TECH BUBBLE WAITING TO BURST: THREE STOCKS TO SOFTEN THE BLOW

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Tech Sector – An Overdue Correction

The tech sector has been one of the fastest growing sectors in the world. Following the 2008 financial crisis, tech stocks have recovered superbly and have attracted many investors. However, as early as January of 2015, analysts have been warning investors about an upcoming correction in the space. And they were right. Thus far, tech giants such as LinkedIn (NYSE: LNKD) and Yelp (NYSE: YELP) have seen their shares drop about 1% and 38% respectively. There are several drivers leading to these declines with the most prominent being the situation in the Chinese Shenzhen market. Shenzhen is so heavily leveraged that it has experienced a 39% decline in the past several weeks. This significant loss of wealth from Chinese consumers is likely having an impact on earnings of the many US tech giants. The biggest of all, Apple (NASDAQ: AAPL) has experienced a recent decline in share prices as well resulting from missed estimates in iPhone shipments and revenue forecasts. Apple had recovered almost 10 per cent in the past two weeks leading up to earnings, after being pushed to the brink of a correction. The shares dropped 9.7 per cent from an all-time high in February through July 9, erasing US$83 billion of market value, amid concern a rout in China's market would leave consumer with less money to buy gadgets. At the start of the year, analysts forecast the technology sector would deliver a 13 per cent increase in profit during the second quarter, according to a Bloomberg survey. Those expectations were lowered to a 2.4 percent gain as of July 17.

The issues surrounding tech giants surely trickle down to the smaller start-ups that make up a part of the technology sector. Many small cap tech stocks have suffered as of late reaching highs and lows similar to the tech giants that dominate the space. Three stocks that are trading near 52 – week lows are of interest given their history and possibility of profitability in the near future. Viggle Inc., Millennial Media Inc., and Rocket Fuel Inc. have all seen their shares sink over the past several months coinciding with the declining demand for gadgets in China resulting from the recent market correction. Though each of the company's is recording a net loss, upside exists for the long term value investor.

Viggle Inc. Leading the Way

Summary

Viggle Inc. is a mobile and Web-based entertainment facilitating Media Company. Viggle, through its mobile and web-based entertainment marketing platform offers incentives to make content consumption and discovery rewarding for media companies, brands and consumers. Viggle helps guide consumers towards various forms of media consumption with television, music discovery, and entertainment content publishing and distributed viewing reminders. Viggle enables consumers to decide what to watch and when, enables the viewing experience with real time games and additional content, and rewards viewers for being loyal to their favorite shows throughout a season, allowing them to earn points. For brands, Viggle provides advertising clients with targeted interactive ads for TV messaging to verified audiences. For media companies, Viggle delivers specific shows, engaging viewers in content experience, and promotes shows through Web, mobile and social channels.

Recent News and Analysis

Most recently, the company provided guidance for its 2015 fiscal year financial results highlighting an expected 40% increase in revenue and an adjusted EBITDA for fourth quarter increase of 25%. Viggle Inc. expects its fiscal 2015 full-year revenue for the period ended June 30, 2015 will be approximately $25.6 million and approximately $6.9 million for the fiscal fourth quarter, representing a 42% and 30% increase over the prior year and quarter, respectively. The company also expects to report an Adjusted EBITDA loss for fiscal 2015 of approximately $29.6 million, and approximately $6.2 million for the fiscal fourth quarter. Increased advertising on the Viggle app led to the substantial growth in revenue this quarter. The company's aggressive and consistent marketing efforts over the past year helped to drive those advertising revenues to the current levels. Adjusted EBITDA for the quarter improved year-over-year, but decreased for the full year because of increased marketing expenses.

Though the company is not yet generating profit, it is certainly taking the correct measures to become profitable in the future. Through marketing efforts, Viggle managed to increase revenue by 40% and quarterly EBITDA by 25%. Though annual EBITDA decreased as a result of these marketing costs, the likelihood of this expense increasing in the following quarters is slim. It is expected that these costs are slowly reduced to help the company become profitable. Shares have fallen sharply since May 2015 and are trading near a bottom making the stock quite attractive for new investors.

Verdict

With a tech sector thought to be on the brink of a correction, Viggle is one stock that has already experienced this correction and is showing to be taking the right steps towards becoming profitable. For a small cap tech stock, priorities are recording revenue followed by reducing costs, growing revenue and becoming profitable. Viggle Inc. is certainly on the later stages of this progression and should be considered for the long term value investor.

Millennial Media, Inc., the Short Term Play

Summary

Millennial Media, Inc. is an independent mobile advertising marketplace delivering products and services to advertisers and developers. The Company offers advertisers a suite of solutions that allow them to reach and connect with the target audiences across screens, from smartphones, tablets and other mobile devices to PCs. The Company offers developers the ability to maximize the advertising revenue and acquire new users for apps. Its advertiser and developer solutions support all mobile operating systems, including Apple iOS, Android, Windows Phone and BlackBerry. For clients who want a higher degree of customer service, the Company offers its managed media services with dedicated account teams. For its clients who want to interact with it on a more automated basis, the Company offers tools that allow advertisers to buy its ad supply in a programmatic fashion through its ad exchange and developers the opportunity to manage and monetize the ad inventory through its supply side tool.

Recent News

Millennial Media recently announced the release of new mobile video and native ad units as part of its updated mobile app SDK version 6.0. The new SDK enables publishers to monetize through all mobile demand sources, including Millennial Media-sourced demand, the Millennial Media Exchange, publisher-direct sold campaigns, and publisher and network mediation partners. SDK 6.0 enables seamless creative execution through new, mobile-first video and native functionality, including Lightbox, Interstitial Vertical Video, Native Placements and Add to Calendar Enhancements. Mobile video has been a game changer for Millennial Media, bringing clients' messages to life through sight, sound, and motion. Millennial Media's Lightbox mobile video unit capitalizes on mobile's custom features and functionality and offers a truly unique experience from PC. Through the launch of 6.0, Millennial Media completely overhauled its SDK architecture. Its modular build allows the Company to bring new features and functionality to market quicker and simplifies future SDK deployments.

The release of the new SDK is surely an upside however; it does not help address some deep issues. For example; the company has been burning approximately $50 million in cash annually for the past three years even with increasing revenue. A worrying feature is that the company has just under $50 million remaining and has accumulated over $214 million in losses, with over 75% occurring at the end of fiscal year 2014.

Verdict

Millennial Media shares have been bouncing between the 52 – week's lows and highs for the entire 2015. There does not seem to be any stability in the share price and appears to be heavily news driven. Timing your investment in this stock is crucial and could lead to substantial gains. Wait for the stock price to hit a fresh low before entering into a long position for the short term.

Rocket Fuel Inc., Running out of Fuel

Summary

Rocket Fuel Inc. is a technology company that has developed an artificial intelligence (AI) and big data-driven predictive modeling and automated decision-making platform. The Company's technology is designed to address the needs of markets in which the volume and speed of information render real-time human analysis infeasible. It is focused on the digital advertising market that faces these challenges. The Company's media-buying platform, which it refer to as its Demand-Side Platform (DSP) is available to advertising agencies and advertisers as a managed service offering, whereby it manages advertising campaigns on behalf of an advertiser, and through a self-service offering, whereby an agency or advertiser licenses its technology to manage its own advertising campaigns. Its AI system purchases ad spots, or impressions, one at a time, on these exchanges to create portfolios of impressions designed to optimize the goals of its advertisers.

Recent News and Analysis

Rocket Fuel has recently announced it has strategically expanded its politics and advocacy group to support the growing demand for its programmatic solutions in the political space. The team will include 15-20 professionals who will be charged with designing, selling and supporting programmatic solutions for political and advocacy partners in their efforts to create awareness and influence opinion leaders, association members, registered voters, and engaged citizens, in the 2016 election and beyond. According to a Borrell Associates estimate, online political spending in the U.S. will reach nearly $1 billion in 2016. Knowing when voters are most receptive to persuasion messaging has been shown to allow political advertisers to better target swing voters. In a recently released study, Rocket Fuel found that 36% of voters in five key swing states voted after viewing an online ad. The findings reinforce an increasingly ‘digital first’ political campaign focus and highlight how digital ads play a prominent role in the outcomes of elections. Rocket Fuel’s politics and advocacy group works with digital political consultancies, on both the right and the left, to drive market-leading performance using Moment Scoring™, its real-time calculation of every moment of influence that optimizes programmatic decisions and learns how to improve them over the life of campaigns. Moment Scoring™ uses Rocket Fuel’s massive Big Data architecture and voter data partner partnerships to access detailed, anonymous information about an individual -- at a precise moment in time when they are most likely to respond to an ad. Rocket Fuel’s politics and advocacy team is led by recently appointed National Director of Politics and Advocacy J.C. Medici, who has more than 10 years of experience working with top political clients and Fortune 100 brands. Reporting to him will be Director of Strategic Accounts Amanda Whiteman, who has deep online advertising and politics and advocacy experience having worked for Microsoft, AOL U.S. presidential campaigns.

Rocket Fuel Inc. has been growing revenue almost exponentially; however it has not been able to reduce costs effectively enough to have margins grow on the same trend as revenue. In fact, margins have started to decline bringing forth a worry for investors. Should the company be able to turn this trend around and begin increasing its margins, a second look may be well worth it.

Verdict

Rocket Fuel has seen its margins decline despite increasing revenue. The share price has reflected this in the past six months falling from a high of $27 to a low of $7.44. With the upcoming federal election in the US, the company may be able to get its act together. The stock should be watched closely and re-evaluated in the next couple of months.

Conclusion

The tech sector has been strongly affected by the Chinese stock market crash and recent earnings from tech giants like Apple. Many analysts feel that the tech sector is on the verge of a mean reversion and will see this correction in the near future. Smaller companies are equally as affected by the macro factors that may cause the tech bubble to burst. Despite this bearish sentiment in the market, there are several small companies that can provide long and short term investors with substantial returns. Viggle Inc. and Millennial Media are two small tech companies that have the potential for this. Both are generating revenue's and growing annually and are certainly worth a second look.

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