



September 23, 2011

**Dear clients and colleagues,**

Our first comment in 2011 (see our archives) was on a company in the portfolio called Alvarion (ALVR US). As we write this comment, Alvarion stock price is down 56% for the year.

Clients may ask us: why is it down and why do we still own it? First, let us remind you what Alvarion does.

Founded in 2001, Israeli based Alvarion is a world leader in 4G wireless broadband technologies and the only pure-play WiMAX Company.

4G networks are being rolled out around the world. The cost of a 4G network is around US\$50 per inhabitant. So assuming coverage for 250 million additional people yearly in 2013, the market could be US\$12.5 Billion annually. LTE has been chosen as the preferred technology, beating WiMAX. This in part explains the big drop in share price. We believe WiMAX will co-exist, however, and in many cases will be implemented as a first stage to later be upgraded to LTE. In addition, WiMAX has many niche applications such as smart grid and security, two fast-growing markets.

We like Alvarion's competitive position. The company has extensive intellectual property and patents in the areas of radio technology and networking technology and it was awarded first place in the wireless video surveillance market in Europe.

Our target price at the beginning of the year was \$4.00. Then, the company had net working capital per share of \$2.16 and was selling for \$2.48

So what happened? Why is the stock at \$1.06? Why do we still own it?

The uncertainty over WiMAX vs. LTE slowed down the deployment of 4G networks. As a result, sales did not materialize and the company saw declining year-over-year sales in Q4/10 and Q1/11. The company lost money and restructured its operations to become profitable at a lower revenue rate. The restructuring is now over and in Q2/11 (June), the company reported its strongest revenue quarter in 18 months, the first quarter of year-over-year growth since Q1/08 and its first profit since Q4/09. The market did not respond to these results, driving the price down 36% since. We believe that the market value dropping below US\$100 million forced many institutional investors to sell.

So why do we own this "falling knife"?

Alvarion has \$70 million in cash, or \$1.12 of cash per share. More than the current stock price!

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Working capital per share (cash + inventory + receivables – payables), is \$1.59 per share. The company has \$6.2 million in long term debt.

So we have a company selling for cash and at a 35% discount to liquidation value, not counting patents and intellectual property for which the company has invested over \$200 million in R&D in the last four years alone. R&D and operating losses generated over 300 million in tax losses it can carry forward.

The company has a base of business of around \$200 million in sales per year. Its current structure makes it profitable at \$200 million. In the last quarter, the company was profitable and generated \$1.3 million in cash from operations.

We expect revenues to grow in 2012, driven by WiMAX deployments in emerging markets as well as faster adoption in smart grid and security. The company should be profitable and cash flow positive.

So what is the company worth? A multiple of 0.5x sales is undemanding and lower than most M&A transactions we have seen in the field. Google just paid 0.8x sales for Motorola Mobility. If we add cash of \$1.12 per share and 25% of the tax losses (\$0.75), that gives us a price of \$3.50 per share.

Another falling knife we have decided to keep in our portfolio is GameGroup PLC. The company is currently profitable and has a negative enterprise value (market cap – debt – cash) of 51 million pounds. It is the leading videogame retailer in Europe with sales exceeding 1.6 billion pounds, 151 million in cash and 31 million in debt. The market must think videogame retailers will go the way of movie rental chains or music retailers and are willing to give it for free with a bonus. We are holding on.

Have a good week.

The Global Alpha Team

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