'Internet-enabled'. Convergence has been touted for years, but we believe that we are still a few years away before we see true, seamless integration of content and hardware.

One of the companies we own in the portfolio and which is present at CES is Opera Software, [www.opera.com](http://www.opera.com), a company we profiled on November 5<sup>th</sup>, 2010. Opera hopes to be one of the enablers of that convergence and announced today that it was selected by Sony to provide a browser for internet TVs.

What is clear, however, is that the era of the PC dominance is coming to an end. Gartner, the market research firm, predicts that by 2013 the number of smart phones will be greater than the number of PCs. Access to the Internet by mobile devices is also growing fast. 59% of Americans accessed the Internet with their phones in 2010 up from 25% the year before. In China, 300 million residents access the Internet via their mobile phones.

When we look at opportunities in the Technology sector as investors, we stay away from short-term trends and fads. We do not own any consumer electronics firms, only a retailer of videogames. We favor software over hardware. And in the software sector, we favor enterprise software as well as software as a service company.

To benefit from the growing importance of the mobile Internet, in addition to Opera, we have invested in PMC Sierra, [www.pmc-sierra.com](http://www.pmc-sierra.com), a fabless semiconductor firm specializing in high speed transmission and networking systems. We also own Alvarion, [www.alvarion.com](http://www.alvarion.com), the company we will profile this week.

Founded in 2001 in Israel, a country famous for its high technology firms, Alvarion is a world leader in 4G wireless broadband technologies and the only pure-play WiMAX Company.

#### **Target market size**

4G networks are starting to be rolled out around the world. Interestingly, this time the US is leading the world with Verizon and Clearwire rolling out 4G networks. 4G is up to 10 times faster than today's high speed 3G technology and is expected to be rolled out more meaningfully in 2012-13. The cost of a 4G network is around

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US\$50 per inhabitant. So assuming coverage for 250 million additional people yearly in 2013, the market could be US\$12.5 Billion annually.

Two technologies are currently competing: WiMAX and LTE. Although WiMAX has taken a lead thus far in deployment and will probably be the chosen technology for sparsely populated areas and emerging markets, LTE, backed by Ericsson and Verizon, will probably be the technology of choice. However, we see the two technologies becoming compatible.

### **Competitive advantage**

- Alvarion is the leading WiMAX vendor with over 250 commercial deployments over 15 years.
- The company is a founder and leader of the WiMAX Forum and a promoter of OPEN WiMAX.
- It has extensive IP and patents in the areas of radio technology and networking technology.
- It was recently awarded the first place in the wireless video surveillance market in Europe.

### **Growth strategy**

The company's strategy is to provide a complete end-to-end integrated WiMAX network and broadband wireless solution. The Company has a distribution strategy focused on OEM partners, distributors and Telecom operators. It is pursuing the OPEN WiMAX strategy, designed to enable multiple telecom vendors to build a best-of-breed telecom access network in an open standard architecture. It creates a telecom operator-centric offering, as opposed to a vendor-centric approach, historically used in large telecom projects. This "mix and match" multivendor approach helps promote competition, which drives prices down and enhances the product offering. Innovative products, services and applications for WiMAX, such as mobile TV and mobile gaming for personal use and Virtual Private Network and File Transfer for business use, enable vendors to distinguish themselves from the competition. The company is a leader in new high-growth markets such as wireless security and smart metering.

### **Risks**

LTE is emerging as the winning technology in 4G deployment  
Alvarion is competing against much larger competitors such as Ericsson, Huawei and Alcatel Lucent.  
Telecom operators still have not amortized their 3G deployments and could delay 4G roll outs.

### **Valuation**

Based on a WACC of 10.0% and a terminal growth rate of 8%, our target price is \$4.00.

[www.alvarion.com](http://www.alvarion.com)

Market cap: US\$143 million; Net cash per share \$1.62, Net working capital per share \$2.16, Sales (2011): \$250 million, P/E (forward): 16.5x; EV/EBITDA (forward): 6.8x

Regards

The Global Alpha Team

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