

# Palm, Inc. (NASDAQ: PALM)

## Industry: Handheld Computers & Accessories

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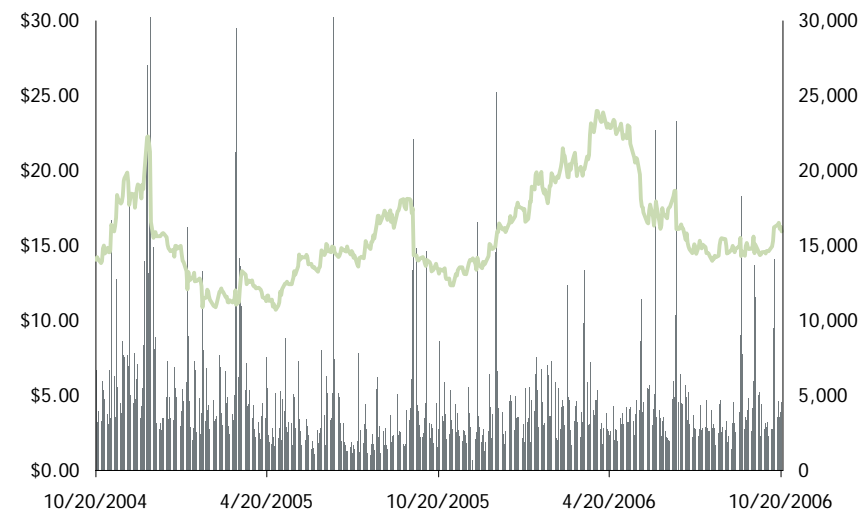
### BUSINESS DESCRIPTION

Palm Inc., formerly palmOne, Inc, incorporated in 1992, is a provider of mobile computing solutions. The Company offers Treo smartphones, as well as handheld computers, add-ons and accessories. It distributes these products through a network of wireless carriers and retail and business distributors worldwide. Palm Inc. sells products in two product lines: Treo smartphones and Palm, Tungsten and LifeDrive handheld computers. Its product lines span the mobile computing device market. They provide a range of business productivity tools and entertainment applications designed for business professionals and enterprise users, as well as entry-level and digital media enthusiast consumers.

### INVESTMENT THESIS

Palm, Inc's phenomenal product portfolio has helped it build a brand synonymous to mobile computing solutions. Since acquiring Handspring to bolster its smartphone segment, Palm has managed to grow revenues at excellent rates while reducing seasonal fluctuations through diversification. In addition, to stay ahead of industry trends and counter pricing pressures, Palm has also recently introduced more affordable consumer-oriented pdas and smartphones, which are expected to start hitting the topline this quarter. Strong international growth and an attractive intrinsic valuation, especially in light of recent price drops only makes Palm a more appealing investment opportunity. And as if all those factors weren't enough, Palm's significantly lower valuation multiples in comparison to peers and large amounts of cash on the balance sheet, make it an attractive acquisition target, providing yet another catalyst for stock price appreciation.

### STOCK PRICE PERFORMANCE



### FINANCIAL SUMMARY

Results of Operations	FY Ended Dec 31,			
	FY 04	FY 05	FY 06	LTM <sup>(1)</sup>
Revenue	# \$949,654	\$1,270,410	\$1,578,509	\$1,649,017
<i>Growth</i>	13.4%	33.8%	24.3%	4.5%
EBIT	\$14,103	\$77,528	\$105,311	\$117,785
<i>EBIT Margin</i>	1.5%	6.1%	6.7%	7.1%
After-tax Earnings	(\$10,215)	\$66,387	\$116,647	\$128,777
<i>Net Margin</i>	(1.1%)	5.2%	7.4%	7.8%
D&A	\$31,528	\$25,379	\$21,470	\$22,429
CapEx	\$5,776	\$15,279	\$18,944	\$19,790
Interest Expense	\$44	\$3,700	\$5,800	\$0
EPS Current Sh.	-\$0.10	\$0.63	\$1.12	\$1.23

#### Balance Sheet Data

Total Debt	\$35,000
Cash & Equivalents	\$527,869
Net Debt	(\$492,869)

#### Credit Statistics

	LTM
Total Debt/EBITDA	0.2x
Net Debt/EBITDA	-3.5x
EBITDA/Interest	--

#### Comps

	PALM	RIMM
EV/EBITDA	8.0x	34.7x
EV/EBIT	9.6x	42.6x
P/E	12.6x	49.5x

#### Public Market Overview

Share Price (10/24/2006)	\$15.49
<i>52 Week High</i>	\$24.91
<i>52 Week Low</i>	\$12.25
Diluted Shares Outstanding	104,590
<b>Market Value of Equity</b>	<b>\$1,620,099</b>
Plus: Net Debt	(492,869)
<b>Enterprise Value</b>	<b>\$1,127,230</b>

#### Valuation Multiples

	FY 04	FY 05	FY 06	LTM <sup>(1)</sup>
EV/Revenue	1.2x	0.9x	0.7x	0.7x
EV/EBITDA	24.7x	11.0x	8.9x	8.0x
EV/EBIT	79.9x	14.5x	10.7x	9.6x

(1) Figures current as of 10/24/2006 unless otherwise noted.

(2) All figures in thousands unless otherwise noted.