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Siena Market Line
1st week of May 2015

Marathon Patent Group, Inc.

NASDAQ: MARA

Analyst: Sofian Belhadj
Sector: Technology

BUY

Price Target: $9.50

Key Statistics as of 4/30/2015

Market Price:	$5.52
Industry:	Security Software & Services
Market Cap:	$96 M
52-Week Range:	$3.52 – 9.73
Beta:	1.63

Thesis Points:

- Additional patents acquired and effective for coming settlements
- Additional royalties will boost the growth
- Patent Platform in Q2 2015

Company Description:

Marathon Patent Group Inc., incorporated on February 23, 2010, is engaged in the business to acquire patents and patent rights and to monetize the value of those assets to generate revenue and profit for the Company. The Company acquires patents and patent rights from their owners, who range from individual inventors to Fortune 500 companies. Generally, the patents and patent rights that the Company acquires are characterized by having large identifiable companies who are or have been using technology that infringes on the Company's patents and patent rights. The Company generally monetizes its portfolio of patents and patent rights by entering into license discussions, and if that is unsuccessful, initiates enforcement activities against any infringing parties with the objective of entering into a standard form of comprehensive settlement and license agreement that may include the granting of non-exclusive retroactive and future rights to use the patented technology, a covenant not to sue, a release of the party from certain claims, the dismissal of any pending litigation and other terms that are appropriate in the circumstances.

Thesis

Marathon group is looking for opportunity as it develops patents and licenses intellectual properties. The company patent acquisition and monetization generates revenues through diverse patent licensing programs across multiple industries. MARA is a very dynamic IP company that had increased significantly its portfolio of patents during year 2014 only from 118 patents at the begging of the year and ended with 378 patents across 19 portfolios. The management is very dynamic with an experienced team with track record of success in patent asset monetization. The company just hired two IP specialist in licensing agreement that would augment and maximize return with the current patents portfolio. From 2013 to 2014 the company focused on adding patent to their portfolio and now have asset that cover 14 distant areas of technologies including approximately 49% of the patent covering foreign jurisdiction. The growth in revenue is about 15% and his promised to be about 22% for 2015. The interesting part is about 12 patents that have been depreciated in about 11 months, and will start to generate a net positive return. The company has been created in 2012 and was not mature last years in the life cycle with negative revenue of negative $300,000 in 2013 because of expensive acquisition of intellectual properties in 2013. The current situation with $3.4 million in revenue. In addition the recent bond debt of $50 million permitted the acquisition of a wholly owned operating subsidiaries with 260 patents and patents right. The company is moving forward to target the world of patents with the lunch of OPUS patent analysis Platform, their own proprietary IP analysis offering. The cash position of the company is growing with 5.1 million in cash and approximately 17.8 million weighed shares outstanding.

Patents management very active

MARA is very focus on the increase of the exploration of the patent currently in the portfolio, in 2014 only 70 patents were representing most of generation of revenue with a total of 378 patents, it represent confortable average margin between the 45% to 55%. The increase in exploitable asset is predictable by the addition of for members in their team with two new experts in patents and how to exploit their expertise in patents litigation and profiling by their OPUS platform.

A Fast Addition of royalties in a small competitors environment.

Network-1 Technologies, Inc. has a market capitalization of 96.3M with 5.1 million in cash and no debt. The company has revenue growth YoY of 15.4% with a gross profit that is increasing over the last three years and reached 3.1 million during the last quarter.

The revenue of Marathon come from infringement of the patents those are exploitable in royalties for the most part with MARA group but with court litigation. The revenue diversification with multiple potential licensees with currently 76 defendants, Marathon currently has thirty two defendants scheduled for Markman Hearing throughout the remainder of 2015 Marathon currently has fourteen 14 defendants scheduled for trial in 2016.

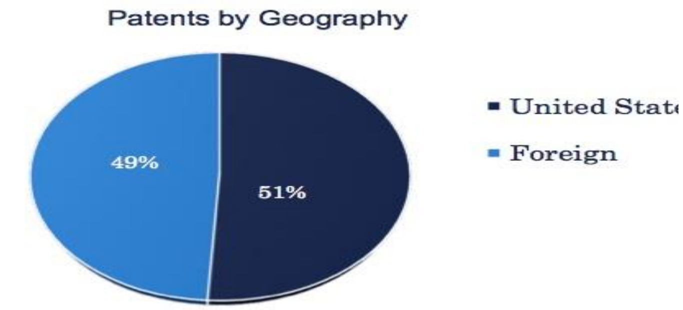
A very well diversified portfolio

The portfolio is well diversified in very active segments such as medical tech that account for 47% and with very little ownership in segment but with very high profitability with 1% of total acquisition with the automobile segments. For example MARA is going in court in 2015 for a possible agreement with Apple Inc.

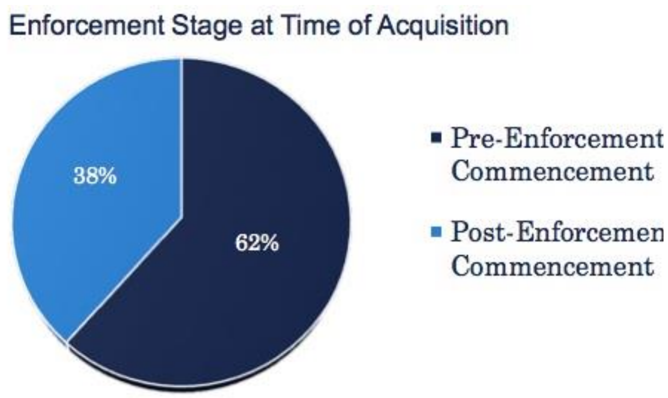
Percentage of Patents by Technology Sector

Medical Tech – 47%
Mobile Handset Technology – 10%
Data Transaction Processing – 10%
Data Management – 7%
Network Management – 6%
Automotive related technology – 5%
PBX Networks – 4%
Wireless Communications – 2%
Network Security – 1%
Collaborative systems – 1%
Packet Switching Networks – 1%
Distributed Systems – 1%
Natural Language Processing – 1%
ERP – 1%

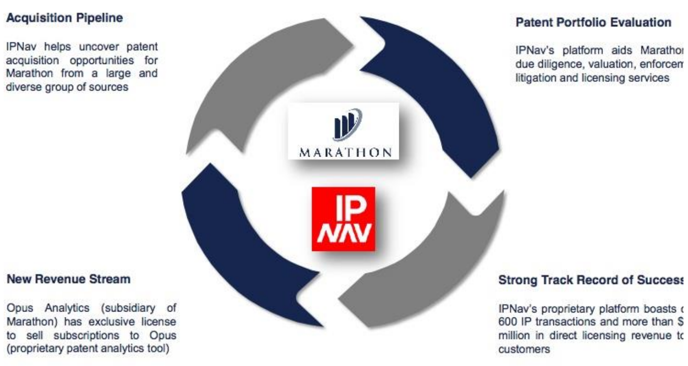
The portfolio is geographically weighted in the world with 49% in the U.S and 51% in the rest of the world. This would bring additional business especially with the newly acquired subsidiaries company.



The company is very good at monitoring its future asset in proportion with 62% of them that are already reinforced before technically owning them. The relation with patents owner is key in the business model of the company. This gives MARA a competitive advantage with its biggest competitors NTIP that we already analyzed in Marsh 2015. The OPUS platform is highly scalable hybrid model allows for concurrent multiple revenue streams without significant increases in overhead cost.



A highly scalable model



The OPUS business model to provide new revenue streams in September 2015, the market target financial professional and investors, IP and legal professional with OPUS the Software as a Service (SaaS) platform for patent referencing and therefore possible negotiation to exploit the infringement. The platform as an entry price of $99 per month targeting towards IP investors or those looking for solely the Alpha Score rating. A $299 offer targeting finance professional, inventors and companies developing IP to evaluate applicable industry patent coverage. Finally, targeted towards the sophisticated IP professional. Those possible entries of revenue by this platform are considerable and therefore represent an interesting entry in a fast growing market.

In Millions of USD	FY 2012	FY 2013	FY 2014	Current/LTM	FY 2015 Est	FY 2016 Est
12 Months Ending	2012-12-31	2013-12-31	2014-12-31	2014-12-31	2015-12-31	2016-12-31
Market Capitalization	45.5	--	92.4	79.6		
- Cash & Equivalents	2.4	--	5.1	5.1		
+ Preferred & Other	0.0	--	0.0	0.0		
+ Total Debt	0.0	--	31.9	31.9		
Enterprise Value	43.2	--	119.3	106.5		
Revenue, Comparable	--	--	21.4		32.5	53.1
Growth %, YoY	--	--	--	13.7	51.8	63.2
Gross Profit	0.0	--	9.6	9.6	16.3	27.2
Margin %	--	--	44.9		50.0	51.3
EBITDA	-5.5	--	1.5	1.5	9.8	
Margin %	--	--	6.8		30.1	
Net Inc, Comparable	--	--	4.2		9.1	13.0
Margin %	--	--	19.5		27.9	24.4
EPS, Comparable	--	--	0.36		0.55	0.68
Growth %, YoY	--	--	--		52.8	22.7
Cash from Operations	-1.3	--	4.5	4.5		
Capital Expenditures	-1.7	--	-0.1		0.0	0.0
Free Cash Flow	-3.0	--	4.4		-1.4	4.4

Valuation

The valuation on the next page assumes a year over year growth rate in revenue of 50% for FY2015, 55% for FY2016. It assumes a conservative long term growth rate of 3.2% and multiples lower than the peer group. It assumes that total operating costs will be 77.7% of the revenues in FY2014, will decrease to 78.4% FY2015 to reach a long term of 78% which is lower than every peer. MARA is mispriced due to poor coverage, misunderstanding of the industry and MARA quality patent portfolio with pending lawsuit development with several Fortunes companies. Based on these assumptions, the 1 year target price of $9.5 seems to be a fair valuation compared to $12 dollar of two independent analysts published on Bloomberg.

	Firm	Analyst	Recommendation	Tgt Px	Date
1)	Roth Capital Partners	William Gibson	buy	12.00	05/01/15
2)	Northland Securities Inc	Michael James Lati...	outperform	12.00	04/20/15
3)	Ladenburg Thalmann & Co	Jon R Hickman	buy	12.50	03/27/15

Conclusion

MARA is financially solid compared to other intellectual property companies. MARA has an interesting existing portfolio of patents especially with the new patents acquired in 2013. Investors are either not aware of the company because of recent creation of the company in 2012, the last Quarter represent an interesting entry with future positive revenue at a fast growth level.

The next law injunction would represent the next market movement. In June 18, 2015 in Munich a possible settlement would occur. On may 27, 2015 a Thalomid drug patent decision. And finally with APPL on June 26, in Syracuse, New York for the SIRI infringement. The objectives are to have a settled before it goes, to trial.

Finally, MARA is showing an increasing number of exposures after the APPL decision and should see an increase in volume during those days. The insider position since the last months had increased by 50% on average.

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Marathon Patent Group, Inc.	MARA	Analyst Sofian Belhadj	Current Price $5.72	Intrinsic Value $8.37	Target Value $9.49	Divident Yield 0%	Target Return 1-y Return: 65.98%	BULLISH

General Info

Sector	Industrials
Industry	Professional Services
Last Guidance	Mar-26-2015
Next earnings date	5/14/2015

Market Data

Enterprise value	$97.02
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	13.92
Diluted shares outstanding	11.66
% shares held by institutions	99.58%
% shares held by insiders	30.12%
Short interest	2.35%
Days to cover short interest	3.26
52 week high	$9.73
52-week low	$3.70
5y Beta	1.64
6-month volatility	52.43%

Peers	Market Cap.
Pendrell Corporation	$277.20
Network-1 Technologies, Inc	$55.42
Document Security Systems, Inc	$11.88
Acacia Research Corporation	$541.58
ITUS Corporation	$26.37
Wi-Lan Inc	$354.73
RPX Corporation	$828.50
Vringo, Inc	$66.63
VirnetX Holding Corp	$331.99
Conversant, Inc	

Current Capital Structure

Total debt/market cap	28.25%
Cost of Borrowing	2.42%
Interest Coverage	0.6x
Altman Z	0.59
Debt Rating	D
Levered Beta	1.30
WACC (based on market value weights)	9.73%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Croxall, Douglas	Founder, Chairman and Chief Exe	$1,008,985	$1,616,025	$1,618,298
Knuettel, Frank	Chief Financial Officer and Secretar	$0	$0	$1,299,973
Crawford, James	Chief Operating Officer	$0	$588,085	$578,290
Jani, Umesh	Chief Technology Officer and Seni	$0	$0	$490,945
Sanchez, Enrique	Senior Vice President of Licensing	$0	$0	$636,982

Historical Median Performance

	MARA	Peers	Industry	All U.S. firms
Growth	387.0%	21.3%	8.4%	7.4%
ROIC	6.9%	5.9%	18.1%	14.3%
NOPLAT Margin	13.9%	14.6%	10.7%	10.4%
Revenue/Invested Capital	0.50	0.40	1.68	1.37
Excess Cash/Rev.	N/A	103.7%	13.5%	12.9%
Total Cash /Rev.	23.7%	104.4%	12.3%	15.2%
Unlevered Beta	1.29	1.00	0.78	0.95
TEV/REV	6.7x	5.4x	2.5x	2.5x
TEV/EBITA	404.3x	53.6x	12.0x	13.1x
PE (normalized and diluted EPS)	90.6x	24.6x	20.8x	23.5x
P/BV	4.3x	3.5x	2.3x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-65.2%	0.0%	0.0%
Last Quarter-1	285.7%	NM	NM
Last Quarter -2	0.0%	0.0%	0.0%
Last Quarter -3	0.0%	0.0%	0.0%
Last Quarter -4	0.0%	0.0%	0.0%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth follows Revenue Growth
Long term Growth	4.0%
Base Year Unlevered Beta	is equal to 1.29
Long term Unlevered Beta	1.29

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	526.2%	77.8%	$43.16	14%	6.9%	9.7%
NTM	50.0%	77.8%	$42.52	23%	17.5%	9.3%
NTM+1	65.0%	77.8%	$41.28	23%	29.2%	9.5%
NTM+2	35.0%	77.8%	$40.17	23%	40.6%	9.6%
NTM+3	25.0%	77.9%	$39.11	23%	52.2%	9.6%
NTM+4	20.0%	77.9%	$38.04	23%	64.3%	9.7%
NTM+5	15.0%	77.9%	$37.08	23%	75.9%	9.8%
NTM+6	10.0%	77.9%	$36.35	23%	85.6%	9.8%
NTM+7	9.0%	78.0%	$35.62	23%	95.2%	9.9%
NTM+8	8.0%	78.0%	$34.92	23%	104.8%	9.9%
Continuing Period	7.0%	78.0%	-$18.31	12%	10.0%	10.0%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$22.49	$6.47	13.92
NTM	$3.51	$22.49	$1.99	13.92
NTM+1	$8.42	$22.49	-$1.65	13.92
NTM+2	$12.83	$22.49	-$7.48	13.92
NTM+3	$17.09	$22.49	-$14.38	13.92
NTM+4	$21.33	$22.49	-$21.94	13.92
NTM+5	$25.17	$22.49	-$31.39	13.92
NTM+6	$28.11	$22.49	-$42.46	13.92
NTM+7	$31.01	$22.49	-$55.18	13.92
NTM+8	$33.81	$22.49	-$67.55	13.92
Continuing Value	-$0.60			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$9.33	$4.19	$9.28	$9.33
$10.24	$9.86	$10.24	$10.24
$10.85	$17.67	$10.93	$10.85
$11.28	$24.79	$11.44	$11.28
$11.43	$31.74	$11.70	$11.43
$11.31	$38.74	$11.64	$11.31
$10.88	$45.22	$11.30	$10.88
$10.21	$50.46	$10.67	$10.21
$9.22	$55.77	$9.77	$9.22
$8.37	$60.92	$8.44	$8.37

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	0	10%	N/A	N/A	Normal
Op. Costs Variation	0	10%	N/A	N/A	Normal
Country Risk Premium	6%	N/A	5%	7%	Triangular
Long term Growth	4%	N/A	3%	387%	Triangular

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$9.33	$10.24
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$8.37	$9.49
Current Price	$5.72	
Analysts' median est.		$12.81