5 STOCKS THAT WILL GAIN 50% FROM APPLE TV

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INVESTING IN THE APPLE ECOSYSTEM

With everyone increasingly obsessed about investing in Apple (AAPL), it's easy to overlook the many lucrative ways to invest in the Apple ecosystem. One thing that invariably happens to the most successful companies is that they reach a point where the biggest gains have already been made.

However, that doesn't always translate to those companies having a less influential impact in their key markets. I can well remember the phase when the best way to invest in Dell (DELL) transferred from Dell itself to its key suppliers. For example, when Dell was struggling in 2006 and 2007, shares of key suppliers like NVIDIA (NVDA) and Western Digital (WDC) were skyrocketing.

During a period in which Dell shares dropped 18%, NVIDIA and Western Digital were up 171% and 62%, respectively.

So while the Apple run may not be over, I don't think it's a stretch to say that the biggest gains have been made as the stock has been anywhere from a 4-10 bagger or more, depending on how long someone has been involved with the name.

At the same time, with its size, marketing prowess and massive cash stockpile, Apple may still have the strongest disruption potential in tech, especially if it enters markets that are stale to consumers, but ripe for innovation.

Enter the TV.

When I say Apple TV, I mean an actual television set, not the current pint-sized Apple TV streaming box.

Thus, for this piece I'm focusing on a coming theme (the Apple TV) and the biggest potential stock-market winners within the likely supply chain.

We must look at wider implications – what key technologies will change and cause disruption for the investment landscape? This is not just a play on one product – the Apple TV – it's also a view for how this new product could drive the next phase in TV evolution, thus hugely impacting the competing products.

Where Apple goes, others follow – and that means lots of business beyond Apple.

So why is the TV a big deal?

Global TV shipments fell by 0.3% in 2011, marking the first time global shipments experienced a decline since NPD DisplaySearch began tracking them in 2004.

However, while that shipment number declined, it was still huge – 247.7 million units. And the biggest reason sales are declining is that aside from screens getting thinner, there has been a notable lack of innovation with the product. The bottom line is that TVs are very ripe for a disruptive sales cycle, and consumers are likely to be shocked if a company can come in with something new to offer.

If this sounds familiar, it should. It's nearly exactly where the cell phone industry was in 2007 when Apple released the first iPhone.

So what Disruptive Factors am I looking for to spur new supplier arrangements?

1) Gesture recognition -- I would put strong odds that Apple TV (and its competition) will have a "Kinect-like" feature, meaning it will incorporate gesture recognition as used in Microsoft's Xbox 360 gaming console. This gesture recognition could be used for a number of applications, with gaming being the most obvious example.

2) High speed wireless connectivity -- This itself isn't new but I think a lot of the programming will be delivered wirelessly, directly to the TV without an intermediary device like a gaming console or the current Apple TV box.

3) Newer, Better Touchscreen Applications -- Say goodbye to remotes as we know them. We all have or are migrating to smartphones and tablets, and we will find a lot more ways to use these highly functional touchscreens for more intensive TV interactions. There are touchscreen remotes on the market, but they are expensive and hard to use for the average consumer. What Apple did with the touchscreen smartphone, it will do to the TV interface – whether through a remote itself or connected devices.

4) TV on the Road -- In the future, users will want to be able to manipulate their TVs and view TV programming from as far away as possible, even while in transit. This would likely be achieved through Apple's iCloud service.

5) Voice recognition -- Will Apple make a TV you can talk to? I would certainly think so!

6) Much better content storage and retrieval capabilities -- The next phase of TV evolution could easily bring many video-on-demand functions back "into the box". One thing we all want is a lot more storage, retrieval and portability options.

In summary, these new TVs will have new modes of interaction vs. traditional remote control, and direct connections to the web via pre-installed, ultra-high speed wireless connectivity. Enhanced Software will allow for a lot more entertainment modes, gesture controls and mobile viewing options. And if you want to be able to just tell it what to do, well that may be coming, too.

So given my vision stated above, here are my 5 stocks with 50% upside (or more) on inclusion into the Apple TV, as well as the coming "connected TV" competitors:

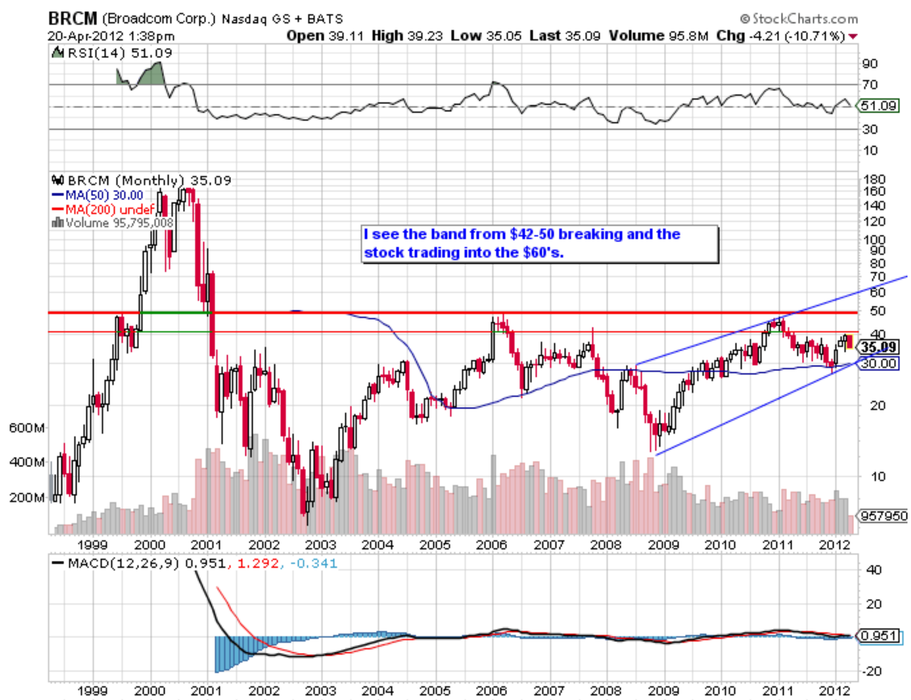
Marvell (MRVL) -- Marvell has long been a supplier of chips into the TV market, but what is lesser known is that it's gotten a lot of traction in the Xbox 360 and Kinect gesture recognition component. As I said, I highly suspect that Apple TV (and others) will have a "Kinect-like" feature and if so, Marvell has a strong potential to be chosen as supplier for its functionality here. As for the 50% upside, this is probably one of the easier reaches for the stocks on this list, as Marvell doesn't even have to get to the 2011 or 2010 highs to achieve a 50% move. Marvell also happens to be very strong in video-processing, networking, and storage applications.

Broadcom (BRCM) -- A leader in the wireless networking space, Broadcom is poised to get a few more sockets in these highly connected TVs. In this, Broadcom could win in a few ways. First, they should win sockets in the TVs themselves that allow for high-speed wireless connectivity. Also, there is strong potential for a new round of in-home router upgrades, as well as set-top box upgrades. Both have long been areas of strength for Broadcom.

Lastly, these new TVs will be equipped to “interact” with the smartphone/tablet platforms, and this is another area of strength for Broadcom’s connectivity solutions. Broadcom has been critical in the development of the iPhone’s touchscreen functionality. So with TVs very likely to have a touchscreen control interface (iPads and other

other devices), this could potentially be a huge boon for Broadcom. I've also heard talk about an actual touchscreen interface for the TVs' screens. For me this is not a certainty and in fact, I wonder about functional desire for that.

As for the 50% move, this would put the stock at new multi-year highs. However, Broadcom has many more products beyond what I've discussed here that could benefit from these dynamically more connected TVs, not to mention the potential for a huge increase in data moving over broadband networks.



JDS Uniphase (JDSU) -- This may seem like an odd entry here, but as Marvell has the "Kinect effect," it's even stronger for JDS Uniphase. JDS Uniphase makes critical fiber optic components that allow for the gesture recognition in these gaming devices to work. JDS Uniphase has already been in active development with this same technology for TVs, automotive, PCs, home security and likely defense applications. Bottom line, JDS Uniphase is one of the leaders in optical gesture recognition technology. And forget 50% -- I actually think this name is close to a 2-3 bagger in 2 years or less.

Nuance (NUAN) -- I've been somewhat cool on this name (and still am) due to various valuation ratios. However, if voice commands and recognition are highly infused into the Apple TV and other challengers, then this is one of the few pure plays on this technology. And if this occurs, valuation be damned. The 50% might seem a reach, but when stocks hit 52-week highs with momentum, they can carry to levels beyond any reasonable valuation levels. Apple TV could be such a catalyst.

The 5th Pick comes with a bonus.

Atmel (ATML) & **Cypress Semi** (CY) -- One or both of these names should win. These stocks represent another play on the next leg of growth in touchscreen interface technology. While we can't be 100% certain that an Apple TV will have touchscreen capability, I can all but guarantee it will interact with an array of input devices with touchscreen interfaces. The same can be said for competing TV products. My view here is that there will be multiple winners in this space – for both those companies supplying Apple, like Cypress, and those supplying the competitors, like Atmel. In fact, both Cypress and Atmel supply many of Apple's smartphone/tablet touchscreen competitors, while Atmel is expected to have a lead in the new Windows 8 platform devices.

Moreover, both companies develop technology in the RF and flash memory areas that support wireless bandwidth management, and a host of other applications which should grow in a new era of highly interactive TVs.

To me, a 50% upside move seems easier for Atmel, but both names should ultimately be significant winners.

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