



August 26, 2011

Carl Icahn's Mentor

by Vito Racanelli

LOST IN THE RECENT HOOPLA over Carl Icahn's successful bet on Motorola Mobility Holdings and his moves on Clorox is a smaller target: [Mentor Graphics](#) (MENT).

The billionaire raider appears busy with bigger fish right now, but in the second quarter he quintupled his stake in the maker of software for designing of chips and other electronic products, to 14.5%. He and other dissident holders have criticized the company for its weak operating margins and low returns on capital and have urged management to cut costs and look for a buyer. Mentor rejected a \$1.9 billion, or \$17 a share, takeover offer from Icahn in February, when the shares were around \$14. They closed yesterday at \$10.58. They could easily rebound to \$12 and change—and possibly much more—in a year.

Mentor has been led by CEO and Chairman Walden Rhines, 64, since 1993. At the current level, the stock has barely budged since the free-spending Rhines took over.

Little wonder, then, that Icahn, who recently won three of the company's eight board seats, sees opportunity.

Mentor isn't the industry leader, but it has strong market shares in many of the businesses in which it competes. Under pressure from Icahn and others, the company is already cutting costs and fundamentals are improving.

Last week the company reported that revenue rose 20% in the six months ended July 31, with earnings moving solidly into the black, from a small loss in the same period a year ago. Analysts forecast earnings will reach a record \$95.1 million, or \$1.04 a share, in the fiscal year that ends in January 2012, on revenue of just over \$1 billion. EPS, which are expected to quadruple this year, could climb 16%, to \$1.21, in FY '13.

"It's not expensive at this price and there's lots of room for margin improvement," says Jean Francois Comte, co-president of Paris-based Lutetia Capital, which owns a stake in Mentor and added some in the recent broad market selloff. Some "tens of millions" are possible in cost savings, he thinks. Ultimately he thinks \$50 million to \$100 million can be added to the company's earnings before interest, depreciation and amortization. For the past four quarters, Mentor's Ebitda clocked in at \$160 million.

At a Glance

Mentor Graphics



Price:	\$10.58
52-Week Range:	\$16.56 - \$8.50
Market Value:	\$1.2 billion
FY 2011 Revenue:	\$915 million
FY 2011 Net Income:	\$28.6 million
FY 2011 EPS:	\$0.26
Est FY 2012 EPS:	\$1.04
Est FY 2012 P/E:	10
Dividend Yield:	0.0%
Fiscal Year Ends:	January

Data as of 8/25/11

Visit [Company Research](#) for more on [Mentor Graphics](#).

Source: FactSet

That would make an already cheap stock even cheaper. Mentor currently trades at 7.5 times trailing-12-month Ebitda, the low end of the range for its peers. Add \$50 million to Ebitda, and at 7.5 times, the shares are worth \$14.

"People think Icahn's too busy," to get deeply involved in the company right now, Comte says, but he's convinced that shareholder activists will succeed at boosting the stock's value, whether a deal is completed or not. At Icahn's original offer price, the stock is worth 60% more than its current quote.

Top Ten Investors: Mentor Graphics (MENT)

Investor Name	Pos	Pos Chg	% O/S	Filing Date
Icahn Associates	16,120,289	12,896,232	14.51	6/30/2011
BlackRock Fund Advisors	6,882,293	-542,848	6.2	6/30/2011
Alberta Investment Management	6,268,857	856,205	5.64	8/16/2011
Barrow, Hanley, Mewhinney & Strauss	4,806,335	409,540	4.33	6/30/2011
The Vanguard Group	4,741,348	-615,431	4.27	6/30/2011
Private Capital Management	4,398,566	558,829	3.96	6/30/2011
State Street Global Advisors	3,565,116	-435,082	3.21	6/30/2011
Harris Associates	3,327,749	0	3	6/30/2011
Columbia Management Investment Advisers	2,963,850	-175,478	2.67	6/30/2011
Fairpointe Capital	2,423,382	2,423,382	2.18	6/30/2011

Source: FactSet

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved