

Hedge Fund Confidential

The “Buy Side” Special Situations Report

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SMALL CAP BUY IDEA ★★

ANONYMOUS - BOSTON, MA

CMGI: Returns to Form

CMGI is undervalued among its peers in the logistics sector, as the company is currently trading at half its current revenues with a PE of 12 and a strong cash position. Yet, the shares appear to be tainted by the association with the former company which burned so many people during the collapse of the internet bubble.

Many in the investment community are not aware that CMGI has metamorphosed its business model, as new management demonstrated the foresight to recognize the growth in demand for logistics management for global technology manufacturing companies. It was bet that is paying off today, and will for investors going forward.

NASDAQ: CMGI
Market Cap: \$606 Mil.
Shares Outstanding: 49 Mil.
Current Share Price: \$12.38
12-Month Target: \$17

- Over the last decade, CMGI's venture capital division has proven itself to be one of most successful in recent history. Dozens of profitable initial public offerings originated at CMGI-incubated companies, including internet heavyweights such as Alta Vista and Lycos.
- Now in their fourth venture capital fund, the management's focus has turned to alternative energy. Shareholders who purchase at this level will essentially receive the venture capital arm for free.
- While logistics management is often regarded as a staid, slow growing business, the development of international commerce is placing unprecedented burdens on domestic and international manufacturers. Over 86% of domestic high technology manufacturing companies outsource their logistics needs, and the international market has not even begun to be saturated.
- 2005 was a pivotal year for CMGI as business synergies across all segments lead to a revenue growth rate of 169% to \$1.1 billion from \$269 million, and a doubling of gross margins. The company reported its first profitable quarter in nine years. While all geographical segments reported strong growth, revenues from the Asian region increased more than six hundred percent from \$33 million to \$213 million.
- CMGI's shares did not dip below \$10.75 in the recent market debacle, indicating minimal downside risk at these levels. In addition, its recent reverse stock split is likely to result in additional institutional buying, as well as added Wall Street coverage for this forgotten high flyer of yesteryear.

CMGI: An Undervalued Logistics Stalwart with a Clean Energy Venture Capital Division

It's been almost ten years since the former CGMI hit its peak of the equivalent of \$1500 per share and astounded traders and investors with daily moves of twenty to fifty points. From 1995 to 2000 the company's former CEO David Wetherall became revered and then despised by shareholders, as the former high flyer's value vanished amidst the collapse in the value of internet shares. While all that remains of the old CMGI is a one billion dollar loss carry over, the shares appear to still be tainted by the association of a stock which burned so many people so badly.

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Today, a primarily a logistics company, CMGI is undervalued compared its publicly traded peers. While there may still be a misunderstanding of CMGI's new business model, the shares demonstrated strong stability amidst the recent 20% drop in the major indexes. In addition, CMGI's new @Ventures division has one of the most impressive collections of alternative energy companies in the financial marketplace, a segment of the company that apparently has been overlooked.

The company is currently trading at half of its current revenues with a P/E of 12 and a strong cash position. CMGI now has over \$261 million in cash, or approximately five dollars per share. In addition, CMGI's new @Ventures division has one of the most impressive collections of alternative energy companies in the financial marketplace, a segment of the company that apparently has been overlooked.

New Economy Internet High Flyer that Appears to Have Been Forgotten

Originally founded as College Marketing Group Inc, CMGI has evolved from a marketing company to an internet conglomerate to an undervalued logistics stalwart. The company founders had phenomenal success early in the 1990s by buying shares of early stage internet companies and profiting from the IPOs of companies such as Lycos and Alta Vista. Yet, the share price of CMGI simply exploded too far too fast with the internet and technology bubble of the late 1990s and subsequently collapsed amidst heavy selling in the sector. By 2002, former CEO Wetherall resigned and the new CEO George McMillan sold the majority of CMGI's shares in internet companies before realigning the company's focus to logistics and supply chain management. The company's restructuring included the purchase of iLogistics and reducing long term debt, demonstrating the new management's foresight into the supply chain management problems many technology companies were experiencing. The company's long term debt was reduced from \$575 million to \$178 million.

During 2004 a new CEO Joseph Lawler joined CMGI. In that same year, the company purchased Modus Media to expand the company's international logistics presence, and strengthen its customer base. Modus Media and CMGI's logistics company merged to create Modus Link.

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Logistics Outsourcing: A Cost Saving Requirement for Today's Technology Companies.

Rising fuel and logistics cost have become a major problem for most modern companies. The market for third party logistics grew in double digits domestically and internationally over the last decade. During 2006, the total international logistics market was estimated to reach \$391 billion for the supply side chain management segment alone.

Over 86% of all domestic technology companies outsource their logistics needs, as it has become an essential cost saving necessity in competitive environments with rising fuel prices. The cost of maintaining a fleet of delivery vehicles, and warehousing is unrealistic to most technology and manufacturing companies. Logistics outsourcing also allows businesses to devote more of their resources to their own core products or services.

Modus Link: Years of Success Improved by CMGI

Even prior to its merger with CMGI, Modus Link had established a thriving international logistics business with a 20 year track record of success. During its 2004 fiscal year, over 30 million products per month were shipped, with its largest client, Hewlett Packard contributing over 70% of the company's revenues.

Yet, Modus Link aggressively expanded its business and diversified its client base after it became a subsidiary of CMGI. Currently, five clients now contribute 60% of the company's revenues, and the company operates 36 facilities in 13 countries, with the world's largest logistics supply management base.

During 2007 Modus Link's customer base continued to expand, as the company won recognition from a variety of sources. In July 2007, Modus Link was picked as a leading supply chain company sixth annual listing of 2007 supply and demand chain executive. During 2007, Modus Link also received an award from Sun Microsystems as a "best in class supplier".

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In September 2007 Macpower chose ModusLink as its sole European supply chain management provider. And, on December 19 2007 the company announced that they have a new multi year contract with Toshiba Electronics Europe to manage the company's European supply management chain. Toshiba is the world's fourth largest semiconductor vendor. Modus Link is situated in a way very few of its competitors are in that it has strong ability in moving items from low cost production regions primarily in Asia to high revenue consumption areas in the US and Europe. Modus Link is also one of the few logistics companies adept in both forward and reverse logistics.

Solar Technology and Much More in @Ventures

The management of @Ventures has a decade of experience in successful venture capital, and over 30 of the companies they have invested in were acquired by larger companies. Some of the most successful web IPOs, including Lycos and Alta Vista were originally CMGI portfolio companies.

CMGI's current venture capital portfolio has eleven companies and \$50 million authorized to invest in alternative energy, water purification and energy storage technology. The venture capital division appears to be ignored by investors despite compelling recent news and profitable takeovers of a number of portfolio companies. Solar energy and alternative energy companies are the current darlings of the financial markets, and a potential public offering of any of CMGI's portfolio companies would be highly lucrative for shareholders.

During 2006, several @ventures companies were acquired at premiums.

During 2006, EMC acquired Avamar, an @ventures company, for \$165 million, from which CMGI netted \$28 million. This follows a takeover of Alibris by Oak Hill Capital Partners for \$7 million, and an acquisition of Realm Business Solutions by Light Year capital. Following this, in October 2007 CMGI's @ventures announced that The Generations Network Inc, one of the companies in its venture capital portfolio is to be acquired for \$300 million, from which CMGI will net \$14 million. A number of their other portfolio companies have recently announced compelling news.

Advent Solar, located in Albuquerque New Mexico has a unique design for ultra thin photovoltaic cells originally developed by a senior scientist at Sandia National Laboratories. The cells are more efficient because they reduce cell obscuration. The company's new 25MW facility was opened in February of 2007. During March 2007 Advent completed their first US solar installation in San Louis Obispo California. In June 2007 Advent received \$70 million in Series D financing from several substantial investment groups.

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On September 26, 2007 @ventures portfolio company 212 Resources secured a \$250 million credit facility from GE Financial Services. 212 Resources is in the process of implementing the commercialization of its patented water treatment technology with several major oil and gas developers. Their technology produces clean water from the wastewater of oil and gas by separating brine, methanol and gas condensate. 212 Resources has a new contract to treat more than 9000 barrels of water per day at Pinedale Anticline, the nation's second largest gas field.

Another @ventures portfolio company which has announced a spate of good news in the last twelve months is H2Gen. H2Gen of Alexandria Virginia designs, manufactures and markets low cost hydrogen generators and gas purification plants. During May 2007 H2Gen reported the sale of 7 HGM 2000 On site Generation units to Areva to produce high grade hydrogen to be used by the Department of Energy in processing nuclear materials at their Depleted Uranium Hexafluoride Conversion Facilities. H2Gen's generators are also being used by Chevron's hydrogen energy station near the Orlando Florida airport.

Earnings Growing, Market Cap Not Responding...Yet.

While CGMI's revenues have more than doubled since 2004, the shares are trading at half the level of the same period. Yet, CMGI shares held steady at 11 despite a 20% drop in the major indexes, revealing that downside support is strong at these levels. With \$5 in cash and an enterprise value of \$342 million, the logistics division of CMGI alone is trading at rock bottom valuations. While it may take additional time for investors to wake up and see the potential in the shares, a 20% drop in the major indexes did not take CMGI below the \$10.86 level, indicating strong support. Any of CMGI's @Ventures companies could be candidates for lucrative public offerings, and an IPO of even one company could add 25% to the value of the shares. A realistic but conservative 12 month valuation for CMGI is \$17, a gain of 30% from current levels.