



TM

Value-oriented Equity Investment Ideas for Sophisticated Investors

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"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."

Investing In The Tradition of Graham, Buffett, Klarman

Year V, Volume I
January 2012

When asked how he became so successful, Buffett answered:
"We read hundreds and hundreds of annual reports every year."

Top Ideas In This Report

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About The Manual of Ideas

Our goal is to bring you investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary methodology to identify stocks that are not widely followed by institutional investors.

Our research team has extensive experience in industry and security analysis, equity valuation, and investment management. We bring a "buy side" mindset to the idea generation process, cutting across industries and market capitalization ranges in our search for compelling equity investment opportunities.

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GREAT COMPANIES, ON SALE

- ▶ Screening for potentially great businesses
- ▶ Screening for the stock price losers of 2011
- ▶ 20 companies profiled by *MOI* research team
- ▶ Proprietary selection of top candidates for investment
 - ▶ Plus: Exclusive interview with Jake Rosser
 - ▶ Plus: Favorite stock screens for value investors

Companies mentioned in this issue include Adobe Systems, Akamai Technologies, Alcoa, Alpha Natural, Apache, Applied Materials, ArcelorMittal, Autoliv, Avon Products, Best Buy, BHP Billiton, BMC Software, Boston Scientific, Braskem, Broadcom, Cameco, Carnival, CB Richard Ellis, Cimarex Energy, CNH Global, CNOOC, Coca-Cola, Computer Sciences, CONSOL Energy, Corning, CVS Caremark, Delhaize, DIRECTV, Energis, Expeditors International, Express Scripts, FedEx, Flextronics, Fluor, Ford Motor, France Telecom, Freeport-McMoRan, Frontier Comms, General Dynamics, General Motors, Gerdau, Gilead Sciences, Hasbro, Hess, Hewlett-Packard, Honda, Hospira, IBM, Infosys, Ingersoll-Rand, Johnson & Johnson, Juniper Networks, Lam Research, LG Display, Liberty Global, Life Technologies, Marriott, Marvell Technology, Mechel, Micron Technology, Mobile TeleSystems, Molson Coors, Mosaic Company, Murphy Oil, Nabors Industries, NetApp, Newfield Exploration, Nexen, Nokia, Omnicom, PACCAR, Panasonic, Peabody Energy, Philips Electronics, Portugal Telecom, Procter & Gamble, Raytheon, Rio Tinto, Royal Caribbean, Siemens, Smith Corona, Sony, Sotheby's, Southwest Airlines, Staples, Starwood Hotels, Sterlite Industries, STMicroelectronics, Suncor Energy, Talisman Energy, Tata Motors, Teck Resources, Tele Norte Leste, Telefonica, Tenaris, Thomson Reuters, Transocean, Turkcell, Ultra Petroleum, United Micro, Vale, Veolia Environnement, Verisk Analytics, VimpelCom, Wal-Mart, Walt Disney, Walter Energy, Weatherford, Wipro Limited, Xerox, YPF, and more.

(analyzed companies are underlined)

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Editorial Commentary

It's been a tough year for value investing. Morningstar's fund manager of the decade Bruce Berkowitz, subprime bust winner John Paulson, and Sears Holdings chairman Eddie Lampert are just a few of the highly regarded investors that struggled in 2011. Cheap often did not mean undervalued, as fundamentals kept deteriorating for many companies, including banks, ocean shippers, and some retailers. Many formerly bottom-up value investors have become more top-down — though most won't admit it. Value will make a return, however, and we believe many of the bargains available in the market today could shine in 2012. In this report, we profile twenty high-quality businesses whose stocks have recently been quoted at enticing market prices. We highlight the following three companies:

DirecTV (Nasdaq: DTV, \$42 per share; MV \$30 billion)

DirecTV has an attractive combination of satellite TV assets, with #1 share in the U.S. (~80% of revenue) and a strong presence in faster-growing Latin America. Despite ongoing concerns about competition and capital intensity, the business has grown in a weak U.S. economy and has generated significant free cash flow relative to market value. While shares are not dirt cheap at a trailing FCF yield of 7%, the valuation does not adequately reflect DirecTV's ability to grow FCF over time.

General Dynamics (NYSE: GD, \$65 per share; MV \$23 billion)

General Dynamics shares offer a nearly 10% trailing FCF yield, which is attractive despite U.S. defense budget pressure. While U.S. defense funding cuts are a possibility, we believe investors have overreacted to this risk. The company has funded backlog of roughly 1.4x trailing revenue and participates in key defense programs such as Virginia subs and Abrams tanks. We also like the company's sizeable commercial jet business represented by Gulfstream (20+% of company EBIT). Unless Washington suddenly—and improbably—decides on major defense cuts, General Dynamics should grow equity value.

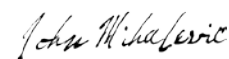
Telefonica (NYSE: TEF, \$17 per share; MV \$76 billion)

Telecommunications services provider Telefonica benefits from exposure to fast-growing Latin America, including the number-one wireless and wireline market position in Brazil. This offsets a still significant dependence on more mature markets such as Spain and the U.K. At the recent share price, investors may be underestimating Telefonica's ability to generate free cash flow as well as management's commitment to return capital to shareholders. Based on a ~15% trailing FCF yield, and targeted "total shareholder remuneration" of €1.50 per share (11% yield, including a 10% dividend yield) in 2012, the shares are attractive.

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On behalf of the MOI team, I wish you a happy, healthy and prosperous new year. We look forward to continuing to add value to your idea generation process.

Sincerely,



John Mihaljevic, CFA

and *The Manual of Ideas* research team

Exclusive Interview with Jake Rosser

We recently had the pleasure of interviewing Jake Rosser, managing partner of Coho Capital Management. Jake founded Coho in 2007 after working in equity research positions at the value-oriented Auxier Focus Fund and sell-side firm Pacific Crest Securities. He was also a strategy consultant at Alliance Consulting Group. He holds an MBA from Tuck and lives in Portland, Oregon.

The Manual of Ideas: Please tell us about your background and the genesis of your firm. What motivated you to set up your own firm, and how do you envision Coho Capital evolving over time?

Jake Rosser: Curiously enough, I did not discover value investing until after business school. At the time, I was working in strategy consulting and happened to come across *The Essays of Warren Buffett*. In consulting you spend a lot of time trying to fix broken business models and learn much about what kinds of operating decisions can imperil a company. Buffett's common-sense approach to assessing the value of a business as well as the simplicity with which he ran the companies within Berkshire struck a chord with me. It represented the antithesis to the way most companies conducted themselves. From there, I read the *Intelligent Investor* and at that point I was hooked.

My route into investment management started with a stint at a boutique investment bank focused on technology, called Pacific Crest Securities, where I was part of the semiconductor research team. While many investors are quick to denigrate the caliber of sell-side research, I found my experience on the sell side invaluable. It gave me a solid foundation for deconstructing company financials and conducting scuttlebutt research. Most importantly, because there is a voluminous amount of writing involved in publishing research it forces one to focus on the fulcrum points of a company's business model and its investment merits. And surprisingly, given the herd behavior on Wall Street that the sell side helps foster, it helped bring a clarity of focus to my research efforts. This was due to the fact that to be a good analyst on the sell side, one had to truly become an expert in their field of coverage. While now a generalist, that kind of singularity of purpose has served me well in fleshing out the knowledge base for the companies in my portfolio.

“My tenure at Auxier helped me learn the intense discipline and patience required to wait for the fat pitch to come your way.”

After Pacific Crest, I had the good fortune of working for someone whom I consider to be one of the best investors in the world, Jeff Auxier, with the five-star rated Auxier Focus Fund. As the Focus Fund's only analyst I had the opportunity to examine hundreds of investment opportunities across dozens of industries. Jeff has a profound respect for what risks lie beyond the financials, and he taught me to be a business analyst before a stock analyst. My tenure at Auxier also helped me learn the intense discipline and patience required to wait for the fat pitch to come your way. In the Internet age, one is barraged with so much information, that one's focus can be obscured. It takes discipline not to get sucked into the chatter. Working with Jeff helped me develop a feel for the extraordinary alignment of events required to create an attractive investment opportunity. They are by nature, rare, so developing a feel for what creates an extraordinary opportunity and enough skepticism to watch hundreds of pitches whiz by the plate is a learned art.

After three years at Auxier, I thought the timing was right to hang my own shingle. The inspiration behind Coho Capital was Mohnish Pabrai. There may have been another investor who brought Warren Buffett's partnership model into the modern age but I am not aware of one. Unlike the vast majority of investment vehicles, it was clear that Pabrai's vehicle was designed to make money with his investors rather than off his investors. The ethics of that equation had an instinctive appeal for me.

Like Buffett's original partnership, Coho Capital is an all-cap fund unconstrained by style boxes and is agnostic with respect to geography. The number and quality of fish one catches is determined by how well stocked their fishing pond is. Our all-cap mandate and lack of geographic confinement allow us to fish from a well stocked pond.

In terms of the evolution of Coho Capital, I hope to expand my partners' retirement options. If I can deliver on that goal, everything else will take care of itself.

MOI: When it comes to stock selection, what are the key criteria you look for in potential investments?

Rosser: Successful investment outcomes derive from buying the right business at the right price. We have found that more often than not, buying the right business has a much larger outcome on investment returns than buying at an absolute bargain basement price.

“The inspiration behind Coho Capital was Mohnish Pabrai. Unlike the vast majority of investment vehicles, it was clear that Pabrai’s vehicle was designed to make money with his investors rather than off his investors. The ethics of that equation had an instinctive appeal for me.”

To that end, we focus first on appraising the value of the business. This starts by reviewing the industry in which the company operates. There are many industries we will give a pass simply because the economics are unattractive. This is typically true of industries that are capital intensive, exhibit low barriers to entry, possess unionized work forces or are characterized by a lack of pricing power. Shipping, grocers or mining for example are not industries that would meet our requirements. We try to not be too dogmatic in our approach, however, and recognize that even in unattractive industries, a superb management team with superior capital allocation abilities can trump poor industry economics. Wilbur Ross in steel or coal mining would be one example. Another example would be the management teams of **Markel** (MKL) and **Aspen Insurance** (AHL), which we own in the fund, in the commoditized insurance industry. On balance though, we subscribe to the Buffett adage that “when a management team with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact.”

In assessing industries, we also want to make sure we understand the industry enough to make informed judgments on competitive dynamics. Industries with ephemeral market leaders, such as technology, often get thrown in the too hard pile. To have enough conviction to hold a stock when the market is moving against you, you have to be able to understand it, which is why we endeavor to remain within our circle of competence.

Assessing industry dynamics before drilling down on the business helps us think like an owner. Like all value investors we view a stock purchase as fractional ownership in a business. We want to judge the staying power of that business before committing capital to it. As part of that effort we spend a lot of time searching for companies that have some type of competitive moat affording the company pricing power. Next, we attempt to understand how durable that

moat is. We examine how businesses have fared across economic cycles and assess trends in margin structure for any clues that either refute or strengthen our conviction. Such an approach results in a list of the world's best businesses.

These businesses are rarely cheap, however, so we are often left in the position of not being able to act on our research. It is an iterative process, which allows us to build a mental database of the world's best businesses. That leaves us well-equipped to act when they go on sale.

“The [for-profit education] industry selloff was indiscriminate in meting out punishment and it allowed us to pick up DeVry, which we consider best in class, at a lower valuation than available during the credit panic of 2008-09.”

In terms of valuation work, we look for the same things that other value investors look for, including high free cash flow yields and returns on invested capital. Ideally, we are looking for businesses that not only produce significant free cash flow but also possess the opportunity to reinvest that cash flow back into the business. Like Marty Whitman, we like our stocks to be not only cheap but safe. So we spend a lot of time tearing apart balance sheets as well. Apart from providing another cut on valuation work, balance sheet analysis can often yield clues on additional sources of value not recognized by the market.

We think it is important to recognize that valuation work is as much art as science. Everyone has access to the same information but it is how you weigh that information that makes a difference. The markets are dynamic and new inputs constantly shift the merits of an investment. We focus on trying to establish an intrinsic value for a potential holding but recognize that a range of value may be more appropriate than a precise value.

We bring a jaundiced eye to our research process and actively focus on what can go wrong with our investments. Such an approach leads to an insistence on an adequate margin of safety

MOI: You wrote in your investment philosophy statement, “The best investments are anti consensus.” How do you spot situations in which the consensus opinion is most likely to be wrong?

Rosser: Despite the low regard in which efficient markets theory is held among value investing practitioners, we find that the collective wisdom of crowds is indeed more often than not correct in its judgments. This gives us a healthy sense of humility when approaching situations marked by widely accepted market wisdom and mentally establishes a higher burden of proof in building a contrarian investment thesis.

Situations in which the consensus opinion is most likely to be incorrect are typically marked by excessive pessimism and uncertainty. This is often the case in industries ignored, misunderstood, in transition or out of favor with investors. The best investment opportunities typically result when headlines are negative and fear and panic abound. In such situations, entire industries can sell off with little regard to the competitive dynamics among industry players. The for-profit education industry is one recent example, with the ethical violations of certain schools tarnishing the entire segment. The resulting industry wide selloff was indiscriminate in meting out punishment and it allowed us to pick up **DeVry** (DV), which we consider best in class, at a lower valuation than available during the credit panic of 2008-09. We typically sharpen our pencils in “baby with the bathwater” sell-offs as they often allow one to pick off industry leaders at marked down prices.

Industries starved for capital are often a good signal that pessimism has gone too far. The housing industry may be a current example with many industry suppliers priced for permanently depressed conditions.

Undue pessimism can also result from poor corporate leadership with investor fatigue creating inefficient pricing. Robert Nardelli at **Home Depot** (HD) is one example while **Yahoo!** (YHOO) under Carol Bartz and **Hewlett-Packard** (HPQ) under Leo Apotheker are two more recent examples.

Often, of course, it is not even so much a contrarian posture as it is a willingness to engage in short-term unpleasant performance in exchange for superior long-term results. Time arbitrage seems to be the oldest trick on Wall Street, yet it appears to have become even more pronounced over the years with the growth in hedge funds and instantaneous transmission of information leading to an ever-shortening investment time horizon.

A misappraisal of business value only occurs when a business is under duress. The challenge for an investor is gauging whether that duress is short-term in nature or the result of a long-term structural shift in industry dynamics or competitive positioning. As Michael Steinhardt has said, it is not enough to have a variant perception, one must also be right!

MOI: How do you generate investment ideas?

Rosser: The great thing about investing is you get to cultivate your curiosity about the world at large. I once described my job as sitting between four walls reading and thinking. That truly represents the majority of my day. At its heart, investing is a multi-disciplinary endeavor. Thus, one has to know a little about everything to make informed decisions. I often joke that one can become a real Cliff Claven in this business.

Our reading diet consists of *The New York Times*, *The Wall Street Journal*, *Forbes*, *Fortune*, *Business Week*, *Bloomberg*, *Barron's* and various value-oriented investment blogs. We subscribe to two newsletters, *The Manual of Ideas* and *Value Investor Insight*.

In vacuuming up large quantities of information, we keep our antenna alert for informational inefficiencies. For example, in the course of our reading, we may discover that certain industries are experiencing improving dynamics that are not yet recognized by the market. Property and casualty insurance is one such example, where companies are raising prices for the first time in years due to loss-producing events within the last year, including the earthquakes in Japan and New Zealand as well as flooding and tornadoes in the U.S. Companies that have stored away enough capital to take advantage of the industry up-cycle, such as Aspen Insurance, will be well positioned to take share from less disciplined competitors with weak capital structures.

Another example is the revolution occurring in the extraction of natural gas from shale rock formations or “fracturing.” We have no special expertise in assessing geological formations but we do believe the shale drilling services companies are well positioned to capture a disproportionate share of industry economics. Such a backdrop typically leads to story stocks, which we are weary of, but alert reading recently led us to a shale services provider called **C&J Energy Services** (CJES), which sells for less than five times earnings.

“...alert reading recently led us to a shale services provider called **C&J Energy Services**, which sells for less than five times earnings.”

Apart from our reading, we utilize a number of sources as a starting point to sift through ideas. These include Value Investors Club submissions and SEC filings of investors we admire. We also find that informational inefficiencies are often present in spin-off situations, busted IPOs or post re-org opportunities. Last, we keep an “On Deck” portfolio of companies on Yahoo! Finance that are worthy of further research and a “Punch Card” portfolio of what we consider the world’s best businesses. This allows us to keep tabs on the world’s best companies and position ourselves quickly should opportunities materialize.

MOI: How do you assess the quality and incentives of management, and what CEOs do you admire most?

Rosser: We strive to invest with management teams that will be effective stewards of our capital. This means that they are accountable, exhibit a shareholder orientation, possess a record of operational excellence and most importantly, are effective allocators of capital.

Ideally, the companies we invest in are led by management teams that have a demonstrated track record for value creation across market cycles. Often, this entails investing in management teams that have a contrarian bent. Like good investors, they are stingy with capital when money is easy and likely to put money to work during periods of industry turmoil. Jamie Dimon would be an example of a CEO with a contra-cycle bent in deploying capital.

We also like to see firms where management has cultivated an ownership culture. Hallmarks of an ownership culture include management teams with a significant portion of their net worth tied up in the company they manage and a disciplined focus on profitable growth. They are also marked by an aversion to excess. For example, aggressive accounting, abusive stock option practices, lavish perks and excessive executive compensation are representative practices of management teams unconcerned with the stewardship of shareholder capital.

Unless we are investing in a small-cap company, we find it is rarely necessary to personally interact with management. Most of the information we need to find can be gleaned from 10-Ks, proxy statements and annual reports.

We also think that much can be gained through the analysis of managerial communications. How management communicates with its key stakeholders offers insight into their character. We like to see managers who do what they say they are going to do and are open and honest with respect to their challenges and mistakes. We have found that management teams that are candid and don’t blame others for company shortcomings tend to be better value creators over time than promotional types.

Of course, as value investors, it is not often that one can find companies headed by superlative management teams priced at a discount. Robert Iger at **Walt Disney** (DIS), Kenneth Chenault at **American Express** (AXP) and Greg Steinhafel at **Target** (TGT) are CEOs whom we think possess the traits we look for in managers. We don’t own these companies at present but find their market prices intriguing.

MOI: Would you outline the summary thesis behind one or two of your best ideas at this time?

Rosser: **Teva Pharmaceutical** (TEVA) is the world’s largest generic drug manufacturer. With patent expirations looming for many of the world’s most

*“...at a current price to earnings multiple of seven, compared to a five-year median of seventeen, **Teva** is cheaper than it has ever been. The market severely underestimates Teva’s dominant position within the generic pharmaceutical space and its long-term growth potential.”*

popular branded drugs, Teva is well-positioned to grow earnings at a steady clip. Current estimates suggest that over \$150 billion in branded drugs will lose their patent protection by 2015. Given that the generic drug industry is currently a \$93 billion dollar industry, this is substantial growth. In addition, policy makers, both domestically and abroad, are advocating the prescription of generic drugs as a key component of combating escalating healthcare costs.

Such a rosy confluence of positives usually translates into a story stock with a growth multiple well in excess of the bargain levels demanded by value investors. However, at a current price to earnings multiple of seven, compared to a five-year median of seventeen, Teva is cheaper than it has ever been. The market severely underestimates Teva's dominant position within the generic pharmaceutical space and its long-term growth potential. The aging of the baby boomer population and the attendant escalation in healthcare costs should serve as a multi-year tailwind for earnings growth. We also like that earnings are non-cyclical and defensive in nature which should enhance their appeal if market volatility increases.

“...one can purchase a stake in Western Union at a 10% FCF yield. We think that is remarkable, given the quality of the business and its exposure to long-term growth trends in the globalization of the work force.”

We think that Teva can grow to double its current size within five years and are happy to pay a less-than-market multiple for such favorable prospects.

As we noted earlier, we are always looking for businesses that possess an economic moat. **Western Union (WU)** is one such business. The company has one of the best business models in the world with a dominant share of the global money transfer market, creating network effects. With 485,000 agent locations in over 200 countries the company's scale is unmatched and dwarfs the next largest competitor's network by a factor of five. Every time Western Union opens a new store, the value of its entire network increases, because each store has gained a new point of distribution. This makes it easier and easier for each customer to use its service and creates a virtuous cycle with each new point of distribution further enhancing Western Union's economic moat. In addition, Western Union's global distribution system could be utilized to expand customer offerings into such areas as bill pay. As an example, Mastercard has partnered with Western Union to offer prepaid cards at Western Union locations.

Not surprisingly, the company has enviable economics, with operating margins of 26%. Lucky for us, the management team is shareholder oriented, having returned 22% of its current market cap to shareholders in the form of dividends and share buybacks during the last three years.

The fear exists that Western Union is a value trap with cell phones eventually able to transmit currencies across borders. Given the regulatory burdens associated with cross-border financial transactions we think that is unlikely. At present one can purchase a stake in Western Union at a 10% FCF yield. We think that is remarkable, given the quality of the business and its exposure to long-term growth trends in the globalization of the work force.

MOI: Good ideas are only one piece of the investment success equation, with sound portfolio management being another critical component. How do you structure your portfolio and manage risk?

Rosser: Accounting for risk needs to be done on both a company basis and the portfolio level. Being a skillful stock picker is one component of delivering market-beating returns, but we would argue that portfolio construction is equally important. There is a lot of beating of chests within the value investing

community about investing with conviction in your best ideas. We understand that approach and believe in it but have realized that the future is never certain. No matter how rigorous your research process, something unforeseen can render your thesis irrelevant. If you size your ideas in the double-digit range then you will not live to fight another day.

Our typical position size is 4%. We start with a 3% weighting, which affords us room to scale up the position since we tend to be early to the party. Our maximum position size on a cost basis is 5%. To us, this seems like a happy medium. It still allows us to run a more concentrated portfolio than the vast majority of investment managers but at the same time affords the portfolio a more diverse collection of businesses with which to navigate the markets. We should also note that with investment ideas plentiful, there is less of a need in a bear market than in an ascendant market to concentrate investments.

“We are not fans of options as we don’t like having a timeframe added as an additional risk to our investments.”

Apart from position sizing, we scrutinize correlations within the fund to ensure that no one industry accounts for a disproportionate share of assets and to minimize overlap between closely related industry groups. We also run our investments through a global macro overlay. This is not because we are top-down investors but because we want to stress-test our portfolio against a variety of macroeconomic outcomes. For example, knowing what percentage of our portfolio could be adversely impacted by a spike in oil prices or a deterioration of Europe’s sovereign debt crisis helps us remain calm during a crisis. The price of managing risk in the middle of a crisis is much too high so we try position the portfolio to thrive in a variety of market environments. That cannot always be done, but artful consideration of risk factors can mitigate draw-downs. Just as Bruce Berkowitz talks about trying to kill an idea, we carry that same concept over to our portfolio construction.

Because the future is never certain, we also try to maintain modest amounts of dry powder to act opportunistically should panicked selling conditions occur. Further, we’re willing to hold large amounts of cash if values are not available.

MOI: What led you to the decision to forgo leverage and short selling? Do you ever use options to limit the downside or amplify the upside?

Rosser: Whether it be AIG or Long Term Capital Management, most of history’s largest investment wipe-outs have been accompanied by leverage. Once you take on leverage, you no longer have control over your destiny. The use of leverage entails binary outcomes with a huge payday at one end and the permanent impairment of capital at the other end. Such an approach is anathema to value investing where one tries to avoid risk in the pursuit of investment returns rather than embrace it.

We are not fans of options as we don’t like having a timeframe added as an additional risk to our investments. If you just hold the stock, you can patiently wait for your thesis to play out. Options do not afford you that luxury and thus can be an impediment to the patience required to make value investing work.

Coho Capital does not short, so we do not employ puts to hedge positions or market risk. The decision to forego short selling was premised upon the notion that a wide investment mandate would allow one to build a portfolio more resistant to economic strife. In examining past market cycles, it was possible to beat the indices through the purchase of out-of-favor securities at bargain prices, economic back drop and market performance be damned. One could have

achieved such a result during the market downturn of 2000-02 without ever leaving U.S. equity markets. We mistakenly assumed that the market contours of future economic cycles would be largely similar to how they had played out since the Great Depression. Of course, we all know how the events of the last few years have turned out, with correlations reaching historical highs. This time was, in fact, different.

We think investors have suffered from a type of post-traumatic stress disorder in the wake of the credit implosion in 2008-09 and believe that that has kept correlations high. We hope that a return to a less myopic view on macro-driven events can again lay the foundation for stock picking to once again have its day. We do fear, however, that structural changes to the market have occurred, which may keep correlations higher than in the past. Such changes include the explosion in quant trading and the rise of index funds and ETFs. Allocation has always played the primary role in investing returns but a good equity investor could ride out economic cycles through savvy stock picking. We think those days will return but perhaps not quite to the same.

“Tom Russo said that a good investment manager has to have the ability to suffer. What he meant was that adhering to value investing principles will invariably lead to periods of underperformance. If one changes their investment approach in response to underperformance then they are doomed to mediocrity.”

MOI: How has market volatility over the past three years affected your investment process, and have you tweaked your approach in any way as a result?

Rosser: I have learned how to suffer. Tom Russo said that a good investment manager has to have the ability to suffer. What he meant was that adhering to value investing principles will invariably lead to periods of underperformance. If one changes their investment approach in response to underperformance then they are doomed to mediocrity. In Russo’s case, he notes that the partnership he manages lost 2% in 1999, a year in which the S&P registered a 21% gain. He considers it his best year investing, however, because he did not stray from his discipline. Adhering to his value investing principles left him brilliantly positioned for the next decade which proved to be quite choppy for most other investors. I think that is a profound investing lesson for all money managers that aspire to achieve Tom Russo-like returns.

I bring up that story because I think we are in another environment where the practice of value investing has become more challenging. There is no doubt that the world is working through some significant problems and some of the potential outcomes are sobering. That has led to treacherous market conditions, which can easily make one look silly in the short-term. But it is especially during these times when one must be prepared to suffer the consequences of short-term quotational losses in order to stick to their discipline. Standing firm with conviction amid market adversity is, after all, what value investing is all about. That said, no one enjoys suffering and there are actions one can take to minimize suffering while at the same time leading to superior returns. For me, that has meant a deeper appreciation for quality business models. Of course, we have always strived to own businesses with superior economics, but in the past, we would perhaps be more tempted by the discount to intrinsic value on a business of lesser quality than we would be today.

Net nets and sum-of-the-parts opportunities were previously part of our toolkit but have since been thrown out. We still endeavor to own companies with strong balance sheets but we are much more interested in companies that possess an earnings engine that does not need fixing. Ultimately, the reward on such companies is an order of magnitude greater than what can be earned on

closing the valuation gap on a company trading for less than its liquidation value.

In short, we have migrated from the Ben Graham cigar butt approach, focused on closing the gap to intrinsic value, to the Charlie Munger approach, focused on the purchase of compounding machines at a slight discount. The near-historical discounts available on superior business in the present environment have made that shift even more attractive.

MOI: What is the single biggest mistake that keeps investors from reaching their goals?

Rosser: Lack of patience. An adverse macroeconomic backdrop can lead to temptation to be more tactical in allocations. There are certainly people that can do that, but everyone has to understand what type of an investor they are. Personally, I know that I am not George Soros. I don't have the temperament to be constantly flitting in and out of positions in order to gain a short-term edge or best position the portfolio for macro events. It is important, of course, to have a view of where the world is headed, but we have found that undue focus on macro events corrodes our ability to be patient. There have been times over the past few years when we had to remind ourselves that our research efforts needed to be premised upon what is knowable. Currency movements, the shape of the yield curve or the over/under on geo-political events are outside our domain. Having deep conviction in what you own is the best bulwark against impatience upending investment returns.

MOI: Can you recommend one or two recent books that have given you new insights into the art of investing?

Rosser: I recently finished Howard Marks' *The Most Important Thing* and consider it one of the finest books on investing I have read. Anytime you can assimilate the accumulated wisdom of the one of the world's greatest investors it is a worthwhile endeavor. There are some investment writers who do an excellent job of describing the attributes of a great business, such as Bruce Greenwald or Warren Buffett. There are others who do an excellent job of describing how to think about valuation, such as Ben Graham or Joel Greenblatt. But I think Howard Marks does a better job than anyone of bringing it all together. In particular, I found Mr. Marks' discussion of risk mitigation to be illuminating. The avoidance of loss is at the heart of value investing and Mr. Marks provides the best roadmap I have seen for deconstructing the myriad ways in which investors fail to give proper heed to risk in all its forms. No matter how good a risk manager one may be in selecting investments, return, by its nature, involves the assumption of risk. Mr. Marks steps investors through the continuum between risk and return and in so doing gives readers a roadmap toward skillful risk control.

MOI: Jake, thanks very much for sharing your ideas and insights.

“The avoidance of loss is at the heart of value investing and Mr. Marks provides the best roadmap I have seen for deconstructing the myriad ways in which investors fail to give proper heed to risk in all its forms.”

Browsing Potentially Great Businesses

Top 100, by Market Value

<i>(Click data to visit relevant websites)</i>	Trading Data				Public Market Valuation									Greenblatt's TTM EBIT/	
	Stock Price (\$)	Δ to Reach 7-Year		Market Value (\$bn)	Enter. Value (\$bn)	TTM Rev./ EV	TTM GP/ EV	TTM FCF Yield	EPS Yield		Div. Yield	Tang. Book/ MV	EV	Cap. Empl.	
		Low	High						This FY	Next FY					
Microsoft / MSFT	26.00	-43%	44%	219	173	41%	32%	11%	11%	11%	12%	3%	21%	16%	>100%
Google / GOOG	625.96	-85%	19%	203	164	22%	14%	5%	5%	6%	7%	-	23%	7%	>100%
China Mobile / CHL	47.10	-74%	121%	190	143	56%	53%	1%	10%	10%	9%	4%	46%	17%	74%
Procter & Gamble / PG	65.14	-40%	15%	179	211	40%	20%	5%	6%	6%	7%	3%	n/m	7%	66%
Johnson & Johnson / JNJ	64.30	-28%	13%	176	163	40%	27%	7%	6%	8%	8%	4%	16%	9%	74%
BHP Billiton / BHP	69.78	-79%	50%	172	178	40%	18%	6%	12%	10%	10%	3%	32%	18%	47%
Coca-Cola / KO	67.44	-44%	6%	153	166	28%	17%	4%	8%	6%	6%	3%	4%	6%	58%
Novartis / NVS	55.35	-40%	17%	152	170	35%	24%	8%	8%	10%	10%	4%	2%	7%	60%
Oracle / ORCL	29.21	-67%	25%	147	130	28%	22%	8%	6%	8%	9%	1%	8%	10%	n/m
Roche / RHHBY	42.20	-38%	17%	147	166	29%	21%	neg.	6%	8%	9%	4%	n/m	9%	67%
Philip Morris / PM	75.60	-62%	2%	131	146	52%	14%	8%	6%	6%	7%	4%	n/m	9%	>100%
Intel / INTC	23.23	-48%	49%	118	110	47%	29%	9%	10%	10%	10%	4%	26%	15%	77%
GlaxoSmithKline / GSK	44.89	-40%	34%	113	128	34%	25%	6%	4%	7%	8%	5%	n/m	7%	83%
Vale / VALE	21.09	-84%	109%	111	128	47%	28%	9%	22%	22%	20%	8%	66%	24%	34%
Merck / MRK	36.25	-45%	70%	110	113	42%	27%	10%	4%	10%	11%	5%	6%	6%	35%
PepsiCo / PEP	64.71	-32%	23%	101	124	52%	28%	5%	6%	7%	7%	3%	n/m	8%	45%
Co. Bebidas Americas / ABV	35.91	-91%	1%	98	98	14%	10%	4%	4%	4%	5%	4%	3%	6%	>100%
Cisco / CSCO	17.94	-26%	91%	96	69	63%	39%	10%	6%	10%	11%	1%	29%	12%	n/m
British Am. Tobacco / BTI	92.02	-71%	4%	90	105	22%	17%	0%	5%	7%	7%	4%	n/m	7%	>100%
Qualcomm / QCOM	52.61	-49%	14%	88	78	19%	13%	5%	5%	7%	8%	2%	23%	7%	>100%
Abbott Labs / ABT	54.89	n/a	n/a	86	94	n/a	n/a	n/a	n/a	8%	9%	4%	n/m	n/a	n/a
CNOOC / CEO	178.01	-81%	53%	79	72	49%	28%	7%	13%	13%	12%	3%	48%	20%	48%
StatoilHydro / STO	24.67	-57%	76%	79	83	128%	69%	2%	13%	11%	12%	5%	44%	39%	56%
Telefonica / TEF	16.63	-19%	107%	76	151	55%	39%	15%	21%	10%	13%	13%	n/m	8%	40%
Occidental Petroleum / OXY	89.27	-76%	32%	72	74	31%	21%	neg.	9%	9%	10%	2%	50%	14%	24%
BG Group / BRGY	102.04	-75%	35%	69	81	24%	0%	neg.	5%	7%	6%	1%	29%	9%	23%
LVMH / LVMUY	26.90	-67%	86%	69	74	38%	25%	0%	7%	n/a	n/a	2%	5%	8%	44%
SAP / SAP	54.61	-46%	25%	68	66	27%	19%	7%	5%	7%	7%	2%	2%	8%	>100%
Altria Group / MO	29.14	-65%	1%	60	71	33%	12%	6%	6%	7%	8%	6%	n/m	9%	n/m
AstraZeneca / AZN	45.25	-34%	47%	59	57	59%	48%	12%	16%	16%	14%	6%	4%	24%	>100%
Bristol Myers / BMJ	34.22	-53%	1%	58	55	38%	28%	8%	6%	7%	6%	4%	13%	13%	>100%
Novo Nordisk / NVO	111.53	-82%	19%	53	50	23%	19%	6%	4%	5%	6%	2%	12%	7%	88%
Amgen / AMGN	60.05	-35%	45%	53	49	31%	27%	10%	7%	9%	10%	2%	17%	9%	58%
Diageo / DEO	83.90	-51%	11%	52	63	25%	15%	1%	6%	7%	8%	3%	n/m	6%	55%
Lilly / LLY	40.53	-33%	90%	47	47	52%	41%	13%	10%	11%	9%	5%	21%	14%	72%
Colgate Palmolive / CL	89.89	-52%	6%	44	47	35%	20%	6%	6%	6%	6%	3%	n/m	8%	>100%
Telstra / TLSYY	16.19	-39%	45%	40	52	48%	30%	1%	8%	7%	9%	9%	11%	13%	33%
Medtronic / MDT	35.30	-32%	70%	37	45	36%	27%	10%	9%	10%	11%	3%	11%	10%	66%
Texas Instruments / TXN	28.69	-53%	38%	33	36	38%	20%	8%	8%	7%	7%	2%	10%	11%	51%
Can. Nat. Railway / CNI	73.48	-75%	11%	33	38	22%	12%	5%	7%	n/a	n/a	2%	32%	8%	13%
BCE / BCE	39.02	-57%	14%	30	47	39%	29%	5%	7%	8%	8%	5%	n/m	10%	28%
Gilead Sciences / GILD	37.16	-65%	55%	28	30	28%	21%	12%	9%	11%	11%	-	14%	13%	>100%
EOG Resources / EOG	97.68	-78%	48%	26	30	30%	27%	neg.	4%	4%	5%	1%	48%	9%	13%
Smith Corona Corp. / SCCO	29.46	-85%	71%	25	26	26%	16%	7%	9%	10%	10%	8%	16%	14%	72%
Swisscom / SCMWY	36.36	-34%	36%	19	29	43%	34%	10%	11%	9%	12%	4%	n/m	10%	31%
Rogers Comms / RCI	35.45	-77%	53%	19	29	41%	37%	8%	8%	9%	9%	4%	n/m	10%	37%
Coach / COH	57.59	-80%	20%	19	18	24%	18%	5%	5%	6%	7%	2%	8%	8%	>100%
Stryker / SYK	46.21	-33%	66%	18	16	50%	33%	6%	7%	8%	9%	2%	23%	11%	53%
Reed Elsevier / RUK	31.32	-17%	77%	18	18	28%	18%	neg.	6%	9%	10%	4%	9%	5%	n/m
Reed Elsevier / ENL	22.22	-12%	84%	18	18	26%	17%	neg.	6%	10%	10%	5%	8%	5%	n/m

<i>(Click data to visit relevant websites)</i>	Trading Data				Public Market Valuation									Greenblatt's TTM EBIT/	
	Stock Price (\$)	Δ to Reach 7-Year		Market Value (\$bn)	Enter. Value (\$bn)	TTM Rev./EV	TTM GP/EV	TTM FCF Yield	EPS Yield			Div. Yield	Tang. Book/MV	TTM EBIT/EV	Cap. Empl.
		Low	High						TTM	This FY	Next FY				
KPN / KKP NY	11.56	-40%	69%	17	34	50%	30%	15%	14%	16%	16%	10%	n/m	11%	50%
Intuitive Surgical / ISRG	432.12	-97%	4%	17	16	10%	7%	3%	3%	3%	3%	-	13%	4%	>100%
Telekom Indonesia / TLK	31.37	-55%	82%	16	17	46%	33%	12%	8%	n/a	n/a	5%	31%	14%	32%
Intuit / INTU	51.78	-65%	9%	15	15	26%	21%	6%	4%	6%	6%	1%	2%	7%	>100%
Becton Dickinson / BDx	70.65	-42%	32%	15	16	48%	25%	7%	8%	8%	9%	3%	18%	11%	37%
Waste Management / WM	31.00	-29%	33%	14	24	56%	51%	8%	7%	7%	7%	4%	n/m	9%	18%
Mobile TeleSystems / MBT	14.28	-49%	196%	14	20	62%	44%	5%	9%	10%	12%	7%	5%	14%	39%
T. Rowe Price / TROW	54.28	-63%	31%	14	n/m	n/m	n/m	7%	5%	5%	6%	2%	19%	n/m	n/m
EnCan / ECA	18.40	-45%	189%	13	22	34%	30%	neg.	neg.	n/a	n/a	4%	111%	3%	2%
Telefonos de Mexico / TMX	14.63	-40%	86%	13	20	41%	25%	11%	8%	9%	8%	6%	25%	10%	20%
Transocean / RIG	39.83	-38%	309%	13	21	43%	15%	7%	neg.	4%	9%	8%	99%	7%	6%
McGraw-Hill / MHP	42.75	-60%	70%	13	12	51%	35%	9%	7%	7%	7%	2%	n/m	12%	n/m
Fastenal Company / FAST	41.42	-74%	4%	12	12	22%	11%	1%	3%	3%	3%	1%	12%	4%	42%
Continental Resource / CLR	64.05	-81%	31%	12	12	13%	13%	neg.	4%	4%	5%	-	21%	8%	23%
Check Point Software /CHKP	54.18	-70%	14%	11	10	12%	10%	6%	4%	5%	6%	-	20%	6%	n/m
Brown-Forman / BF.B	77.73	-56%	5%	11	11	32%	16%	4%	5%	n/a	n/a	2%	6%	8%	61%
Altera / ALTR	34.09	-62%	45%	11	8	27%	19%	8%	8%	7%	6%	1%	26%	12%	>100%
Paychex / PAYX	29.59	-31%	59%	11	10	21%	14%	6%	5%	5%	6%	4%	9%	8%	>100%
EnSCO / ESV	46.23	-52%	80%	11	15	15%	7%	1%	6%	7%	13%	3%	70%	4%	6%
St. Jude Medical / STJ	32.95	-24%	66%	11	13	44%	32%	11%	8%	10%	11%	3%	5%	11%	45%
Analog Devices / ADI	34.16	-55%	53%	10	7	40%	27%	8%	8%	7%	8%	3%	34%	14%	>100%
Grupo Televisa / TV	20.07	-52%	56%	10	12	36%	22%	n/a	5%	5%	6%	1%	22%	10%	47%
Dassault / DASTY	75.79	-59%	20%	9	8	29%	25%	6%	4%	5%	5%	1%	10%	7%	n/m
TD Ameritrade / AMTD	15.25	-39%	73%	8	n/m	n/m	n/m	8%	7%	8%	9%	2%	7%	n/m	n/m
Hansen Natural / HANS	95.89	-99%	1%	8	8	21%	11%	3%	3%	3%	4%	-	11%	6%	>100%
Xilinx / XLNX	31.21	-54%	45%	8	7	32%	21%	12%	7%	6%	7%	2%	28%	10%	>100%
Smith & Nephew / SNN	44.34	-32%	56%	8	8	52%	38%	7%	8%	8%	9%	2%	19%	11%	48%
Tiffany & Co. / TIF	62.61	-73%	35%	8	8	43%	25%	0%	5%	6%	7%	2%	29%	9%	26%
Forest Labs / FRX	29.03	-37%	171%	8	6	83%	65%	11%	14%	13%	4%	-	35%	26%	>100%
Cabot Oil & Gas / COG	74.17	-87%	21%	8	9	10%	8%	neg.	2%	2%	3%	0%	26%	4%	8%
Noble Corp. / NE	30.60	-45%	125%	8	11	23%	10%	neg.	4%	5%	13%	2%	95%	4%	3%
Sigma-Aldrich / SIAL	63.15	-58%	21%	8	8	33%	17%	5%	6%	6%	6%	1%	20%	8%	41%
Diamond Offshore / DO	54.29	-63%	175%	8	8	43%	23%	9%	13%	12%	9%	1%	56%	17%	27%
C.R. Bard / BCR	86.16	-53%	32%	7	8	38%	24%	9%	4%	7%	8%	1%	10%	11%	84%
Microchip Tech / MCHP	34.48	-53%	23%	7	6	26%	16%	6%	6%	5%	6%	4%	27%	8%	59%
Apollo Group / APOL	50.15	-34%	95%	7	6	85%	53%	11%	8%	7%	7%	-	15%	21%	>100%
Waters / WAT	71.61	-58%	40%	6	6	29%	18%	6%	6%	7%	7%	-	10%	8%	93%
BMC Software / BMC	33.17	-59%	70%	6	4	48%	36%	13%	7%	10%	11%	-	n/m	13%	n/m
QEP Resources / QEP	28.87	-18%	57%	5	7	42%	26%	neg.	6%	6%	8%	0%	63%	10%	10%
DENTSPLY / XRAY	34.66	-40%	38%	5	7	36%	18%	6%	5%	6%	7%	1%	n/m	6%	33%
TransDigm / TDG	95.98	-78%	7%	5	8	16%	9%	5%	3%	6%	7%	-	n/m	7%	>100%
International Game / IGT	15.70	-57%	215%	5	6	34%	20%	9%	6%	7%	8%	2%	1%	9%	58%
Equifax / EFX	37.73	-49%	23%	5	6	35%	21%	7%	5%	7%	7%	2%	n/m	8%	>100%
Trend Micro / TMICY	30.61	-32%	89%	4	3	42%	34%	5%	5%	n/a	n/a	3%	28%	11%	n/m
IDEXX Laboratories / IDXX	74.01	-69%	18%	4	4	29%	15%	4%	4%	4%	4%	-	9%	6%	64%
Endo Pharma / ENDP	34.97	-60%	27%	4	7	34%	21%	13%	6%	13%	16%	-	n/m	8%	>100%
FLIR Systems / FLIR	25.18	-65%	81%	4	4	41%	22%	3%	5%	6%	7%	1%	23%	8%	39%
FactSet Research / FDS	87.02	-73%	29%	4	4	20%	13%	5%	4%	5%	5%	1%	7%	7%	>100%
MICROS Systems / MCRS	45.18	-77%	18%	4	3	36%	20%	5%	4%	5%	5%	-	20%	8%	n/m
Energen / EGN	48.64	-59%	64%	4	4	36%	30%	neg.	9%	8%	8%	1%	71%	13%	13%

Companies shown above meet the following criteria: five-year average ROIC > 10%, five-year average ROE > 15%, seven-year average ROE > 15%, five-year average gross margin > 50%, five-year average operating margin > 15%, market value > \$50 million; financial companies excluded (except asset managers).

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

Top 100, by This FY EPS Yield (consensus estimates)

(Click data to visit relevant websites)	Public Market Valuation								Operating Performance					
	TTM Rev./EV	TTM GP/EV	TTM FCF Yield	EPS Yield		Div. Yield	Tang. Book/MV	Rev./Empl. (\$000)	Δ Rev.		% TTM Revenue		5-Yr. Op. Margin	
				TTM	This FY				Next FY	TTM	Last Q	Gross Profit		Adj. EBIT
Vale / VALE	47%	28%	9%	22%	22%	20%	8%	66%	840	62%	16%	60%	53%	39%
ITT Educational / ESI	127%	81%	33%	22%	20%	15%	-	9%	245	-1%	-10%	64%	35%	32%
Diana Shipping / DSX	44%	33%	26%	19%	16%	10%	-	181%	428	4%	-10%	75%	45%	59%
AstraZeneca / AZN	59%	48%	12%	16%	16%	14%	6%	4%	549	0%	4%	82%	41%	31%
Telecom Argentina / TEO	279%	224%	n/a	16%	16%	18%	9%	n/m	255	26%	27%	80%	23%	17%
KPN / KKP NY	50%	30%	15%	14%	16%	16%	10%	n/m	518	-4%	-3%	61%	22%	20%
VAALCO Energy / EGY	86%	76%	7%	10%	14%	15%	-	68%	2,033	40%	15%	88%	62%	56%
Endo Pharma / ENDP	34%	21%	13%	6%	13%	16%	-	n/m	827	53%	71%	61%	25%	27%
CNOOC / CEO	49%	28%	7%	13%	13%	12%	3%	48%	7,604	5%	206%	56%	41%	43%
Forest Labs / FRX	83%	65%	11%	14%	13%	4%	-	35%	819	-28%	7%	78%	32%	26%
Diamond Offshore / DO	43%	23%	9%	13%	12%	9%	1%	56%	644	1%	10%	53%	40%	49%
CTC Media / CTCM	59%	56%	10%	11%	11%	12%	10%	15%	659	34%	27%	94%	35%	31%
Copa Holdings / CPA	53%	37%	4%	11%	11%	12%	3%	44%	323	29%	31%	71%	21%	19%
DeVry / DV	111%	63%	11%	13%	11%	12%	1%	21%	212	9%	0%	57%	21%	17%
StatoilHydro / STO	128%	69%	2%	13%	11%	12%	5%	44%	3,489	20%	31%	54%	31%	28%
Lilly / LLY	52%	41%	13%	10%	11%	9%	5%	21%	636	7%	9%	80%	27%	18%
Gilead Sciences / GILD	28%	21%	12%	9%	11%	11%	-	14%	2,046	3%	9%	75%	48%	35%
Microsoft / MSFT	41%	32%	11%	11%	11%	12%	3%	21%	790	8%	7%	77%	38%	37%
Telefonica / TEF	55%	39%	15%	21%	10%	13%	13%	n/m	2,320	4%	4%	71%	15%	23%
Mobile TeleSystems / MBT	62%	44%	5%	9%	10%	12%	7%	5%	309	12%	13%	71%	22%	28%
Merck / MRK	42%	27%	10%	4%	10%	11%	5%	6%	532	-14%	8%	64%	15%	29%
Atwood Oceanics / ATW	24%	16%	neg.	11%	10%	13%	-	67%	496	-34%	11%	65%	51%	48%
Intel / INTC	47%	29%	9%	10%	10%	10%	4%	26%	516	21%	28%	62%	33%	22%
Sotheby's / BID	48%	43%	17%	10%	10%	11%	1%	45%	627	11%	-20%	90%	36%	23%
Reed Elsevier / ENL	26%	17%	neg.	6%	10%	10%	5%	8%	295	-47%	-3%	66%	18%	17%
Novartis / NVS	35%	24%	8%	8%	10%	10%	4%	2%	493	17%	17%	69%	21%	21%
St. Jude Medical / STJ	44%	32%	11%	8%	10%	11%	3%	5%	370	11%	12%	72%	24%	21%
Cisco / CSCO	63%	39%	10%	6%	10%	11%	1%	29%	609	5%	5%	61%	20%	22%
Medtronic / MDT	36%	27%	10%	9%	10%	11%	3%	11%	365	5%	6%	75%	27%	23%
BMC Software / BMC	48%	36%	13%	7%	10%	11%	-	n/m	349	10%	11%	75%	26%	21%
BHP Billiton / BHP	40%	18%	6%	12%	10%	10%	3%	32%	1,760	-35%	84%	44%	44%	38%
China Mobile / CHL	56%	53%	1%	10%	10%	9%	4%	46%	468	-38%	17%	94%	30%	33%
j2 Global Comms / JCOM	29%	24%	10%	9%	10%	10%	3%	12%	527	29%	37%	81%	41%	39%
Smith Corona / SCCO	26%	16%	7%	9%	10%	10%	8%	16%	598	39%	39%	60%	54%	50%
Strayer Education / STRA	55%	31%	9%	10%	9%	8%	4%	4%	307	5%	-8%	57%	30%	32%
Swisscom / SCMWY	43%	34%	10%	11%	9%	12%	4%	n/m	616	-5%	-7%	80%	23%	23%
Reed Elsevier / RUK	28%	18%	neg.	6%	9%	10%	4%	9%	309	-47%	-5%	65%	18%	17%
Occidental Petroleum / OXY	31%	21%	neg.	9%	9%	10%	2%	50%	2,064	22%	27%	70%	45%	41%
Telefonos de Mexico / TMX	41%	25%	11%	8%	9%	8%	6%	25%	155	-6%	-3%	62%	24%	30%
Knightsbridge / VLCCF	20%	14%	neg.	10%	9%	8%	14%	104%	n/m	3%	-13%	68%	40%	58%
Amgen / AMGN	31%	27%	10%	7%	9%	10%	2%	17%	904	3%	3%	85%	27%	33%
Rogers Comms / RCI	41%	37%	8%	8%	9%	9%	4%	n/m	461	1%	1%	90%	24%	18%
Abbott Labs / ABT	n/a	n/a	n/a	n/a	8%	9%	4%	n/m	n/a	n/a	n/a	n/a	n/a	18%
Roche / RHHBY	29%	21%	neg.	6%	8%	9%	4%	n/m	590	-53%	-10%	73%	31%	29%
Oracle / ORCL	28%	22%	8%	6%	8%	9%	1%	8%	334	25%	12%	77%	36%	34%
NII Holdings / NIHD	127%	77%	neg.	9%	8%	10%	-	59%	492	25%	21%	61%	15%	17%
Becton Dickinson / BDx	48%	25%	7%	8%	8%	9%	3%	18%	267	6%	9%	52%	23%	22%
Ebix / EBIX	20%	16%	9%	8%	8%	8%	1%	n/m	136	25%	28%	80%	41%	34%
Smith & Nephew / SNN	52%	38%	7%	8%	8%	9%	2%	19%	416	7%	10%	73%	22%	19%
Dolby Laboratories / DLB	39%	34%	10%	9%	8%	8%	-	40%	698	4%	7%	88%	45%	45%

<i>(Click data to visit relevant websites)</i>	Public Market Valuation								Operating Performance					
	TTM Rev./ EV	TTM GP/ EV	TTM FCF Yield	EPS Yield		Div. Yield	Tang. Book/ MV	Rev./ Empl. (\$000)	Δ Rev.		% TTM Revenue		5-Yr. Op. Margin	
				TTM	This FY				Next FY	TTM	Last Q	Gross Profit		Adj. EBIT
Stryker / SYK	50%	33%	6%	7%	8%	9%	2%	23%	404	13%	15%	67%	22%	23%
Lincare / LNCR	66%	46%	9%	8%	8%	9%	3%	n/m	174	8%	13%	70%	19%	22%
Energen / EGN	36%	30%	neg.	9%	8%	8%	1%	71%	1,026	-27%	28%	85%	35%	34%
BCE / BCE	39%	29%	5%	7%	8%	8%	5%	n/m	365	-17%	9%	73%	27%	19%
Eaton Vance / EV	n/m	n/m	n/a	8%	8%	9%	3%	9%	1,152	-10%	-3%	80%	35%	29%
Johnson & Johnson / JNJ	40%	27%	7%	6%	8%	8%	4%	16%	551	3%	7%	69%	24%	26%
Natural Resource / NRP	11%	11%	5%	4%	8%	8%	9%	22%	4,644	23%	28%	99%	69%	64%
Superior Energy / SPN	65%	30%	3%	6%	8%	11%	-	32%	342	31%	30%	45%	14%	18%
TD Ameritrade / AMTD	n/m	n/m	8%	7%	8%	9%	2%	7%	508	8%	15%	63%	38%	41%
Utah Medical / UTMD	30%	17%	n/a	7%	7%	9%	4%	n/m	214	35%	74%	58%	32%	37%
C.R. Bard / BCR	38%	24%	9%	4%	7%	8%	1%	10%	245	7%	6%	62%	28%	24%
Texas Instruments / TXN	38%	20%	8%	8%	7%	7%	2%	10%	487	3%	-7%	51%	28%	24%
ADTRAN / ADTN	41%	24%	7%	8%	7%	8%	1%	36%	425	25%	18%	58%	27%	23%
Telstra / TLSYY	48%	30%	1%	8%	7%	9%	9%	11%	705	-51%	0%	62%	27%	21%
Diageo / DEO	25%	15%	1%	6%	7%	8%	3%	n/m	642	-43%	9%	60%	26%	27%
SEI Investments / SEIC	n/m	n/m	8%	7%	7%	8%	2%	26%	417	-2%	6%	94%	23%	37%
GlaxoSmithKline / GSK	34%	25%	6%	4%	7%	8%	5%	n/m	444	-6%	4%	73%	22%	28%
Altria Group / MO	33%	12%	6%	6%	7%	8%	6%	n/m	2,360	-3%	-5%	37%	26%	24%
Enesco / ESV	15%	7%	1%	6%	7%	13%	3%	70%	818	26%	114%	49%	30%	51%
Waste Management / WM	56%	51%	8%	7%	7%	7%	4%	n/m	307	7%	9%	92%	16%	16%
Wright Express / WXS	22%	18%	neg.	6%	7%	8%	-	0%	599	47%	52%	82%	42%	50%
International Game / IGT	34%	20%	9%	6%	7%	8%	2%	1%	425	-42%	14%	58%	27%	24%
Altera / ALTR	27%	19%	8%	8%	7%	6%	1%	26%	811	23%	-1%	71%	44%	29%
PepsiCo / PEP	52%	28%	5%	6%	7%	7%	3%	n/m	219	22%	13%	53%	16%	17%
Qualcomm / QCOM	19%	13%	5%	5%	7%	8%	2%	23%	706	10%	39%	67%	35%	29%
Apollo Group / APOL	85%	53%	11%	8%	7%	7%	-	15%	86	-4%	-11%	63%	25%	23%
SAP / SAP	27%	19%	7%	5%	7%	7%	2%	2%	329	16%	14%	71%	29%	24%
Bristol Myers / BMY	38%	28%	8%	6%	7%	6%	4%	13%	774	8%	11%	73%	33%	23%
Equifax / EFX	35%	21%	7%	5%	7%	7%	2%	n/m	297	7%	4%	60%	24%	25%
Analog Devices / ADI	40%	27%	8%	8%	7%	8%	3%	34%	325	8%	-7%	66%	36%	26%
McGraw-Hill / MHP	51%	35%	9%	7%	7%	7%	2%	n/m	301	-14%	-2%	69%	23%	23%
Waters / WAT	29%	18%	6%	6%	7%	7%	-	10%	336	14%	13%	61%	29%	25%
United-Guardian / UG	24%	15%	7%	7%	7%	7%	5%	22%	389	-4%	-13%	61%	43%	36%
National Health / NHI	6%	6%	3%	6%	7%	6%	6%	36%	n/m	-15%	6%	95%	70%	82%
British Am. Tobacco / BTI	22%	17%	0%	5%	7%	7%	4%	n/m	253	-9%	10%	77%	32%	29%
BG Group / BRGY	24%	0%	neg.	5%	7%	6%	1%	29%	3,145	27%	22%	n/m	38%	38%
Philip Morris / PM	52%	14%	8%	6%	6%	7%	4%	n/m	961	12%	22%	27%	18%	16%
Procter & Gamble / PG	40%	20%	5%	6%	6%	7%	3%	n/m	654	6%	9%	50%	19%	20%
Graco / GGG	38%	21%	5%	6%	6%	7%	2%	10%	399	27%	20%	56%	24%	22%
Tiffany & Co. / TIF	43%	25%	0%	5%	6%	7%	2%	29%	387	20%	21%	59%	21%	18%
Coach / COH	24%	18%	5%	5%	6%	7%	2%	8%	826	14%	15%	72%	31%	34%
Sigma-Aldrich / SIAL	33%	17%	5%	6%	6%	6%	1%	20%	298	10%	11%	53%	26%	23%
Google / GOOG	22%	14%	5%	5%	6%	7%	-	23%	1,141	30%	33%	65%	34%	32%
DENTSPLY / XRAY	36%	18%	6%	5%	6%	7%	1%	n/m	244	7%	14%	51%	16%	18%
TransDigm / TDG	16%	9%	5%	3%	6%	7%	-	n/m	317	46%	54%	55%	46%	41%
Xilinx / XLNX	32%	21%	12%	7%	6%	7%	2%	28%	750	3%	-10%	65%	31%	25%
True Religion / TRLG	60%	39%	7%	5%	6%	7%	-	33%	247	19%	17%	64%	19%	24%
Coca-Cola / KO	28%	17%	4%	8%	6%	6%	3%	4%	329	43%	45%	61%	20%	26%
Intuit / INTU	26%	21%	6%	4%	6%	6%	1%	2%	489	-19%	12%	83%	27%	24%
Arbitron / ARB	44%	21%	9%	6%	6%	6%	1%	6%	372	7%	6%	47%	20%	18%

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

Top 100, by Next FY EPS Yield (consensus estimates)

(Click data to visit relevant websites)	Public Market Valuation							Operating Performance						
	TTM Rev./EV	TTM GP/EV	TTM FCF Yield	EPS Yield			Div. Yield	Tang. Book/MV	Rev./Empl. (\$000)	Δ Rev.		% TTM Revenue		5-Yr. Op. Margin
				TTM	This FY	Next FY				TTM	Last Q	Gross Profit	Adj. EBIT	
Vale / VALE	47%	28%	9%	22%	22%	20%	8%	66%	840	62%	16%	60%	53%	39%
Telecom Argentina / TEO	279%	224%	n/a	16%	16%	18%	9%	n/m	255	26%	27%	80%	23%	17%
KPN / KKPNY	50%	30%	15%	14%	16%	16%	10%	n/m	518	-4%	-3%	61%	22%	20%
Endo Pharma / ENDP	34%	21%	13%	6%	13%	16%	-	n/m	827	53%	71%	61%	25%	27%
VAALCO Energy / EGY	86%	76%	7%	10%	14%	15%	-	68%	2,033	40%	15%	88%	62%	56%
ITT Educational / ESI	127%	81%	33%	22%	20%	15%	-	9%	245	-1%	-10%	64%	35%	32%
AstraZeneca / AZN	59%	48%	12%	16%	16%	14%	6%	4%	549	0%	4%	82%	41%	31%
Telefonica / TEF	55%	39%	15%	21%	10%	13%	13%	n/m	2,320	4%	4%	71%	15%	23%
Ensco / ESV	15%	7%	1%	6%	7%	13%	3%	70%	818	26%	114%	49%	30%	51%
Noble Corp. / NE	23%	10%	neg.	4%	5%	13%	2%	95%	439	-34%	20%	45%	16%	47%
Atwood Oceanics / ATW	24%	16%	neg.	11%	10%	13%	-	67%	496	-34%	11%	65%	51%	48%
CNOOC / CEO	49%	28%	7%	13%	13%	12%	3%	48%	7,604	5%	206%	56%	41%	43%
CTC Media / CTCM	59%	56%	10%	11%	11%	12%	10%	15%	659	34%	27%	94%	35%	31%
Copa Holdings / CPA	53%	37%	4%	11%	11%	12%	3%	44%	323	29%	31%	71%	21%	19%
Mobile TeleSystems / MBT	62%	44%	5%	9%	10%	12%	7%	5%	309	12%	13%	71%	22%	28%
Microsoft / MSFT	41%	32%	11%	11%	11%	12%	3%	21%	790	8%	7%	77%	38%	37%
DeVry / DV	111%	63%	11%	13%	11%	12%	1%	21%	212	9%	0%	57%	21%	17%
Swisscom / SCMWY	43%	34%	10%	11%	9%	12%	4%	n/m	616	-5%	-7%	80%	23%	23%
StatoilHydro / STO	128%	69%	2%	13%	11%	12%	5%	44%	3,489	20%	31%	54%	31%	28%
Superior Energy / SPN	65%	30%	3%	6%	8%	11%	-	32%	342	31%	30%	45%	14%	18%
Gilead Sciences / GILD	28%	21%	12%	9%	11%	11%	-	14%	2,046	3%	9%	75%	48%	35%
St. Jude Medical / STJ	44%	32%	11%	8%	10%	11%	3%	5%	370	11%	12%	72%	24%	21%
Cisco / CSCO	63%	39%	10%	6%	10%	11%	1%	29%	609	5%	5%	61%	20%	22%
Sotheby's / BID	48%	43%	17%	10%	10%	11%	1%	45%	627	11%	-20%	90%	36%	23%
Medtronic / MDT	36%	27%	10%	9%	10%	11%	3%	11%	365	5%	6%	75%	27%	23%
Merck / MRK	42%	27%	10%	4%	10%	11%	5%	6%	532	-14%	8%	64%	15%	29%
BMC Software / BMC	48%	36%	13%	7%	10%	11%	-	n/m	349	10%	11%	75%	26%	21%
Reed Elsevier / ENL	26%	17%	neg.	6%	10%	10%	5%	8%	295	-47%	-3%	66%	18%	17%
Intel / INTC	47%	29%	9%	10%	10%	10%	4%	26%	516	21%	28%	62%	33%	22%
Novartis / NVS	35%	24%	8%	8%	10%	10%	4%	2%	493	17%	17%	69%	21%	21%
NII Holdings / NIHD	127%	77%	neg.	9%	8%	10%	-	59%	492	25%	21%	61%	15%	17%
j2 Global Comms / JCOM	29%	24%	10%	9%	10%	10%	3%	12%	527	29%	37%	81%	41%	39%
Reed Elsevier / RUK	28%	18%	neg.	6%	9%	10%	4%	9%	309	-47%	-5%	65%	18%	17%
Diana Shipping / DSX	44%	33%	26%	19%	16%	10%	-	181%	428	4%	-10%	75%	45%	59%
Amgen / AMGN	31%	27%	10%	7%	9%	10%	2%	17%	904	3%	3%	85%	27%	33%
BHP Billiton / BHP	40%	18%	6%	12%	10%	10%	3%	32%	1,760	-35%	84%	44%	44%	38%
Occidental Petroleum / OXY	31%	21%	neg.	9%	9%	10%	2%	50%	2,064	22%	27%	70%	45%	41%
Smith Corona / SCCO	26%	16%	7%	9%	10%	10%	8%	16%	598	39%	39%	60%	54%	50%
Lincare / LNCR	66%	46%	9%	8%	8%	9%	3%	n/m	174	8%	13%	70%	19%	22%
Roche / RHHBY	29%	21%	neg.	6%	8%	9%	4%	n/m	590	-53%	-10%	73%	31%	29%
Abbott Labs / ABT	n/a	n/a	n/a	n/a	8%	9%	4%	n/m	n/a	n/a	n/a	n/a	n/a	18%
China Mobile / CHL	56%	53%	1%	10%	10%	9%	4%	46%	468	-38%	17%	94%	30%	33%
Rogers Comms / RCI	41%	37%	8%	8%	9%	9%	4%	n/m	461	1%	1%	90%	24%	18%
Oracle / ORCL	28%	22%	8%	6%	8%	9%	1%	8%	334	25%	12%	77%	36%	34%
Becton Dickinson / BDX	48%	25%	7%	8%	8%	9%	3%	18%	267	6%	9%	52%	23%	22%
Lilly / LLY	52%	41%	13%	10%	11%	9%	5%	21%	636	7%	9%	80%	27%	18%
Stryker / SYK	50%	33%	6%	7%	8%	9%	2%	23%	404	13%	15%	67%	22%	23%
TD Ameritrade / AMTD	n/m	n/m	8%	7%	8%	9%	2%	7%	508	8%	15%	63%	38%	41%
Telstra / TLSYY	48%	30%	1%	8%	7%	9%	9%	11%	705	-51%	0%	62%	27%	21%
Diamond Offshore / DO	43%	23%	9%	13%	12%	9%	1%	56%	644	1%	10%	53%	40%	49%

<i>(Click data to visit relevant websites)</i>	Public Market Valuation							Operating Performance						
	TTM Rev./EV	TTM GP/EV	TTM FCF Yield	EPS Yield		Div. Yield	Tang. Book/MV	Rev./Empl. (\$000)	Δ Rev.		% TTM Revenue		5-Yr. Op. Margin	
				TTM	This FY				Next FY	TTM	Last Q	Gross Profit		Adj. EBIT
Smith & Nephew / SNN	52%	38%	7%	8%	8%	9%	2%	19%	416	7%	10%	73%	22%	19%
Utah Medical / UTMD	30%	17%	n/a	7%	7%	9%	4%	n/m	214	35%	74%	58%	32%	37%
Eaton Vance / EV	n/m	n/m	n/a	8%	8%	9%	3%	9%	1,152	-10%	-3%	80%	35%	29%
Petroleum Geo-Svcs / PGSVY	46%	23%	neg.	1%	3%	9%	-	72%	588	8%	52%	49%	12%	24%
Transocean / RIG	43%	15%	7%	neg.	4%	9%	8%	99%	492	-12%	-2%	35%	16%	38%
Telefonos de Mexico / TMX	41%	25%	11%	8%	9%	8%	6%	25%	155	-6%	-3%	62%	24%	30%
Knightsbridge / VLCCF	20%	14%	neg.	10%	9%	8%	14%	104%	n/m	3%	-13%	68%	40%	58%
Johnson & Johnson / JNJ	40%	27%	7%	6%	8%	8%	4%	16%	551	3%	7%	69%	24%	26%
C.R. Bard / BCR	38%	24%	9%	4%	7%	8%	1%	10%	245	7%	6%	62%	28%	24%
BCE / BCE	39%	29%	5%	7%	8%	8%	5%	n/m	365	-17%	9%	73%	27%	19%
Wright Express / WXS	22%	18%	neg.	6%	7%	8%	-	0%	599	47%	52%	82%	42%	50%
Ebix / EBIX	20%	16%	9%	8%	8%	8%	1%	n/m	136	25%	28%	80%	41%	34%
Analog Devices / ADI	40%	27%	8%	8%	7%	8%	3%	34%	325	8%	-7%	66%	36%	26%
Energen / EGN	36%	30%	neg.	9%	8%	8%	1%	71%	1,026	-27%	28%	85%	35%	34%
International Game / IGT	34%	20%	9%	6%	7%	8%	2%	1%	425	-42%	14%	58%	27%	24%
Dolby Laboratories / DLB	39%	34%	10%	9%	8%	8%	-	40%	698	4%	7%	88%	45%	45%
ADTRAN / ADTN	41%	24%	7%	8%	7%	8%	1%	36%	425	25%	18%	58%	27%	23%
GlaxoSmithKline / GSK	34%	25%	6%	4%	7%	8%	5%	n/m	444	-6%	4%	73%	22%	28%
SEI Investments / SEIC	n/m	n/m	8%	7%	7%	8%	2%	26%	417	-2%	6%	94%	23%	37%
Natural Resource / NRP	11%	11%	5%	4%	8%	8%	9%	22%	4,644	23%	28%	99%	69%	64%
Qualcomm / QCOM	19%	13%	5%	5%	7%	8%	2%	23%	706	10%	39%	67%	35%	29%
Strayer Education / STRA	55%	31%	9%	10%	9%	8%	4%	4%	307	5%	-8%	57%	30%	32%
Diageo / DEO	25%	15%	1%	6%	7%	8%	3%	n/m	642	-43%	9%	60%	26%	27%
QEP Resources / QEP	42%	26%	neg.	6%	6%	8%	0%	63%	3,408	26%	51%	63%	23%	32%
Altria Group / MO	33%	12%	6%	6%	7%	8%	6%	n/m	2,360	-3%	-5%	37%	26%	24%
McGraw-Hill / MHP	51%	35%	9%	7%	7%	7%	2%	n/m	301	-14%	-2%	69%	23%	23%
Waste Management / WM	56%	51%	8%	7%	7%	7%	4%	n/m	307	7%	9%	92%	16%	16%
NutriSystem / NTRI	132%	69%	8%	6%	4%	7%	5%	22%	653	-38%	-29%	52%	8%	16%
Waters / WAT	29%	18%	6%	6%	7%	7%	-	10%	336	14%	13%	61%	29%	25%
SAP / SAP	27%	19%	7%	5%	7%	7%	2%	2%	329	16%	14%	71%	29%	24%
Texas Instruments / TXN	38%	20%	8%	8%	7%	7%	2%	10%	487	3%	-7%	51%	28%	24%
United-Guardian / UG	24%	15%	7%	7%	7%	7%	5%	22%	389	-4%	-13%	61%	43%	36%
Apollo Group / APOL	85%	53%	11%	8%	7%	7%	-	15%	86	-4%	-11%	63%	25%	23%
Equifax / EFX	35%	21%	7%	5%	7%	7%	2%	n/m	297	7%	4%	60%	24%	25%
British Am. Tobacco / BTI	22%	17%	0%	5%	7%	7%	4%	n/m	253	-9%	10%	77%	32%	29%
PepsiCo / PEP	52%	28%	5%	6%	7%	7%	3%	n/m	219	22%	13%	53%	16%	17%
Google / GOOG	22%	14%	5%	5%	6%	7%	-	23%	1,141	30%	33%	65%	34%	32%
Procter & Gamble / PG	40%	20%	5%	6%	6%	7%	3%	n/m	654	6%	9%	50%	19%	20%
True Religion / TRLG	60%	39%	7%	5%	6%	7%	-	33%	247	19%	17%	64%	19%	24%
Philip Morris / PM	52%	14%	8%	6%	6%	7%	4%	n/m	961	12%	22%	27%	18%	16%
Coach / COH	24%	18%	5%	5%	6%	7%	2%	8%	826	14%	15%	72%	31%	34%
Graco / GGG	38%	21%	5%	6%	6%	7%	2%	10%	399	27%	20%	56%	24%	22%
VASCO Data Security / VDSI	76%	50%	neg.	7%	5%	7%	-	38%	446	43%	57%	65%	15%	19%
FLIR Systems / FLIR	41%	22%	3%	5%	6%	7%	1%	23%	489	25%	12%	53%	19%	26%
TransDigm / TDG	16%	9%	5%	3%	6%	7%	-	n/m	317	46%	54%	55%	46%	41%
DENTSPLY / XRAY	36%	18%	6%	5%	6%	7%	1%	n/m	244	7%	14%	51%	16%	18%
Tiffany & Co. / TIF	43%	25%	0%	5%	6%	7%	2%	29%	387	20%	21%	59%	21%	18%
Xilinx / XLNX	32%	21%	12%	7%	6%	7%	2%	28%	750	3%	-10%	65%	31%	25%
Arbitron / ARB	44%	21%	9%	6%	6%	6%	1%	6%	372	7%	6%	47%	20%	18%
Sigma-Aldrich / SIAL	33%	17%	5%	6%	6%	6%	1%	20%	298	10%	11%	53%	26%	23%

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

Top 100, by Trailing Gross Profit to Enterprise Value

(Click data to visit relevant websites)	Trading Data					Public Market Valuation								Equity/Assets
	Stock Price (\$)	Δ to Reach 7-Year		Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./EV	TTM GP/EV	TTM FCF Yield	EPS Yield			Div. Yield	Tang. Book/MV	
		Low	High						TTM	This FY	Next FY			
Ambassadors Group / EPAX	4.30	-10%	855%	75	23	307%	272%	neg.	6%	4%	2%	6%	97%	79%
Telecom Argentina / TEO	18.37	-76%	59%	1,941	1,468	279%	224%	n/a	16%	16%	18%	9%	n/m	55%
Daily Journal / DJCO	66.00	-53%	21%	91	19	184%	176%	11%	9%	n/a	n/a	-	71%	71%
ITT Educational / ESI	52.04	-47%	157%	1,388	1,218	127%	81%	33%	22%	20%	15%	-	9%	19%
NII Holdings / NIHD	19.88	-49%	355%	3,403	5,222	127%	77%	neg.	9%	8%	10%	-	59%	35%
VAALCO Energy / EGY	5.65	-75%	85%	323	210	86%	76%	7%	10%	14%	15%	-	68%	83%
NutriSystem / NTRI	12.87	-92%	493%	362	319	132%	69%	8%	6%	4%	7%	5%	22%	55%
StatoilHydro / STO	24.67	-57%	76%	78,592	82,732	128%	69%	2%	13%	11%	12%	5%	44%	36%
Forest Labs / FRX	29.03	-37%	171%	7,756	5,551	83%	65%	11%	14%	13%	4%	-	35%	73%
DeVry / DV	34.10	-62%	118%	2,294	1,969	111%	63%	11%	13%	11%	12%	1%	21%	70%
CTC Media / CTCM	8.89	-73%	257%	1,399	1,267	59%	56%	10%	11%	11%	12%	10%	15%	79%
Apollo Group / APOL	50.15	-34%	95%	6,549	5,576	85%	53%	11%	8%	7%	7%	-	15%	38%
China Mobile / CHL	47.10	-74%	121%	189,852	142,529	56%	53%	1%	10%	10%	9%	4%	46%	66%
Waste Management / WM	31.00	-29%	33%	14,270	23,601	56%	51%	8%	7%	7%	7%	4%	n/m	27%
VASCO Data Security / VDSI	7.30	-75%	506%	278	200	76%	50%	neg.	7%	5%	7%	-	38%	80%
AstraZeneca / AZN	45.25	-34%	47%	58,510	57,175	59%	48%	12%	16%	16%	14%	6%	4%	46%
Lincare / LNCR	23.97	-46%	40%	2,123	2,688	66%	46%	9%	8%	8%	9%	3%	n/m	43%
Mobile TeleSystems / MBT	14.28	-49%	196%	14,201	19,869	62%	44%	5%	9%	10%	12%	7%	5%	23%
Sotheby's / BID	27.90	-78%	120%	1,885	1,805	48%	43%	17%	10%	10%	11%	1%	45%	45%
Lilly / LLY	40.53	-33%	90%	46,924	47,220	52%	41%	13%	10%	11%	9%	5%	21%	46%
MicroStrategy / MSTR	108.68	-73%	64%	1,170	983	55%	41%	1%	2%	2%	3%	-	13%	39%
Cisco / CSCO	17.94	-26%	91%	96,443	68,908	63%	39%	10%	6%	10%	11%	1%	29%	54%
True Religion / TRLG	33.99	-98%	11%	869	687	60%	39%	7%	5%	6%	7%	-	33%	83%
Telefonica / TEF	16.63	-19%	107%	76,241	150,649	55%	39%	15%	21%	10%	13%	13%	n/m	14%
Smith & Nephew / SNN	44.34	-32%	56%	7,966	8,163	52%	38%	7%	8%	8%	9%	2%	19%	63%
Copa Holdings / CPA	61.00	-70%	20%	2,701	3,307	53%	37%	4%	11%	11%	12%	3%	44%	43%
Rogers Comms / RCI	35.45	-77%	53%	18,958	28,798	41%	37%	8%	8%	9%	9%	4%	n/m	21%
BMC Software / BMC	33.17	-59%	70%	5,646	4,492	48%	36%	13%	7%	10%	11%	-	n/m	36%
McGraw-Hill / MHP	42.75	-60%	70%	12,543	12,267	51%	35%	9%	7%	7%	7%	2%	n/m	31%
Dolby Laboratories / DLB	31.40	-54%	123%	3,414	2,472	39%	34%	10%	9%	8%	8%	-	40%	88%
Swisscom / SCMWY	36.36	-34%	36%	19,003	28,826	43%	34%	10%	11%	9%	12%	4%	n/m	24%
Trend Micro / TMICY	30.61	-32%	89%	4,322	2,988	42%	34%	5%	5%	n/a	n/a	3%	28%	53%
Stryker / SYK	46.21	-33%	66%	17,683	16,250	50%	33%	6%	7%	8%	9%	2%	23%	63%
Telekom Indonesia / TLK	31.37	-55%	82%	15,875	16,796	46%	33%	12%	8%	n/a	n/a	5%	31%	46%
Diana Shipping / DSX	7.99	-18%	445%	655	622	44%	33%	26%	19%	16%	10%	-	181%	75%
Heartland Express / HTLD	13.96	-24%	43%	1,218	1,066	49%	33%	2%	5%	5%	6%	1%	28%	65%
St. Jude Medical / STJ	32.95	-24%	66%	10,511	12,553	44%	32%	11%	8%	10%	11%	3%	5%	49%
Travelzoo / TZOO	27.62	-87%	301%	441	409	35%	32%	3%	0%	5%	6%	-	6%	46%
Microsoft / MSFT	26.00	-43%	44%	218,717	173,241	41%	32%	11%	11%	11%	12%	3%	21%	55%
Strayer Education / STRA	93.59	-26%	180%	1,124	1,171	55%	31%	9%	10%	9%	8%	4%	4%	20%
MOCON / MOCO	15.79	-58%	12%	86	75	49%	31%	8%	6%	n/a	n/a	3%	33%	84%
Big Rock Brewery / BRBMF	11.81	-62%	61%	72	73	59%	31%	12%	3%	n/a	n/a	7%	44%	72%
Energen / EGN	48.64	-59%	64%	3,506	4,364	36%	30%	neg.	9%	8%	8%	1%	71%	51%
KPN / KKPNY	11.56	-40%	69%	17,211	34,445	50%	30%	15%	14%	16%	16%	10%	n/m	12%
EnCana / ECA	18.40	-45%	189%	13,485	21,826	34%	30%	neg.	neg.	n/a	n/a	4%	111%	48%
Telstra / TLSYY	16.19	-39%	45%	40,339	52,177	48%	30%	1%	8%	7%	9%	9%	11%	32%
Superior Energy / SPN	27.33	-68%	111%	2,183	2,973	65%	30%	3%	6%	8%	11%	-	32%	41%
Intel / INTC	23.23	-48%	49%	118,287	110,231	47%	29%	9%	10%	10%	10%	4%	26%	65%
BCE / BCE	39.02	-57%	14%	30,270	46,882	39%	29%	5%	7%	8%	8%	5%	n/m	26%
Vale / VALE	21.09	-84%	109%	111,121	127,827	47%	28%	9%	22%	22%	20%	8%	66%	60%

<i>(Click data to visit relevant websites)</i>	Trading Data					Public Market Valuation								Equity/Assets
	Stock Price (\$)	Δ to Reach 7-Year		Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./EV	TTM GP/ EV	TTM FCF Yield	EPS Yield			Div. Yield	Tang. Book/ MV	
		Low	High						TTM	This FY	Next FY			
CNOOC / CEO	178.01	-81%	53%	79,221	71,720	49%	28%	7%	13%	13%	12%	3%	48%	68%
PepsiCo / PEP	64.71	-32%	23%	101,168	124,484	52%	28%	5%	6%	7%	7%	3%	n/m	31%
Bristol Myers / BMY	34.22	-53%	1%	57,987	55,413	38%	28%	8%	6%	7%	6%	4%	13%	52%
Medtronic / MDT	35.30	-32%	70%	37,254	45,360	36%	27%	10%	9%	10%	11%	3%	11%	53%
EOG Resources / EOG	97.68	-78%	48%	26,261	30,102	30%	27%	neg.	4%	4%	5%	1%	48%	50%
Johnson & Johnson / JNJ	64.30	-28%	13%	175,594	163,024	40%	27%	7%	6%	8%	8%	4%	16%	55%
Merck / MRK	36.25	-45%	70%	110,487	113,058	42%	27%	10%	4%	10%	11%	5%	6%	52%
Amgen / AMGN	60.05	-35%	45%	52,637	49,226	31%	27%	10%	7%	9%	10%	2%	17%	51%
Analog Devices / ADI	34.16	-55%	53%	10,178	7,472	40%	27%	8%	8%	7%	8%	3%	34%	72%
Corporate Executive / EXBD	37.58	-67%	201%	1,251	1,151	41%	26%	7%	4%	4%	5%	2%	1%	15%
QEP Resources / QEP	28.87	-18%	57%	5,109	6,718	42%	26%	neg.	6%	6%	8%	0%	63%	45%
Dassault / DASTY	75.79	-59%	20%	9,248	7,857	29%	25%	6%	4%	5%	5%	1%	10%	58%
LVMH / LVMUY	26.90	-67%	86%	68,829	74,289	38%	25%	0%	7%	n/a	n/a	2%	5%	46%
Tiffany & Co. / TIF	62.61	-73%	35%	7,949	8,360	43%	25%	0%	5%	6%	7%	2%	29%	59%
Telefonos de Mexico / TMX	14.63	-40%	86%	13,359	19,795	41%	25%	11%	8%	9%	8%	6%	25%	30%
Becton Dickinson / BDx	70.65	-42%	32%	15,182	16,338	48%	25%	7%	8%	8%	9%	3%	18%	46%
GlaxoSmithKline / GSK	44.89	-40%	34%	112,941	127,776	34%	25%	6%	4%	7%	8%	5%	n/m	18%
ADTRAN / ADTN	28.60	-58%	67%	1,821	1,713	41%	24%	7%	8%	7%	8%	1%	36%	83%
Novartis / NVS	55.35	-40%	17%	151,902	170,224	35%	24%	8%	8%	10%	10%	4%	2%	54%
j2 Global Comms / JCOM	26.33	-64%	42%	1,249	1,086	29%	24%	10%	9%	10%	10%	3%	12%	84%
C.R. Bard / BCR	86.16	-53%	32%	7,391	7,533	38%	24%	9%	4%	7%	8%	1%	10%	52%
Diamond Offshore / DO	54.29	-63%	175%	7,548	7,894	43%	23%	9%	13%	12%	9%	1%	56%	62%
Petroleum Geo-Svcs / PGSVY	9.62	-71%	241%	2,115	2,688	46%	23%	neg.	1%	3%	9%	-	72%	59%
Grupo Televisa / TV	20.07	-52%	56%	9,657	12,181	36%	22%	n/a	5%	5%	6%	1%	22%	33%
FLIR Systems / FLIR	25.18	-65%	81%	3,928	3,801	41%	22%	3%	5%	6%	7%	1%	23%	74%
Oracle / ORCL	29.21	-67%	25%	147,353	130,482	28%	22%	8%	6%	8%	9%	1%	8%	55%
Contango Oil & Gas / MCF	59.69	-91%	59%	917	779	25%	22%	6%	6%	n/a	n/a	-	47%	70%
Graco / GGG	38.06	-63%	43%	2,272	2,305	38%	21%	5%	6%	6%	7%	2%	10%	40%
Occidental Petroleum / OXY	89.27	-76%	32%	72,468	74,299	31%	21%	neg.	9%	9%	10%	2%	50%	64%
Equifax / EFX	37.73	-49%	23%	4,568	5,502	35%	21%	7%	5%	7%	7%	2%	n/m	50%
Intuit / INTU	51.78	-65%	9%	15,392	15,340	26%	21%	6%	4%	6%	6%	1%	2%	50%
Roche / RHHBY	42.20	-38%	17%	146,904	166,308	29%	21%	neg.	6%	8%	9%	4%	n/m	16%
Gilead Sciences / GILD	37.16	-65%	55%	27,912	29,549	28%	21%	12%	9%	11%	11%	-	14%	48%
Xilinx / XLNX	31.21	-54%	45%	8,191	7,284	32%	21%	12%	7%	6%	7%	2%	28%	58%
Endo Pharma / ENDP	34.97	-60%	27%	4,086	7,265	34%	21%	13%	6%	13%	16%	-	n/m	26%
Arbitron / ARB	35.42	-72%	57%	965	949	44%	21%	9%	6%	6%	6%	1%	6%	54%
Colgate Palmolive / CL	89.89	-52%	6%	43,507	47,246	35%	20%	6%	6%	6%	6%	3%	n/m	21%
MICROS Systems / MCRS	45.18	-77%	18%	3,620	2,885	36%	20%	5%	4%	5%	5%	-	20%	71%
Procter & Gamble / PG	65.14	-40%	15%	179,221	210,708	40%	20%	5%	6%	6%	7%	3%	n/m	47%
WebMD Health / WBMD	38.31	-64%	66%	2,183	1,881	31%	20%	5%	3%	3%	2%	-	20%	41%
Texas Instruments / TXN	28.69	-53%	38%	32,783	35,966	38%	20%	8%	8%	7%	7%	2%	10%	53%
International Game / IGT	15.70	-57%	215%	4,672	5,795	34%	20%	9%	6%	7%	8%	2%	1%	35%
SAP / SAP	54.61	-46%	25%	67,505	66,460	27%	19%	7%	5%	7%	7%	2%	2%	53%
Altera / ALTR	34.09	-62%	45%	10,938	8,149	27%	19%	8%	8%	7%	6%	1%	26%	66%
Novo Nordisk / NVO	111.53	-82%	19%	52,639	49,809	23%	19%	6%	4%	5%	6%	2%	12%	57%
National Research / NRCI	34.66	-64%	28%	233	242	30%	19%	6%	4%	5%	6%	3%	n/m	53%
Petroleum Develop't / PETD	35.28	-73%	124%	833	1,281	29%	18%	neg.	neg.	1%	3%	-	81%	42%
Morningstar / MORN	58.30	-68%	47%	2,916	2,483	25%	18%	4%	3%	3%	4%	1%	13%	74%
DENTSPLY / XRAY	34.66	-40%	38%	4,906	6,664	36%	18%	6%	5%	6%	7%	1%	n/m	38%
Reed Elsevier / RUK	31.32	-17%	77%	17,608	17,608	28%	18%	neg.	6%	9%	10%	4%	9%	99%

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

Top 100, by Tangible Book Value to Market Value

(Click data to visit relevant websites)	Trading Data					Public Market Valuation								Tang. Equity/ Tang. Assets
	Stock Price (\$)	Δ to Reach 7-Year		Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./ EV	TTM GP/ EV	TTM FCF Yield	EPS Yield			Div. Yield	Tang. Book/ MV	
		Low	High						TTM	This FY	Next FY			
Diana Shipping / DSX	7.99	-18%	445%	655	622	44%	33%	26%	19%	16%	10%	-	181%	75%
EnCana / ECA	18.40	-45%	189%	13,485	21,826	34%	30%	neg.	neg.	n/a	n/a	4%	111%	45%
Knightsbridge / VLCCF	14.43	-31%	229%	353	454	20%	14%	neg.	10%	9%	8%	14%	104%	69%
Transocean / RIG	39.83	-38%	309%	12,790	20,604	43%	15%	7%	neg.	4%	9%	8%	99%	45%
Ambassadors Group / EPAX	4.30	-10%	855%	75	23	307%	272%	neg.	6%	4%	2%	6%	97%	76%
Noble Corp. / NE	30.60	-45%	125%	7,725	11,340	23%	10%	neg.	4%	5%	13%	2%	95%	57%
Getty Realty Corp. / GTY	13.38	-9%	153%	447	604	17%	14%	neg.	10%	n/a	n/a	8%	90%	64%
Petroleum Develop't / PETD	35.28	-73%	124%	833	1,281	29%	18%	neg.	neg.	1%	3%	-	81%	42%
Petroleum Geo-Svcs / PGSVY	9.62	-71%	241%	2,115	2,688	46%	23%	neg.	1%	3%	9%	-	72%	56%
Daily Journal / DJCO	66.00	-53%	21%	91	19	184%	176%	11%	9%	n/a	n/a	-	71%	71%
Energen / EGN	48.64	-59%	64%	3,506	4,364	36%	30%	neg.	9%	8%	8%	1%	71%	51%
EnSCO / ESV	46.23	-52%	80%	10,662	15,306	15%	7%	1%	6%	7%	13%	3%	70%	52%
VAALCO Energy / EGY	5.65	-75%	85%	323	210	86%	76%	7%	10%	14%	15%	-	68%	83%
Atwood Oceanics / ATW	38.23	-79%	66%	2,483	2,714	24%	16%	neg.	11%	10%	13%	-	67%	70%
Vale / VALE	21.09	-84%	109%	111,121	127,827	47%	28%	9%	22%	22%	20%	8%	66%	59%
QEP Resources / QEP	28.87	-18%	57%	5,109	6,718	42%	26%	neg.	6%	6%	8%	0%	63%	44%
NII Holdings / NIHD	19.88	-49%	355%	3,403	5,222	127%	77%	neg.	9%	8%	10%	-	59%	25%
Diamond Offshore / DO	54.29	-63%	175%	7,548	7,894	43%	23%	9%	13%	12%	9%	1%	56%	62%
Occidental Petroleum / OXY	89.27	-76%	32%	72,468	74,299	31%	21%	neg.	9%	9%	10%	2%	50%	64%
CNOOC / CEO	178.01	-81%	53%	79,221	71,720	49%	28%	7%	13%	13%	12%	3%	48%	68%
EOG Resources / EOG	97.68	-78%	48%	26,261	30,102	30%	27%	neg.	4%	4%	5%	1%	48%	50%
Contango Oil & Gas / MCF	59.69	-91%	59%	917	779	25%	22%	6%	6%	n/a	n/a	-	47%	70%
China Mobile / CHL	47.10	-74%	121%	189,852	142,529	56%	53%	1%	10%	10%	9%	4%	46%	64%
Sotheby's / BID	27.90	-78%	120%	1,885	1,805	48%	43%	17%	10%	10%	11%	1%	45%	45%
Big Rock Brewery / BRBMF	11.81	-62%	61%	72	73	59%	31%	12%	3%	n/a	n/a	7%	44%	71%
StatOilHydro / STO	24.67	-57%	76%	78,592	82,732	128%	69%	2%	13%	11%	12%	5%	44%	30%
Copa Holdings / CPA	61.00	-70%	20%	2,701	3,307	53%	37%	4%	11%	11%	12%	3%	44%	42%
U.S. Global Investors / GROW	6.12	-80%	494%	95	n/m	n/m	n/m	9%	8%	n/a	n/a	4%	43%	90%
Dolby Laboratories / DLB	31.40	-54%	123%	3,414	2,472	39%	34%	10%	9%	8%	8%	-	40%	86%
VASCO Data Security / VDSI	7.30	-75%	506%	278	200	76%	50%	neg.	7%	5%	7%	-	38%	77%
AboveNet / ABVT	65.74	n/a	n/a	1,698	1,651	n/a	n/a	n/a	n/a	4%	4%	-	37%	71%
National Health / NHI	44.21	-61%	12%	1,226	1,259	6%	6%	3%	6%	7%	6%	6%	36%	86%
ADTRAN / ADTN	28.60	-58%	67%	1,821	1,713	41%	24%	7%	8%	7%	8%	1%	36%	83%
Forest Labs / FRX	29.03	-37%	171%	7,756	5,551	83%	65%	11%	14%	13%	4%	-	35%	59%
Analog Devices / ADI	34.16	-55%	53%	10,178	7,472	40%	27%	8%	8%	7%	8%	3%	34%	70%
MOCON / MOCO	15.79	-58%	12%	86	75	49%	31%	8%	6%	n/a	n/a	3%	33%	82%
True Religion / TRLG	33.99	-98%	11%	869	687	60%	39%	7%	5%	6%	7%	-	33%	83%
Superior Energy / SPN	27.33	-68%	111%	2,183	2,973	65%	30%	3%	6%	8%	11%	-	32%	26%
BHP Billiton / BHP	69.78	-79%	50%	172,419	177,978	40%	18%	6%	12%	10%	10%	3%	32%	55%
Can. Nat. Railway / CNI	73.48	-75%	11%	32,504	38,499	22%	12%	5%	7%	n/a	n/a	2%	32%	42%
Telekom Indonesia / TLK	31.37	-55%	82%	15,875	16,796	46%	33%	12%	8%	n/a	n/a	5%	31%	45%
Mesa Laboratories / MLAB	40.58	-80%	3%	133	132	27%	16%	7%	5%	5%	6%	1%	30%	79%
Hittite Microwave / HITT	48.95	-64%	38%	1,534	1,183	23%	17%	5%	6%	5%	5%	-	29%	94%
Tiffany & Co. / TIF	62.61	-73%	35%	7,949	8,360	43%	25%	0%	5%	6%	7%	2%	29%	59%
Cisco / CSCO	17.94	-26%	91%	96,443	68,908	63%	39%	10%	6%	10%	11%	1%	29%	41%
NVE Corp. / NVEC	55.23	-79%	26%	264	251	12%	8%	5%	5%	5%	6%	-	29%	98%
BG Group / BRGYY	102.04	-75%	35%	69,495	80,682	24%	0%	neg.	5%	7%	6%	1%	29%	41%
Heartland Express / HTLD	13.96	-24%	43%	1,218	1,066	49%	33%	2%	5%	5%	6%	1%	28%	64%
Xilinx / XLNX	31.21	-54%	45%	8,191	7,284	32%	21%	12%	7%	6%	7%	2%	28%	56%
Trend Micro / TMICY	30.61	-32%	89%	4,322	2,988	42%	34%	5%	5%	n/a	n/a	3%	28%	51%

<i>(Click data to visit relevant websites)</i>	Trading Data					Public Market Valuation							Tang. Equity/ Tang. Assets	
	Stock Price (\$)	Δ to Reach 7-Year		Market Value (\$mm)	Enter. Value (\$mm)	TTM Rev./EV	TTM GP/ EV	TTM FCF Yield	EPS Yield			Div. Yield		Tang. Book/ MV
		Low	High						TTM	This FY	Next FY			
Microchip Technology / MCHP	34.48	-53%	23%	6,590	5,526	26%	16%	6%	6%	5%	6%	4%	27%	61%
Cabot Oil & Gas / COG	74.17	-87%	21%	7,750	8,892	10%	8%	neg.	2%	2%	3%	0%	26%	46%
Altera / ALTR	34.09	-62%	45%	10,938	8,149	27%	19%	8%	8%	7%	6%	1%	26%	66%
Ritchie Auctioneers / RBA	20.06	-58%	58%	2,149	2,131	17%	16%	1%	3%	n/a	n/a	2%	26%	55%
Intel / INTC	23.23	-48%	49%	118,287	110,231	47%	29%	9%	10%	10%	10%	4%	26%	56%
SEI Investments / SEIC	16.37	-44%	102%	2,927	n/m	n/m	n/m	8%	7%	7%	8%	2%	26%	75%
Telefonos de Mexico / TMX	14.63	-40%	86%	13,359	19,795	41%	25%	11%	8%	9%	8%	6%	25%	30%
Qualcomm / QCOM	52.61	-49%	14%	88,437	77,779	19%	13%	5%	5%	7%	8%	2%	23%	68%
Stryker / SYK	46.21	-33%	66%	17,683	16,250	50%	33%	6%	7%	8%	9%	2%	23%	47%
FLIR Systems / FLIR	25.18	-65%	81%	3,928	3,801	41%	22%	3%	5%	6%	7%	1%	23%	62%
Google / GOOG	625.96	-85%	19%	202,741	164,385	22%	14%	5%	5%	6%	7%	-	23%	76%
United-Guardian / UG	14.90	-64%	21%	69	57	24%	15%	7%	7%	7%	7%	5%	22%	93%
Grupo Televisa / TV	20.07	-52%	56%	9,657	12,181	36%	22%	n/a	5%	5%	6%	1%	22%	23%
Natural Resource / NRP	25.37	-50%	69%	2,690	3,369	11%	11%	5%	4%	8%	8%	9%	22%	38%
NutriSystem / NTRI	12.87	-92%	493%	362	319	132%	69%	8%	6%	4%	7%	5%	22%	55%
DeVry / DV	34.10	-62%	118%	2,294	1,969	111%	63%	11%	13%	11%	12%	1%	21%	44%
Lilly / LLY	40.53	-33%	90%	46,924	47,220	52%	41%	13%	10%	11%	9%	5%	21%	35%
Microsoft / MSFT	26.00	-43%	44%	218,717	173,241	41%	32%	11%	11%	11%	12%	3%	21%	49%
Continental Resource / CLR	64.05	-81%	31%	11,560	12,414	13%	13%	neg.	4%	4%	5%	-	21%	47%
Dorchester Minerals / DMLP	22.38	-36%	63%	687	675	9%	9%	8%	5%	n/a	n/a	7%	20%	96%
WebMD Health / WBMD	38.31	-64%	66%	2,183	1,881	31%	20%	5%	3%	3%	2%	-	20%	31%
Sigma-Aldrich / SIAL	63.15	-58%	21%	7,606	7,509	33%	17%	5%	6%	6%	6%	1%	20%	58%
MICROS Systems / MCRS	45.18	-77%	18%	3,620	2,885	36%	20%	5%	4%	5%	5%	-	20%	64%
Check Point Software /CHKP	54.18	-70%	14%	11,292	10,082	12%	10%	6%	4%	5%	6%	-	20%	71%
T. Rowe Price / TROW	54.28	-63%	31%	13,713	n/m	n/m	n/m	7%	5%	5%	6%	2%	19%	82%
Smith & Nephew / SNN	44.34	-32%	56%	7,966	8,163	52%	38%	7%	8%	8%	9%	2%	19%	46%
Techne Corp. / TECH	67.52	-51%	28%	2,498	2,365	13%	10%	5%	5%	5%	5%	2%	18%	92%
Becton Dickinson / BDx	70.65	-42%	32%	15,182	16,338	48%	25%	7%	8%	8%	9%	3%	18%	33%
Amgen / AMGN	60.05	-35%	45%	52,637	49,226	31%	27%	10%	7%	9%	10%	2%	17%	29%
Smith Corona / SCCO	29.46	-85%	71%	24,775	25,747	26%	16%	7%	9%	10%	10%	8%	16%	51%
Johnson & Johnson / JNJ	64.30	-28%	13%	175,594	163,024	40%	27%	7%	6%	8%	8%	4%	16%	35%
Apollo Group / APOL	50.15	-34%	95%	6,549	5,576	85%	53%	11%	8%	7%	7%	-	15%	33%
CTC Media / CTCM	8.89	-73%	257%	1,399	1,267	59%	56%	10%	11%	11%	12%	10%	15%	50%
Gilead Sciences / GILD	37.16	-65%	55%	27,912	29,549	28%	21%	12%	9%	11%	11%	-	14%	38%
Meridian Bioscience / VIVO	18.30	-77%	102%	755	731	22%	14%	2%	4%	5%	5%	4%	14%	86%
Bristol Myers / BMY	34.22	-53%	1%	57,987	55,413	38%	28%	8%	6%	7%	6%	4%	13%	34%
MicroStrategy / MSTR	108.68	-73%	64%	1,170	983	55%	41%	1%	2%	2%	3%	-	13%	38%
Intuitive Surgical / ISRG	432.12	-97%	4%	16,850	15,940	10%	7%	3%	3%	3%	3%	-	13%	85%
Morningstar / MORN	58.30	-68%	47%	2,916	2,483	25%	18%	4%	3%	3%	4%	1%	13%	55%
j2 Global Comms / JCOM	26.33	-64%	42%	1,249	1,086	29%	24%	10%	9%	10%	10%	3%	12%	59%
Greenhill & Co. / GHl	36.49	-50%	163%	1,055	n/m	n/m	n/m	9%	3%	4%	6%	5%	12%	46%
Novo Nordisk / NVO	111.53	-82%	19%	52,639	49,809	23%	19%	6%	4%	5%	6%	2%	12%	56%
Fastenal Company / FAST	41.42	-74%	4%	12,227	12,090	22%	11%	1%	3%	3%	3%	1%	12%	85%
Telstra / TLSYY	16.19	-39%	45%	40,339	52,177	48%	30%	1%	8%	7%	9%	9%	11%	15%
Winmark / WINA	57.20	-86%	0%	284	n/m	n/m	n/m	0%	4%	n/a	n/a	0%	11%	71%
Hansen Natural / HANS	95.89	-99%	1%	8,350	7,652	21%	11%	3%	3%	3%	4%	-	11%	76%
Medtronic / MDT	35.30	-32%	70%	37,254	45,360	36%	27%	10%	9%	10%	11%	3%	11%	21%
Waters / WAT	71.61	-58%	40%	6,417	6,194	29%	18%	6%	6%	7%	7%	-	10%	31%
Texas Instruments / TXN	28.69	-53%	38%	32,783	35,966	38%	20%	8%	8%	7%	7%	2%	10%	25%
C.R. Bard / BCR	86.16	-53%	32%	7,391	7,533	38%	24%	9%	4%	7%	8%	1%	10%	30%

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

Profiling 20 Wide-Moat Businesses On Sale

Adobe Systems (ADBE) – Primecap, ValueAct, GS, Pennant

Technology: Software & Programming, Member of S&P 500

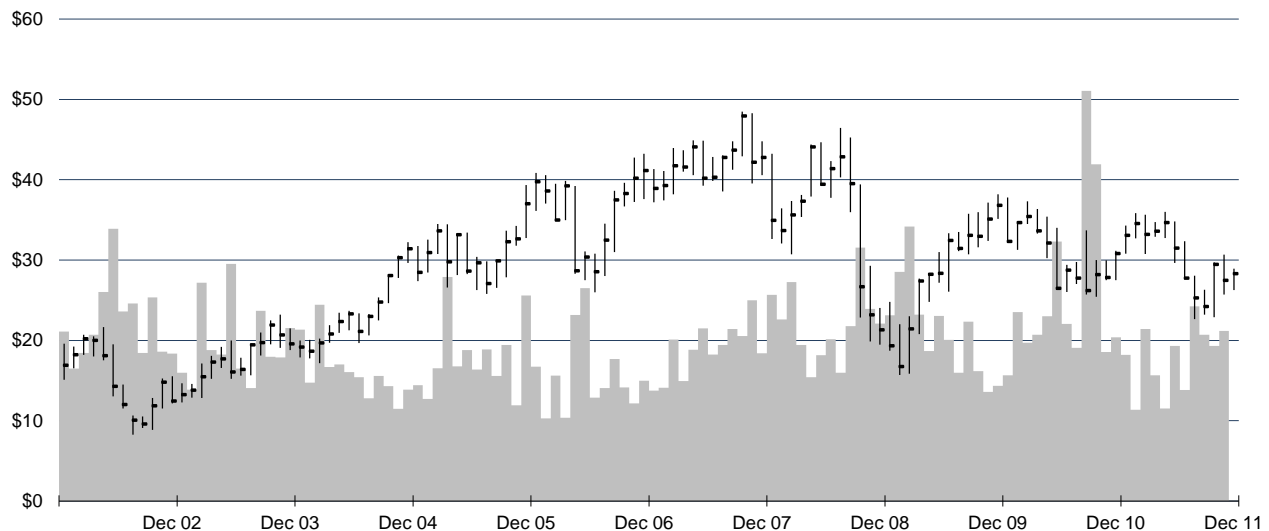
San Jose CA, 408-536-6000

www.adobe.com

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$28.29 (as of 12/23/11)		Month	# of	P/E FYE 12/1/11	17x
52-week range: \$22.67–\$35.99		Latest	Agg	Ests	
Market value: \$13.9 billion	This quarter	\$0.57	\$0.58	25	P/E FYE 11/30/12
Enterprise value: \$12.5 billion	Next quarter	0.60	0.61	25	P/E FYE 11/30/13
Shares outstanding: 490.9 million	FYE 11/30/12	2.43	2.44	27	P/E FYE 11/30/14
	FYE 11/30/13	2.68	2.68	23	EV/ LTM revenue
	FYE 11/30/14	2.99	3.44	6	EV/ LTM EBIT
	LT growth	10.9%	11.7%	13	P / tangible book
					10.0x
Ownership Data	EPS Surprise			Actual	Estimate
Insider ownership: <1%	12/15/11			\$0.67	\$0.60
Insider buys (last six months): 3	Greenblatt Criteria				
Insider sales (last six months): 4	LTM EBIT yield				
Institutional ownership: 91%	9%				
	LTM pre-tax ROC				
	>100%				

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 2,							LTME	FQE	FQE
	2005	2006	2007	2008	2009	2010	2011	12/2/11	12/3/10	12/2/11
Revenue	1,966	2,575	3,158	3,580	2,946	3,800	4,216	4,216	1,008	1,152
Gross profit	1,854	2,283	2,803	3,217	2,649	3,397	3,778	3,778	901	1,036
R&D	365	540	613	662	565	680	738	738	170	195
Adj. operating income	728	572	858	1,060	732	1,016	1,197	1,197	289	341
Adj. net income	603	526	724	904	428	798	931	931	271	268
Diluted EPS	1.19	0.83	1.21	1.59	0.73	1.47	1.65	1.65	0.52	0.35
Shares out (avg)	490	594	584	539	524	519	497	496	507	492
Cash from operations	758	900	1,441	1,281	1,118	1,113	1,543	1,543	311	497
D&A	n/a	70	72	68	72	72	43	43	18	12
Capex	49	83	132	112	120	170	210	210	55	75
Free cash flow	710	817	1,309	1,169	998	943	1,333	1,333	255	422
... % of revenue:										
Gross profit	94.3%	88.6%	88.8%	89.9%	89.9%	89.4%	89.6%	89.6%	89.4%	89.9%
R&D	18.6%	21.0%	19.4%	18.5%	19.2%	17.9%	17.5%	17.5%	16.9%	17.0%
Adj. operating income	37.0%	22.2%	27.2%	29.6%	24.8%	26.7%	28.4%	28.4%	28.7%	29.6%
Cash, investments	1,701	2,281	1,994	2,019	1,905	2,468	2,912	2,912	2,468	2,912
LT investments	179	173	260	284	271	232	207	207	232	207
Tangible assets	2,305	3,307	3,156	3,381	3,176	3,971	4,597	4,597	3,971	4,597
Debt	0	0	0	350	1,000	1,523	1,514	1,514	1,523	1,514
Common equity	1,864	5,152	4,650	4,410	4,891	5,192	5,783	5,783	5,192	5,783
Tangible equity	1,729	2,496	2,093	1,970	784	1,022	1,388	1,388	1,022	1,388
EBIT/capital employed	n/m	>100%	>100%	>100%	>100%	>100%	>100%	>100%	>100%	>100%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Adobe, founded in 1982, is a business software company.

INVESTMENT HIGHLIGHTS

- **Leading provider of software used by creative professionals**, knowledge workers, developers and marketers for creating and delivering content across multiple operating systems, devices and media.
- **Industry-leading products include Acrobat, Photoshop, and Dreamweaver.** Acrobat converts multiple file formats to Adobe's popular PDF format and includes related professional publishing tools. Photoshop focuses on digital image creation and edition as well as video. Dreamweaver is the most advanced Web layout product on the market.
- **Some software is sold as a service (SaaS)**, with revenue recognized over time rather than up-front. The company calculates the value of a customer under the traditional license and the new SaaS models at \$30 and \$40 per month, respectively. Management expects recurring revenue to comprise more than one-half of revenue within four years.
- **Targets two large and growing markets:** \$65 billion digital media market growing at 18%, with tablets growing 50+% and HTML5 gaining traction; and \$80 billion digital marketing market growing at 15%, with online video traffic growing 50+%.
- **Guiding for FY12 revenue growth of 4-6%**, GAAP EPS of \$1.70-1.83 and non-GAAP EPS of \$2.37-2.47 (12x P/E). In FY11, Adobe generated FCF before M&A of \$1.3 billion (~10% yield). Management expects revenue growth to reaccelerate back into the double digits beyond FY12, with non-GAAP operating margins remaining constant.

INVESTMENT RISKS & CONCERNS

- **Top-line growth to slow in FY12**, reflecting both macro and competitive factors. It is not entirely clear what will drive reacceleration after FY12.
- **Multiple challenges in design-related software markets.** Apple's refusal to use Adobe Flash deprives Adobe of an important, fast-growing platform. Emerging web competitors include cloud-based services such as Wordpress and Squarespace.
- **M&A may not add value.** Adobe has been fairly reliant on acquisitions for growth, though most transactions have been relatively small. Investors may want to calculate FCF on a post-M&A basis.

POTENTIAL CATALYSTS

- Continued revenue, EPS and FCF growth
- Potential share repurchases (employed historically)

SELECTED OPERATING DATA

FYE December 2	2006	2007	2008	2009	2010	2011
Δ revenue	31%	23%	13%	-18%	29%	11%
Δ gross profit	23%	23%	15%	-18%	28%	11%
Δ assets	144%	-4%	2%	25%	12%	10%
Δ book value	176%	-10%	-5%	11%	6%	11%
Δ BV per share	128%	-8%	3%	14%	7%	16%
Revenue (\$mn)	2,575	3,158	3,580	2,946	3,800	4,216
<i>% of revenue by segment: ¹</i>						
Creative solutions	56%	60%	58%	58%	54%	53%
Knowledge worker	26%	23%	21%	19%	17%	18%
Enterprise	6%	6%	9%	10%	9%	11%
Omniure	0%	0%	0%	1%	9%	10%
Platform	4%	4%	6%	6%	5%	4%
Print and publishing	8%	7%	6%	6%	5%	4%
<i>% of revenue by geography:</i>						
Americas	49%	48%	46%	47%	48%	48%
EMEA	30%	33%	34%	32%	31%	31%
Asia	21%	20%	20%	21%	21%	21%
<i>Selected items as % of revenue:</i>						
Gross profit	89%	89%	90%	90%	89%	90%
R&D	21%	19%	18%	19%	18%	18%
EBIT	21%	27%	29%	23%	26%	26%
Pretax income	26%	30%	30%	24%	25%	25%
Net income	20%	23%	24%	13%	20%	20%
D&A	3%	10%	9%	9%	7%	7%
Capex	3%	4%	3%	4%	4%	5%
Tangible assets (\$mn)	3,307	3,156	3,381	3,176	3,971	4,597
<i>Selected items as % of tangible assets:</i>						
Cash, investments	69%	63%	60%	60%	62%	63%
Receivables	12%	11%	15%	13%	14%	14%
PP&E, net	7%	9%	9%	12%	11%	11%
Debt	0%	0%	10%	31%	38%	33%
Tangible equity	75%	66%	58%	25%	26%	30%
Return on tang. equity	24%	32%	44%	31%	88%	77%
Return on equity (ROE)	15%	15%	20%	9%	16%	17%
ROE - industry median ²	6%	7%	11%	8%	8%	10%
Trailing P/E (end)	45x	34x	27x	29x	25x	19x
Forward P/E (end)	31x	26x	59x	14x	22x	14x
Diluted EPS (cont.) (\$)	0.83	1.21	1.59	0.73	1.47	1.65
Dividends per share (\$)	-	-	-	-	-	-
BV per share (end) (\$)	9	8	8	9	10	12
Share price (end) (\$)	37	41	43	21	37	31
Volume (mn shares)	1,611	1,415	1,696	1,980	1,899	2,310
Shares out (avg) (mn)	594	584	539	524	519	497
Δ shares out (avg)	21%	-2%	-8%	-3%	-1%	-4%

¹ 2011 segment breakdown represents estimate by The Manual of Ideas.

² Software & Programming industry median.

MAJOR HOLDERS

CEO <1% | Other insiders <2% | Primecap 9% | BNY Mellon 5% | ValueAct 3% | GS 3% | UBS 2% | Dodge & Cox 1%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆

THE BOTTOM LINE

Adobe is a high-quality business software company with established franchises in (Web) design and publishing software, including Acrobat, Photoshop, Dreamweaver and several other products. Adobe is not only the leader in most of the market niches it serves, but it has also succeeded in packaging its various products into suites that help the company sell more software and combat competition from point solutions. We find Adobe shares too cheap given an expectation of continued revenue and EPS growth. The shares trade at ~12x forward adjusted EPS and have a pre-M&A FCF yield of ~10%.

ADOBE SYSTEMS – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS



Conservative	Base Case	Aggressive
<i>Valuation methodology:</i>	<i>Valuation methodology:</i>	<i>Valuation methodology:</i>
Based on revenue for the twelve months ended December 2, 2011 and average EBIT margin for past seven fiscal years	Based on median consensus EPS estimate for the fiscal year ending December 1, 2013	Based on free cash flow for the twelve months ended December 2, 2011
▼	▼	▼
TTM net sales: \$4.2 billion	Consensus FY13 EPS estimate: \$2.44	Operating cash flow: \$1.5 billion
<i>multiplied by</i>	<i>minus</i>	<i>minus</i>
Average 7-year EBIT margin: 28.0%	Assumed haircut to FY13 consensus EPS estimate: 5% * \$2.44	Capex: \$210 million
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated EBIT: \$1.2 billion	Revised FY13 EPS estimate: \$2.32	Free cash flow: \$1.3 billion
<i>multiplied by</i>	<i>multiplied by</i>	<i>divided by</i>
Assumed fair value multiple of EBIT: 8x	Corresponding industry P/E: 16.3x (*)	Industry median FCF yield: 5.1% (*)
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated fair enterprise value of Adobe Systems: \$9.4 billion	Industry multiple-implied fair value: \$19 billion (\$38 per share)	Industry FCF yield-implied fair value: \$26 billion (\$53 per share)
<i>plus</i>	<i>multiplied by</i>	<i>multiplied by</i>
Cash, ST investments: \$2.9 billion	Assumed ADBE multiple as a percentage of the industry multiple: 90%	Assumed required FCF yield as a percentage of the industry FCF yield: 120%
<i>plus</i>	<i>(14.7x fair value P/E multiple)</i>	<i>(6.1% required FCF yield)</i>
Long-term investments at fair value discount of 25%: \$155 million	<i>equals</i>	<i>equals</i>
<i>minus</i>	<i>Estimated fair value of the common equity of Adobe Systems:</i>	<i>Estimated fair value of the common equity of Adobe Systems:</i>
Total debt: \$1.5 billion	\$17 billion (\$34 per share)	\$22 billion, or \$44 per share
<i>equals</i>	<i>(based on 490 million shares out)</i>	<i>(based on 490 million shares out)</i>
Estimated fair value of the common equity of Adobe Systems: \$11 billion, or \$22 per share (based on 490 million shares out)	21% upside to the recent stock price (\$28 per share)	57% upside to the recent stock price (\$28 per share)
<i>21% downside from the recent stock price (\$28 per share)</i>		

(*) Represents Software & Programming industry median multiple.
Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

ADOBE SYSTEMS – MANAGEMENT’S FINANCIAL PROJECTIONS, FY2012

- Revenue growth of 4% to 6%
- Creative seat growth of approximately 10%
- Digital Marketing bookings growth of greater than 25%
- Legacy Enterprise solutions actions and CS ratibility changes reduce reported revenue by 4% to 5%
- Recurring revenue increases to 23% to 25%
- Shifting ~\$200M in OPEX to higher growth opportunities
- Non-GAAP operating margin maintained while realigning investments

Management is targeting FY2012 EPS of \$1.70-1.83 (\$2.37-2.47 on non-GAAP basis).

Source: Company presentation dated November 2011.

ADOBE SYSTEMS – MANAGEMENT’S FINANCIAL PROJECTIONS, BEYOND FY2012

- Double digit revenue growth
- Digital Media revenue growth of greater than 10%
 - 15% to 20% seat growth from new Creative Cloud offering
 - Majority of CS business via subscription model within 4 years
- Digital Marketing revenue growth of greater than 20%
 - Core offering of Omniture + Day creates ~\$1 billion Digital Marketing SaaS business with annual bookings growth of greater than 25%
 - Legacy Enterprise solutions revenue declines
- Non-GAAP operating margin range maintained
- Recurring revenue increases to more than ~50% in four years

Source: [Company presentation dated November 2011](#).

ADOBE SYSTEMS – DIGITAL MARKETING SUMMARY

STRATEGY

Focus on Marketer and drive bookings growth

KEY INITIATIVES

- Analytics and Reporting
- Social Marketing
- Web Experience Management
- Multi-Channel Campaign Execution
- Audience Segmentation and Targeting
- International Acceleration

MARKET OPPORTUNITY

2011 TAM

Analytics and Reporting	\$1.4B
Personalized Engagement	\$2.6B
Multi-Channel Campaign Execution	\$1.0B
Media Monetization	\$1.3B

~\$6B TAM for Adobe

Source: [Company presentation dated November 2011](#).

ADOBE SYSTEMS – DIGITAL MEDIA SUMMARY

STRATEGY

Drive new user adoption and recurring revenue with Creative Cloud

KEY INITIATIVES

- Content Creation Innovation
- Creative Touch Apps
- Content Publishing
- Media Monetization
- Document Exchange Services

MARKET OPPORTUNITY

2011 TAM

Creative Tools	\$3.2B
Media Publishing and Monetization	\$1.3B
Acrobat/Document Services	\$1.2B

~\$6B TAM for Adobe

Source: [Company presentation dated November 2011](#).

Coca-Cola (KO) – Berkshire, Cap World, Eagle Capital, Lone Pine

Beverages (Non-Alcoholic), Member of S&P 500

Atlanta GA, 404-676-2121

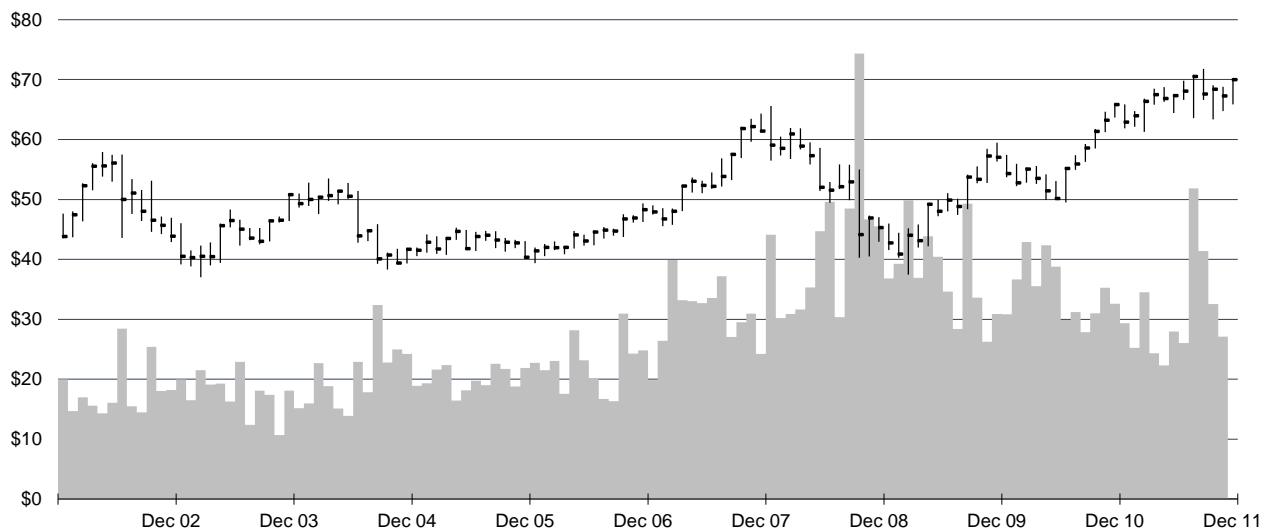
thecoca-colacompany.com

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$69.94 (as of 12/23/11)	Month	# of		P/E FYE 12/31/10	14x
52-week range: \$61.29–\$71.77	Latest	Agg	Ests	P/E FYE 12/31/11	18x
Market value: \$158.9 billion	This quarter	\$0.77	\$0.78	P/E FYE 12/30/12	17x
Enterprise value: \$171.5 billion	Next quarter	0.91	0.92	P/E FYE 12/30/13	15x
Shares outstanding: 2,271.2 million	FYE 12/31/11	3.83	3.83	EV/ LTM revenue	3.7x
Ownership Data	FYE 12/30/12	4.14	4.16	EV/ LTM EBIT	18x
Insider ownership: <1%	FYE 12/30/13	4.58	4.59	P / tangible book	27.7x
Insider buys (last six months): 7	LT growth	5.6%	5.6%	Greenblatt Criteria	
Insider sales (last six months): 9	EPS Surprise	Actual	Estimate	LTM EBIT yield	5%
Institutional ownership: 64%	10/18/11	\$1.03	\$1.02	LTM pre-tax ROC	70%

Operating Performance and Financial Position

(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME	FQE	FQE
	2004	2005	2006	2007	2008	2009	2010	9/30/11	10/1/10	9/30/11
Revenue	21,742	23,104	24,088	28,857	31,944	30,990	35,119	45,996	8,426	12,248
Gross profit	14,068	14,909	15,924	18,451	20,570	19,902	22,426	27,904	5,508	7,373
Adj. operating income	6,178	6,170	6,493	7,252	8,796	8,544	9,008	9,414	2,344	2,750
Adj. net income	5,327	4,957	5,265	5,981	6,157	7,137	12,368	12,741	2,055	2,221
Diluted EPS	2.00	2.04	2.16	2.57	2.49	2.93	5.06	5.43	0.88	0.95
Dividend	1.00	1.12	1.24	1.36	1.52	1.64	1.76	1.85	0.44	0.47
Shares out (avg)	2,426	2,392	2,348	2,313	2,315	2,314	2,308	2,303	2,310	2,286
Cash from operations	5,968	6,423	5,957	7,150	7,571	8,186	9,532	9,108	2,914	3,158
<i>... % of revenue:</i>										
Gross profit	64.7%	64.5%	66.1%	63.9%	64.4%	64.2%	63.9%	60.7%	65.4%	60.2%
Adj. operating income	28.4%	26.7%	27.0%	25.1%	27.5%	27.6%	25.6%	20.5%	27.8%	22.5%
Cash, investments	6,768	4,767	2,590	4,308	4,979	9,213	11,337	16,497	13,265	16,497
Total current assets	12,281	10,205	8,441	12,105	12,176	17,551	21,579	28,191	23,105	28,191
LT investments	6,252	6,922	6,783	7,777	5,779	6,755	7,585	8,337	7,480	8,337
PP&E, net	6,091	5,831	6,903	8,493	8,326	9,561	14,727	14,522	9,145	14,522
Total assets	31,441	29,427	29,963	43,269	40,519	48,671	72,921	81,753	54,089	81,753
Tangible assets	27,605	25,606	24,828	31,050	28,014	35,843	46,012	54,269	41,830	54,269
Payables	4,403	902	929	1,380	1,370	1,410	1,887	9,837	7,691	9,837
Short-term debt	6,021	4,546	3,268	6,052	6,531	6,800	9,376	15,480	8,937	15,480
Total current liabilities	11,133	9,836	8,890	13,225	12,988	13,721	18,508	25,581	17,271	25,581
Long-term debt	1,157	1,154	1,314	3,277	2,781	5,059	14,041	13,708	4,456	13,708
Common equity	15,935	16,355	16,920	21,744	20,472	24,799	31,003	33,209	27,906	33,209
Tangible equity	12,099	12,534	11,785	9,525	7,967	11,971	4,094	5,725	15,647	5,725
TBV / tangible assets	44%	49%	47%	31%	28%	33%	9%	11%	37%	11%
TBV per share	4.99	5.24	5.02	4.12	3.44	5.17	1.77	2.50	6.77	2.50
EBIT/capital employed	88%	98%	96%	89%	93%	82%	63%	70%	>100%	88%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Coca-Cola is the world's largest beverage company, accounting for 1.7 billion servings a day globally.

INVESTMENT HIGHLIGHTS

- **Owns four of the top five nonalcoholic sparkling beverage brands: Coca-Cola, Diet Coke, Sprite, and Fanta.** Other key owned brands include *Coca-Cola Zero*, *vitaminwater*, *Powerade*, *Minute Maid*, *Simply and Georgia*. Overall, the company has 15 brands with annual revenue of \$1+ billion.
- **#1 global provider of sparkling beverages, juices & juice drinks and ready-to-drink teas & coffees.** The company is #2 in sports drinks and #3 in packaged water and energy drinks worldwide.
- **Exploiting emerging markets growth potential.** Per capita consumption of the company's beverages in 2010 was 394 in the U.S. versus 11 in India, 34 in China, 229 in Brazil, and a world total of 89.
- **Still beverages represented 24% of worldwide unit case volume in 2010** (U.S.: 29%), up from 11% in 2000. Still beverages include healthier products such as *Minute Maid* juices, *Dasani* water, *Nestea* teas, and *Georgia* coffees.
- **Worldwide volume grew 5% y-y in Q3 and 6% y-y YTD** through September, led by brand *Coca-Cola* (up 3% in Q3 and YTD). North America organic volume grew 1% in Q3 and YTD.
- **Repurchased \$2.2 billion worth of shares through September.** Another \$2.5-3.0 billion of buybacks are planned through yearend 2011. Coca-Cola returned \$27.4 billion of cash through dividends and share buybacks during 2006-10.
- **Management's long-term annual growth targets:** 3-4% volume, 5-6% revenue, 6-8% EBIT and 7-9% EPS growth (on an ongoing, currency neutral basis).

INVESTMENT RISKS & CONCERNS

- **Valuation may already reflect future growth at a forward P/E of 17x**, based on the average analyst EPS estimate of \$4.14 (up 8% y-y) for 2012.
- **Changes in consumer preferences** (e.g. due to health concerns) could reduce demand for sugary carbonated drinks. However, the company's diversification strategy mitigates this somewhat.
- **Developed markets of North America and Europe represent 50+% of revenue.** With stagnating unit case volume in developed markets, this makes emerging markets key to future growth.

POTENTIAL CATALYSTS

- Additional share buybacks

SELECTED OPERATING DATA

FYE Dec. 31	2005	2006	2007	2008	2009	2010	YTD 9/30/11
<i>Contribution to revenue growth by source:</i>							
Concentrate vol.	3%	4%	6%	4%	3%	5%	n/a
Structural ¹	0%	-2%	8%	0%	-1%	5%	n/a
Price/product mix	1%	2%	2%	3%	0%	1%	n/a
Currency impact	2%	0%	4%	4%	-5%	2%	n/a
Δ revenue	6%	4%	20%	11%	-3%	13%	44% ²
Revenue (\$bn)	23.1	24.1	28.9	31.9	31.0	35.1	35.5
<i>% of revenue by segment:³</i>							
North America	29%	29%	27%	26%	26%	32%	44%
Bottling Invest.	18%	21%	26%	27%	26%	23%	19%
Pacific	19%	17%	14%	14%	15%	14%	12%
Europe	17%	16%	15%	15%	14%	13%	11%
Latin America	9%	10%	11%	11%	12%	11%	9%
Eurasia & Africa	7%	7%	7%	7%	6%	7%	6%
<i>EBIT margin by segment:^{3,4}</i>							
North America	23%	24%	22%	20%	21%	14%	12%
Bottling Invest.	-1%	2%	3%	4%	4%	3%	3%
Pacific	43%	43%	43%	43%	42%	41%	42%
Europe	59%	59%	63%	66%	69%	67%	67%
Latin America	59%	58%	57%	58%	55%	62%	65%
Eurasia & Africa	40%	42%	36%	39%	41%	40%	42%
Corporate	-6%	-6%	-5%	-4%	-4%	-5%	-3%
Total	27%	27%	26%	28%	28%	24%	23%
<i>% of worldwide unit case volume by geography:⁵</i>							
North America	27%	27%	25%	24%	24%	22%	n/a
Pacific	16%	16%	16%	17%	17%	18%	n/a
Europe	16%	16%	17%	17%	17%	16%	n/a
Latin America	26%	26%	27%	27%	27%	28%	n/a
Eurasia & Africa	15%	15%	15%	15%	15%	16%	n/a
<i>Selected unit case volume growth data:⁶</i>							
North America	2%	0%	-1%	-1%	-2%	2%	5%
Bottling Invest.	6%	16%	64%	14%	2%	-1%	-1%
Total	4%	4%	6%	5%	3%	5%	6%
<i>Selected items as % of revenue:</i>							
Gross profit	64%	66%	64%	64%	64%	64%	61%
Net income ³	22%	23%	22%	23%	23%	19%	19%
D&A	4%	4%	4%	4%	4%	4%	4%
Capex	4%	6%	6%	6%	6%	6%	5%
Δ shares out	-1%	-2%	-1%	0%	0%	1%	0%

- ¹ Refers to acquisition/disposition & consolidation/deconsolidation of operations.
² Mainly reflects the acquisition of Coca-Cola Enterprises' former North America bottling operations in the fourth quarter of 2010.
³ 2005 data includes certain estimates by The Manual of Ideas.
⁴ Excludes the impact of extraordinary items and accounting changes.
⁵ Unit case is equal to 24 eight-ounce beverage servings.
⁶ Geographic data reflects growth for *all* bottlers in the applicable geography; Bottling investments data reflects growth for *consolidated* bottlers only.

MAJOR HOLDERS

Insiders 1%* | Berkshire Hathaway 9% | Vanguard 4%

* Excludes 4% stake by foundations of which director Williams is a trustee.

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆

THE BOTTOM LINE

At a forward P/E of 17x, Coca-Cola shares are not cheap. However, they may be of interest to investors seeking inflation protection and exposure to emerging markets growth via a U.S.-based business with a wide moat and quality management. Therefore, it is not surprising that Coca-Cola remains Berkshire Hathaway's largest 13F holding. Recent strong volume growth and increasing share buybacks reaffirm management's operational capability and commitment to shareholder value creation.

COCA-COLA – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS

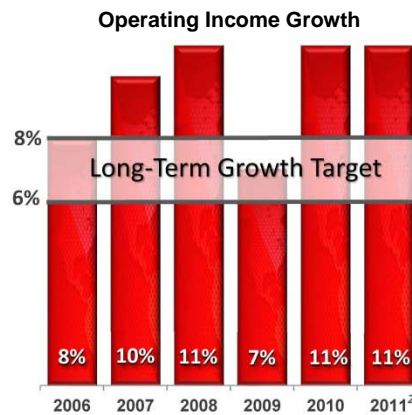
Conservative
<i>Valuation methodology:</i> Based on revenue for the twelve months ended September 30, 2011 and average EBIT margin for past seven fiscal years
TTM net sales: \$46 billion <i>multiplied by</i>
Average 7-year EBIT margin: 26.9% <i>equals</i>
Estimated EBIT: \$12 billion <i>multiplied by</i>
Assumed fair value multiple of EBIT: 8x <i>equals</i>
Estimated fair enterprise value of Coca-Cola: \$99 billion <i>plus</i>
Cash, ST investments: \$16 billion <i>plus</i>
Long-term investments at fair value discount of 25%: \$6.3 billion <i>minus</i>
Total debt: \$29 billion <i>equals</i>
Estimated fair value of the common equity of Coca-Cola: \$92 billion, or \$41 per share (based on 2.3 billion shares out) <i>40% downside from the recent stock price (\$67 per share)</i>

Base Case
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012
Consensus FY12 EPS estimate: \$4.15 <i>minus</i>
Assumed haircut to FY12 consensus EPS estimate: 0% * \$4.15 <i>equals</i>
Revised FY12 EPS estimate: \$4.15 <i>multiplied by</i>
Corresponding industry P/E: 15.6x (*) <i>equals</i>
Industry multiple-implied fair value: \$147 billion (\$65 per share) <i>multiplied by</i>
Assumed KO multiple as a percentage of the industry multiple: 120% (18.7x fair value P/E multiple) <i>equals</i>
Estimated fair value of the common equity of Coca-Cola: \$176 billion (\$78 per share) (based on 2.3 billion shares out) <i>15% upside to the recent stock price (\$67 per share)</i>

Aggressive
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2013
Consensus FY13 EPS estimate: \$4.58 <i>multiplied by</i>
Corresponding industry P/E: 13.9x (*) <i>equals</i>
Industry multiple-implied fair value: \$145 billion (\$64 per share) <i>multiplied by</i>
Assumed KO multiple as a percentage of the industry multiple: 125% (17.4x fair value P/E multiple) <i>equals</i>
Estimated fair value of the common equity of Coca-Cola: \$181 billion (\$80 per share) <i>18% upside to the recent stock price (\$67 per share)</i>

(*) Represents Beverages (Non-Alcoholic) industry median multiple.
Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

COCA-COLA – SELECTED GROWTH RATES, 2006-11



Implies 3-4% inflation expectation, assuming constant operating margin.

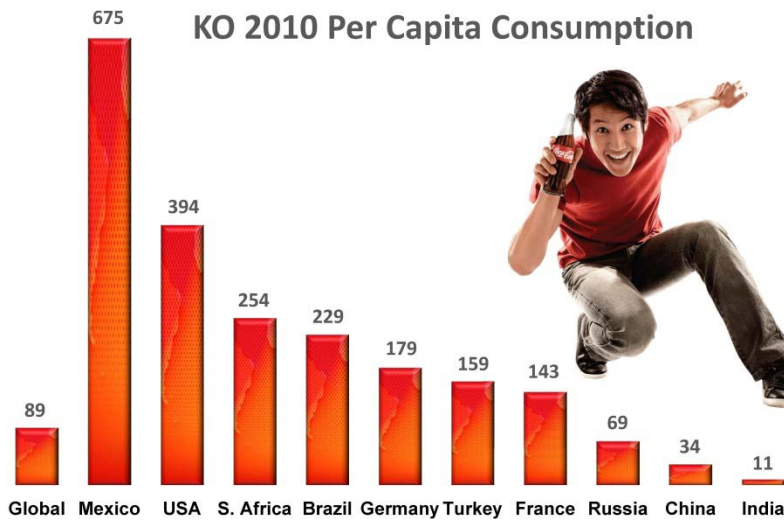
Source: Company presentation dated October 2011.

COCA-COLA – ANALYSIS OF SELECTED COMPARABLE COMPANIES

(Click to visit relevant websites)	Trading Data				Public Market Valuation						Operating Performance					
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/MV	TTM FCF Yield	EPS Yield			LTM Rev./EV	Rev./Empl. (\$000)	Δ Rev.		% TTM Rev.	
		Low	High					TTM	This FY	Next FY			Last Q	Gross Profit	Adj. EBIT	
PepsiCo / PEP	64.71	-32%	23%	101.2	124.5	n/m	5%	6%	7%	7%	52%	219	22%	13%	53%	16%
Dr Pepper Snapple / DPS	38.81	-70%	11%	8.3	10.3	n/m	16%	6%	7%	8%	57%	308	5%	5%	58%	17%
Hansen Natural / HANS	95.89	-99%	1%	8.4	7.7	11%	3%	3%	3%	4%	21%	1,935	26%	24%	52%	27%
Kraft Foods / KFT	36.49	-43%	2%	64.5	91.4	n/m	4%	5%	6%	7%	58%	421	16%	11%	35%	13%
				Median		n/m	4%	6%	7%	7%	54%	364	19%	12%	53%	17%
Coca-Cola / KO	67.44	-44%	6%	153.2	165.9	4%	4%	8%	6%	6%	28%	329	43%	45%	61%	20%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change
Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items
Source: Company and market data, The Manual of Ideas analysis.

COCA-COLA – CONSUMPTION AND OTHER STATISTICS



North America

- 22% of Total Company Unit Cases
- 18% of Total Company Operating Income¹
- 3rd Largest Teen Population
- Growing Urbanization and Multiculturalism
- Culture of Innovation and Entrepreneurship
- Largest Source of NARTD Profit

Canada
6% of Group Unit Cases
236 Per Capita

United States
94% of Group Unit Cases
394 Per Capita

Reflects impact of acquisition of CCE's North America operations as of Q4 2010

Latin America

- 28% of Total Company Unit Cases
- 28% of Total Company Operating Income
- 40% of Population Under Age 21
- Adding an Average of 175 MM Sparkling Unit Cases Every Year Since 2000

Mexico
43% of Group Unit Cases
675 Per Capita

Brazil
26% of Group Unit Cases
229 Per Capita

Argentina
7% of Group Unit Cases
318 Per Capita

Europe

- 16% of Total Company Unit Cases
- 35% of Total Company Operating Income
- 30% of Global Personal Consumption
- 35% of Global NARTD Retail Value Pool

Great Britain
13% of Group Unit Cases
204 Per Capita

Germany
15% of Group Unit Cases
179 Per Capita

France
9% of Group Unit Cases
143 Per Capita

Spain
14% of Group Unit Cases
284 Per Capita

Eurasia & Africa Group

- 16% of Total Company Unit Cases
- 12% of Total Company Operating Income
- Nearly 70% of World's Population Growth by 2020
- 45% of Global Urban Growth and Global Middle Class Growth by 2020

Russia
10% of Group Unit Cases
69 Per Capita

India
13% of Group Unit Cases
11 Per Capita

South Africa
13% of Group Unit Cases
254 Per Capita

Pacific

- 18% of Total Company Unit Cases
- 24% of Total Company Operating Income
- Nearly 5% Compounded GDP Growth Through 2020
- Almost 35% of the Next Decade's Global GDP Growth

Japan
21% of Group Unit Cases
178 Per Capita

China
41% of Group Unit Cases
34 Per Capita

Source: Company presentation dated October 2011.

CVS Caremark (CVS) – Berkshire, Greenlight, IVA, Paulson, Eagle Capital, Weitz

Services: Retail (Drugs), Member of S&P 500

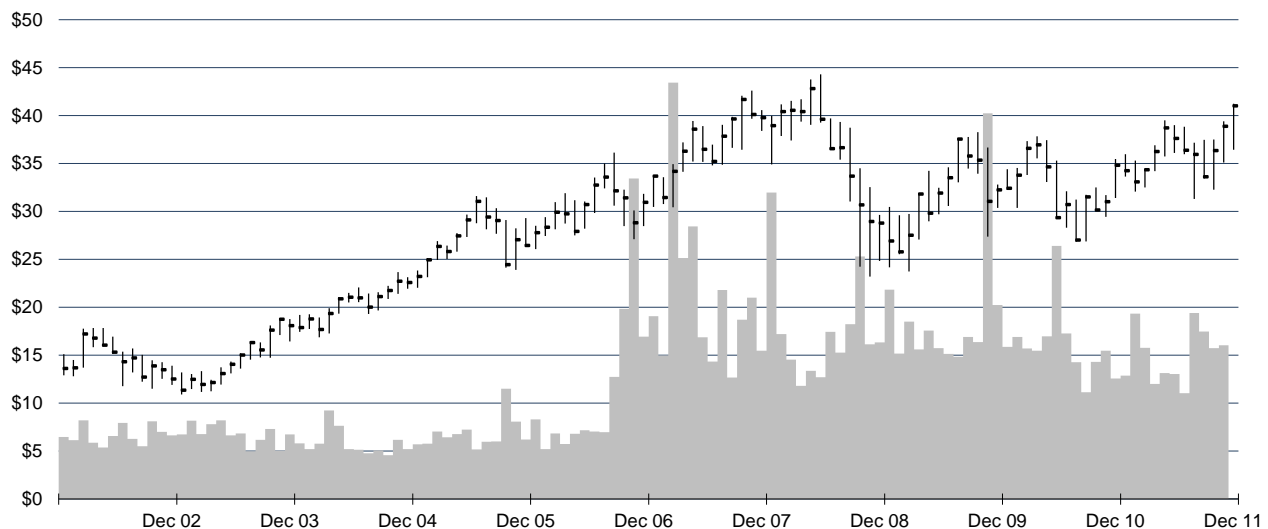
Woonsocket RI, 401-765-1500

www.cvscaremark.com

Trading Data	Consensus EPS Estimates				Valuation	
Price: \$40.99 (as of 12/23/11) 52-week range: \$31.30–\$41.24 Market value: \$53.4 billion Enterprise value: \$62.4 billion Shares outstanding: 1,301.6 million		Month	# of		P/E FYE 12/31/10	16x
	Latest	Agg	Ests		P/E FYE 12/31/11	15x
	This quarter	\$0.89	\$0.89	22	P/E FYE 12/30/12	13x
	Next quarter	0.63	0.63	18	P/E FYE 12/30/13	11x
	FYE 12/31/11	2.80	2.80	23	EV/ LTM revenue	0.6x
	FYE 12/30/12	3.23	3.21	24	EV/ LTM EBIT	10x
	FYE 12/30/13	3.61	3.58	18	P / tangible book	51.6x
	LT growth	10.5%	10.6%	9	Greenblatt Criteria	
		EPS Surprise	Actual	Estimate	LTM EBIT yield	10%
	11/3/11		\$0.70	\$0.68	LTM pre-tax ROC	41%

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME	FQE	FQE
	2005	2005	2006	2007	2008	2009	2010			
Revenue	30,594	37,007	43,821	76,330	87,472	98,729	96,413	103,554	23,711	26,674
Gross profit	8,031	9,695	11,742	16,108	18,290	20,380	20,257	20,473	5,015	5,178
Operating income	1,455	2,020	2,442	4,793	6,046	6,438	6,165	6,143	1,478	1,584
Net income	905	1,211	1,355	2,623	3,198	3,696	3,427	4,136	809	868
Diluted EPS	1.10	1.45	1.60	1.92	2.27	2.56	2.50	2.51	0.60	0.65
Dividend	0.13	0.15	0.16	0.23	0.26	0.31	0.35	0.46	0.09	0.13
Shares out (avg)	797	811	821	1,328	1,434	1,434	1,367	1,358	1,360	1,332
Cash from operations	914	1,612	1,742	3,230	3,947	4,035	4,779	6,810	1,292	1,962
... % of revenue:										
Gross profit	26.3%	26.2%	26.8%	21.1%	20.9%	20.6%	21.0%	19.8%	21.2%	19.4%
Adj. operating income	4.8%	5.5%	5.6%	6.3%	6.9%	6.5%	6.4%	5.9%	6.2%	5.9%
Cash, investments	392	513	531	1,084	1,352	1,091	1,431	1,712	983	1,712
Receivables	1,764	1,840	2,382	4,580	5,384	5,457	4,925	5,901	5,111	5,901
Inventory	5,454	5,720	7,109	8,008	9,153	10,343	10,695	10,379	10,585	10,379
Total current assets	7,920	8,393	10,396	14,149	16,526	17,537	17,706	18,938	17,339	18,938
Total assets	14,547	15,283	20,574	54,722	60,960	61,641	62,169	65,251	61,713	65,251
Tangible assets	11,780	12,691	16,061	20,370	25,020	25,834	26,716	28,798	26,164	28,798
Short-term debt	916	595	2,187	2,132	3,697	2,419	1,405	601	2,488	601
Total current liabilities	4,859	4,584	7,005	10,766	13,490	12,300	11,070	12,350	11,674	12,350
Long-term debt	1,926	1,594	2,870	8,350	8,057	8,756	8,652	10,167	8,653	10,167
Total liabilities	7,560	6,952	10,657	23,400	26,386	25,873	24,469	27,764	25,076	27,764
Common equity	6,759	8,109	9,704	31,119	34,383	35,768	37,700	37,487	36,637	37,487
Tangible equity	3,992	5,517	5,191	-3,233	-1,557	-39	2,247	1,034	1,088	1,034
TBV / tangible assets	34%	43%	32%	-16%	-6%	0%	8%	4%	4%	4%
TBV per share	5.01	6.80	6.33	-2.43	-1.09	-0.03	1.64	0.78	0.80	0.78
EBIT/capital employed	21%	27%	27%	46%	51%	46%	42%	41%	44%	53%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

CVS retails prescription medicines and general merchandise, and provides pharmacy benefit management (PBM) services:

Retail Pharmacy (~2/3 of trailing pre-corporate EBIT): sells prescription medicines and general merchandise through 7,300+ drugstores* and CVS.com. The segment also includes the “MinuteClinic” business (550+ health care clinics).

Pharmacy Services (~1/3 of trailing pre-corporate EBIT): operates as a PBM by dispensing medicines through ~65,000 retail pharmacies (including own stores) and mail-order.

INVESTMENT HIGHLIGHTS

- **One of the two largest pharmacy retailers in the U.S.,** next to Walgreen (WAG). Retail pharmacies, which fill ~80% of all prescriptions, are needed due to a large portion of prescriptions being “unplanned.” CVS dispenses ~19% of all U.S. retail prescriptions.
- **Major U.S. pharmacy benefits manager** since the acquisition of Caremark in 2007. PBMs, which are third-party administrators of prescription drug plans, aim to lower drug costs by aggregating the buying power of their customers and “pushing” generics.
- **~\$6 billion of average annual cash to be “available for enhancing shareholder value”** from 2011 to 2015. While this includes working capital benefits and leveraging up, the implied “FCF yield” is 10+%.
- **Margin expansion from rising generic and private label penetration?** CVS makes more money from retailing generic than branded drugs as the former have more suppliers, and as it self-distributes generics.
- **Aging population and expanded access should increase pharmacy utilization,** a key revenue driver.

INVESTMENT RISKS & CONCERNS

- **Valuation may already reflect future growth at a forward P/E of 13x** based on the midpoint of 2012 adjusted EPS guidance of \$3.15-3.25 (up 13-17% y-y). CVS targets a 7-9% adj. EPS CAGR in 2011-15 before share buybacks (10-15% after buybacks).
- **Potential margin pressure in the PBM business** due to competition and regulatory change, which may force CVS to share a larger portion of drug rebates.
- **Already high retail segment EBIT margin (~8%).**
- **\$9.1 billion of net debt** (1.2x TTM EBITDA). Debt is to increase ~\$8 billion by 2015 (to fund buybacks).

POTENTIAL CATALYSTS

- May benefit from the contract impasse between rival Walgreen and PBM Express Scripts (ESRX)
- Continued share buybacks

MAJOR HOLDERS

Insiders 1% | Davis 5% | State Street 4% | Vanguard 4%

SELECTED OPERATING DATA¹

FYE December 31	2006	2007	2008	2009	2010	YTD 9/30/11
Δ retail stores	13%	2%	11%	1%	2%	2%
Δ retail same-store sales	8%	5%	5%	5%	2%	2%
Δ retail prescriptions ²	15%	10%	6%	10%	3%	3%
Δ revenue – retail	18%	12%	9%	13%	4%	4%
Δ claims processed ³	n/a	0%	4%	4%	-11%	29%
Δ revenue – services	25%	847%	25%	17%	-6%	21%
Δ revenue	18%	74%	15%	13%	-2%	10%
Δ gross profit	21%	37%	14%	11%	-1%	1%
Δ BV per share	18%	98%	2%	4%	11%	4%
Revenue (\$bn)	43.8	76.3	87.5	98.7	96.4	78.8
<i>% of revenue by segment (ex. eliminations):</i>						
Network services	2%	27%	33%	34%	32%	37%
Mail choice services	7%	18%	17%	17%	17%	17%
Pharmacy services	8%	46%	50%	52%	50%	55%
Retail pharmacy	92%	59%	56%	56%	59%	56%
<i>Selected items as % of revenue:</i>						
Gross profit	27%	21%	21%	21%	21%	19%
EBIT	6%	6%	7%	7%	6%	5%
Net income	3%	3%	4%	4%	4%	3%
D&A	2%	1%	1%	1%	2%	1%
Capex	4%	2%	2%	3%	2%	1%
<i>EBIT margin by segment (ex. corporate):</i>						
Pharmacy services	9%	6%	6%	6%	5%	3%
Retail pharmacy	5%	6%	8%	8%	8%	8%
<i>Selected pharmacy services operating metrics:</i>						
Claims processed (mn)	606	607	633	659	585	564
Generic dispensing rate	56%	60%	65%	68%	72%	74%
<i>Selected retail pharmacy operating metrics:</i>						
Retail drugstores (end)	6,205	6,301	6,981	7,074	7,226	7,304
Prescriptions filled (mn)	482	528	559	617	636	489
Third party % of revenue	95%	95%	96%	97%	97%	98%
Tangible assets (\$bn)	16.1	20.4	25.0	25.8	26.7	28.8
<i>Selected items as % of tangible assets:</i>						
Cash, investments	3%	5%	5%	4%	5%	6%
Inventory	44%	39%	37%	40%	40%	36%
Debt	32%	51%	47%	43%	37%	37%
Tangible equity	32%	-16%	-6%	0%	8%	4%
Return on equity	15%	13%	10%	11%	9%	8%
Trailing P/E (end)	19x	21x	13x	13x	14x	15x
Forward P/E (end)	16x	18x	11x	13x	12x	11x
Diluted EPS (cont.) (\$)	1.60	1.92	2.27	2.56	2.50	2.28
Dividends per share (\$)	0.16	0.23	0.26	0.31	0.35	0.51
BV per share (end) (\$)	12	23	24	25	28	28
Share price (end) (\$)	31	40	29	32	35	34
Shares out (avg) (mn)	821	1,328	1,434	1,434	1,367	1,354
Δ shares out (avg)	1%	62%	8%	0%	-5%	-1%

¹ Figures reflect the acquisition of pharmacy benefit manager Caremark in 3/07.

² Retail prescriptions filled at CVS retail pharmacy operations.

³ Within pharmacy services business. ~90% of YTD claims have been processed retail-based (including at CVS’ own stores) and ~10% mail-based.

RATINGS

- VALUE** Intrinsic value materially higher than market value? ☆☆☆
- DOWNSIDE PROTECTION** Low risk of permanent loss? ☆☆☆
- MANAGEMENT** Capable and properly incentivized? ☆☆☆
- FINANCIAL STRENGTH** Solid balance sheet? ☆☆☆
- MOAT** Able to sustain high returns on invested capital? ☆☆☆☆
- EARNINGS MOMENTUM** Fundamentals improving? ☆☆☆
- MACRO** Poised to benefit from economic and secular trends? ☆☆☆☆

* As of December 31, 2010, CVS owned ~5% of total retail stores.

THE BOTTOM LINE

CVS is profiting from tailwinds including: 1) increased utilization due to an aging population and greater access to health care; and 2) generic-to-brand drug substitution (generics are more profitable for CVS). Partly offsetting these positives is regulatory-driven margin pressure in the PBM business. Given management’s target of growing EPS by 10-15% per year over the next five years (including share buybacks), the shares appear modestly undervalued trading at an ~8% forward earnings yield.

CVS CAREMARK – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS



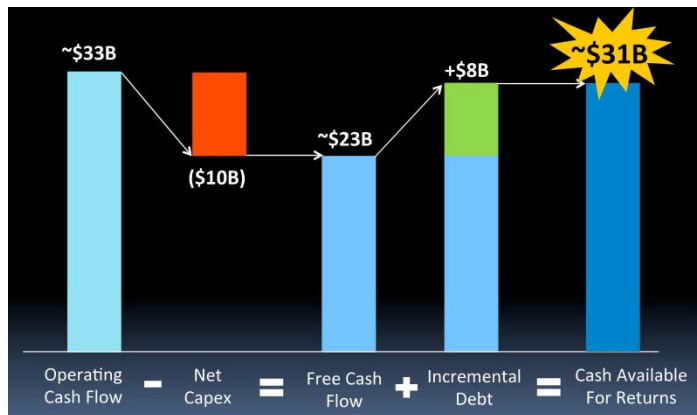
Conservative
<i>Valuation methodology:</i> Based on revenue for the twelve months ended September 30, 2011 and average EBIT margin for past seven fiscal years
▼
TTM net sales: \$104 billion <i>multiplied by</i>
Average 7-year EBIT margin: 6.0% <i>equals</i>
Estimated EBIT: \$6.2 billion <i>multiplied by</i>
Assumed fair value multiple of EBIT: 7x <i>equals</i>
Estimated fair enterprise value of CVS Caremark: \$43 billion <i>plus</i>
Cash, ST investments: \$1.7 billion <i>minus</i>
Total debt: \$11 billion <i>equals</i>
Estimated fair value of the common equity of CVS Caremark: \$34 billion, or \$26 per share (based on 1.3 billion shares out) <i>30% downside from the recent stock price (\$38 per share)</i>

Base Case
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012
▼
Consensus FY12 EPS estimate: \$3.21 <i>minus</i>
Assumed haircut to FY12 consensus EPS estimate: 5% * \$3.21 <i>equals</i>
Revised FY12 EPS estimate: \$3.05 <i>multiplied by</i>
Corresponding industry P/E: 13.8x (*) <i>equals</i>
Industry multiple-implied fair value: \$55 billion (\$42 per share) <i>multiplied by</i>
Assumed CVS multiple as a percentage of the industry multiple: 110% (15.2x fair value P/E multiple) <i>equals</i>
Estimated fair value of the common equity of CVS Caremark: \$60 billion (\$46 per share) (based on 1.3 billion shares out) <i>23% upside to the recent stock price (\$38 per share)</i>

Aggressive
<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended September 30, 2011
▼
Operating cash flow: \$6.8 billion <i>minus</i>
Capex: \$1.8 billion <i>equals</i>
Free cash flow: \$5.0 billion <i>divided by</i>
Industry median FCF yield: 7.0% (*) <i>equals</i>
Industry FCF yield-implied fair value: \$72 billion (\$55 per share) <i>multiplied by</i>
Assumed required FCF yield as a percentage of the industry FCF yield: 80% (5.6% required FCF yield) <i>equals</i>
Estimated fair value of the common equity of CVS Caremark: \$90 billion, or \$69 per share (based on 1.3 billion shares out) <i>83% upside to the recent stock price (\$38 per share)</i>

(*) Represents Retail (Drugs) industry median multiple.
Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

CVS CAREMARK – CASH AVAILABLE TO ENHANCE SHAREHOLDER RETURNS (figures represent targets for the years 2011-2015)



Source: Company presentation dated December 20, 2011.

CVS CAREMARK – ANALYSIS OF SELECTED COMPARABLE COMPANIES

(Click to visit relevant websites)	Trading Data				Public Market Valuation						Operating Performance					
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/MV	TTM FCF Yield	EPS Yield		LTM Rev./EV	Rev./Empl. (\$000)	Δ Rev.		% TTM Rev.		
		Low	High					This FY	Next FY			Last Q	Gross Profit	Adj. EBIT		
Express Scripts / ESRX	43.52	-83%	40%	21.2	24.1	n/m	9%	6%	7%	8%	188%	3,441	8%	3%	7%	5%
Rite Aid / RAD	1.22	-84%	452%	1.1	7.4	n/m	-7%	neg.	neg.	neg.	343%	493	0%	2%	26%	1%
Walgreen / WAG	34.13	-38%	51%	30.0	30.8	43%	8%	9%	8%	9%	234%	410	-14%	7%	28%	6%
Wal-Mart / WMT	58.27	-28%	10%	199.6	251.7	23%	6%	8%	8%	8%	175%	210	5%	8%	25%	6%
				Median		n/m	7%	7%	7%	8%	211%	451	2%	5%	26%	6%
CVS Caremark / CVS	37.55	-55%	18%	48.9	57.9	2%	10%	7%	7%	9%	179%	515	-14%	12%	20%	6%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change
Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items
Source: Company and market data, The Manual of Ideas analysis.

CVS CAREMARK – 2012 MANAGEMENT GUIDANCE

	Full-year 2012 vs. 2011
Net Revenue	+ 11.5% to 13%
GAAP Diluted EPS (from cont. ops)	\$2.93 to \$3.03
Adjusted EPS (from cont. ops)	\$3.15 to \$3.25
Year-over-year Growth	+ 13.0% to 16.5%

(In Billions)	Full-year 2012
Operating Cash Flow	\$5.7 to \$6.0
Gross Capital Expenditures	(\$2.0) to (\$2.1)
Sale-leaseback Proceeds	\$0.5 to \$0.6
Net Capital Expenditures	(\$1.4) to (\$1.6)
Free Cash Flow	\$4.3 to \$4.6

CVS CAREMARK – 2012 MANAGEMENT GUIDANCE, BY SEGMENT

Retail Pharmacy Segment

	Full-year 2012 vs. 2011
Net Revenue	+ 2% to 3%
Same Store Sales Growth	+ 0.5% to 1.5%
Same Store Script Growth	+ 3% to 4%
Gross Profit Margin	Up Moderately
Operating Expenses (% of revenue)	Modest Deleverage
Operating Profit	+ 7% to 9%
Operating Profit Margin	Up 40 to 50 bps

Pharmacy Services Segment

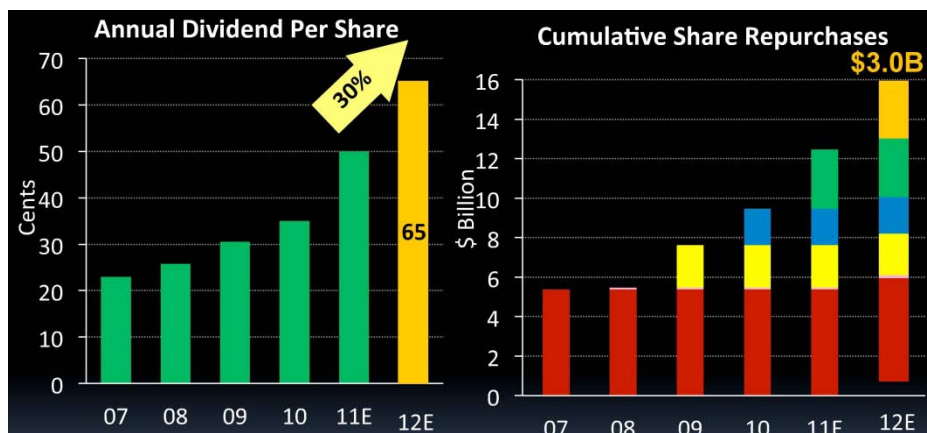
	Full-year 2012 vs. 2011
Net Revenue	+ 22% to 24%
Adjusted Total Claims	1.025 to 1.045 billion
Gross Profit Margin	Down Notably
Operating Expenses (% of revenue)	Moderate Improvement
Operating Profit	+ 11% to 15%
Operating Profit Margin	Down 25 to 35 bps

CVS CAREMARK – STEADY STATE TARGETS: ENTERPRISE AND SEGMENT GROWTH MODEL

	Five-year CAGR 2010 – 2015
Net Revenue	5% to 8%
Operating Profit	8% to 10%
Adjusted EPS From Cont Ops	7% to 9%
Average Annual Cash Available For Enhancing Shareholder Value	\$5.5 billion to \$6.5 billion
Share Repurchase Contribution	3% to 6%
Total Adjusted EPS	10% to 15%

	Five-year CAGR 2010 – 2015
PBM	Net Revenue Growth: 11% to 13% Operating Profit Growth: 9% to 11%
Retail	Net Revenue Growth: 2% to 5% Operating Profit Growth: 8% to 10%

CVS CAREMARK – DIVIDEND INCREASE AND SHARE REPURCHASE PLAN FOR 2012



Source for above charts: [Company presentation dated December 20, 2011.](#)

DIRECTV (DTV) – Southeastern, Berkshire, Lane Five

Services: Broadcasting & Cable TV, Member of S&P 500

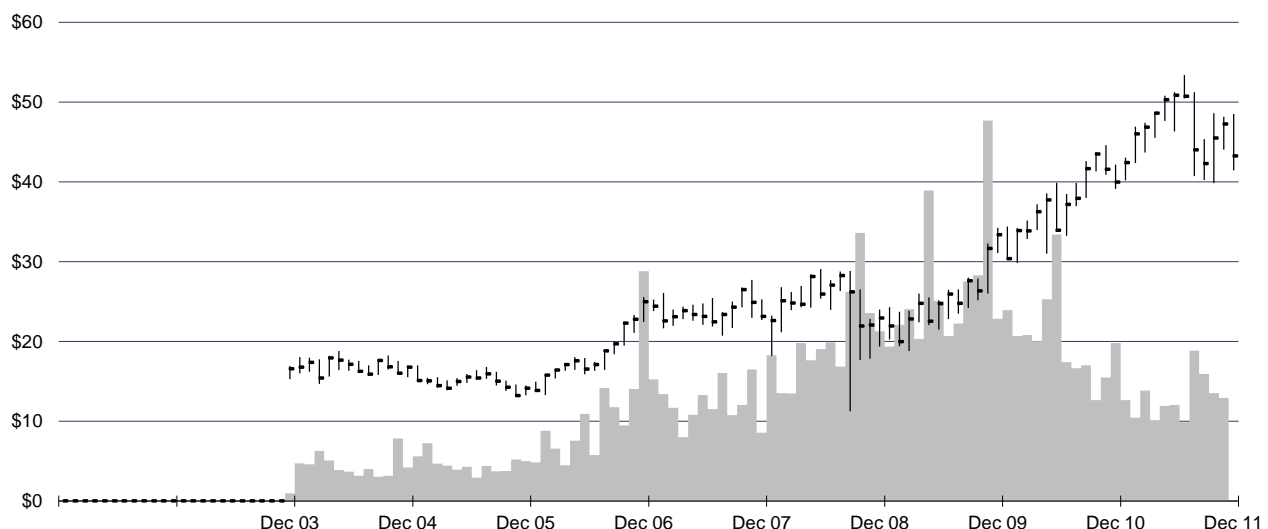
El Segundo CA, 310-964-5000

www.directv.com

Trading Data	Consensus EPS Estimates			Valuation
Price: \$43.23 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10
52-week range: \$39.41–\$53.40	Latest	Agg	Ests	P/E FYE 12/31/11
Market value: \$30.5 billion	This quarter	\$0.91	\$0.91	21
Enterprise value: \$42.7 billion	Next quarter	1.05	1.05	6
Shares outstanding: 705.6 million	FYE 12/31/11	3.38	3.36	24
	FYE 12/30/12	4.40	4.43	22
	FYE 12/30/13	5.58	5.65	16
	LT growth	16.8%	24.1%	4
	EPS Surprise	Actual	Estimate	LTM EBIT yield
	11/3/11	\$0.70	\$0.73	10%
				LTM pre-tax ROC
				82%

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME	FQE	FQE
	2004	2005	2006	2007	2008	2009	2010			
Revenue	11,360	13,165	14,756	17,246	19,693	21,565	24,102	26,384	6,025	6,844
Gross profit	5,584	6,697	7,443	8,660	10,105	10,976	12,347	13,042	3,001	3,319
Adj. operating income	-2,119	633	2,357	2,486	2,695	2,673	3,896	4,477	868	1,030
Adj. net income	-1,099	305	1,420	1,434	1,515	1,512	2,147	2,534	486	516
Adj. diluted EPS	-0.79	0.22	1.13	1.20	1.36	1.54	2.44	3.01	0.56	0.70
Shares out (avg)	1,385	1,388	1,262	1,195	1,110	985	880	843	861	732
Cash from operations	505	1,172	3,162	3,645	3,910	4,431	5,206	4,992	1,331	1,207
D&A	838	853	1,034	1,684	2,320	2,640	2,482	2,403	616	554
Capex	1,023	889	1,976	2,692	2,229	2,071	2,416	2,986	666	972
Free cash flow	-518	283	1,186	953	1,681	2,360	2,790	2,006	665	235
... % of revenue:										
Gross profit	49.2%	50.9%	50.4%	50.2%	51.3%	50.9%	51.2%	49.4%	49.8%	48.5%
Adj. operating income	-18.7%	4.8%	16.0%	14.4%	13.7%	12.4%	16.2%	17.0%	14.4%	15.0%
D&A	7.4%	6.5%	7.0%	9.8%	11.8%	12.2%	10.3%	9.1%	10.2%	8.1%
Capex	9.0%	6.8%	13.4%	15.6%	11.3%	9.6%	10.0%	11.3%	11.1%	14.2%
Cash, investments	2,830	4,385	2,669	1,093	2,005	2,605	1,502	1,297	2,988	1,297
LT investments	924	1,043	806	838	923	1,434	1,755	1,652	1,444	1,652
Total assets	14,324	15,630	15,141	15,063	16,539	18,260	17,909	18,232	18,781	18,232
Tangible assets	9,053	10,707	9,815	9,817	11,614	12,965	12,687	13,190	13,534	13,190
Short-term debt	20	10	220	48	108	1,510	38	0	0	0
Total current liabilities	2,695	2,828	3,322	3,434	3,585	5,701	4,450	4,243	4,222	4,243
Long-term debt	2,490	3,456	3,442	3,390	6,267	7,037	10,995	13,463	10,471	13,463
Common equity	7,507	7,940	6,681	6,302	4,631	2,911	-194	-2,695	678	-2,695
Tangible equity	2,236	3,017	1,355	1,056	-294	-2,384	-5,416	-7,737	-4,569	-7,737
TBV per share	1.61	2.17	1.07	0.88	-0.26	-2.42	-6.14	-10.56	-5.32	-10.56
EBIT/capital employed	-106%	32%	91%	64%	56%	42%	81%	82%	92%	88%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

DirecTV provides satellite television services.

INVESTMENT HIGHLIGHTS

- **Largest U.S. satellite TV provider** with 19.8 million subscribers as of September 30, 2011 (up 5% y-y), ahead of DISH Network's 13.9 million (down 3% y-y). Total U.S. housing units are 125+ million.
- **~19% subscriber share of U.S. pay-TV industry**, which includes cable (~62% share), satellite (~33%), and, increasingly, telephone companies (5+%).
- **3Q net subscriber gain is largest in DirecTV's history.** DirecTV U.S. had its biggest 3Q in seven years with 327,000 new subscribers; Latin America had its best quarter ever with 574,000 net additions.
- **Owns fast-growing satellite TV assets across Latin America.** Wholly-owned PanAmericana and 74%-owned Sky Brazil have 7.3 million subscribers and 41%-owned Sky Mexico (accounted for under the equity method) another 3.8 million subscribers.
- **Collapsed dual-share structure in 2010**, removing 24% vote by ex-chairman John Malone. This satisfied FCC concerns regarding Malone's control of DirecTV and Liberty Media. Malone retains ~4% of shares.
- **Generated \$2.0 billion of trailing FCF (7% yield).** "Maintenance FCF" may be materially higher as DirecTV expensed \$3.3 billion on subscriber acquisition costs and spent \$3.0 billion on capex (1.2x D&A) in the year ended September 2011.
- **Repurchased \$5.9 billion worth of shares in the year to September 2011**, incl. ~\$1.5 billion in 3Q.

INVESTMENT RISKS & CONCERNS

- **Valuation may already reflect future growth at a trailing P/E of 12x** based on TTM net income of \$2.5 billion and shares outstanding of ~705 million. Future EPS growth may slow down as the impact of share buybacks subsides, and due to higher debt.
- **Competition from cable and telco companies, as well as Internet video** as Hulu, Netflix, YouTube and other online-based providers gain popularity.
- **Subscriber acquisition costs and churn.** However, DirecTV has been able to manage both rather well.
- **Capital intensity.** Capex has averaged 10% of revenue since 2008 (YTD: 12%).
- **\$12.2 billion of net debt** as of September 30 (1.8x TTM EBITDA), up from \$5.4 billion at yearend '09.

POTENTIAL CATALYSTS

- Continued growth in net subscribers and ARPU

MAJOR HOLDERS *

Insiders <1% | J. Malone 4% | Cap Re 9% | Southeastern 5%

SELECTED OPERATING DATA

	FYE December 31	2006	2007	2008	2009	2010	YTD 9/30/11
Δ revenue – U.S.	13%	13%	11%	8%	9%	9%	8%
Δ revenue – Latin America	31%	70%	39%	21%	25%	25%	45%
Δ revenue	12%	17%	14%	10%	12%	12%	13%
Δ gross profit	11%	16%	17%	9%	12%	12%	12%
Δ assets	-3%	-1%	10%	10%	-2%	-2%	-3%
Revenue (\$bn)	14.8	17.2	19.7	21.6	24.1	24.1	19.8
<i>% of revenue by major segment:</i>							
DIRECTV U.S.	93%	90%	88%	87%	84%	84%	80%
DIRECTV Latin America	7%	10%	12%	13%	15%	15%	19%
<i>EBIT margin by segment:</i>							
DIRECTV U.S.	17%	15%	13%	13%	16%	16%	17%
DIRECTV Latin America	8%	9%	18%	12%	17%	17%	19%
<i>Selected items as % of revenue:</i>							
Gross profit	50%	50%	51%	51%	51%	51%	50%
EBIT (adjusted) ¹	16%	14%	14%	12%	16%	16%	17%
Pretax income (adjusted) ¹	16%	14%	13%	11%	14%	14%	15%
Net income (adjusted) ^{1,2}	10%	8%	8%	7%	9%	9%	10%
D&A	7%	10%	12%	12%	10%	10%	9%
Capex	13%	16%	11%	10%	10%	10%	12%
<i>Operating metrics – DIRECTV U.S.:</i>							
Subscribers (mn)	16.0	16.8	17.6	18.6	19.2	19.2	19.8
Change (y-y)	5%	6%	5%	5%	4%	4%	4%
ARPU ³	\$74	\$79	\$84	\$85	\$90	\$90	\$90
Change (y-y)	6%	7%	6%	2%	5%	3%	3%
SAC ⁴	\$641	\$692	\$715	\$712	\$796	\$806	\$806
Change (y-y)	0%	8%	3%	0%	12%	2%	2%
Monthly churn	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%
<i>Operating metrics – DIRECTV Latin America:</i>							
Subscribers (mn) ⁵	2.7	3.3	3.9	4.6	5.8	5.8	7.3
Change (y-y)	70%	21%	18%	18%	27%	27%	34%
ARPU	\$42	\$48	\$55	\$57	\$58	\$64	\$64
Change (y-y)	6%	16%	14%	4%	1%	12%	12%
Monthly churn	n/a	1.4%	1.8%	1.8%	1.8%	1.8%	1.8%
Tangible assets (\$bn)	9.8	9.8	11.6	13.0	12.7	12.7	13.2
<i>Selected items as % of tangible assets:</i>							
Cash, investments	27%	11%	17%	20%	12%	10%	10%
LT investments	8%	9%	8%	11%	14%	13%	13%
PP&E, net	45%	59%	57%	50%	53%	55%	55%
ST debt	2%	0%	1%	12%	0%	0%	0%
LT debt	35%	35%	54%	54%	87%	102%	102%
Tangible equity	14%	11%	-3%	-18%	-43%	-59%	-59%
Trailing P/E (end)	22x	19x	17x	35x	16x	17x	17x
Forward P/E (end)	21x	17x	24x	13x	12x	10x	10x
Diluted EPS (cont.) (\$)	1.12	1.19	1.36	0.95	2.48	2.46	2.46
Shares out (avg) (mn)	1,262	1,195	1,110	985	880	763	763
Δ shares out (avg)	-9%	-5%	-7%	-11%	-11%	-15%	-15%

¹ Adjusted for items of -\$570 million in '09, \$51 million in '10, -\$25 million YTD.

² Adjusted for nonrecurring items of \$17 million in 2007 and \$6.0 million in '08.

³ ARPU = average revenue per user.

⁴ SAC = subscriber acquisition cost.

⁵ Excludes Sky Mexico subscribers.

RATINGS

VALUE Intrinsic value materially higher than market value? ☆☆☆☆

DOWNSIDE PROTECTION Low risk of permanent loss? ☆☆☆

MANAGEMENT Capable and properly incentivized? ☆☆☆☆

FINANCIAL STRENGTH Solid balance sheet? ☆☆☆

MOAT Able to sustain high returns on invested capital? ☆☆☆☆

EARNINGS MOMENTUM Fundamentals improving? ☆☆☆☆

MACRO Poised to benefit from economic and secular trends? ☆☆☆

THE BOTTOM LINE

DirecTV has an attractive combination of satellite TV assets, with #1 share in the U.S. (~80% of revenue) and a strong presence in faster-growing Latin America. Despite ongoing concerns about competition and capital intensity, the business has grown in a weak U.S. economy and has generated significant free cash flow relative to market value. While shares are not dirt cheap at a trailing FCF yield of 7%, the valuation does not adequately reflect DirecTV's ability to grow FCF over time.

DIRECTV – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS

Conservative
<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended September 30, 2011
▼
Operating cash flow: \$5.0 billion <i>minus</i>
Capex: \$3.0 billion <i>equals</i>
Free cash flow: \$2.0 billion <i>divided by</i>
Industry median FCF yield: 10.0% (*) <i>equals</i>
Industry FCF yield-implied fair value: \$20 billion (\$28 per share) <i>multiplied by</i>
Assumed required FCF yield as a percentage of the industry FCF yield: 95% (9.5% required FCF yield) <i>equals</i>
Estimated fair value of the common equity of DIRECTV: \$21 billion, or \$30 per share (based on 710 million shares out) <i>29% downside from the recent stock price (\$42 per share)</i>

Base Case
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012
▼
Consensus FY12 EPS estimate: \$4.41 <i>minus</i>
Assumed haircut to FY12 consensus EPS estimate: 5% * \$4.41 <i>equals</i>
Revised FY12 EPS estimate: \$4.19 <i>multiplied by</i>
Corresponding industry P/E: 10.7x (*) <i>equals</i>
Industry multiple-implied fair value: \$32 billion (\$45 per share) <i>multiplied by</i>
Assumed DTV multiple as a percentage of the industry multiple: 110% (11.8x fair value P/E multiple) <i>equals</i>
Estimated fair value of the common equity of DIRECTV: \$35 billion (\$49 per share) (based on 710 million shares out) <i>17% upside to the recent stock price (\$42 per share)</i>

Aggressive
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2013
▼
Consensus FY13 EPS estimate: \$5.62 <i>multiplied by</i>
Corresponding industry P/E: 9.6x (*) <i>equals</i>
Industry multiple-implied fair value: \$38 billion (\$54 per share) <i>multiplied by</i>
Assumed DTV multiple as a percentage of the industry multiple: 125% (12.0x fair value P/E multiple) <i>equals</i>
Estimated fair value of the common equity of DIRECTV: \$48 billion (\$67 per share) <i>60% upside to the recent stock price (\$42 per share)</i>

(*) Represents Broadcasting & Cable TV industry median multiple.

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

DIRECTV – STRATEGY FOR ACHIEVING 2013 GOALS

- Continued marketplace success
 - Technological innovation
 - World class customer service and operational excellence
 - Exceptional sales and marketing
 - Compelling and differentiated content
 - Build and develop outstanding talent
- Superior financial performance
 - Industry leadership in revenue and earnings growth
 - Maintain strong margins:
 - Disciplined cost management
 - Focus on productivity / scale improvements
 - Effectively manage the balance sheet:
 - Maintain optimal debt leverage
 - Return excess cash to shareholders

2013 Goals:

- \$30B in revenues
- 30M consolidated subs
- \$5+ per share of free cash flow and earnings

Recent market price implies earnings and FCF yield of 11-12% if management's 2013 target for \$5+ per share in earnings and FCF is achieved.

Source: Company presentation dated December 2010.

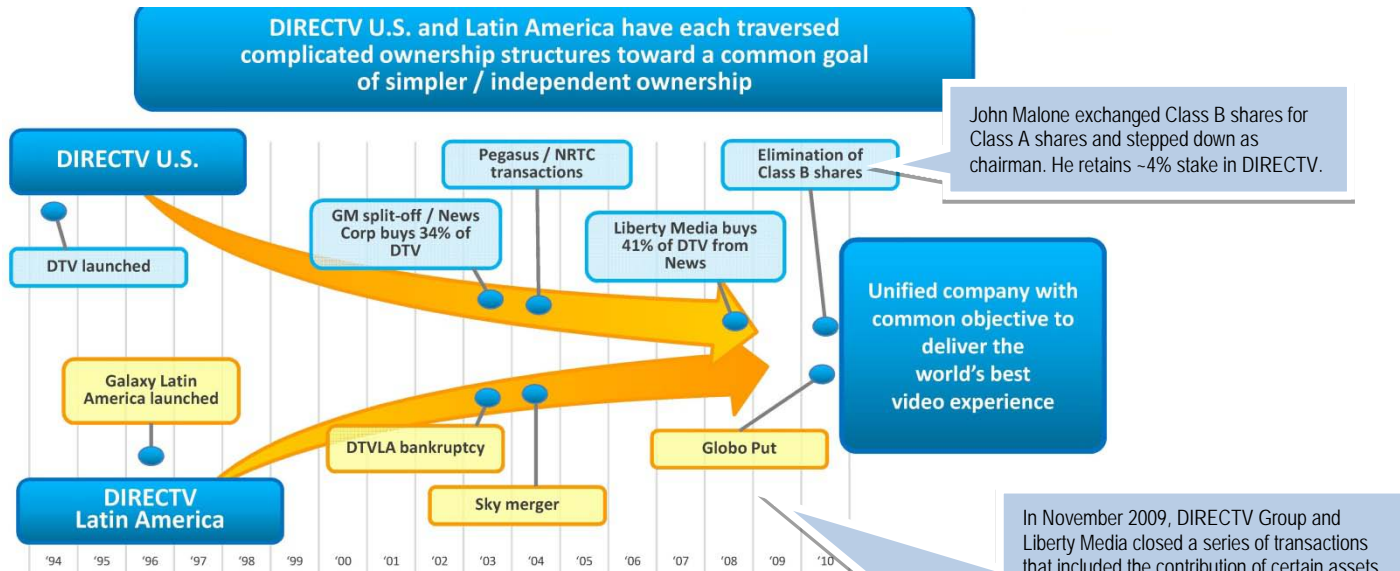
DIRECTV – ANALYSIS OF SELECTED COMPARABLE COMPANIES

Highest revenue per employee in group.

(Click to visit relevant websites)	Trading Data				Public Market Valuation						Operating Performance					
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/ MV	TTM FCF Yield	EPS Yield			LTM Rev./ EV	Rev./ Empl. (\$000)	Δ Rev.		% TTM Rev.	
		Low	High					This TTM	Next FY	Next FY			Last Q	Gross Profit	Adj. EBIT	
DISH Network / DISH	25.78	-68%	83%	11.5	16.5	n/m	15%	13%	13%	10%	82%	619	10%	12%	43%	19%
Comcast / CMCSA	23.33	-61%	29%	63.5	102.6	n/m	12%	6%	6%	8%	49%	495	36%	51%	38%	19%
Cablevision / CVC	12.75	-58%	116%	3.6	13.8	n/m	24%	8%	8%	10%	50%	421	8%	8%	56%	18%
Time Warner Cable / TWC	62.21	-68%	112%	19.9	41.1	n/m	15%	7%	7%	9%	47%	410	5%	4%	53%	21%
				Median		n/m	15%	7%	8%	9%	50%	458	9%	10%	48%	19%
DIRECTV / DTV	42.10	-73%	27%	29.7	41.9	n/m	7%	8%	8%	10%	63%	1,137	12%	14%	49%	17%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue Δ = change
 Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items
 Source: Company and market data, The Manual of Ideas analysis.

DIRECTV – CORPORATE HISTORY



DIRECTV – GROWTH STRATEGY

DIRECTV U.S.

Build on leading brand and technological innovation to take U.S. video to the digital world

Pillars of Success:

- Strengthen core
- Deliver best anytime, anywhere experience
- Create new revenue streams
- Enhance productivity

DIRECTV Latin America

Double down on Latin America to capture the tremendous growth opportunity

Profitably increase market share via a segmented strategy

- Extend leadership in higher end markets
 - HD and DVR leadership
 - Best programming, choice and quality
- Penetrate deeper into the middle market
 - Pre-paid services
 - Lower priced post-paid offerings

DTVLA's PanAmericana (wholly owned) has ~3.3 million subscribers, Sky Brazil (93% owned) has ~2.5 million subs, and Sky Mexico (41% owned) has ~3.0 million subs.

DIRECTV – SYNERGIES

DIRECTV U.S. and DTVLA share advantaged technology, differentiated content and management expertise to gain competitive advantages in their markets

Synergies contribute to EBIT margins in the mid teens and net income margins around 10%.

Technology	Content	Management
<ul style="list-style-type: none"> Satellite design and procurement Broadcast centers <ul style="list-style-type: none"> HD infrastructure Site design Set-top boxes <ul style="list-style-type: none"> Advanced technology Lower cost Time-to-market 	<ul style="list-style-type: none"> Programming relationships Special events/ offerings <ul style="list-style-type: none"> Tennis Majors Masters Golf Game Lounge Más programming 	<ul style="list-style-type: none"> Best practices <ul style="list-style-type: none"> Segmentation Call centers Customer lifetime management Broadcast center operations Corporate services

Source for above charts: Company presentation dated December 2010.

Express Scripts (ESRX) – MS, T Rowe, Davis, Lone Pine, Glenview

Health Care: Healthcare Facilities, Member of S&P 500

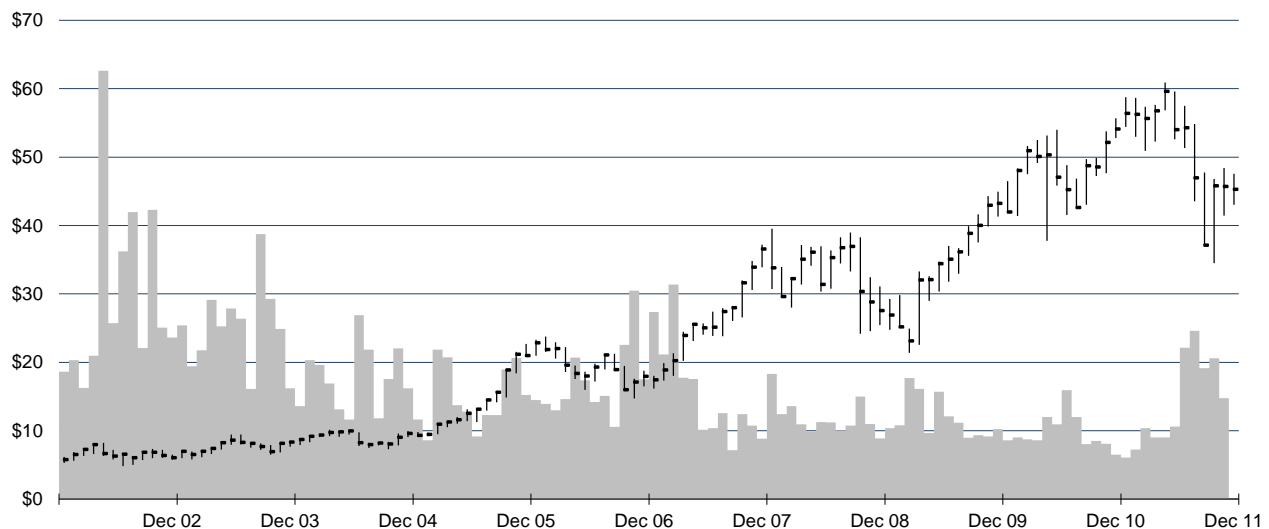
St. Louis MO, 314-996-0900

www.express-scripts.com

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$45.25 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10	20x
52-week range: \$34.47–\$60.89	Latest	Ago	Ests	P/E FYE 12/31/11	15x
Market value: \$22.0 billion	This quarter	\$0.85	\$0.85	P/E FYE 12/30/12	13x
Enterprise value: \$24.9 billion	Next quarter	0.81	0.81	P/E FYE 12/30/13	11x
Shares outstanding: 486.5 million	FYE 12/31/11	3.00	3.01	EV/ LTM revenue	0.6x
	FYE 12/30/12	3.62	3.63	EV/ LTM EBIT	11x
	FYE 12/30/13	4.28	4.27	P / tangible book	n/m
	LT growth	16.3%	16.4%		
Ownership Data	EPS Surprise	Actual	Estimate	Greenblatt Criteria	
Insider ownership: <1%	10/25/11	\$0.79	\$0.77	LTM EBIT yield	9%
Insider buys (last six months): 2				LTM pre-tax ROC	n/m
Insider sales (last six months): 1					
Institutional ownership: n/a					

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME 9/30/11	FQE 9/30/10	FQE 9/30/11
	2004	2005	2006	2007	2008	2009	2010			
Revenue	20,548	21,879	21,563	21,824	21,941	24,722	44,973	45,321	11,252	11,571
Gross profit	937	1,186	1,469	1,759	2,031	2,424	2,958	3,139	764	836
Adj. operating income	493	642	826	1,061	1,274	1,498	2,071	2,303	540	625
Adj. net income	278	400	475	601	776	827	1,205	1,323	319	345
Adj. diluted EPS	0.46	0.68	0.85	1.15	1.56	1.57	2.24	2.52	0.60	0.71
Shares out (avg)	611	587	559	521	498	527	539	526	532	487
Cash from operations	496	793	659	827	1,103	1,772	2,117	1,935	393	957
... % of revenue:										
Gross profit	4.6%	5.4%	6.8%	8.1%	9.3%	9.8%	6.6%	6.9%	6.8%	7.2%
Adj. operating income	2.4%	2.9%	3.8%	4.9%	5.8%	6.1%	4.6%	5.1%	4.8%	5.4%
Cash, investments	166	478	131	435	531	1,070	524	1,063	268	1,063
Receivables	1,057	1,393	1,293	1,185	1,156	2,516	1,721	1,771	1,796	1,771
Inventory	159	273	191	166	203	313	382	340	316	340
Total current assets	1,443	2,257	1,772	1,968	2,044	4,144	2,941	3,306	2,554	3,306
Total assets	3,600	5,494	5,108	5,256	5,509	11,931	10,558	10,872	10,195	10,872
Tangible assets	1,646	2,490	2,051	2,219	2,296	4,553	3,347	3,721	2,940	3,721
Payables	323	597	576	517	496	706	657	744	686	744
Short-term debt	22	110	180	260	420	1,340	0	1,000	0	1,000
Total current liabilities	1,813	2,395	2,429	2,475	2,722	5,457	3,917	5,144	3,967	5,144
Long-term debt	412	1,401	1,270	1,760	1,340	2,493	2,494	2,989	2,493	2,989
Total liabilities	2,402	4,029	3,983	4,560	4,431	8,379	6,951	8,707	6,975	8,707
Common equity	1,196	1,465	1,125	696	1,078	3,552	3,607	2,165	3,220	2,165
Tangible equity	-758	-1,539	-1,932	-2,341	-2,136	-3,826	-3,605	-4,987	-4,035	-4,987
TBV / tangible assets	-46%	-62%	-94%	-105%	-93%	-84%	-108%	-134%	-137%	-134%
TBV per share	-1.24	-2.62	-3.45	-4.50	-4.30	-7.26	-6.70	-10.23	-7.59	-10.23
EBIT/capital employed	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Express Scripts provides pharmacy benefit management (PBM) services in North America.

In July 2011, the company entered into a merger agreement with Medco Health Solutions (MHS). Medco holders are to receive ~\$25 billion, including \$11 billion in cash and 0.81 Express Scripts' shares for each Medco share owned. The companies expect the deal to close in the first half of 2012.

INVESTMENT HIGHLIGHTS

- **One of the largest pharmacy benefit managers in North America.** Express Scripts provides healthcare management and administration services on behalf of payors (e.g. HMOs, health insurers, employers) through networks of retail pharmacies and mail-order.
- **Guiding for \$4+ billion of annual FCF (10+% after Medco acquisition)** and realization of \$1 billion of synergies. The Medco deal increases scale, which may help negotiate lower drug prices from manufacturers on behalf of payor customers.
- **Helps customers manage the cost pressures of rising drug prices by:** 1) evaluating drugs for price, value and efficacy to assist clients in selecting a cost-effective formulary; 2) leveraging purchasing volume to deliver discounts to health benefit providers; and 3) promoting the use of generics and low-cost brands.
- **Capital-light model generates significant FCF,** enabling potentially increasing return of capital.

INVESTMENT RISKS & CONCERNS

- **No meaningful barriers to entry.** While scale is important, customers are well-informed and can relatively easily move among various PBMs.
- **\$4+ billion of FCF after Medco deal may be too aggressive due to:** 1) customer retention concerns; 2) execution risks around \$1 billion synergy target; and 3) uncertain regulatory developments (including potential deal-specific changes required for approval).
- **Customer concentration and retention risk.** Medco is losing its #1 customer UnitedHealth (17% of revenue) at yearend 2012 due to contract expiry. Express Scripts and its #1 customer WellPoint (30% of revenue) are involved in a contractual dispute.
- **Competition includes** other independent PBMs (e.g. Catalyst RX, MedImpact), PBMs owned by managed care companies (e.g. OptumRx-UnitedHealth), and retail pharmacy-owned PBMs (e.g. Caremark-CVS).
- **\$19+ billion of pro-forma net debt** after Medco deal (~3.5x pro-forma TTM EBITDA pre synergy).

POTENTIAL CATALYSTS

- Medco deal execution (\$1 billion synergy target)

SELECTED OPERATING DATA — EXPRESS SCRIPTS¹

FYE December 31	2006	2007	2008	2009	2010	YTD 9/30/11
Δ px processed ²	-10%	-2%	0%	5%	42%	-1%
Δ revenue	-2%	1%	1%	13%	82%	1%
Δ net income	18%	26%	30%	7%	46%	13%
Revenue (\$bn)	21.5	21.8	21.9	24.7	45.0	34.0
<i>Selected items as % of revenue:</i>						
Gross profit	7%	8%	9%	10%	7%	7%
EBIT	4%	5%	6%	6%	5%	5%
Net income	2%	3%	4%	3%	3%	3%
Net cash from ops	3%	4%	5%	7%	5%	5%
D&A	0%	0%	0%	0%	1%	1%
Capex	0%	0%	0%	1%	0%	0%
% of revenue from Top 5 ³	18%	18%	18%	24%	55%	57%
Px processed (mn)	520	507	506	531	754	557
Generic penetration ⁴	59%	63%	67%	70%	73%	75%
Δ shares out (avg)	-5%	-7%	-4%	6%	2%	-7%

¹ 2010 figures reflect the acquisition of WellPoint's PBM business NextRx.
² Reflects adjusted prescriptions (home delivery prescriptions are multiplied by 3, as they typically cover a time period 3 times longer than retail prescriptions).
³ WellPoint represents 30% and the Dept. of Defense 21% of YTD revenue.
⁴ Generic drugs processed as a percentage of network prescriptions.

SELECTED OPERATING DATA — MEDCO

FYE December 31	2006	2007	2008	2009	2010	YTD 9/30/11
Δ px processed	2%	3%	6%	13%	6%	1%
Δ revenue	12%	5%	15%	17%	10%	4%
Δ net income	5%	45%	21%	16%	11%	-2%
Revenue (\$bn)	42.5	44.5	51.3	59.8	66.0	51.1
<i>Selected items as % of revenue:</i>						
Gross profit	6%	7%	7%	7%	7%	7%
EBIT	3%	4%	4%	4%	4%	4%
Net income	1%	2%	2%	2%	2%	2%
Net cash from ops	3%	3%	3%	6%	4%	2%
D&A	1%	1%	1%	1%	1%	1%
Capex	0%	0%	1%	0%	0%	0%
% of revenue from Top10 ¹	47%	45%	45%	49%	47%	46%
Px processed (mn)	730	748	796	899	957	718 ²
Generic penetration	55%	60%	64%	68%	71%	73%
Δ shares out (avg)	3%	-7%	-0%	-5%	-8%	-12%

¹ UnitedHealth represents 17% of YTD revenue. The UnitedHealth contract expires at yearend 2012 and will not be renewed.
² 34% of which is processed through mail-order (as opposed to retail pharmacy).

MAJOR HOLDERS

Insiders 1% | MS 7% | T. Rowe 5% | Davis 5% | Vanguard 4% | Janus 4% | State Street 4% | Jennison 3% | Lone Pine 3%

RATINGS (pro-forma for Medco acquisition)

- VALUE** Intrinsic value materially higher than market value? ☆☆☆
- DOWNSIDE PROTECTION** Low risk of permanent loss? ☆☆☆
- MANAGEMENT** Capable and properly incentivized? ☆☆☆
- FINANCIAL STRENGTH** Solid balance sheet? ☆☆☆
- MOAT** Able to sustain high returns on invested capital? ☆☆☆☆
- EARNINGS MOMENTUM** Fundamentals improving? ☆☆☆
- MACRO** Poised to benefit from economic and secular trends? ☆☆☆

* PBMs combine retail pharmacy claims processing, formulary management and home delivery pharmacy services to create an integrated product offering to manage the prescription drug benefit for payors.

THE BOTTOM LINE

Following the pending acquisition of PBM rival Medco, Express Scripts should benefit from larger scale. This may make it more competitive when it comes to negotiating higher discounts from drug manufacturers on behalf of its healthcare payor customers. Based on guidance of \$4+ billion of post-deal free cash flow, the implied FCF yield of 10+% looks attractive. However, in addition to deal execution risk, a lack of entry barriers and customer concentration lowers the reward-to-risk.

EXPRESS SCRIPTS – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS (pro forma for Medco acquisition)



	Conservative	Base Case	Aggressive
Valuation methodology (based on pro-forma financials)	8x TTM EBIT	8x TTM EBITDA post-synergies	8% required FCF yield
Conservative Case Valuation:			
Pro-forma TTM EBIT	\$4.8 billion		
Fair value multiple	8x		
Estimated enterprise value	\$38.5 billion		
Minus: Estimated post-integration net debt	-\$18.9 billion		
Estimated equity value	\$19.6 billion		
Base Case Valuation:			
Pro-forma TTM EBITDA pre synergies		\$5.6 billion	
Guidance for total synergies post-integration		\$1.0 billion	
Pro-forma TTM EBITDA post synergies		\$6.6 billion	
Fair value multiple		8x	
Estimated enterprise value		\$52.5 billion	
Minus: Estimated post-integration net debt		-\$18.9 billion	
Estimated equity value		\$33.6 billion	
Aggressive Case Valuation:			
Post-integration, annual FCF guidance (“\$4 billion+”)			\$4.0 billion
Required FCF yield			8%
Implied equity value			\$50.0 billion
Estimated fair value of the equity of Express Scripts¹	\$19.6 billion \$24 per share	\$33.6 billion \$42 per share	\$50.0 billion \$63 per share
<i>Implied upside/(downside) to recent price (\$45 per share)</i>	-46%	-7%	39%

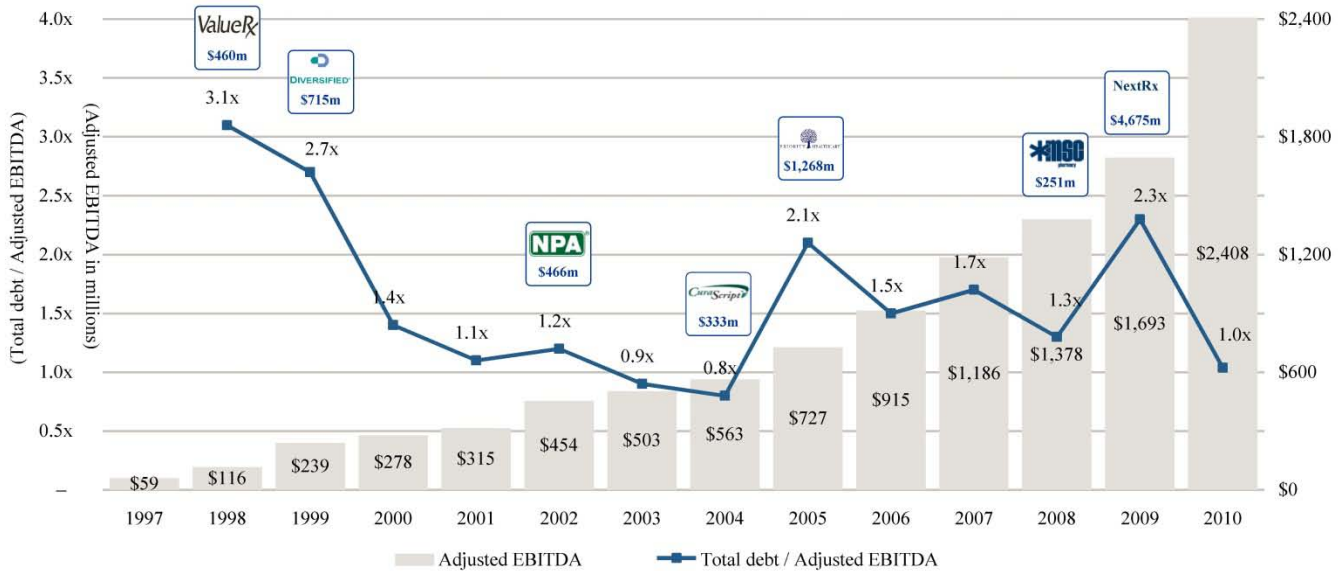
¹ Based on ~800 million pro-forma shares outstanding after the acquisition of Medco, which management expect to complete in the first half of 2012.
Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

EXPRESS SCRIPTS – EBITDA AND STOCK PRICE, 1997-2010



Source: Company presentation dated November 9, 2011.

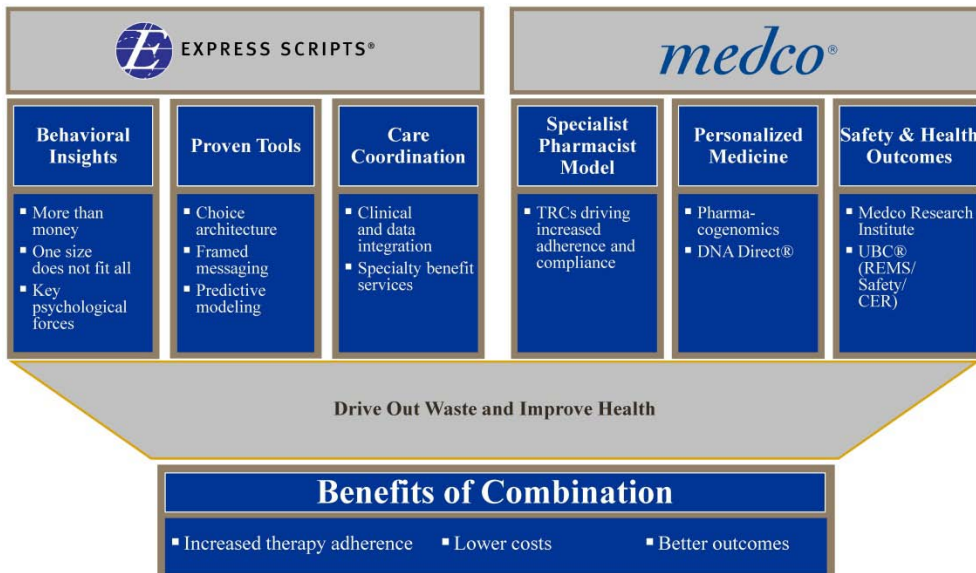
EXPRESS SCRIPTS – ADJUSTED EBITDA and TOTAL DEBT TO ADJUSTED EBITDA, 1997-2010



Source: Company presentation on Medco merger.

EXPRESS SCRIPTS – INFORMATION ON PENDING MEDCO MERGER

- Price**
 - \$28.80 cash and 0.81 of a share of Express Scripts stock (fixed exchange ratio); total consideration of \$29.1 billion
 - Total value of \$71.36 per Medco share based on Express Scripts' closing stock price on July 20, 2011
- Premium**
 - 28% premium to Medco shareholders based on Medco's closing stock price on July 20, 2011
- Ownership**
 - Express Scripts shareholders to own approximately 59% and Medco shareholders to own approximately 41% of the combined company
- Anticipated Closing**
 - First half of 2012, subject to regulatory approvals



Source: Company presentation on Medco merger.

FedEx (FDX) – Primecap, Dodge & Cox, Southeastern, Greenhaven

Transportation: Air Courier, Member of S&P 500

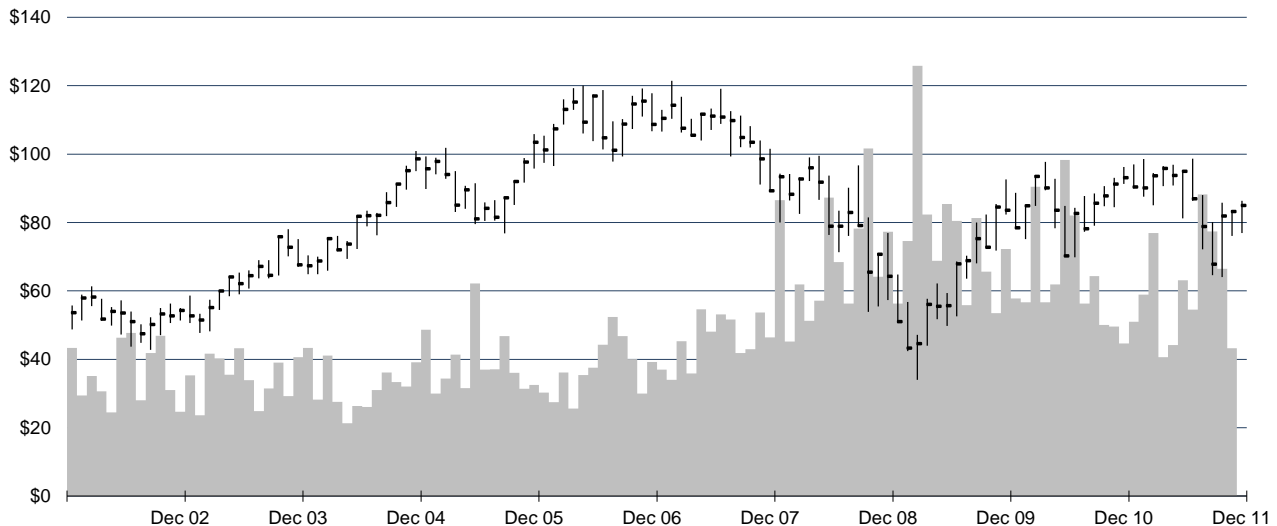
Memphis, TN, 901-818-7200

www.fedex.com

Trading Data	Consensus EPS Estimates				Valuation	
Price: \$84.92 (as of 12/23/11)		Month	# of		P/E FYE 6/1/11	19x
52-week range: \$64.07–\$98.66	Latest	Aqo	Ests		P/E FYE 5/31/12	13x
Market value: \$26.7 billion	This quarter	\$1.36	\$1.33	23	P/E FYE 5/31/13	11x
Enterprise value: \$26.5 billion	Next quarter	1.98	1.97	23	P/E FYE 5/31/14	10x
Shares outstanding: 314.5 million	FYE 5/31/12	6.37	6.28	28	EV/ LTM revenue	0.6x
	FYE 5/31/13	7.41	7.35	27	EV/ LTM EBIT	9x
	FYE 5/31/14	8.45	8.24	12	P / tangible book	2.0x
	LT growth	16.3%	15.6%	9		
Ownership Data		EPS Surprise	Actual	Estimate	Greenblatt Criteria	
Insider ownership: <1%		12/15/11	\$1.57	\$1.52	LTM EBIT yield	11%
Insider buys (last six months): 7					LTM pre-tax ROC	16%
Insider sales (last six months): 8						
Institutional ownership: 78%						

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended May 31,							LTME 11/30/11	FQE 11/30/10	FQE 11/30/11
	2005	2006	2007	2008	2009	2010	2011			
Revenue	29,363	32,294	35,214	37,953	35,497	34,734	39,304	41,323	9,632	10,587
Gross profit	8,154	9,049	9,773	10,199	9,058	8,799	9,762	10,295	2,424	2,695
Adjusted operating income	2,471	3,014	3,276	2,957	1,951	2,016	2,467	2,820	536	780
Adjusted pretax income	2,313	2,899	3,215	2,898	1,881	1,912	2,354	2,748	504	777
Adjusted net income	1,449	1,806	2,016	2,005	1,301	1,200	1,538	1,768	349	495
Adjusted diluted EPS	4.81	5.94	6.57	6.49	4.18	3.85	4.88	5.61	1.10	1.57
Dividend	0.29	0.33	0.37	0.30	0.44	0.44	0.48	0.50	0.12	0.13
Shares out (avg)	301	304	307	309	311	312	315	315	316	315
Cash from operations	3,117	3,676	3,557	3,465	2,753	3,138	4,041	4,198	1,215	1,308
D&A	1,462	1,550	1,742	1,946	1,975	1,958	1,973	2,019	502	518
Capex	2,236	2,518	2,882	2,947	2,459	2,816	3,434	3,592	1,047	1,107
Free cash flow	881	1,158	675	518	294	322	607	606	168	201
... % of revenue:										
Gross profit	27.8%	28.0%	27.8%	26.9%	25.5%	25.3%	24.8%	24.9%	25.2%	25.5%
Adj. operating income	8.4%	9.3%	9.3%	7.8%	5.5%	5.8%	6.3%	6.8%	5.6%	7.4%
D&A	5.0%	4.8%	4.9%	5.1%	5.6%	5.6%	5.0%	4.9%	5.2%	4.9%
Capex	7.6%	7.8%	8.2%	7.8%	6.9%	8.1%	8.7%	8.7%	10.9%	10.5%
Cash, investments	1,039	1,937	1,569	1,539	2,292	1,952	2,328	1,896	1,877	1,896
PP&E, net	9,643	10,770	12,636	13,478	13,417	14,385	15,543	16,709	15,266	16,709
Tangible assets	16,884	19,204	19,736	22,279	21,897	22,633	25,059	26,053	23,869	26,053
Short-term debt	369	850	639	502	653	262	18	428	251	428
Long-term debt	2,427	1,592	2,007	1,506	1,930	1,668	1,667	1,251	1,667	1,251
Tangible equity	6,068	8,025	8,392	11,172	11,279	11,542	12,894	13,518	12,337	13,518
TBV / tangible assets	36%	42%	43%	50%	52%	51%	51%	52%	52%	52%
TBV per share	20.16	26.40	27.33	36.16	36.26	37.00	40.94	42.91	39.04	42.91
EBIT/capital employed	26%	30%	28%	15%	5%	13%	15%	16%	12%	18%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

FedEx provides cargo transportation and logistics services. The company operates in three main segments:

Express (\$1.2 billion of TTM EBIT; \$16.5 billion assets*): invented express distribution and remains the industry's global leader, providing rapid, reliable, time-definite delivery to more than 220 countries and territories.

Ground (\$1.5 billion of TTM EBIT; \$5.0 billion assets*): provides ground small-package delivery services in the U.S. and Canada. Includes *FedEx Home Delivery* and *SmartPost*.

Freight (breakeven; \$2.7 billion assets*): market leader in providing less-than-truckload freight services across all lengths of haul. Includes *FedEx Custom Critical*.

INVESTMENT HIGHLIGHTS

- **World's largest express transportation company**
FedEx Express offers time-certain delivery within 1-3 business days and serves markets that comprise 90%+ of the world's GDP. North America-focused *FedEx Ground* is another key profit driver.
- **Global brand recognition and transportation infrastructure/scale provide competitive moat.** Next to UPS, only a few other companies may be able to compete effectively on a global basis.
- **Benefits from trends driving world commerce,** including e-commerce, globalization, and supply chain acceleration, which drive shipping needs.
- **Chairman and CEO Frederick Smith (67) founded FedEx in 1971.** Smith still owns 7%.
- **Long-term targets:** increase EPS 10-15% per year; achieve 10%+ operating margin; increase ROIC.
- **"Raising prices to drive higher margins"** based on comments by management in October.

INVESTMENT RISKS & CONCERNS

- **Operations are capital intensive,** characterized by investments in aircraft, vehicles, technology, facilities, package-handling and sorting equipment. FedEx operated 688 aircraft as of May 2011, of which it owned 614. It also has 90,000 vehicles.
- **Trades at 2.0x tangible book and 15x TTM net income.** While FedEx may benefit from a recovery in global growth, the valuation already discounts some.
- **"Independent contractor" model of FedEx Ground** is being challenged in courts.
- **Significant pension-related liabilities.**

POTENTIAL CATALYSTS

- Recovery in global economic growth and trade
- Margin expansion through price increases
- Freight segment turnaround (or exit?)

SELECTED OPERATING DATA¹

FYE May 31	2007	2008	2009	2010	2011	YTD 11/30/11
Δ aircraft	0%	1%	-3%	2%	3%	n/a
Δ revenue	9%	8%	-6%	-2%	13%	11%
Δ EBIT	9%	-9%	-34%	2%	19%	38%
Δ EPS	11%	-10%	-36%	0%	22%	44%
Revenue (\$bn)	35.2	38.0	35.5	34.7	39.3	21.1
<i>% of revenue by segment:</i>						
Express	64%	64%	63%	62%	63%	62%
Ground	17%	18%	20%	21%	22%	22%
Freight	13%	13%	12%	12%	12%	13%
Other ²	5%	5%	5%	4%	3%	3%
<i>Revenue growth by selected segment:</i>						
Express	6%	8%	-8%	-4%	14%	11%
Ground	14%	12%	4%	6%	14%	14%
<i>EBIT margin by segment:³</i>						
Express	9%	8%	5%	5%	5%	5%
Ground	14%	11%	11%	14%	16%	17%
Freight	10%	7%	1%	-4%	-4%	3%
Total EBIT margin	9%	8%	5%	6%	6%	7%
U.S. as % of revenue ⁴	74%	72%	73%	72%	70%	n/a
<i>Selected items as % of revenue:</i>						
Salaries/benefits	39%	37%	39%	40%	39%	38%
Purchased transport	11%	12%	13%	14%	14%	15%
Net income	6%	5%	3%	3%	4%	5%
Net cash from ops	10%	9%	8%	9%	10%	10%
D&A	5%	5%	6%	6%	5%	5%
Capex	8%	8%	7%	8%	9%	11%
Assets (\$bn)	24.0	25.6	24.2	24.9	27.4	28.5
<i>% of assets by segment:</i>						
Express	65%	52%	56%	60%	60%	n/a
Ground	16%	11%	14%	17%	18%	n/a
Freight	13%	13%	13%	11%	10%	n/a
Other	5%	24%	18%	13%	12%	n/a
<i>Selected operating data of Express segment:</i>						
Avg packages/day (mn)	3.4	3.5	3.4	3.5	3.6	3.6
Revenue/package (\$)	21	22	21	20	21	22
Return on tang. equity	25%	19%	11%	10%	12%	7%
Tang. equity/assets	42%	47%	51%	51%	51%	52%
Δ shares out (avg)	1%	1%	1%	0%	1%	1%

¹ 2008/09 figures exclude \$0.9 billion and \$1.2 billion of pre-tax impairment charges, respectively, mainly due to the Kinko's purchase (now FedEx Office).
² Includes FedEx Services, as well as the "Other and eliminations" segment.
³ Reflects the allocation of central costs to the three segments (incl. the costs of FedEx Services, which provides sales, marketing and IT to the three segments).
⁴ Reflects shipments that originate and are destined to locations within the U.S.

MAJOR HOLDERS

CEO Smith 7% | Other insiders <1% | Primecap 7% | Dodge & Cox 6% | Southeastern 4% | Wellington 4% | T. Rowe 4%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆

* As of May 31, 2011. Non-segment assets of \$3.2 billion are not shown.

THE BOTTOM LINE

FedEx is a trusted provider of express cargo transportation services worldwide. The strong brand and scale provide it with advantages that not many rivals can match. We also like the exposure to secular trends including e-commerce, globalization, and supply chain acceleration. With founder Smith still at the helm, FedEx is well-placed to benefit. However, capital intensity (leading to only modest ROIC), and a valuation that already discounts considerable growth, temper our enthusiasm.

FEDEX – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS


Conservative	Base Case	Aggressive
<i>Valuation methodology:</i> Based on revenue for the twelve months ended November 30, 2011 and average EBIT margin for past seven fiscal years	<i>Valuation methodology:</i> Based on tangible book value as of November 30, 2011	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending May 30, 2013
▼	▼	▼
TTM net sales: \$41 billion <i>multiplied by</i>	Book value: \$16 billion <i>minus</i>	Consensus FY12 EPS estimate: \$7.31 <i>minus</i>
Average 7-year EBIT margin: 7.5% <i>equals</i>	Intangibles: \$2.4 billion <i>equals</i>	Assumed haircut to FY12 consensus EPS estimate: 0% * \$7.31 <i>equals</i>
Estimated EBIT: \$3.1 billion <i>multiplied by</i>	Tangible book value: \$14 billion <i>multiplied by</i>	Revised FY12 EPS estimate: \$7.31 <i>multiplied by</i>
Assumed fair value multiple of EBIT: 7x <i>equals</i>	Industry price to book: 1.7x (*) (†) <i>equals</i>	Corresponding industry P/E: 11.6x (*) <i>equals</i>
Estimated fair enterprise value of FedEx: \$22 billion <i>plus</i>	Industry multiple-implied fair value: \$23 billion (\$72 per share) <i>multiplied by</i>	Industry multiple-implied fair value: \$27 billion (\$85 per share) <i>multiplied by</i>
Cash, ST investments: \$1.9 billion <i>minus</i>	Assumed FDX multiple as a percentage of the industry multiple: 120% <i>equals</i>	Assumed FDX multiple as a percentage of the industry multiple: 125% <i>(14.5x fair value P/E multiple)</i> <i>equals</i>
Total debt: \$1.7 billion <i>equals</i>	(2.0x multiple of tangible book) <i>equals</i>	
Estimated fair value of the common equity of FedEx: \$22 billion, or \$69 per share (based on 320 million shares out) <i>19% downside from the recent stock price (\$85 per share)</i>	Estimated fair value of the common equity of FedEx: \$27 billion (\$86 per share) (based on 320 million shares out) <i>2% upside to the recent stock price (\$85 per share)</i>	Estimated fair value of the common equity of FedEx: \$34 billion (\$106 per share) (based on 320 million shares out) <i>25% upside to the recent stock price (\$85 per share)</i>

(*) Represents Air Courier industry median multiple.

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

FEDEX – ANALYSIS OF SELECTED COMPARABLE COMPANIES

<i>(Click to visit relevant websites)</i>	Trading Data					Public Market Valuation					Operating Performance					Tang. Equity/ Assets	
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/ MV	TTM FCF Yield	EPS Yield		LTM Rev./ EV	Rev./ Empl. (\$000)	Δ Rev.		% TTM Rev.			
		Low	High					This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT		
UPS / UPS	71.76	-47%	24%	69.2	76.2	7%	5%	6%	6%	7%	69%	131	8%	8%	26%	13%	16%
FedEx / FDX	84.89	-60%	43%	26.9	26.7	50%	2%	6%	7%	9%	155%	160	11%	10%	25%	7%	52%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change

Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items

Source: Company and market data, The Manual of Ideas analysis.

FEDEX – GROUND: SHIPMENT STATISTICS

	FY 2009	FY 2010	FY 2011	Q2 YTD FY 2012
FedEx Ground				
Total Package Volume (000s)	864,660	898,464	958,962	492,613
Average Daily Package Volume (000s)	3,404	3,523	3,746	3,849
Yield (Revenue Per Package)	\$ 7.70	\$ 7.73	\$ 8.17	\$ 8.62
Average Daily YOY Volume Growth Rate	1.2%	3.5%	6.3%	4.4%
OPERATING WEEKDAYS	254	255	256	128
FedEx SmartPost				
Total Package Volume (000s)	208,315	309,282	366,647	201,407
Average Daily Package Volume (000s)	827	1,222	1,432	1,573
Yield (Revenue Per Package)	\$ 1.81	\$ 1.56	\$ 1.72	\$ 1.78
Average Daily YOY Volume Growth Rate	33.8%	47.8%	17.2%	22.2%
OPERATING WEEKDAYS	252	253	256	128

Source: Company statistical book through Q2 FY12.

FEDEX – FREIGHT: LTL SHIPMENT STATISTICS

	FY 2009	FY 2010	FY 2011	Q2 YTD FY 2012
Shipments Per Day	74,389	82,290	85,980	85,849
Weight Per Shipment	1,126	1,134	1,144	1,152
LTL Yield (Revenue Per Hundredweight)	\$ 19.07	\$ 17.07	\$ 18.24	\$ 19.54
Avg. Daily Shipment Growth Rate	(6.7%)	10.6%	4.5%	(5.3%)
OPERATING WEEKDAYS	252	253	254	127

Source: [Company statistical book through Q2 FY12.](#)



Statistical
Book

FEDEX – FREIGHT: LTL SHIPMENT STATISTICS

	FY 2009	FY 2010	FY 2011	Q2 YTD FY 2012	
AVG DAILY VOLUME / POUNDS					
Average Daily Package Volume (000s):					
U.S. Overnight Box (FO, POB, SOB)		1,127	1,157	1,184	1,151
U.S. Overnight Envelope (POE, SOE)		627	614	627	589
Total U.S. Overnight (FO, PO, SO)		1,754	1,771	1,811	1,740
U.S. Deferred (E2, ES)		849	867	873	834
Total U.S. Packages		2,603	2,638	2,684	2,574
International Priority (IP, IE)		475	523	575	556
International Domestic ¹		298	318	348	486
Total Avg Daily Packages		3,376	3,479	3,607	3,616
Average Daily Freight Pounds (000s):					
U.S. (F1/F2/F3/Domestic ATA)		7,287	7,141	7,340	7,295
International Priority (IPF, IEF)		1,959	2,544	3,184	3,289
International Airfreight (IXF/ATA)		1,475	1,222	1,235	1,188
Total Avg Daily Freight Pounds		10,721	10,907	11,759	11,772
YIELD					
Revenue Per Package:					
U.S. Overnight Box (FO, POB, SOB)		\$ 21.21	\$ 19.00	\$ 20.29	\$ 22.15
U.S. Overnight Envelope (POE, SOE)		11.65	10.47	10.86	11.56
Total U.S. Overnight (FO, PO, SO)		17.79	16.04	17.02	18.57
U.S. Deferred (E2, ES)		12.94	11.70	12.60	13.70
Total U.S. Packages		16.21	14.61	15.59	16.99
International Priority (IP, IE)		57.81	53.10	56.08	61.42
International Domestic ¹		7.50	7.14	7.38	6.81
Total Composite Package Yield		\$ 21.30	\$ 19.72	\$ 21.25	\$ 22.45
Revenue Per Freight Pound:					
U.S. (F1/F2/F3/Domestic ATA)		\$ 1.17	\$ 1.09	\$ 1.17	\$ 1.31
International Priority (IPF, IEF)		2.22	2.01	2.12	2.18
International Airfreight (IXF/ATA)		0.99	0.81	0.90	0.99
Total Composite Freight Yield		\$ 1.34	\$ 1.27	\$ 1.40	\$ 1.52
PACKAGE GROWTH RATES					
Average Daily Volume Growth:					
U.S. Overnight Box (FO, POB, SOB)		(2.1%)	2.7%	2.3%	(2.6%)
U.S. Overnight Envelope (POE, SOE)		(7.4%)	(2.1%)	2.1%	(5.8%)
Total U.S. Overnight (FO, PO, SO)		(4.0%)	1.0%	2.3%	(3.7%)
U.S. Deferred (E2, ES)		(5.1%)	2.1%	0.7%	(2.5%)
Total U.S. Packages		(4.4%)	1.3%	1.7%	(3.3%)
International Priority (IP, IE)		(8.1%)	10.1%	9.9%	(3.3%)
International Domestic ¹		0.7%	6.7%	9.4%	43.4%
Total Package Volume Growth		(4.5%)	3.1%	3.7%	1.1%
Revenue Growth:					
U.S. Overnight Box (FO, POB, SOB)		(7.7%)	(7.8%)	9.4%	9.5%
U.S. Overnight Envelope (POE, SOE)		(7.8%)	(11.6%)	5.9%	2.8%
Total U.S. Overnight (FO, PO, SO)		(7.7%)	(8.7%)	8.6%	8.0%
U.S. Deferred (E2, ES)		(6.9%)	(7.2%)	8.3%	10.2%
Total U.S. Packages		(7.5%)	(8.3%)	8.5%	8.6%
International Priority (IP, IE)		(9.0%)	1.6%	16.1%	9.7%
International Domestic ¹		(14.8%)	2.3%	13.0%	35.5%
Total Package Revenue Growth		(8.3%)	(4.2%)	11.7%	9.9%
AVG POUNDS PER PACKAGE		7.4	7.5	8.0	8.8
AVG REVENUE PER PACKAGE LB.		\$ 2.88	\$ 2.63	\$ 2.66	\$ 2.55
OPERATING WEEKDAYS		254	255	255	128

Source: [Company statistical book through Q2 FY12.](#)

General Dynamics (GD) – Longview, Berkshire, Edinburgh, Markel, Harris

Capital Goods: Aerospace and Defense, Member of S&P 500

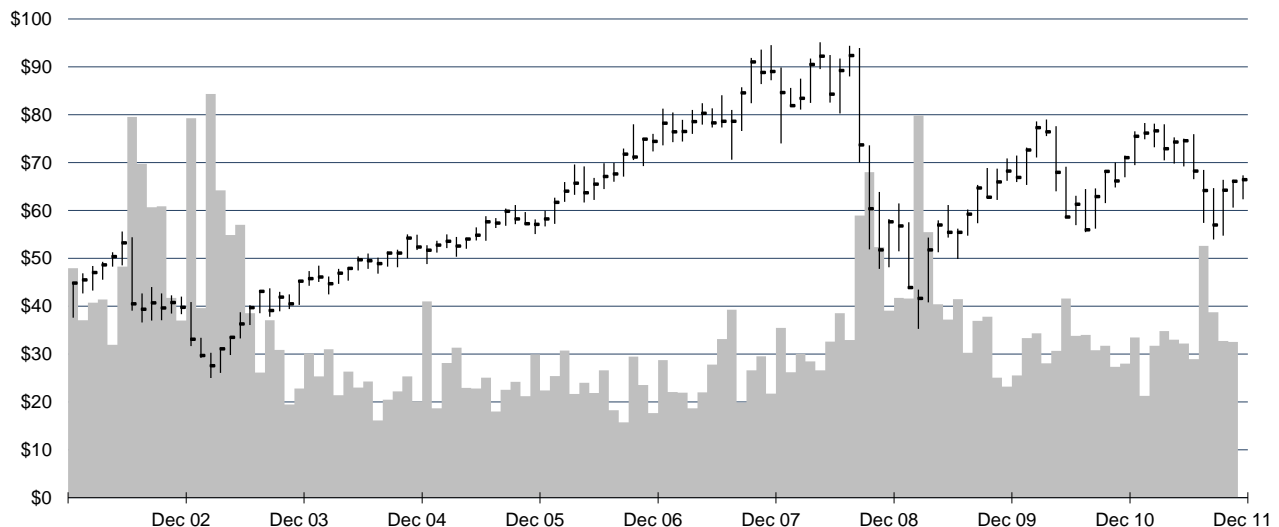
Falls Church VA, 703-876-3000

generaldynamics.com

Trading Data		Consensus EPS Estimates			Valuation		
Price: \$66.36 (as of 12/23/11)			Month	# of	P/E FYE 12/31/10	10x	
52-week range: \$53.95–\$78.27		<u>Latest</u>	<u>Agg</u>	<u>Ests</u>	P/E FYE 12/31/11	9x	
Market value: \$23.6 billion		This quarter	\$1.99	\$1.99	22	P/E FYE 12/30/12	9x
Enterprise value: \$26.2 billion		Next quarter	1.77	1.77	10	P/E FYE 12/30/13	8x
Shares outstanding: 356.1 million		FYE 12/31/11	7.23	7.23	25	EV/ LTM revenue	0.8x
Ownership Data		FYE 12/30/12	7.57	7.58	25	EV/ LTM EBIT	7x
Insider ownership: <1%		FYE 12/30/13	7.96	8.00	17	P / tangible book	n/m
Insider buys (last six months): 9		LT growth	7.4%	7.3%	8	Greenblatt Criteria	
Insider sales (last six months): 2		<u>EPS Surprise</u>		<u>Actual</u>	<u>Estimate</u>	LTM EBIT yield	15%
Institutional ownership: 79%		10/26/11		\$1.83	\$1.77	LTM pre-tax ROC	77%

Operating Performance and Financial Position

(\$ millions, except per share data)	Fiscal Years Ended December 31,								LTME	FQE	FQE
	2004	2005	2006	2007	2008	2009	2010	10/2/11	10/3/10	10/2/11	
Revenue	18,868	20,975	24,063	27,240	29,300	31,981	32,466	32,131	8,011	7,853	
Gross profit	1,931	2,179	4,125	4,756	5,372	5,629	5,909	5,977	1,447	1,490	
Adjusted operating income	1,931	2,179	2,625	3,113	3,653	3,675	3,945	3,952	966	998	
Adjusted pretax income	1,774	2,069	2,527	3,047	3,604	3,513	3,790	3,850	928	952	
Adjusted net income	1,194	1,448	1,710	2,080	2,478	2,407	2,628	2,678	649	665	
Adjusted diluted EPS	2.99	3.61	4.24	5.14	6.25	6.24	6.89	7.13	1.71	1.85	
Dividend	0.72	0.80	0.92	1.16	1.40	1.52	1.68	1.83	0.42	0.47	
Shares out (avg)	399	402	403	404	396	386	381	376	379	360	
Cash from operations	1,803	2,056	2,128	2,925	3,110	2,840	2,984	2,631	879	134	
... % of revenue:											
Gross profit	10.2%	10.4%	17.1%	17.5%	18.3%	17.6%	18.2%	18.6%	18.1%	19.0%	
Adj. operating income	10.2%	10.4%	10.9%	11.4%	12.5%	11.5%	12.2%	12.3%	12.1%	12.7%	
Cash, investments	976	2,331	1,604	2,891	1,621	2,263	2,613	1,540	1,843	1,540	
Receivables	1,450	2,004	2,341	2,874	3,469	3,678	3,848	4,119	3,874	4,119	
Inventory	4,085	4,445	5,472	5,958	6,370	6,575	7,031	7,643	6,972	7,643	
Total current assets	7,331	9,449	9,880	12,298	11,950	13,249	14,186	14,040	13,390	14,040	
PP&E, net	2,153	2,028	2,168	2,472	2,872	2,912	2,971	3,063	2,918	3,063	
Total assets	17,544	19,700	22,376	25,733	28,373	31,077	32,545	33,408	31,483	33,408	
Tangible assets	10,167	12,116	12,651	15,819	15,343	16,710	17,904	17,910	16,928	17,910	
Payables	1,505	1,686	1,956	2,318	2,443	2,365	2,736	2,584	2,571	2,584	
Short-term debt	6	509	7	673	911	705	773	222	774	222	
Long-term debt	3,291	2,778	2,774	2,118	3,113	3,159	2,430	3,907	2,430	3,907	
Total liabilities	10,355	11,555	12,549	13,965	18,320	18,654	19,229	19,789	17,901	19,789	
Common equity	7,189	8,145	9,827	11,768	10,053	12,423	13,316	13,619	13,582	13,619	
Tangible equity	-188	561	102	1,854	-2,977	-1,944	-1,325	-1,879	-973	-1,879	
EBIT/capital employed	62%	77%	>100%	>100%	>100%	92%	94%	77%	>100%	99%	

Ten-Year Stock Price Performance and Trading Volume Dynamics


BUSINESS OVERVIEW

General Dynamics is a U.S. defense contractor and commercial jet manufacturer with 93,800 employees.

INVESTMENT HIGHLIGHTS

- **72% of revenue is from the U.S. government**, with the Dep't of Defense (DoD) the key customer.
- **Revenue visibility due to \$46 billion of "funded" backlog** as of October 2 (~1.4x trailing revenue). Unfunded backlog is another \$13 billion.
- **Aerospace segment (Gulfstream) accounts for \$18 billion of funded backlog and 20+% of EBIT.** GD acquired Gulfstream in 1999. Private companies and individuals represent over two-thirds of orders.
- **CEO Jay Johnson (63) is a Retired Admiral, U.S. Navy**, and ex-member of the Joint Chiefs of Staff.
- **Consistent repurchaser of stock**, buying back \$726 million YTD 2011 and \$1.2 billion in 2010.

INVESTMENT RISKS & CONCERNS

- **U.S. defense funding pressure** due to the federal deficit may lead to lower orders and/or margins. Total backlog is down 21% since yearend 2008.
- **Lessened U.S. military involvement in Iraq and Afghanistan** may reduce demand for the company's combat and other systems.
- **Fixed-price contracts account for roughly half of U.S. government revenue**, heightening the risk of cost overruns cutting into operating margins.
- **Net post-retirement liabilities of \$3.6 billion.**

CATALYSTS

- Stock repurchases: the company authorized a new 10 million share buyback plan on October 5
- Contract wins, such as a \$395 million award for Egyptian Abrams tank-related work in November or a \$1.8 billion award for the construction of two Zumwalt-class destroyers in September

MAJOR HOLDERS

CEO Johnson <1% | Other insiders 6%* | Longview 9% | Cap Re 7% | Cap World 3% | Harris Associates 3% |

* A 4% stake is attributable to director Crown of Henry Crown and Co.

RATINGS

VALUE Intrinsic value materially higher than market value? ☆☆☆☆

DOWNSIDE PROTECTION Low risk of permanent loss? ☆☆☆

MANAGEMENT Capable and properly incentivized? ☆☆☆

FINANCIAL STRENGTH Solid balance sheet? ☆☆☆

MOAT Able to sustain high returns on invested capital? ☆☆☆☆

EARNINGS MOMENTUM Fundamentals improving? ☆☆☆

MACRO Poised to benefit from economic and secular trends? ☆☆☆

SELECTED OPERATING DATA

FYE December 31	2006	2007	2008	2009	2010	YTD 10/2/11
Δ backlog – funded	21%	9%	39%	-11%	-5%	1%
Δ backlog – unfunded	-23%	0%	133%	-12%	-18%	-22%
Δ backlog – total ¹	7%	7%	58%	-12%	-9%	-5%
Δ revenue	15%	13%	8%	9%	2%	-1%
Δ BV per share	20%	19%	-13%	27%	8%	6%
<i>Backlog (\$bn):</i>						
Funded	34.0	37.2	51.7	45.9	43.4	45.9
Unfunded	9.6	9.6	22.4	19.7	16.2	12.6
Total backlog	43.7	46.8	74.1	65.5	59.6	58.5
Funded to total backlog	78%	79%	70%	70%	73%	78%
Revenue (\$bn)	24.1	27.2	29.3	32.0	32.5	23.5
Revenue from U.S. gov't	68%	69%	69%	71%	72%	n/a
<i>% of revenue by type:</i>						
Products	71%	70%	69%	69%	67%	65%
Services	29%	30%	31%	31%	33%	35%
<i>Revenue growth by type:</i>						
Products	13%	12%	6%	9%	-2%	-4%
Services	18%	16%	12%	10%	8%	4%
<i>% of revenue by segment:</i>						
Aerospace ³	17%	18%	19%	16%	16%	18%
Combat systems	25%	29%	28%	30%	27%	26%
Marine systems	21%	18%	19%	20%	21%	21%
Information systems	38%	35%	34%	34%	36%	35%
<i>Revenue growth by segment:</i>						
Aerospace ³	20%	17%	14%	-6%	2%	3%
Combat systems	19%	30%	5%	18%	-8%	1%
Marine systems	5%	1%	11%	15%	5%	-2%
Information systems	15%	7%	4%	8%	7%	-4%
<i>EBIT margin by segment:</i>						
Aerospace ³	16%	17%	19%	14%	16%	16%
Combat systems	11%	12%	14%	13%	14%	14%
Marine systems	8%	8%	9%	10%	10%	10%
Information systems	11%	11%	11%	11%	10%	11%
<i>Selected items as % of revenue:</i>						
Gross profit	17%	17%	18%	18%	18%	19%
EBIT (GAAP)	11%	11%	12%	11%	12%	12%
Net income (adjusted) ²	7%	8%	8%	8%	8%	8%
D&A	2%	2%	2%	2%	2%	2%
Capex	1%	2%	2%	1%	1%	1%
Industry gross margin ³	26%	26%	23%	23%	24%	24%
Industry EBIT margin ³	8%	9%	7%	7%	7%	4%
Tangible assets (\$bn)	12.7	15.8	15.3	16.7	17.9	17.9
<i>Selected items as % of tangible assets:</i>						
Cash, investments	13%	18%	11%	14%	15%	9%
Inventory	43%	38%	42%	39%	39%	43%
Debt	22%	17%	26%	23%	18%	23%
Tangible equity	1%	12%	-19%	-12%	-7%	-10%
Trailing P/E (end)	18x	17x	9x	11x	10x	11x
Forward P/E (end)	15x	14x	9x	10x	10x	8x
Diluted EPS (cont.) (\$)	4.20	5.10	6.21	6.21	6.82	5.26
Dividends per share (\$)	0.92	1.16	1.40	1.52	1.68	1.41
Shares out (avg) (mn)	403	404	396	386	381	367
Δ shares out (avg)	0%	0%	-2%	-3%	-1%	-4%

¹ 2008 growth reflects record orders (M&A impact is not material). Backlog excludes work awarded under unfunded indefinite delivery, indefinite quantity contracts and unexercised options. "Funded" includes items appropriated by the U.S. Congress and funded by the customer, as well as commitments by non-U.S. customers that are approved and funded by their governments.

² Adjusted for items of \$146 million in 2006, -\$8.0 million in 2007, \$19 million in 2008, -\$13 million in 2009, -\$4.0 million in 2010, and -\$26 million YTD 10/2/11.

³ Manufactures Gulfstream business jets and provides maintenance services.

THE BOTTOM LINE

General Dynamics shares offer a nearly 10% trailing FCF yield, which is attractive despite U.S. defense budget pressure. While U.S. defense funding cuts are a possibility, we believe investors have overreacted to this risk. The company has funded backlog of roughly 1.4x trailing revenue and participates in key defense programs such as *Virginia* subs and *Abrams* tanks. We also like the company's sizeable commercial jet business represented by Gulfstream (20+% of company EBIT). Unless Washington suddenly—and improbably—decides on major defense cuts, General Dynamics should grow equity value.

GENERAL DYNAMICS – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS


Conservative	Base Case	Aggressive
<i>Valuation methodology:</i> Based on revenue for the twelve months ended October 2, 2011 and average EBIT margin for past seven fiscal years	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012	<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended October 2, 2011
▼	▼	▼
TTM net sales: \$32 billion	Consensus FY12 EPS estimate: \$7.57	Operating cash flow: \$2.6 billion
<i>multiplied by</i>	<i>minus</i>	<i>minus</i>
Average 7-year EBIT margin: 11.3%	Assumed haircut to FY12 consensus EPS estimate: 5% * \$7.57	Capex: \$420 million
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated EBIT: \$3.6 billion	Revised FY12 EPS estimate: \$7.19	Free cash flow: \$2.2 billion
<i>multiplied by</i>	<i>multiplied by</i>	<i>divided by</i>
Assumed fair value multiple of EBIT: 6x	Corresponding industry P/E: 11.9x (*)	Industry median FCF yield: 5.2% (*)
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated fair enterprise value of General Dynamics: \$22 billion	Industry multiple-implied fair value: \$30 billion (\$86 per share)	Industry FCF yield-implied fair value: \$43 billion (\$120 per share)
<i>plus</i>	<i>multiplied by</i>	<i>multiplied by</i>
Cash, ST investments: \$1.5 billion	Assumed GD multiple as a percentage of the industry multiple: 90%	Assumed required FCF yield as a percentage of the industry FCF yield: 110%
<i>minus</i>	<i>multiplied by</i>	<i>multiplied by</i>
Total debt: \$4.1 billion	(10.7x fair value P/E multiple)	(5.7% required FCF yield)
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated fair value of the common equity of General Dynamics: \$19 billion, or \$54 per share (based on 360 million shares out)	Estimated fair value of the common equity of General Dynamics: \$27 billion (\$77 per share) (based on 360 million shares out)	Estimated fair value of the common equity of General Dynamics: \$39 billion, or \$109 per share (based on 360 million shares out)
<i>15% downside from the recent stock price (\$63 per share)</i>	<i>22% upside to the recent stock price (\$63 per share)</i>	<i>73% upside to the recent stock price (\$63 per share)</i>

(*) Represents Aerospace and Defense industry median multiple.

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

GENERAL DYNAMICS – FREE CASH FLOW *(\$ in millions)*

	2006	2007	2008	2009	2010
Net cash provided by operating activities from continuing operations	\$ 2,156	\$ 2,952	\$ 3,124	\$ 2,855	\$ 2,986
Capital expenditures	(334)	(474)	(490)	(385)	(370)
Free Cash Flow from Operations*	\$ 1,822	\$ 2,478	\$ 2,634	\$ 2,470	\$ 2,616

Fairly consistent capex requirements, stable free cash flow

* Management defines free cash flow from operations as net cash provided by operating activities from continuing operations less capital expenditures.

Source: Company presentation on non-GAAP financial measures.

Cheapest among peers on the basis of next FY projected EPS yield

GENERAL DYNAMICS – ANALYSIS OF SELECTED COMPARABLE COMPANIES

<i>(Click to visit relevant websites)</i>	Trading Data				Public Market Valuation						Operating Performance					
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/MV	TTM FCF Yield	EPS Yield		LTM Rev./EV	Rev./Empl. (\$000)	Δ Rev.		% TTM Rev.		
		Low	High					This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT	
Boeing / BA	71.01	-59%	52%	52.8	55.9	n/m	1%	7%	6%	7%	118%	410	0%	4%	19%	8%
Lockheed Martin / LMT	77.10	-44%	56%	24.9	27.4	n/m	9%	10%	10%	10%	172%	374	-15%	7%	8%	9%
Northrop Grumman / NOC	55.66	-45%	39%	14.5	15.6	n/m	11%	11%	13%	12%	141%	275	-9%	-6%	23%	14%
Raytheon / RTN	45.51	-36%	48%	15.8	17.0	n/m	8%	11%	11%	11%	149%	351	1%	-2%	20%	11%
Textron / TXT	17.82	-80%	318%	5.0	9.5	34%	10%	6%	6%	9%	118%	348	9%	14%	17%	6%
				Median		n/m	1%	7%	6%	7%	118%	410	0%	4%	19%	8%
General Dynamics / GD	63.20	-44%	51%	22.5	25.1	n/m	10%	11%	11%	12%	128%	365	1%	-2%	19%	12%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change

Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items

Source: Company and market data, The Manual of Ideas analysis.

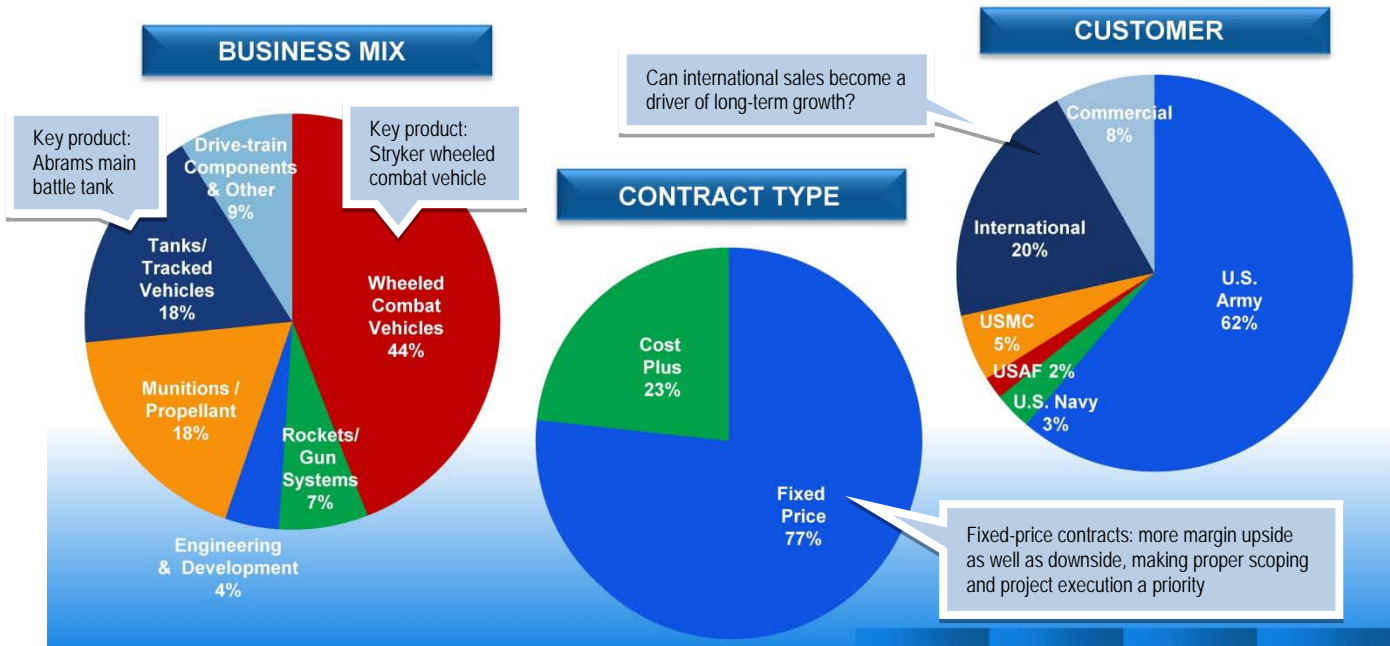
GENERAL DYNAMICS – RETURN ON INVESTED CAPITAL

	2006	2007	2008	2009	2010
Earnings from continuing operations	\$ 1,710	\$ 2,080	\$ 2,478	\$ 2,407	\$ 2,628
After-tax interest expense	106	89	91	117	116
After-tax amortization expense	90	99	100	149	155
Net operating profit after taxes	\$ 1,906	\$ 2,268	\$ 2,669	\$ 2,673	\$ 2,899
Average debt and equity	\$ 12,220	\$ 13,430	\$ 14,390	\$ 15,003	\$ 16,587
Return on Invested Capital*	15.6%	16.9%	18.5%	17.8%	17.5%

Steady growth in earnings from continuing ops, respectable return on invested capital. Analysts project continued growth in EPS to \$7.23 in 2011 and \$7.57 in 2012 (recent stock price: \$66 per share)

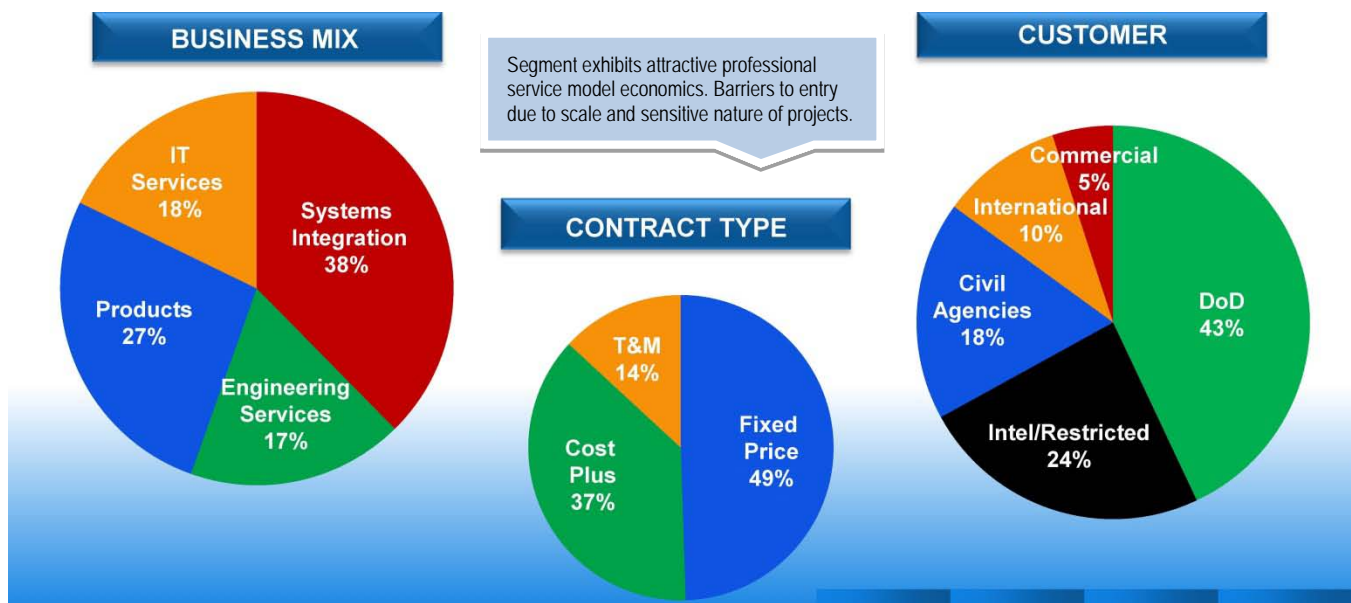
* The company calculates return on invested capital as net operating profit after taxes divided by the sum of average debt and shareholder's equity for the year. Source: Company presentation on non-GAAP financial measures.

GENERAL DYNAMICS – COMBAT SYSTEMS: 2011E BUSINESS PORTFOLIO



Source: Company presentation dated September 8, 2011.

GENERAL DYNAMICS – INFORMATION SYSTEMS & TECHNOLOGY: 2011E BUSINESS PORTFOLIO



Source: Company presentation dated September 8, 2011.

Gilead Sciences (GILD) – Cap Re, Cap World, Third Point

Health Care: Biotechnology & Drugs, Member of S&P 500

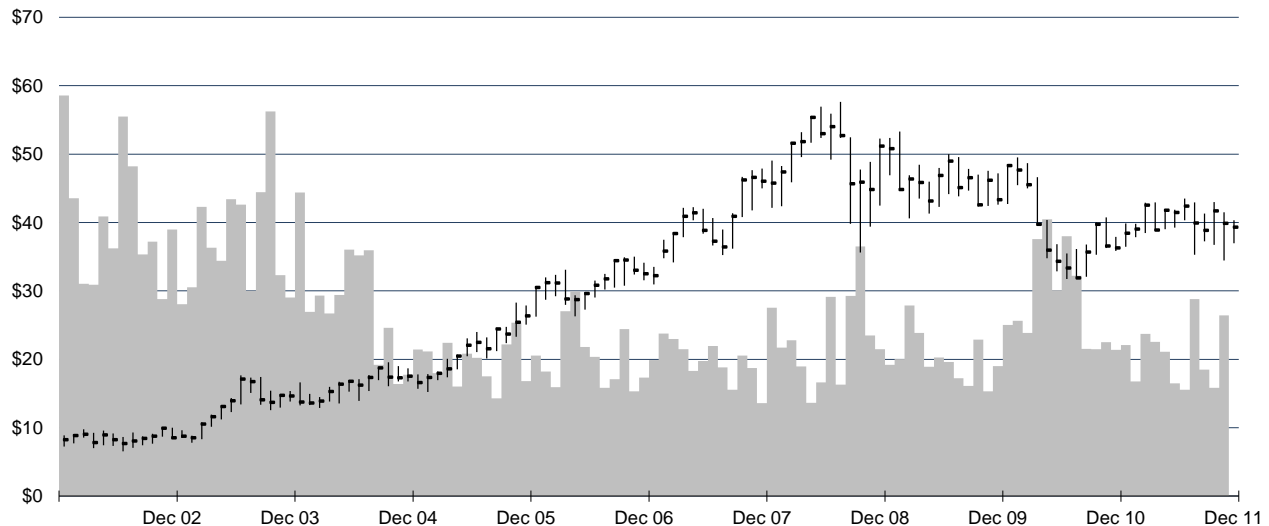
Foster City CA, 650-574-3000

www.gilead.com

Trading Data	Consensus EPS Estimates				Valuation	
Price: \$39.29 (as of 12/23/11)		Month	# of		P/E FYE 12/31/10	12x
52-week range: \$34.45–\$43.49	Latest	Agg	Ests		P/E FYE 12/31/11	10x
Market value: \$29.5 billion	This quarter	\$1.05	\$1.05	25	P/E FYE 12/30/12	9x
Enterprise value: \$31.1 billion	Next quarter	1.03	1.04	4	P/E FYE 12/30/13	8x
Shares outstanding: 751.1 million	FYE 12/31/11	3.93	3.93	26	EV/ LTM revenue	3.8x
	FYE 12/30/12	4.18	4.40	16	EV/ LTM EBIT	8x
	FYE 12/30/13	4.97	5.20	11	P / tangible book	7.4x
	LT growth	16.5%	15.9%	9		
Ownership Data		EPS Surprise	Actual	Estimate	Greenblatt Criteria	
Insider ownership: <1%		10/27/11	\$1.02	\$1.01	LTM EBIT yield	12%
Insider buys (last six months): 5					LTM pre-tax ROC	>100%
Insider sales (last six months): 4						
Institutional ownership: 89%						

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME 9/30/11	FQE 9/30/10	FQE 9/30/11
	2004	2005	2006	2007	2008	2009	2010			
Revenue	1,325	2,028	3,026	4,230	5,336	7,011	7,949	8,184	1,938	2,122
Gross profit	1,158	1,768	2,593	3,461	4,209	5,416	6,080	6,147	1,460	1,590
R&D	224	278	384	591	722	914	923	1,077	224	288
Adjusted operating income	627	1,111	1,635	2,165	2,690	3,590	4,138	3,912	987	1,011
Adjusted pretax income	656	1,162	1,756	2,211	2,684	3,562	4,090	3,792	969	982
Adjusted net income	449	814	1,204	1,585	1,990	2,696	3,077	2,929	713	748
Adjusted diluted EPS	0.52	0.90	1.31	1.71	2.16	2.98	3.59	3.51	0.86	0.98
Shares out (avg)	864	909	918	929	921	905	856	834	833	767
Cash from operations	508	706	1,218	1,669	2,143	3,080	2,834	3,386	739	897
... % of revenue:										
Gross profit	87.4%	87.2%	85.7%	81.8%	78.9%	77.2%	76.5%	75.1%	75.4%	74.9%
R&D	16.9%	13.7%	12.7%	14.0%	13.5%	13.0%	11.6%	13.2%	11.6%	13.6%
Adj. operating income	47.4%	54.8%	54.0%	51.2%	50.4%	51.2%	52.1%	47.8%	50.9%	47.7%
Cash, investments	1,254	2,311	937	1,172	1,790	1,657	2,099	2,257	2,308	2,257
Receivables	371	396	609	795	1,023	1,390	1,622	1,867	1,670	1,867
Inventory	136	217	564	600	928	1,052	1,204	1,338	1,273	1,338
Total current assets	1,850	3,092	2,429	3,028	4,278	4,813	5,708	6,147	6,032	6,147
LT investments	0	2	453	1,550	1,450	2,248	3,219	3,225	2,744	3,225
Tangible assets	2,156	3,766	4,086	5,835	6,814	8,174	10,167	10,529	9,879	10,529
Short-term debt	0	60	19	0	6	6	646	2	632	2
Long-term debt	0	0	1,300	1,300	1,098	1,155	2,839	3,892	2,819	3,892
Common equity	1,871	3,028	1,816	3,460	4,273	6,367	5,864	6,117	5,706	6,117
Tangible equity	1,871	3,028	1,816	3,460	4,150	4,842	4,438	4,006	4,130	4,006
TBV / tangible assets	87%	80%	44%	59%	61%	59%	44%	38%	42%	38%
TBV per share	2.17	3.33	1.98	3.72	4.51	5.35	5.18	5.22	4.96	5.22
EBIT/capital employed	>100%	>100%	-88%	>100%	>100%	>100%	>100%	>100%	>100%	>100%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Gilead Sciences, founded in 1987, is a research-based biopharmaceutical company with 4,300 employees.

INVESTMENT HIGHLIGHTS

- **Areas of focus include HIV/AIDS**, liver diseases, respiratory diseases, cardiovascular/metabolic diseases, inflammation, and oncology. Gilead provides the first single tablet regimen for HIV (Atripla); the first and only neuraminidase inhibitor for the treatment of influenza A and B (Tamiflu); and key products targeting chronic hepatitis B, pulmonary arterial hypertension, chronic angina, severe fungal infections, and cystic fibrosis.
- **Highly profitable business model**, with adjusted operating margin of 50.6% YTD 2011. Gilead generated pre-M&A FCF of \$2.8 billion in 2010 and \$2.6 billion in the first nine months of 2011.
- **Completed \$5 billion repurchase plan** (started in May 2010), retiring 135 million shares at \$37 per share. Gilead initiated another \$5 billion buyback in January (\$2.2 billion repurchased through 3Q11).

INVESTMENT RISKS & CONCERNS

- **\$11 billion cash acquisition of Pharmasset** (VRUS), announced in November 2011, would add three clinical-stage candidates for the treatment of chronic hepatitis C virus. The deal will be “dilutive to Gilead’s earnings through 2014 and accretive in 2015 and beyond,” according to management. While Gilead shares have risen ~10% since the deal announcement, value investors might have preferred Gilead to repurchase \$11 billion of stock instead. The acquisition price of \$137 per Pharmasset share represents an 89% premium to the target’s closing price on the last trading day prior to announcement, and 59% to Pharmasset’s all-time high stock price.
- **Will margin erosion continue?** Adjusted EBIT margin declined from 55.4% in 2010 to 50.6% YTD 2011 despite an increase in revenue over the period.
- **HIV-related products accounted for 85% of sales in 2010.** If a competitor successfully developed a competing suite of HIV drugs or a cure for AIDS, Gilead’s market share and sales could plummet. We are not aware of an imminent threat of this kind.
- **Drug pipeline difficult to assess.** While Gilead has several products in late-stage trials or pending marketing approval, we find it impossible to gauge the likely sales success of such products.

POTENTIAL CATALYSTS

- Closing of Pharmasset deal (positive or negative?)
- Continued growth in revenue and FCF

SELECTED OPERATING DATA

FYE December 31	2006	2007	2008	2009	2010	YTD 9/30/11
Δ revenue	49%	40%	26%	31%	13%	4%
Δ gross profit	47%	33%	22%	29%	12%	1%
Δ assets	8%	43%	19%	40%	20%	10%
Δ BV per share	-41%	88%	25%	52%	-3%	16%
Revenue (\$mn)	3,026	4,230	5,336	7,011	7,949	6,185
<i>% of revenue by type:</i>						
Product sales	86%	88%	95%	92%	93%	97%
Royalty and other	14%	12%	5%	8%	7%	3%
<i>% of revenue by selected product:</i>						
Antiviral – Atripla	8%	24%	31%	37%	40%	40%
Antiviral – Truvada	46%	43%	41%	38%	36%	36%
Antiviral – Viread	27%	16%	12%	10%	10%	9%
Antiviral – Hepsera	9%	8%	7%	4%	3%	2%
AmBisome	9%	7%	6%	5%	4%	4%
Letairis	0%	1%	2%	3%	3%	4%
Ranexa	0%	0%	0%	2%	3%	4%
<i>% of revenue by major geography:</i>						
U.S.	48%	51%	54%	51%	53%	54%
Europe	46%	43%	40%	43%	40%	38%
<i>% of revenue by major customer:</i>						
Cardinal Health	18%	20%	21%	18%	17%	17%
McKesson	12%	15%	16%	13%	14%	15%
AmerisourceBergen	11%	11%	11%	11%	12%	13%
<i>Selected items as % of revenue:</i>						
Gross profit	86%	82%	79%	77%	76%	75%
R&D	13%	14%	14%	13%	12%	13%
EBIT (adjusted) ¹	54%	51%	50%	51%	52%	47%
Pretax income (adjusted) ¹	58%	52%	50%	51%	51%	46%
Net income (adjusted) ¹	40%	37%	37%	38%	39%	35%
D&A	2%	2%	3%	3%	3%	4%
Capex	3%	2%	2%	3%	1%	2%
Tangible assets (\$bn)	4.1	5.8	6.8	8.2	10.2	10.5
<i>Selected items as % of tangible assets:</i>						
Cash, investments	23%	20%	26%	20%	21%	21%
Inventory	14%	10%	14%	13%	12%	13%
LT investments	11%	27%	21%	28%	32%	31%
LT debt	32%	22%	16%	14%	34%	37%
Tangible equity	44%	59%	61%	59%	44%	38%
Return on tang. equity	50%	60%	52%	60%	66%	51%
Return on equity (ROE)	50%	60%	51%	51%	50%	36%
Trailing P/E (end)	n/m	28x	25x	15x	11x	14x
Forward P/E (end)	20x	22x	18x	13x	9x	9x
Diluted EPS (cont.) (\$)	-1.30	1.64	2.06	2.82	3.32	2.68
Share price (end) (\$)	33	46	51	43	36	39
Shares out (avg) (mn)	918	929	921	905	856	783
Δ shares out (avg)	1%	1%	-1%	-2%	-5%	-10%

¹ Adjusted for unusual items of -\$2.4 billion in 2006, -\$11 million in 2008, -\$60 million in 2009, -\$176 million in 2010, and -\$10 million YTD 9/30/11.

MAJOR HOLDERS

CEO 1% | Other insiders <2% | AllianceB. 4% | Cap Re 3%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆

THE BOTTOM LINE

Gilead has been a leader in treatments targeting HIV/AIDS and has created an enviable financial model with operating margins in the 50% range. Revenue growth, strong FCF and aggressive share repurchases have created value for shareholders over the years. However, the \$11 billion cash acquisition of Pharmasset, announced in November, poses a risk to value creation. The deal, which will be dilutive to EPS for a few years, could ultimately deliver value, but we remain cautious.

GILEAD SCIENCES – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS


Conservative	Base Case	Aggressive
<i>Valuation methodology:</i> Based on revenue for the twelve months ended September 30, 2011 and average EBIT margin for past seven fiscal years	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012	<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended September 30, 2011
▼	▼	▼
TTM net sales: \$8.2 billion	Consensus FY12 EPS estimate: \$4.18	Operating cash flow: \$3.4 billion
<i>multiplied by</i>	<i>minus</i>	<i>minus</i>
Average 7-year EBIT margin: 51.6%	Assumed haircut to FY12 consensus EPS estimate: 5% * \$4.18	Capex: \$129 million
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated EBIT: \$4.2 billion	Revised FY12 EPS estimate: \$3.97	Free cash flow: \$3.3 billion
<i>multiplied by</i>	<i>multiplied by</i>	<i>divided by</i>
Assumed fair value multiple of EBIT: 6x	Corresponding industry P/E: 12.9x (*)	Industry median FCF yield: 7.1% (*)
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated fair enterprise value of Gilead Sciences: \$25 billion	Industry multiple-implied fair value: \$38 billion (\$51 per share)	Industry FCF yield-implied fair value: \$46 billion (\$61 per share)
<i>plus</i>	<i>multiplied by</i>	<i>multiplied by</i>
Cash, ST investments: \$2.3 billion	Assumed GILD multiple as a percentage of the industry multiple: 110%	Assumed required FCF yield as a percentage of the industry FCF yield: 90%
<i>plus</i>	<i>multiplied by</i>	<i>multiplied by</i>
Long-term investments at fair value discount of 25%: \$2.4 billion	(14.2x fair value P/E multiple)	(6.4% required FCF yield)
<i>minus</i>	<i>equals</i>	<i>equals</i>
Total debt: \$3.9 billion	Estimated fair value of the common equity of Gilead Sciences: \$42 billion (\$56 per share) (based on 750 million shares out)	Estimated fair value of the common equity of Gilead Sciences: \$51 billion, or \$67 per share (based on 750 million shares out)
<i>equals</i>	<i>52% upside to the recent stock price (\$37 per share)</i>	<i>81% upside to the recent stock price (\$37 per share)</i>
Estimated fair value of the common equity of Gilead Sciences: \$26 billion, or \$35 per share (based on 750 million shares out)		
<i>6% downside from the recent stock price (\$37 per share)</i>		

(*) Represents Biotechnology & Drugs industry median multiple.

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

GILEAD SCIENCES – ANALYSIS OF SELECTED COMPARABLE COMPANIES

<i>(Click to visit relevant websites)</i>	Trading Data					Public Market Valuation						Operating Performance					
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/ MV	TTM FCF Yield	EPS Yield		LTM Rev./ EV	Rev./ Empl. (\$000)	Δ Rev.		% TTM Rev.			
		Low	High					This FY	Next FY			TTM	Last Q	Gross Profit	R&D	Adj. EBIT	
Amgen / AMGN	60.05	-35%	45%	53	49	17%	10%	7%	9%	10%	31%	904	3%	3%	85%	21%	27%
AstraZeneca / AZN	45.25	-34%	47%	59	57	4%	12%	16%	16%	14%	59%	549	0%	4%	82%	15%	41%
Bristol Myers / BMY	34.22	-53%	1%	58	55	13%	8%	6%	7%	6%	38%	774	8%	11%	73%	17%	33%
Glaxo / GSK	44.89	-40%	34%	113	128	n/m	6%	4%	7%	8%	34%	444	-6%	4%	73%	14%	22%
Merck / MRK	36.25	-45%	70%	110	113	6%	10%	4%	10%	11%	42%	532	-14%	8%	64%	21%	15%
Novartis / NVS	55.35	-40%	17%	152	170	2%	8%	8%	10%	10%	35%	493	17%	17%	69%	16%	21%
Pfizer / PFE	21.03	-45%	85%	162	174	n/m	12%	6%	11%	11%	39%	617	3%	7%	77%	13%	28%
Sanofi / SNY	34.77	-31%	44%	93	111	n/m	0%	7%	13%	12%	40%	441	0%	4%	71%	14%	21%
				Median		17%	10%	7%	9%	10%	31%	904	3%	3%	85%	21%	27%
Gilead / GILD	37.16	-65%	55%	28	30	14%	12%	9%	11%	11%	28%	2,046	3%	9%	75%	13%	48%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change
 Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items

Source: Company and market data, The Manual of Ideas analysis.

GILEAD SCIENCES – RECONCILIATION OF GAAP TO NON-GAAP FINANCIALS *(in thousands except percentages and per share amounts)*

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	FY 2010	Q1 2011	Q2 2011	Q3 2011	YTD 2011
Cost of goods sold reconciliation:									
GAAP cost of goods sold	\$ 440,430	\$ 455,525	\$ 477,584	\$ 496,337	\$ 1,869,876	\$ 474,111	\$ 533,863	\$ 531,989	\$ 1,539,963
Acquisition-related amortization of inventory mark-up	(4,978)	(2,042)	-	-	(7,020)	-	-	-	-
Acquisition-related amortization of purchased intangibles	(14,984)	(14,981)	(14,981)	(14,981)	(59,927)	(17,407)	(17,408)	(17,407)	(52,222)
Stock-based compensation expenses	(2,853)	(2,967)	(2,728)	(1,632)	(10,180)	(2,644)	(2,887)	(2,234)	(7,765)
Non-GAAP cost of goods sold	<u>\$ 417,615</u>	<u>\$ 435,535</u>	<u>\$ 459,875</u>	<u>\$ 479,724</u>	<u>\$ 1,792,749</u>	<u>\$ 454,060</u>	<u>\$ 513,568</u>	<u>\$ 512,348</u>	<u>\$ 1,479,976</u>
Product gross margin reconciliation:									
GAAP product gross margin	75.5 %	74.8 %	74.4 %	74.4 %	74.8 %	74.6 %	73.9 %	74.3 %	74%
Acquisition-related amortization of inventory mark-up	0.3 %	0.1 %	-	-	0.1 %	-	-	-	-
Acquisition-related amortization of purchased intangibles	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	0.9 %	0.9 %	0.8 %	0.9 %
Stock-based compensation expenses	0.2 %	0.2 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %	0.1 %
Non-GAAP product gross margin (1)	<u>76.7 %</u>	<u>75.9 %</u>	<u>75.4 %</u>	<u>75.3 %</u>	<u>75.8 %</u>	<u>75.7 %</u>	<u>74.9 %</u>	<u>75.3 %</u>	<u>75.3 %</u>
Research and development expenses reconciliation:									
GAAP research and development expenses	\$ 218,664	\$ 231,066	\$ 230,440	\$ 392,760	\$ 1,072,930	\$ 254,446	\$ 282,403	\$ 290,066	\$ 826,915
Acquisition-related IPR&D impairment	-	-	-	(136,000)	(136,000)	-	-	-	-
Acquisition-related transaction costs	-	-	-	-	-	(446)	-	-	(446)
Acquisition-related remeasurement of contingent consideration	-	-	-	-	-	-	418	(1,616)	(1,198)
Restructuring expenses	(2,100)	(2,130)	(6,315)	(3,493)	(14,038)	213	(767)	(806)	(1,360)
Stock-based compensation expenses	(20,069)	(21,521)	(20,946)	(21,512)	(84,048)	(16,720)	(19,420)	(18,389)	(54,529)
Non-GAAP research and development expenses	<u>\$ 196,495</u>	<u>\$ 207,415</u>	<u>\$ 203,179</u>	<u>\$ 231,755</u>	<u>\$ 838,844</u>	<u>\$ 237,493</u>	<u>\$ 262,634</u>	<u>\$ 269,255</u>	<u>\$ 769,382</u>
Selling, general and administrative expenses reconciliation:									
GAAP selling, general and administrative expenses	\$ 265,618	\$ 248,006	\$ 250,559	\$ 280,209	\$ 1,044,392	\$ 295,568	\$ 304,269	\$ 295,927	\$ 895,764
Acquisition-related transaction costs	-	-	(387)	-	(387)	(378)	(365)	(535)	(1,278)
Restructuring expenses	(12,584)	(906)	(1,413)	(10,697)	(25,600)	(2,019)	353	(4,388)	(6,054)
Stock-based compensation expenses	(23,919)	(23,559)	(28,128)	(30,207)	(105,813)	(30,106)	(27,818)	(25,897)	(83,821)
Non-GAAP selling, general and administrative expenses	<u>\$ 229,115</u>	<u>\$ 223,541</u>	<u>\$ 220,631</u>	<u>\$ 239,305</u>	<u>\$ 912,592</u>	<u>\$ 263,065</u>	<u>\$ 276,439</u>	<u>\$ 265,107</u>	<u>\$ 804,611</u>
Operating margin reconciliation:									
GAAP operating margin	55.7 %	51.5 %	50.5 %	41.5 %	49.8 %	46.8 %	47.6 %	47.3 %	47.2 %
Acquisition-related transaction costs	-	0.0 %	0.0 %	-	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Acquisition-related amortization of inventory mark-up	0.2 %	0.1 %	-	-	0.1 %	-	-	-	-
Acquisition-related amortization of purchased intangibles	0.7 %	0.8 %	0.8 %	0.7 %	0.8 %	0.9 %	0.8 %	0.8 %	0.8 %
Acquisition-related IPR&D impairment	-	-	-	6.8 %	1.7 %	-	-	-	-
Acquisition-related remeasurement of contingent consideration	-	-	-	-	-	-	0.0 %	0.1 %	0.0 %
Restructuring expenses	0.7 %	0.2 %	0.4 %	0.7 %	0.5 %	0.1 %	0.0 %	0.2 %	0.1 %
Stock-based compensation expenses	2.2 %	2.5 %	2.7 %	2.7 %	2.5 %	2.6 %	2.3 %	2.2 %	2.4 %
Non-GAAP operating margin (1)	<u>59.6 %</u>	<u>55.0 %</u>	<u>54.4 %</u>	<u>52.4 %</u>	<u>55.4 %</u>	<u>50.4 %</u>	<u>50.7 %</u>	<u>50.7 %</u>	<u>50.6 %</u>
Net income attributable to Gilead reconciliation:									
GAAP net income attributable to Gilead	\$ 854,901	\$ 712,061	\$ 704,876	\$ 629,419	\$ 2,901,257	\$ 651,141	\$ 746,227	\$ 741,124	\$ 2,138,492
Acquisition-related transaction costs	-	-	388	-	388	824	365	535	1,724
Acquisition-related amortization of inventory mark-up	3,657	1,433	-	-	5,090	-	-	-	-
Acquisition-related amortization of purchased intangibles	11,008	10,721	10,951	11,663	44,343	12,883	13,170	13,172	39,225
Acquisition-related IPR&D impairment	-	-	-	86,328	86,328	-	-	-	-
Acquisition-related remeasurement of contingent consideration	-	-	-	-	-	-	(313)	1,213	900
Restructuring expenses	10,788	2,061	5,639	10,781	29,269	1,337	324	3,908	5,569
Stock-based compensation expenses	34,413	34,395	37,812	41,090	147,710	36,614	37,915	35,221	109,750
Non-GAAP net income attributable to Gilead	<u>\$ 914,767</u>	<u>\$ 760,671</u>	<u>\$ 759,666</u>	<u>\$ 779,281</u>	<u>\$ 3,214,385</u>	<u>\$ 702,799</u>	<u>\$ 797,688</u>	<u>\$ 795,173</u>	<u>\$ 2,295,660</u>
Diluted earnings per share reconciliation:									
GAAP diluted earnings per share	\$ 0.92	\$ 0.79	\$ 0.83	\$ 0.76	\$ 3.32	\$ 0.80	\$ 0.93	\$ 0.95	\$ 2.66
Acquisition-related transaction costs	-	-	0.00	-	0.00	0.00	0.00	0.00	0.00
Acquisition-related amortization of inventory mark-up	0.00	0.00	-	-	0.01	-	-	-	-
Acquisition-related amortization of purchased intangibles	0.01	0.01	0.01	0.01	0.05	0.02	0.02	0.02	0.05
Acquisition-related IPR&D impairment	-	-	-	0.10	0.10	-	-	-	-
Acquisition-related remeasurement of contingent consideration	-	-	-	-	-	-	(0.00)	0.00	0.00
Restructuring expenses	0.01	0.00	0.01	0.01	0.03	0.00	0.00	0.01	0.01
Stock-based compensation expenses	0.04	0.04	0.04	0.05	0.17	0.05	0.05	0.05	0.14
Non-GAAP diluted earnings per share (1)	<u>\$ 0.99</u>	<u>\$ 0.85</u>	<u>\$ 0.90</u>	<u>\$ 0.95</u>	<u>\$ 3.69</u>	<u>\$ 0.87</u>	<u>\$ 1.00</u>	<u>\$ 1.02</u>	<u>\$ 2.87</u>
Shares used in per share calculation (diluted) reconciliation:									
GAAP shares used in per share calculation (diluted)	928,368	898,753	847,228	824,076	873,396	811,857	800,800	781,312	802,762
Share impact of current stock-based compensation guidance	(703)	(1,555)	(2,208)	(2,185)	(1,741)	(2,030)	(2,010)	(2,096)	(2,007)
Non-GAAP shares used in per share calculation (diluted)	<u>927,665</u>	<u>897,198</u>	<u>845,020</u>	<u>821,891</u>	<u>871,655</u>	<u>809,827</u>	<u>798,790</u>	<u>779,216</u>	<u>800,755</u>
Non-GAAP adjustment summary:									
Cost of goods sold adjustments	\$ 22,815	\$ 19,990	\$ 17,709	\$ 16,613	\$ 77,127	\$ 20,051	\$ 20,295	\$ 19,641	\$ 59,987
Research and development expenses adjustments	22,169	23,651	27,261	161,005	234,086	16,953	19,769	20,811	57,533
Selling, general and administrative expenses adjustments	36,503	24,465	29,928	40,904	131,800	32,503	27,830	30,820	91,153
Total non-GAAP adjustments before tax	81,487	68,106	74,898	218,522	443,013	69,507	67,894	71,272	208,673
Income tax effect	(21,621)	(19,496)	(20,108)	(68,660)	(129,885)	(17,849)	(16,433)	(17,223)	(51,505)
Total non-GAAP adjustments after tax	<u>\$ 59,866</u>	<u>\$ 48,610</u>	<u>\$ 54,790</u>	<u>\$ 149,862</u>	<u>\$ 313,128</u>	<u>\$ 51,658</u>	<u>\$ 51,461</u>	<u>\$ 54,049</u>	<u>\$ 157,168</u>

¹ Amounts may not sum due to rounding.
Source: Company data for Q3 2011.

IBM (IBM) – Berkshire, Greenhaven, Markel, Wellington

Technology: Computer Services, Member of S&P 500

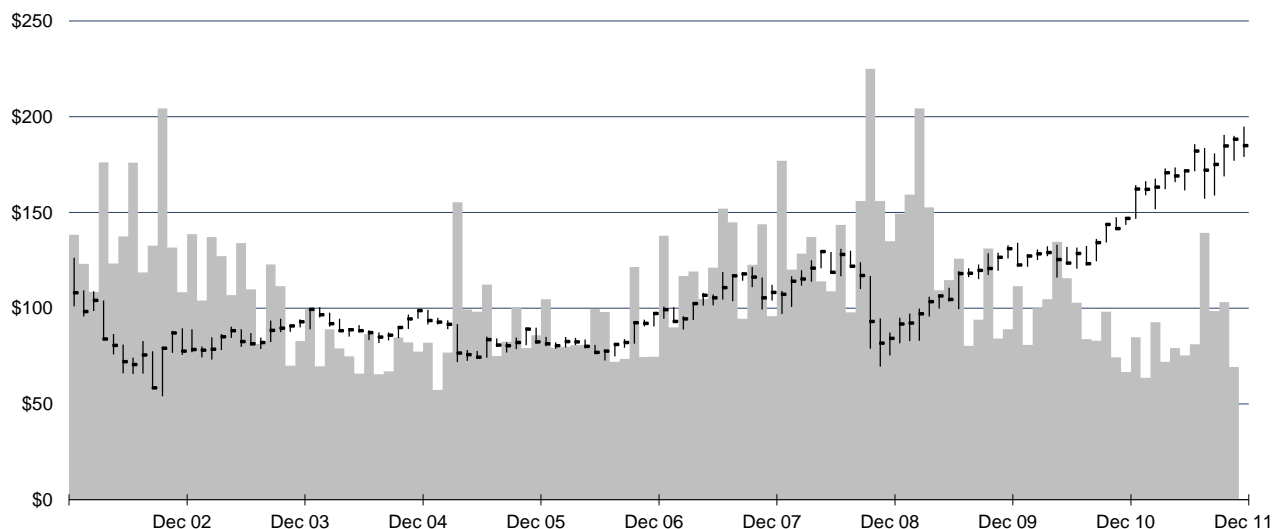
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Trading Data	Consensus EPS Estimates			Valuation	
Price: \$184.75 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10	16x
52-week range: \$145.00–\$194.90	Latest	ΔQO	Ests	P/E FYE 12/31/11	14x
Market value: \$217.7 billion	This quarter	\$4.62	\$4.62	P/E FYE 12/30/12	12x
Enterprise value: \$236.6 billion	Next quarter	2.67	2.68	P/E FYE 12/30/13	11x
Shares outstanding: 1,178.6 million	FYE 12/31/11	13.38	13.38	EV/ LTM revenue	2.2x
	FYE 12/30/12	14.84	14.85	EV/ LTM EBIT	12x
	FYE 12/30/13	16.33	16.38	P / tangible book	n/m
	LT growth	11.0%	11.1%		
Ownership Data	EPS Surprise	Actual	Estimate	Greenblatt Criteria	
Insider ownership: <1%	10/17/11	\$3.28	\$3.22	LTM EBIT yield	8%
Insider buys (last six months): 10				LTM pre-tax ROC	>100%
Insider sales (last six months): 14					
Institutional ownership: 62%					

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME	FQE	FQE
	2004	2005	2006	2007	2008	2009	2010	9/30/11	9/30/10	9/30/11
Revenue	96,293	91,134	91,423	98,786	103,630	95,759	99,870	106,448	24,271	26,157
Gross profit	35,569	36,532	38,294	41,729	45,661	43,787	46,013	49,642	11,001	12,173
R&D	5,874	5,842	6,107	6,153	6,337	5,820	6,026	6,280	1,464	1,546
Adjusted operating income	9,616	9,376	11,928	13,516	15,938	17,485	18,791	20,357	4,413	4,987
Adjusted pretax income	10,669	12,226	13,316	14,489	16,715	18,612	20,364	21,145	4,702	5,048
Adjusted net income	7,497	7,994	9,415	10,418	12,334	13,899	15,474	16,084	3,614	3,860
Adjusted diluted EPS	4.48	4.99	6.15	7.27	9.01	10.47	12.20	12.88	2.88	3.25
Dividend	0.70	0.78	1.10	1.50	1.90	2.15	2.50	2.80	0.65	0.75
Shares out (avg)	1,675	1,601	1,531	1,434	1,369	1,327	1,269	1,249	1,255	1,189
Cash from operations	15,266	14,874	15,006	16,088	18,812	20,773	19,549	19,545	4,551	4,679
... % of revenue:										
Gross profit	36.9%	40.1%	41.9%	42.2%	44.1%	45.7%	46.1%	46.6%	45.3%	46.5%
R&D	6.1%	6.4%	6.7%	6.2%	6.1%	6.1%	6.0%	5.9%	6.0%	5.9%
Adj. operating income	10.0%	10.3%	13.0%	13.7%	15.4%	18.3%	18.8%	19.1%	18.2%	19.1%
Cash, investments	10,570	13,686	10,656	16,146	12,907	13,974	11,651	11,303	11,086	11,303
Receivables	28,136	24,428	26,848	28,789	27,555	26,793	28,225	24,987	24,496	24,987
LT investments	13,394	12,770	14,569	16,851	16,241	16,023	16,326	15,252	15,614	15,252
Total assets	111,003	105,748	103,233	120,432	109,524	109,022	113,450	110,158	107,174	110,158
Tangible assets	100,777	94,644	88,176	104,040	88,419	86,319	84,826	82,211	81,424	82,211
Payables	9,444	7,349	7,964	8,054	7,014	7,436	7,804	7,093	7,084	7,093
Short-term debt	8,099	7,216	8,902	12,235	11,237	4,168	6,778	6,071	5,556	6,071
Total current liabilities	39,786	35,152	40,090	44,310	42,436	36,003	40,562	36,028	35,443	36,028
Long-term debt	14,828	15,425	13,780	23,039	22,689	21,932	21,846	24,089	21,899	24,089
Common equity	31,688	33,098	28,506	28,469	13,466	22,637	23,046	22,291	22,238	22,291
Tangible equity	21,462	21,994	13,449	12,077	-7,639	-66	-5,578	-5,656	-3,512	-5,656
EBIT/capital employed	48%	50%	68%	72%	81%	93%	>100%	>100%	>100%	>100%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

IT giant IBM operates in the following major segments: *Global Technology Services (38% of 2010 revenue)* provides IT outsourcing, maintenance and project-based services. *Global Business Services (18% of revenue)* provides systems integration, consulting, and application management services. *Software (23% of revenue)* provides middleware (~80% of segment revenue), operating systems, and other software. *Systems and Technology (18% of revenue)* provides Linux-based servers, data storage and other IT products.

INVESTMENT HIGHLIGHTS

- **One of the largest integrated IT services and software/equipment providers**, matched in global scale and brand recognition by very few other firms.
- **60+% of services and software revenue is annuity-based**, coming from outsourcing, maintenance and recurring software license fees. Services backlog of \$137 billion equals ~1.4x 2010 company revenue.
- **7% trailing earnings yield is enticing if EPS guidance of “at least \$20 in 2015” is realized.** Guidance, which excludes M&A and pension-related charges, implies a 2010-15 EPS CAGR of 11-12%.
- **Returned \$18.6 billion to shareholders in 2010** (~10% of market value), mainly via share buybacks.
- **2015 EPS target assumes ongoing transition to software/services**, with hardware/financing to drive only ~10% of EPS in 2015 (from 30+% in 2000). Revenue growth, operating leverage and share repurchases are expected to account for ~\$3.05, ~\$2.50 and ~\$2.80, respectively, of the anticipated EPS rise from \$11.67 in 2010 to \$20+ in 2015.

INVESTMENT RISKS & CONCERNS

- **Software business (~45% of pre-tax income) is vulnerable to technological change.** If IBM loses on the product front, services signings may suffer.
- **IT consulting, and to a lesser extent outsourcing, are people businesses** with fairly low entry barriers. However, IBM’s brand, scale and integrated offerings mitigate most competitive risks.
- **Risks due to pension liabilities/financing business.**

CATALYSTS

- Execution according to 2015 EPS growth strategy, i.e., base revenue growth, improving revenue mix, acquisitions, margin expansion, and stock buyback

MAJOR HOLDERS

Insiders <1% | Berkshire 5% | Wellington 1%

SELECTED OPERATING DATA¹

FYE December 31	2006	2007	2008	2009	2010	9/30/11	YTD
Δ services backlog	5%	2%	10%	5%	4%	2%	
Δ revenue	0%	8%	5%	-8%	4%	9%	
Δ gross profit	5%	9%	9%	-4%	5%	11%	
Δ BV per share	-10%	7%	-50%	74%	6%	6%	
Services backlog (\$bn)	116.0	118.0	130.0	137.0	142.0	136.9	
Revenue (\$bn)	91.4	98.8	103.6	95.8	99.9	77.4	
<i>% of revenue by major segment:</i>							
Global technology services	35%	37%	38%	39%	38%	39%	
Global business services	17%	18%	19%	18%	18%	19%	
Software	20%	20%	21%	22%	23%	22%	
Systems and technology	24%	22%	19%	17%	18%	17%	
Global financing	3%	3%	2%	2%	2%	2%	
<i>Revenue growth by segment:</i>							
Global technology services	3%	12%	9%	-5%	2%	9%	
Global business services	0%	13%	9%	-10%	3%	7%	
Software	8%	10%	11%	-3%	5%	12%	
Systems and technology	5%	-3%	-10%	-16%	11%	13%	
Global financing	-1%	6%	2%	-10%	-3%	-3%	
<i>% of revenue by geography:</i>							
Americas	43%	42%	41%	42%	42%	42%	
Europe/Middle East/Africa	33%	35%	36%	34%	32%	31%	
Asia-Pacific	19%	20%	20%	22%	23%	24%	
Other/OEM	4%	4%	3%	2%	3%	3%	
<i>Revenue growth by geography:</i>							
Americas	2%	4%	4%	-6%	5%	9%	
Europe/Middle East/Africa	0%	14%	7%	-12%	-2%	9%	
Asia-Pacific	-6%	11%	8%	-2%	12%	12%	
<i>Selected items as % of revenue:</i>							
Gross profit	42%	42%	44%	46%	46%	46%	
R&D	7%	6%	6%	6%	6%	6%	
EBIT	13%	14%	15%	18%	18%	17%	
Net income	10%	11%	12%	14%	15%	13%	
D&A	5%	5%	5%	5%	5%	5%	
Capex	6%	6%	5%	4%	5%	4%	
Tangible assets (\$bn)	88.2	104.0	88.4	86.3	84.8	82.2	
<i>Selected items as % of tangible assets:</i>							
Cash, investments	12%	16%	15%	16%	14%	14%	
L.T. investments	17%	16%	18%	19%	19%	19%	
Debt	26%	34%	39%	30%	34%	36%	
Tangible equity	15%	12%	-9%	0%	-7%	-7%	
Trailing P/E (end)	16x	15x	9x	13x	13x	21x	
Forward P/E (end)	14x	12x	8x	11x	11x	12x	
Diluted EPS (cont.) (\$)	6.06	7.15	8.89	10.01	11.52	8.47	
Dividends per share (\$)	1.10	1.50	1.90	2.15	2.50	2.15	
Shares out (avg) (mn)	1,531	1,434	1,369	1,327	1,269	1,217	
Δ shares out (avg)	-4%	-6%	-5%	-3%	-4%	-5%	

¹ One of the more sizeable of IBM’s many acquisitions during 2006-10 is the Cognos purchase (2008). 2010 M&A includes Netezza and Sterling Commerce.

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆

THE BOTTOM LINE

By exiting commoditizing businesses like PCs and hard disk drives over the last decade, IBM has become mainly a software and IT services provider. The company’s focus on high-value projects for large enterprises and governments makes revenue growth dependent on incremental IT spending by these customers. At a high-single digit trailing earnings yield, shares should produce a long-term return that materially exceeds IT spending growth. While the software business carries some technology risk and consulting has fairly low entry barriers, IBM’s integrated service/product offerings, global reach, and a large patent portfolio (#1 in U.S. patent awards for 17 consecutive years) should aid growth and protect margins. Shares trade at 9x management’s EPS target of \$20+ in 2015. This implies a potential for respectable but not spectacular equity returns.

IBM – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS

Conservative
<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended September 30, 2011
▼
Operating cash flow: \$20 billion <i>minus</i>
Capex: \$5.4 billion <i>equals</i>
Free cash flow: \$14 billion <i>divided by</i>
Industry median FCF yield: 6.3% (*) <i>equals</i>
Industry FCF yield-implied fair value: \$226 billion (\$191 per share) <i>multiplied by</i>
Assumed required FCF yield as a percentage of the industry FCF yield: 90% (5.7% required FCF yield) <i>equals</i>
Estimated fair value of the common equity of IBM: \$251 billion, or \$213 per share (based on 1.2 billion shares out) <i>16% upside to the recent stock price (\$184 per share)</i>

Base Case
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012
▼
Consensus FY12 EPS estimate: \$14.85 <i>minus</i>
Assumed haircut to FY12 consensus EPS estimate: 5% * \$14.85 <i>equals</i>
Revised FY12 EPS estimate: \$14.11 <i>multiplied by</i>
Corresponding industry P/E: 15.6x (*) <i>equals</i>
Industry multiple-implied fair value: \$259 billion (\$220 per share) <i>multiplied by</i>
Assumed IBM multiple as a percentage of the industry multiple: 110% (17.2x fair value P/E multiple) <i>equals</i>
Estimated fair value of the common equity of IBM: \$285 billion (\$242 per share) (based on 1.2 billion shares out) <i>32% upside to the recent stock price (\$184 per share)</i>

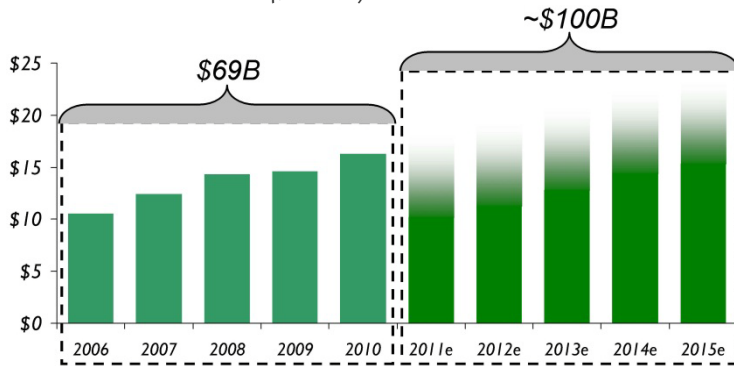
Aggressive
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2013
▼
Consensus FY13 EPS estimate: \$16.38 <i>multiplied by</i>
Corresponding industry P/E: 14.5x (*) <i>equals</i>
Industry multiple-implied fair value: \$280 billion (\$238 per share) <i>multiplied by</i>
Assumed IBM multiple as a percentage of the industry multiple: 110% (16.0x fair value P/E multiple) <i>equals</i>
Estimated fair value of the common equity of IBM: \$308 billion (\$261 per share) <i>42% upside to the recent stock price (\$184 per share)</i>



(*) Represents Computer Services industry median multiple.
Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.



IBM – FREE CASH FLOW* (\$ in billions)



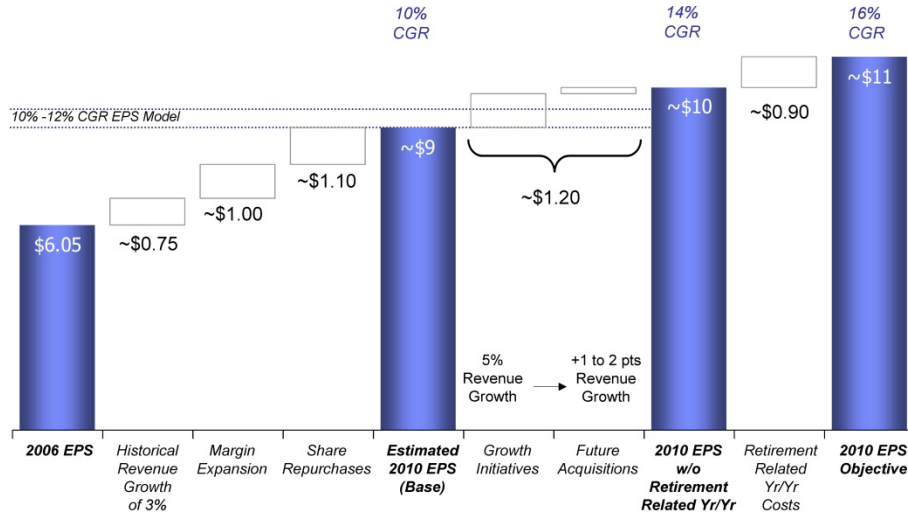
* Excluding GF receivables. Source: Company presentation dated September 2011.

IBM – ANALYSIS OF SELECTED COMPARABLE COMPANIES

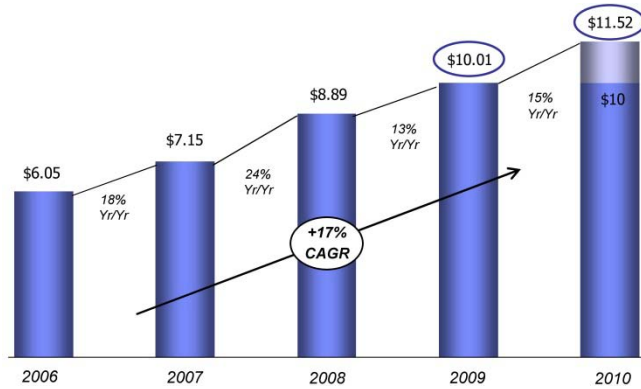
(Click to visit relevant websites)	Trading Data					Public Market Valuation						Operating Performance					
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/MV	TTM FCF Yield	EPS Yield			LTM Rev./EV	Rev./Empl. (\$000)	Δ Rev.		% TTM Rev.		
		Low	High					TTM	This FY	Next FY			TTM	Last Q	Gross Profit	R&D	Adj. EBIT
Accenture / ACN	54	-67%	18%	38	33	10%	9%	7%	7%	8%	86%	121	19%	17%	31%	0%	13%
CSC / CSC	26	-12%	146%	4	6	32%	4%	neg.	14%	15%	257%	167	-32%	1%	17%	0%	4%
Dell / DELL	15	-48%	183%	27	21	3%	17%	13%	14%	13%	288%	615	2%	0%	22%	1%	8%
HP / HPQ	26	-38%	112%	51	74	n/m	16%	13%	16%	17%	172%	364	1%	-3%	23%	3%	9%
Microsoft / MSFT	26	-43%	44%	219	173	21%	11%	11%	11%	12%	41%	790	8%	7%	77%	13%	38%
				Median		10%	9%	7%	7%	8%	86%	121	19%	17%	31%	0%	13%
IBM / IBM	184	-62%	6%	216	235	n/m	7%	7%	7%	8%	45%	249	9%	8%	47%	6%	19%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change
Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items
Source: Company and market data, The Manual of Ideas analysis.

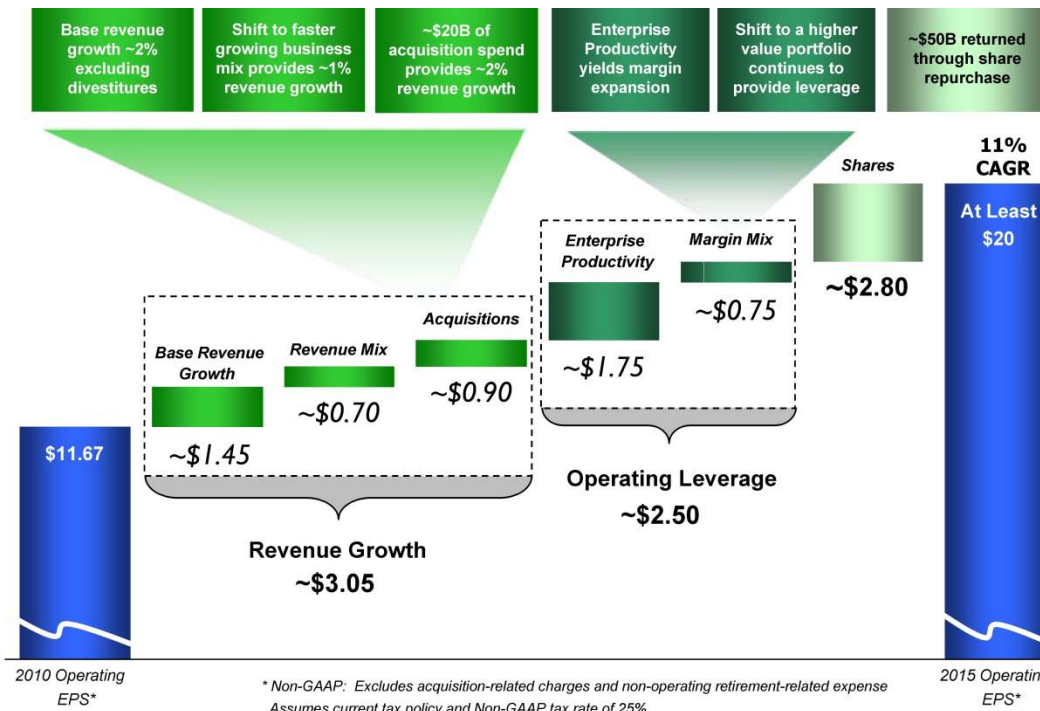
IBM – ROADMAP INTRODUCED IN 2007 → 2010 EPS TARGET OF \$10-\$11



IBM – ROADMAP INTRODUCED IN 2007 → IBM OUTPERFORMED MANAGEMENT'S EPS TARGET



IBM – CURRENT ROADMAP THROUGH 2015 → “AT LEAST \$20 OF OPERATING EPS”



* Non-GAAP: Excludes acquisition-related charges and non-operating retirement-related expense. Assumes current tax policy and Non-GAAP tax rate of 25%.

Source for above charts: [Company presentation dated September 2011](#).

Johnson & Johnson (JNJ) – Berkshire, Fairfax, Markel, West Coast, Weitz

Health Care: Biotechnology & Drugs, Member of S&P 500

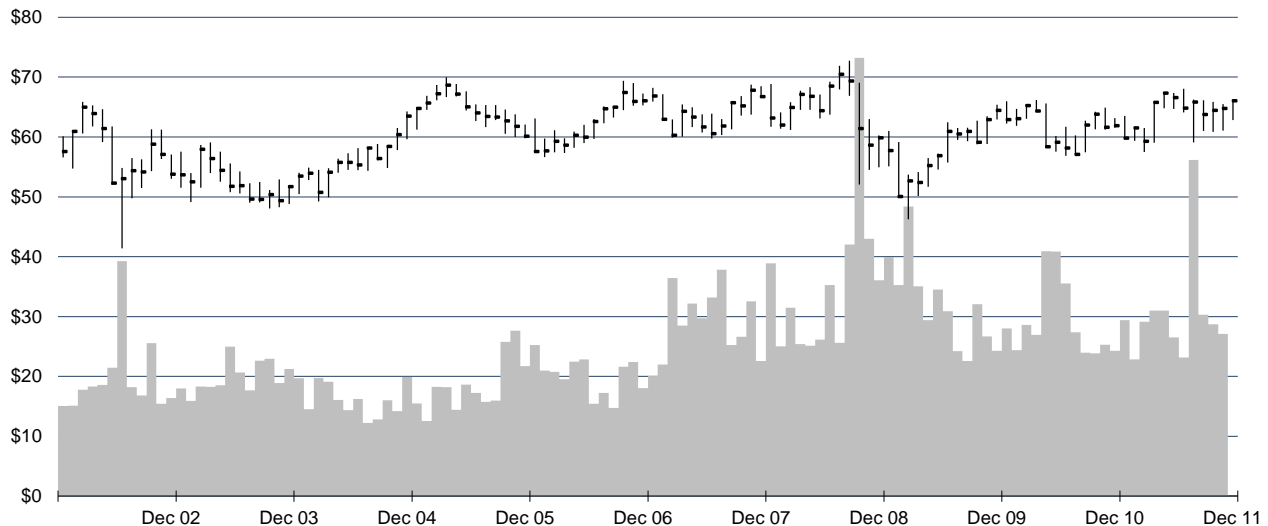
New Brunswick NJ, 732-524-0400

www.jnj.com

Trading Data	Consensus EPS Estimates				Valuation	
Price: \$65.98 (as of 12/23/11)		Month	# of		P/E FYE 12/31/10	14x
52-week range: \$57.50–\$68.05	Latest	Agg	Ests		P/E FYE 12/31/11	13x
Market value: \$180.2 billion	This quarter	\$1.10	\$1.10	18	P/E FYE 12/30/12	13x
Enterprise value: \$167.6 billion	Next quarter	1.33	1.32	12	P/E FYE 12/30/13	12x
Shares outstanding: 2,730.8 million	FYE 12/31/11	4.97	4.97	24	EV/ LTM revenue	2.6x
Ownership Data	FYE 12/30/12	5.23	5.24	20	EV/ LTM EBIT	11x
Insider ownership: <1%	FYE 12/30/13	5.61	5.64	14	P / tangible book	6.6x
Insider buys (last six months): 8	LT growth	6.0%	6.1%	11	Greenblatt Criteria	
Insider sales (last six months): 6	EPS Surprise	Actual	Estimate		LTM EBIT yield	9%
Institutional ownership: 65%	10/18/11	\$1.24	\$1.21		LTM pre-tax ROC	71%

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended January 2,							LTME 10/2/11	FQE 10/3/10	FQE 10/2/11
	2005	2006	2006	2007	2008	2010	2011			
Revenue	47,348	50,514	53,324	61,095	63,747	61,897	61,587	64,419	14,982	16,005
Gross profit	33,874	36,504	38,267	43,344	45,236	43,450	42,795	44,357	10,388	10,933
R&D	5,344	6,462	7,125	7,680	7,577	6,986	6,844	7,375	1,657	1,773
Adjusted operating income	12,349	13,478	15,146	14,835	17,110	16,828	16,947	15,306	4,219	4,111
Adjusted pretax income	12,349	13,478	15,146	14,835	17,110	16,828	16,947	14,860	4,219	4,111
Adjusted net income	8,198	10,422	11,612	12,128	13,130	13,339	13,334	11,985	3,417	3,202
Adjusted diluted EPS	2.76	3.50	3.95	4.21	4.69	4.83	4.85	4.36	1.24	1.17
Dividend	1.10	1.28	1.46	1.62	1.80	1.93	2.11	2.22	0.54	0.57
Shares out (avg)	2,968	2,974	2,936	2,883	2,803	2,760	2,751	2,748	2,752	2,737
Cash from operations	11,089	11,799	14,248	15,022	14,972	16,571	16,385	14,671	5,034	4,622
... % of revenue:										
Gross profit	71.5%	72.3%	71.8%	70.9%	71.0%	70.2%	69.5%	68.9%	69.3%	68.3%
R&D	11.3%	12.8%	13.4%	12.6%	11.9%	11.3%	11.1%	11.4%	11.1%	11.1%
Adj. operating income	26.1%	26.7%	28.4%	24.3%	26.8%	27.2%	27.5%	23.8%	28.2%	25.7%
Cash, investments	12,884	16,138	4,084	9,315	12,809	19,425	27,658	30,927	22,126	30,927
Inventory	3,744	3,959	4,889	5,110	5,052	5,180	5,378	6,428	5,409	6,428
Total current assets	27,320	31,480	22,975	29,945	34,377	39,541	47,307	53,443	42,717	53,443
PP&E, net	10,436	10,830	13,044	14,185	14,365	14,759	14,553	14,635	14,360	14,635
Tangible assets	41,475	46,689	41,868	52,191	57,217	63,497	70,898	77,547	65,804	77,547
Short-term debt	280	668	4,579	2,463	3,732	6,318	7,617	5,326	2,843	5,326
Long-term debt	2,565	2,017	2,014	7,074	8,120	8,223	9,156	13,031	9,182	13,031
Common equity	31,813	38,710	39,318	43,319	42,511	50,588	56,579	61,527	57,291	61,527
Tangible equity	19,971	26,535	10,630	14,556	14,816	19,403	24,569	27,253	24,848	27,253
TBV / tangible assets	48%	57%	25%	28%	26%	31%	35%	35%	38%	35%
TBV per share	6.73	8.92	3.62	5.05	5.29	7.03	8.93	9.96	9.03	9.96
EBIT/capital employed	>100%	>100%	92%	76%	93%	82%	89%	71%	>100%	>100%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

J&J develops and markets branded healthcare products.

INVESTMENT HIGHLIGHTS

- **~70% of revenue is attributable to products or businesses with #1 or #2 global market share.** J&J's world-leading health care product franchises provide diversified and high-margin income streams.
- **Market may underappreciate earnings quality and the strong balance sheet** with \$12+ billion of net cash and marketable securities. J&J faces no major patent expirations (largest product Remicade, 7-8% of revenue, is protected until 2018 in the U.S.). The steady income of most of J&J's business enables it to return more capital to shareholders.
- **Medical device business (~40% of revenue) is #1 player in ~\$350 billion global market.** The company projects a 2009-14 CAGR of 5% for the devices and diagnostics market and a 6% CAGR for the segments in which it competes (~60% of total).
- **Pharma business (~35% of revenue) is one of the largest players in ~\$650 billion global market.** EvaluatePharma expects a 2009-16 market CAGR of 3-4%, driven by emerging markets (~25% of J&J revenue is from non-U.S./European markets).
- **Consumer business (~25% of revenue) owns some of the world's most recognizable brands** including Tylenol, Acuvue and Neutrogena. OTC drugs/skin care items are ~55% of segment revenue.
- **Shares trade at 13x trailing adjusted EPS,** with 2011 EPS guidance increasing from \$4.80-4.90 earlier in the year to \$4.95-\$5 per share recently.

INVESTMENT RISKS & CONCERNS

- **Capital allocation.** Management may overpay for acquisitions in its quest to drive growth. In April, J&J agreed to acquire orthopedic device maker Synthes for \$19 billion in stock and net cash. The deal is expected to close in 1H12 and have a "modestly dilutive impact" on 2012 adjusted EPS.
- **Earnings growth is a challenge** given the size of the business and record EBIT margins. However, revenue loss from near-term patent expirations (Levaquin, 2% of revenue, loses U.S. exclusivity in 2011) and U.S. health care reform (~\$400 million higher sales rebates in 2010) appears manageable.

SELECTED OPERATING DATA¹

FYE December 31	2005	2006	2007	2008	2009	2010
Δ revenue	7%	6%	15%	4%	-3%	-1%
Δ due to volume	5%	4%	10%	1%	0%	} -1%
Δ due to price	1%	2%	1%	1%	0%	
Δ due to currency	1%	0%	3%	2%	-3%	1%
Δ employees	5%	6%	-2%	0%	-3%	-1%
Δ EBIT (excl. items)	3%	9%	0%	23%	1%	2%
Revenue (\$bn)	50.5	53.3	61.1	63.7	61.9	61.6
<i>% of revenue by segment:</i>						
Pharmaceutical	44%	44%	41%	39%	36%	36%
Medical devices	38%	38%	36%	36%	38%	40%
Consumer	18%	18%	24%	25%	26%	24%
<i>Revenue growth by segment:</i>						
Pharmaceutical	1%	4%	7%	-1%	-8%	-1%
Medical devices	13%	6%	7%	6%	2%	4%
Consumer	9%	7%	48%	11%	-2%	-8%
<i>EBIT margin by segment:²</i>						
Pharmaceutical	29%	30%	26%	31%	31%	34%
Medical devices	27%	30%	22%	31%	32%	31%
Consumer	18%	14%	16%	17%	18%	16%
Total EBIT margin	25%	26%	21%	27%	28%	29%
U.S. as % of revenue	56%	56%	53%	51%	50%	48%
U.S. revenue growth	2%	5%	9%	0%	-4%	-5%
International growth	13%	6%	22%	10%	-1%	4%
Int'l at constant forex	11%	6%	15%	5%	4%	2%
<i>Selected items as % of revenue:</i>						
Gross profit	72%	72%	71%	71%	70%	69%
R&D ³	13%	13%	13%	12%	11%	11%
EBIT (excl. items)	25%	26%	23%	27%	28%	29%
Net income	20%	21%	17%	20%	20%	22%
Net cash from ops	23%	27%	25%	23%	27%	27% ⁴
D&A	4%	4%	5%	4%	4%	5% ⁴
Capex	5%	5%	5%	5%	4%	3% ⁴
Δ shares out (avg)	0%	-1%	-2%	-3%	-2%	0%

¹ J&J acquired Pfizer's consumer healthcare business for \$17 billion in 12/06. ² 2009-10 ex. special items. ³ Ex. in-process R&D. ⁴ Based on 1Q-3Q 2010.

CATALYSTS

- Closing of Synthes acquisition (expected in 1H12)
- Stock repurchases (\$1.7 billion YTD 2011)
- 3.5% dividend yield "while you wait"

MAJOR HOLDERS

Insiders <1% | BRK 1% | Wellington 1% | Cap World 1%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆

THE BOTTOM LINE

J&J has world-leading franchises in branded medical devices, pharmaceuticals and consumer healthcare products. One-fourth of revenue derives from products introduced in the last five years, and innovation remains critical to value creation. Earnings growth may be a challenge given the size of the business, record EBIT margins, and some revenue pressure from regulatory reforms and patent expirations. However, at a high single-digit earnings yield (including a 3-4% dividend yield), the market may underappreciate the quality of J&J's income streams and the net cash balance sheet. More aggressive return of capital would be our preferred use of cash as this would lower the risk of potentially value-destroying acquisitions. One such deal could be the pending \$19 billion acquisition of Swiss-based orthopedic device maker Synthes. On the other hand, the combination with Synthes would solidify J&J's leadership in medical devices, a market with attractive long-term growth characteristics and margin profile. We would like to see the shares trade closer to 10x EPS (rather than 13x) before investing.

JOHNSON & JOHNSON – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS


Conservative	Base Case	Aggressive
<i>Valuation methodology:</i> Based on revenue for the twelve months ended October 2, 2011 and average EBIT margin for past seven fiscal years	<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended October 2, 2011	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending January 1, 2013
▼	▼	▼
TTM net sales: \$64 billion	Operating cash flow: \$15 billion	Consensus FY12 EPS estimate: \$5.23
<i>multiplied by</i>	<i>minus</i>	<i>minus</i>
Average 7-year EBIT margin: 26.7%	Capex: \$2.7 billion	Assumed haircut to FY12 consensus EPS estimate: 5% * \$5.23
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated EBIT: \$17 billion	Free cash flow: \$12 billion	Revised FY12 EPS estimate: \$4.97
<i>multiplied by</i>	<i>divided by</i>	<i>multiplied by</i>
Assumed fair value multiple of EBIT: 6x	Industry median FCF yield: 7.1% (*)	Corresponding industry P/E: 12.9x (*)
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated fair enterprise value of Johnson & Johnson: \$103 billion	Industry FCF yield-implied fair value: \$167 billion (\$61 per share)	Industry multiple-implied fair value: \$175 billion (\$64 per share)
<i>plus</i>	<i>multiplied by</i>	<i>multiplied by</i>
Cash, ST investments: \$31 billion	Assumed required FCF yield as a percentage of the industry FCF yield: 90%	Assumed JNJ multiple as a percentage of the industry multiple: 125%
<i>plus</i>	<i>equals</i>	<i>multiplied by</i>
Long-term investments at fair value discount of 25%: \$0.0 million	(6.4% required FCF yield)	(16.1x fair value P/E multiple)
<i>minus</i>	<i>equals</i>	<i>equals</i>
Total debt: \$18 billion	Estimated fair value of the common equity of Johnson & Johnson: \$186 billion, or \$68 per share (based on 2.7 billion shares out)	Estimated fair value of the common equity of Johnson & Johnson: \$219 billion (\$80 per share) (based on 2.7 billion shares out)
<i>equals</i>	<i>6% upside to the recent stock price (\$64 per share)</i>	<i>25% upside to the recent stock price (\$64 per share)</i>
Estimated fair value of the common equity of Johnson & Johnson: \$116 billion, or \$42 per share (based on 2.7 billion shares out)		
<i>34% downside from the recent stock price (\$64 per share)</i>		

(*) Represents Biotechnology & Drugs industry median multiple.

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

JOHNSON & JOHNSON – ANALYSIS OF SELECTED COMPARABLE COMPANIES

(Click to visit relevant websites)	Trading Data				Public Market Valuation						Operating Performance						
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/ MV	TTM FCF Yield	EPS Yield			LTM Rev./ EV	Rev./ Empl. (\$000)	Δ Rev.		% TTM Rev.		
		Low	High					This FY	Next FY	Rev./ EV			TTM	Last Q	Gross Profit	R&D	Adj. EBIT
Abbott Labs / ABT	55	-32%	11%	86	94	n/m	10%	5%	8%	9%	41%	427	13%	13%	59%	10%	16%
Becton / BDx	71	-42%	32%	15	16	18%	7%	8%	8%	9%	48%	267	6%	9%	52%	6%	23%
C.R. Bard / BCR	86	-53%	32%	7	8	10%	9%	4%	7%	8%	38%	245	7%	6%	62%	7%	28%
Covidien / COV	43	-37%	33%	21	24	n/m	8%	9%	10%	11%	49%	280	11%	15%	57%	5%	21%
Merck / MRK	36	-45%	70%	110	113	6%	10%	4%	10%	11%	42%	532	-14%	8%	64%	21%	15%
Novartis / NVS	55	-40%	17%	152	170	2%	8%	8%	10%	10%	35%	493	17%	17%	69%	16%	21%
Pfizer / PFE	21	-45%	85%	162	174	n/m	12%	6%	11%	11%	39%	617	3%	7%	77%	13%	28%
Sanofi / SNY	35	-31%	44%	93	111	n/m	0%	7%	13%	12%	40%	441	0%	4%	71%	14%	21%
				Median		n/m	10%	5%	8%	9%	41%	427	13%	13%	59%	10%	16%
J&J / JNJ	64	-28%	13%	176	163	16%	7%	6%	8%	8%	40%	551	3%	7%	69%	11%	24%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change
 Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items
 Source: Company and market data, The Manual of Ideas analysis.

JOHNSON & JOHNSON – SALES AND EARNINGS, 1887-2010

Year	Net Trade Sales	Net Earnings	Year	Net Trade Sales	Net Earnings	Year	Net Trade Sales (1)	Net Earnings
1887	\$ 0.1		1926	16.5	2.0	1966	660.6	40.1
1888	0.2		1927	16.8	1.5	1967	712.3	45.9
1889	0.3		1928	18.4	0.8	1968	801.3	57.6
1890	0.4		1929	19.9	1.6	1969	901.9	69.4
1891	0.4		1930	18.7	1.2	1970	1,002.0	83.7
1892	0.5		1931	17.4	1.3	1971	1,140.5	101.8
1893	0.5		1932	15.2	1.1	1972	1,317.7	120.7
1894	0.6		1933	17.1	0.9	1973	1,611.8	148.4
1895	0.6		1934	20.7	1.0	1974	1,937.2	161.6
1896	0.7		1935	24.7	1.3	1975	2,224.7	183.8
1897	0.7	\$ 0.19	1936	28.9	2.1	1976	2,522.5	205.4
1898	0.9	0.13	1937	32.3	1.7	1977	2,914.1	247.3
1899	1.1	0.20	1938	33.4	2.7	1978	3,497.3	299.1
1900	1.3	0.23	1939	35.1	3.7	1979	4,211.6	352.1
1901	1.4	0.23	1940	39.1	2.4	1980	4,837.4	400.7
1902	1.6	0.27	1941	56.6	3.2	1981	5,399.0	467.6
1903	1.8	0.28	1942	78.2	2.8	1982	5,760.9	473.0
1904	2.0	0.36	1943	93.1	3.1	1983	5,972.9	489.0
1905	2.4	0.33	1944	93.6	3.1	1984	6,124.5	514.5
1906	2.7	0.53	1945	96.0	3.1	1985	6,421.3	613.7
1907	3.0	0.77	1946	112.6	8.3	1986	7,003.0	330.0
1908	2.9	0.54	1947	152.3	9.9	1987	8,011.5	833.0
1909	3.2	0.63	1948	165.6	12.1	1988	8,999.5	974.0
1910	3.9	0.67	1949	168.3	10.0	1989	9,829.0	1,082.0
1911	4.4	0.54	1950	195.5	15.7	1990	11,365.0	1,080.0
1912	4.6	1.05	1951	227.6	12.3	1991	12,210.0	1,270.0
1913	4.8	0.75	1952	232.2	8.8	1992	13,600.0	977.0
1914	5.0	0.63	1953	236.1	11.2	1993	13,877.0	1,786.0
1915	5.1	0.74	1954	243.5	12.2	1994	15,454.0	1,961.0
1916	6.2	1.11	1955	267.5	14.0	1995	18,537.0	2,416.0
1917	9.6	1.22	1956	293.6	15.6	1996	21,387.0	2,942.0
1918	13.7	1.37	1957	315.6	16.9	1997	22,522.0	3,070.0
1919	11.2	0.83	1958	321.2	15.1	1998	23,811.0	3,024.0
1920	15.2	0.50	1959	368.4	19.7	1999	27,357.0	4,133.0
1921	12.5	1.30	1960	384.4	20.2	2000	29,172.0	4,764.0
1922	13.7	1.90	1961	414.5	17.7	2001	32,317.0	5,405.0
1923	15.5	1.80	1962	447.6	19.9	2002	36,298.0	6,277.0
1924	16.0	1.80	1963	462.4	21.5	2003	41,862.0	6,848.0
1925	16.2	2.10	1964	503.3	26.8	2004	47,348.0	8,180.0
			1965	576.0	34.4	2005	50,514.0	10,060.0
						2006	53,324.0	11,053.0
						2007	61,095.0	10,576.0
						2008	63,747.0	12,949.0
						2009	61,897.0	12,266.0
						2010	\$ 61,587.0	\$ 13,334.0

¹ Sales restated for EITF change for 1991-2001 only. Net income restated for FAS 123R Share Based Payment for 1996-2005.

Source: [Company five-year financial review](#).

Liberty Global (LBTYA) – Eagle Capital, Tiger Global, Weitz, Blue Ridge, Glenview

Services: Broadcasting & Cable TV

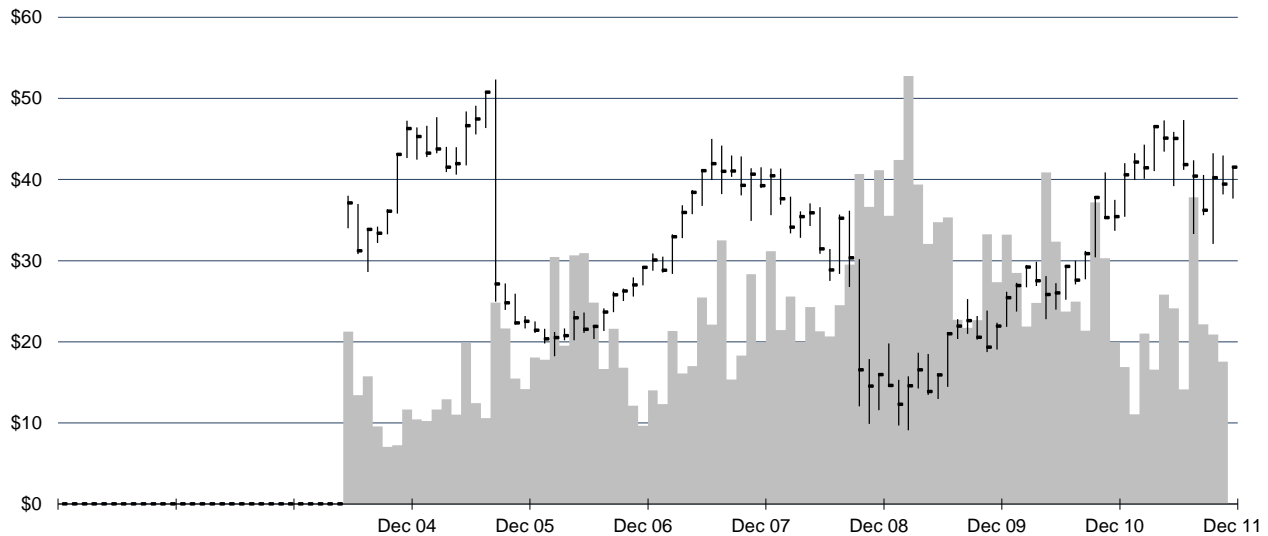
Englewood CO, 303-220-6600

www.lgi.com

Trading Data	Consensus EPS Estimates			Valuation		
Price: \$41.50 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10	n/m	
52-week range: \$32.06–\$47.31	Latest	Agg	Ests	P/E FYE 12/31/11	n/m	
Market value: \$11.3 billion	This quarter	\$0.21	\$0.21	8	P/E FYE 12/30/12	26x
Enterprise value: \$32.3 billion	Next quarter	0.09	0.12	2	P/E FYE 12/30/13	16x
Shares outstanding: 272.4 million	FYE 12/31/11	-0.68	-0.41	9	EV/ LTM revenue	3.2x
	FYE 12/30/12	1.61	1.68	12	EV/ LTM EBIT	18x
	FYE 12/30/13	2.67	2.87	9	P / tangible book	n/m
	LT growth	n/a	n/a	n/a		
Ownership Data	EPS Surprise			Greenblatt Criteria		
Insider ownership: <1%		Actual	Estimate	LTM EBIT yield	6%	
Insider buys (last six months): 15	11/2/11	-\$1.18	\$0.32	LTM pre-tax ROC	19%	
Insider sales (last six months): 13						
Institutional ownership: 91%						

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME	FQE	FQE
	2004	2005	2006	2007	2008	2009	2010	9/30/11	9/30/10	9/30/11
Revenue	2,113	4,517	6,484	8,953	7,636	7,497	9,017	10,084	2,247	2,608
Gross profit	1,237	2,588	3,712	5,289	4,677	4,622	5,670	6,379	1,445	1,672
Adjusted operating income	-199	255	382	867	983	1,121	1,617	1,973	473	540
Adjusted pretax income	-83	124	46	562	-308	-677	-949	-188	352	-313
Adjusted net income	60	-21	-118	91	-792	-317	-900	-152	332	-303
Adjusted diluted EPS	0.18	-0.05	-0.27	0.24	-2.51	-1.18	-3.56	-0.58	1.37	-1.07
Shares out (avg)	325	415	438	380	315	269	253	260	243	282
Cash from operations	743	1,576	1,911	2,453	3,138	3,353	2,280	2,547	426	489
D&A	784	1,274	1,885	2,482	2,172	2,082	2,369	2,535	581	658
Capex	397	1,046	1,508	2,024	1,900	1,680	1,791	1,987	458	474
Free cash flow	346	530	403	429	1,238	1,674	489	560	-32	15
... % of revenue:										
Gross profit	58.5%	57.3%	57.3%	59.1%	61.3%	61.6%	62.9%	63.3%	64.3%	64.1%
Adj. operating income	-9.4%	5.6%	5.9%	9.7%	12.9%	14.9%	17.9%	19.6%	21.1%	20.7%
D&A	37.1%	28.2%	29.1%	27.7%	28.5%	27.8%	26.3%	25.1%	25.8%	25.2%
Capex	18.8%	23.2%	23.3%	22.6%	24.9%	22.4%	19.9%	19.7%	20.4%	18.2%
Cash, investments	2,529	1,202	1,881	2,036	1,374	3,270	3,848	1,377	3,208	1,377
LT investments	2,704	1,358	1,540	1,172	980	1,009	1,074	994	1,002	994
Tangible assets	10,422	12,539	13,871	17,487	18,436	24,228	19,300	18,604	18,346	18,604
Short-term debt	37	270	1,385	383	513	488	632	139	595	139
Long-term debt	4,956	9,845	10,845	17,970	19,990	25,365	21,831	22,226	21,463	22,226
Common equity	5,237	7,816	7,247	5,836	3,393	3,120	3,045	3,371	2,811	3,371
Tangible equity	1,957	-3,024	-4,451	-9,296	-12,157	-12,551	-10,985	-11,016	-11,220	-11,016
TBV / tangible assets	19%	-24%	-32%	-53%	-66%	-52%	-57%	-59%	-61%	-59%
TBV per share	6.02	-7.28	-10.16	-24.45	-38.55	-46.70	-43.47	-39.02	-46.14	-39.02
EBIT/capital employed	-7%	4%	2%	4%	9%	9%	15%	19%	20%	21%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Liberty Global provides communications services in 14 countries, primarily in Europe, Chile and Australia.

INVESTMENT HIGHLIGHTS

- **Largest cable company outside of the U.S.**, with market-leading operations across 14 countries. The company owns UPC, which is the largest Pan-European cable operator with 23.5 million homes passed and 13.7 million customers. Operations also include the programming business Chellomedia.
- **Recent acquisition of KBW consolidates presence in Germany (30-35% of pro-forma EBITDA).** Liberty is buying KBW, the #3 cable TV operator in Germany, and will combine it with its existing business Unitymedia, which is Germany's #2 player.
- **"Best Q3 subscriber growth in history,"** highlights the "increasing traction of our triple-play offers [video, broadband, telephony sold as a bundle]."
- **"Clearly gaining share in key markets."** Management is citing the "fastest broadband speeds available" and a "stronger price-value relationship than our DSL-based competition" as drivers.
- **Chairman Malone (70), who has pioneered the telecommunications industry, owns 5%.** Malone controls Liberty via ownership of class B shares.
- **Announced new \$1.0 billion stock repurchase in December.** Management has been buying stock aggressively over the years.
- **Pays minimal cash taxes** due to significant NOLs.

INVESTMENT RISKS & CONCERNS

- **"Building scale in Europe is a key strategic goal."** While scale is crucial in order to be cost-competitive, ongoing M&A carries execution risks. Liberty is paying €3.2 billion for KBW (8.1x KBW's 2011E EBITDA *after* targeted synergies).
- **Capital intensity.** Significant capex is required to add customers and upgrade networks. The EV-to-TTM adj. EBITDA multiple of 6.5x may rise to more than 10x after maintenance capex.
- **Competition** from incumbent telecommunications operators, DTH operators and other providers.
- **\$18.5 billion of net debt as of September 30 (4.0x TTM adjusted EBITDA).** Nearly 90% of the total debt is due in 2016 and beyond.

POTENTIAL CATALYSTS

- New \$1 billion share buyback
- Benefits from increased scale in Germany/Europe due to the pending acquisition of KBW

SELECTED OPERATING DATA¹

FYE December 31	2008	2009	2010	YTD 9/30/11
Δ revenue	14%	-2%	20%	16% ²
Δ adjusted EBITDA	26%	1%	23%	18% ²
Revenue (\$bn)	7.6	7.5	9.0	7.7
<i>% of revenue by segment:</i>				
Germany	0% ³	0% ³	13%	14%
Netherlands	15%	15%	13%	13%
Switzerland	13%	14%	12%	13%
Other Western Europe	12%	11%	9%	9%
Western Europe	40%	40%	47%	48%
Central and Eastern Europe	17%	15%	12%	11%
UPC Broadband (99.6%-owned)	58%	55%	59%	60%
Belgium (Telenet: 50.3%-owned)	20%	22%	19%	19%
Chile (VTR Group; 80%-owned)	9%	9%	9%	9%
Australia (Austar: 54.1%-owned)	7%	7%	7%	7%
Corporate and other/eliminations ⁴	6%	6%	6%	5%
<i>Adjusted EBITDA margin by major segment:⁵</i>				
UPC Broadband	48%	49%	50%	52%
Belgium	48%	50%	51%	52%
Chile	41%	41%	41%	39%
Australia	33%	35%	35%	35%
Corporate and other	-3%	-1%	0%	2%
Adjusted EBITDA margin	43%	44%	46%	47%
<i>% of revenue by type:</i>				
Subscription - video	47%	48%	50%	50%
Subscription - broadband internet	23%	24%	22%	22%
Subscription - telephony	13%	13%	12%	12%
Other revenue/eliminations	17%	16%	16%	16%
<i>Selected items as % of revenue:</i>				
EBIT	11%	13%	17%	21%
Net income	-10%	-1%	-10%	-3%
Net cash from ops	28%	27%	21%	19%
D&A	28%	28%	26%	25%
Capex	25%	22%	20%	19%
Δ shares out (avg)	-17%	-15%	-6%	1%

¹ Based on continuing operations, unless stated otherwise.

² On an organic basis, YTD revenue and adj. EBITDA grew 4% and 5% y-y.

³ The German operations (Unitymedia) were acquired in January 2010.

⁴ Includes, among others, video programming operations.

⁵ EBITDA is adjusted to exclude stock-based compensation expense and impairment, restructuring and other net operating gains/charges.

MAJOR HOLDERS

Shares out: 276M (146M Class A: 1 vote/share; 10M Class B: 10 votes/share; 120M Class C: non-voting). Chairman Malone controls Liberty by owning 9M Class B shares.

Economic stake: Chairman Malone 5% | Other insiders 2% | Tiger Global 5% | Eagle Capital 5% | Blue Ridge 2%

RATINGS

VALUE Intrinsic value materially higher than market value? ☆☆☆

DOWNSIDE PROTECTION Low risk of permanent loss? ☆☆☆

MANAGEMENT Capable and properly incentivized? ☆☆☆☆☆

FINANCIAL STRENGTH Solid balance sheet? ☆☆☆

MOAT Able to sustain high returns on invested capital? ☆☆☆

EARNINGS MOMENTUM Fundamentals improving? ☆☆☆☆☆

MACRO Poised to benefit from economic and secular trends? ☆☆☆

THE BOTTOM LINE

Liberty provides communications services, and to a lesser extent, programming, mainly in Europe. With industry pioneer John Malone at the helm, the company has aggressively moved into the German market through acquisitions of Unitymedia in 2010 and KBW in 2011. As a result, Germany should provide about a third of pro-rata EBITDA going forward (from ~20% now). While the acquisition-led strategy increases risk, Malone is a shrewd operator who should be able to capitalize on opportunities created by increased consolidation. At the recent valuation, however, we do not find the shares compelling.

LIBERTY GLOBAL – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS


	Conservative	Base Case	Aggressive
Valuation methodology ¹	6x TTM adj. EBITDA	12x estimated "maintenance FCF"	3.5x TTM revenue
Conservative case valuation:			
TTM adjusted EBITDA ²	\$4.6 billion		
Fair value multiple	6.0x		
Estimated enterprise value	\$27.9 billion		
Base case valuation:			
TTM net cash from operations ³		\$2.1 billion	
Estimated maintenance capex ⁴		-\$1.0 billion	
Estimated TTM "maintenance" FCF		\$1.1 billion	
Fair value multiple		12.0x	
Estimated equity value		\$13.7 billion	
Aggressive case valuation:			
TTM revenue			\$10.1 billion
Fair value multiple			3.5x
Estimated enterprise value			\$35.3 billion
Minus: Net debt (9/30/2011) ⁵	-\$18.5 billion	n/m	-\$18.5 billion
Minus: Non-controlling interest ⁶	-\$1.0 billion	n/m	-\$2.0 billion
Estimated fair value of the equity of Liberty Global⁷	\$8.3 billion	\$13.7 billion	\$14.7 billion
	\$30 per share	\$49 per share	\$53 per share
<i>Implied upside/(downside) to recent price (\$40 per share)</i>	-25%	24%	33%

- ¹ Our valuation does not reflect the impact of the acquisition of KBW in 4Q11. TTM financials refer to year ended Sep. 30, 2011 and are for continuing ops only.
² EBITDA is adjusted to exclude stock-based compensation expense and impairment, restructuring and other net operating gains/charges.
³ Stated after "distributions by subsidiaries to noncontrolling interest owners" (included in cash flows from financing activities in the company's cash flow statement)
⁴ Estimated at 10% of revenue. Total capex has been 20+% of revenue since 2008.
⁵ Cash includes \$1.4 billion of restricted cash related to the pending KBW acquisition (no contribution assumed) as well as \$1.0 billion of long-term investments.
⁶ Estimated. The majority of the value drag relates to the minority interest at Telenet (Belgium).
⁷ Based on 276 million shares outstanding. Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

LIBERTY GLOBAL – CAPEX AND ADJUSTED FCF, YTD 2011

LIBERTY GLOBAL – CALCULATION OF FCF AND ADJUSTED FCF, YTD 2011

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	in millions			
Net cash provided by operating activities of continuing operations.....	\$ 489.0	\$ 423.5	\$ 1,858.5	\$ 1,429.7
Excess tax benefits from stock-based compensation ¹	10.2	14.5	33.3	48.9
Direct acquisition costs ²	7.6	1.0	17.0	52.8
Capital expenditures.....	(474.3)	(457.9)	(1,493.1)	(1,297.3)
FCF	\$ 32.5	\$ (18.9)	\$ 415.7	\$ 234.1
FCF.....	\$ 32.5	\$ (18.9)	\$ 415.7	\$ 234.1
Old Unitymedia's FCF adjustment for pre-acquisition Q1 2010 period ³	—	—	—	(42.0)
Post-acquisition payments associated with Old Unitymedia's capital structure ⁴	—	6.9	12.9	51.7
FCF deficit of VTR Wireless	28.7	—	62.4	—
Tax payments on J:COM disposal	—	57.1	—	183.1
Adjusted FCF	\$ 61.2	\$ 45.1	\$ 491.0	\$ 426.9

- ¹ Excess tax benefits from stock-based compensation represent the excess of tax deductions over the related financial reporting stock-based compensation expense. The hypothetical cash flows associated with these excess tax benefits are reported as an increase to cash flows from financing activities and a corresponding decrease in cash flows from operating activities in the company's condensed consolidated cash flow statement.
² Represents costs paid during the period to third parties directly related to acquisitions.
³ Represents the estimated FCF of Old Unitymedia (exclusive of payments associated with pre-acquisition debt) during the pre-acquisition Q1 2010 period.
⁴ Represents interest and derivative payments on pre-acquisition debt during the post-acquisition period. These latter payments were reflected as a reduction of cash provided by operations in our condensed consolidated cash flow statement. Old Unitymedia's pre-acquisition debt was repaid on March 2, 2010 with part of the proceeds of the debt incurred for the Unitymedia acquisition. Payments on one of Old Unitymedia's legacy derivative instruments extended through Q2 2011. Source for above two charts: [Company presentation dated November 3, 2011](#).

LIBERTY GLOBAL – GEOGRAPHIC SNAPSHOT



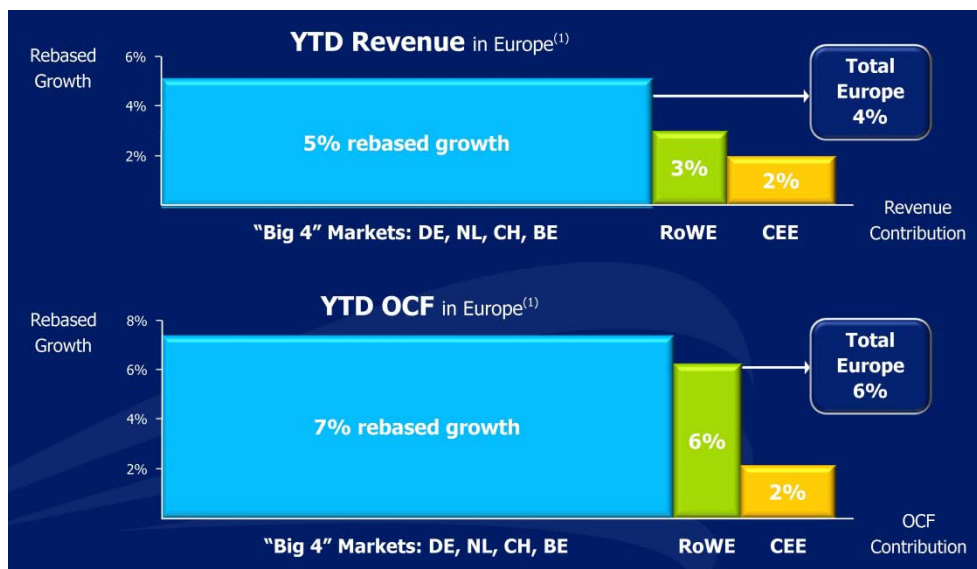
Source: [Company factsheet](#).

LIBERTY GLOBAL – YTD FINANCIAL SUMMARY



Source: [Company presentation dated November 3, 2011](#).

LIBERTY GLOBAL – EUROPE DRIVEN BY “BIG 4”



¹ Regional revenue and OCF growth rates reflect LGI's European ops, excluding UPC corporate costs and Chellomedia. The UPC DTH operating segment, which is included in the Central and other category within UPC Broadband, has been included in the CEE region above. Total Europe includes UPC corporate costs.

Source: [Company presentation dated November 3, 2011](#).

Molson Coors (TAP) – Cap Re, Wellington, T Rowe, Pzena, West Coast

Consumer Non-Cyclical: Beverages (Alcoholic), Member of S&P 500

Denver CO, 303-279-6565

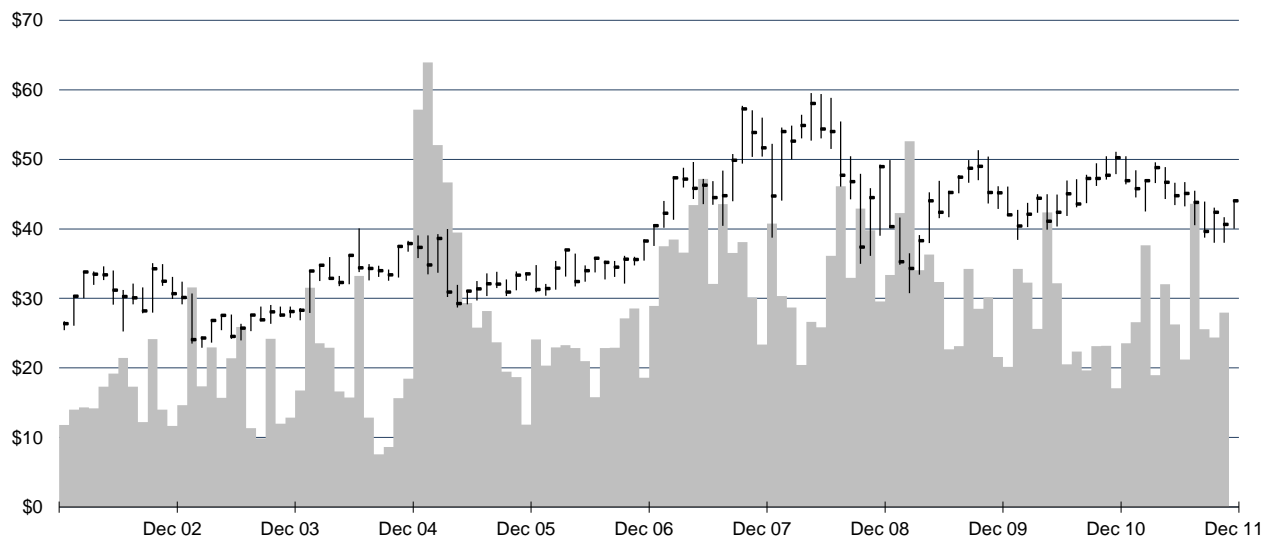
www.molsoncoors.com

Trading Data	Consensus EPS Estimates			Valuation				
Price: \$44.00 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10	12x			
52-week range: \$37.99–\$50.74	<u>Latest</u>	<u>Ago</u>	<u>Ests</u>	P/E FYE 12/31/11	13x			
Market value: \$8.0 billion	This quarter	\$0.70	\$0.72	7	P/E FYE 12/30/12	12x		
Enterprise value: \$8.9 billion	Next quarter	0.46	0.48	5	P/E FYE 12/30/13	11x		
Shares outstanding: 181.5 million	FYE 12/31/11	3.51	3.53	8	EV/ LTM revenue	2.6x		
Ownership Data			FYE 12/30/12	3.64	3.68	8	EV/ LTM EBIT	22x
Insider ownership: <1%	FYE 12/30/13	3.84	4.07	6	P / tangible book	4.4x	Greenblatt Criteria	
Insider buys (last six months): 11	LT growth	5.6%	n/a	2			LTM EBIT yield	4%
Insider sales (last six months): 5	<u>EPS Surprise</u>	<u>Actual</u>	<u>Estimate</u>			LTM pre-tax ROC	35%	
Institutional ownership: 84%	11/2/11	\$1.14	\$1.25					

Operating Performance and Financial Position

(\$ millions, except per share data)	Fiscal Years Ended December 26,							LTME 9/24/11	FQE 9/25/10	FQE 9/24/11
	2004	2005	2006	2007	2008	2009	2010			
Revenue	4,306	5,507	5,845	6,191	4,774	3,032	3,254	3,414	875	954
Gross profit	1,564	2,200	2,364	2,488	1,934	1,306	1,442	1,436	418	404
Adjusted operating income	341	568	659	753	780	787	886	414	304	257
Adjusted pretax income	301	442	541	664	670	750	830	729	322	227
Adjusted net income	189	377	442	648	562	762	689	625	260	196
Adjusted diluted EPS	2.55	2.37	2.57	3.63	3.08	4.13	3.71	3.37	1.40	1.06
Dividend	0.41	0.64	0.64	0.64	0.76	0.92	1.08	1.20	0.28	0.32
Shares out (avg)	74	159	172	179	183	184	186	186	186	185
Cash from operations	500	422	833	616	431	858	750	610	337	332
... % of revenue:										
Gross profit	36.3%	39.9%	40.4%	40.2%	40.5%	43.1%	44.3%	42.1%	47.7%	42.3%
Adjusted operating income	7.9%	10.3%	11.3%	12.2%	16.3%	25.9%	27.2%	12.1%	34.7%	26.9%
Cash, investments	123	39	182	377	216	734	1,218	987	764	987
Receivables	833	830	829	871	635	717	730	724	778	724
Inventory	235	315	320	370	192	181	195	201	231	201
LT investments	95	71	75	71	2,471	2,662	2,617	2,630	2,653	2,630
PP&E, net	1,446	2,306	2,422	2,696	1,302	1,347	1,389	1,366	1,295	1,366
Total assets	4,658	11,799	11,603	13,452	10,387	12,021	12,698	12,430	12,139	12,430
Tangible assets	3,186	4,505	4,239	5,066	5,165	6,011	6,553	6,364	6,034	6,364
Payables	326	372	420	381	171	210	268	262	196	262
Short-term debt	39	348	4	4	0	300	1	46	0	46
Long-term debt	894	2,137	2,130	2,261	1,752	1,413	1,960	1,901	1,447	1,901
Common equity	1,601	5,325	5,817	7,149	6,055	7,080	7,799	7,897	7,606	7,897
Tangible equity	129	-1,970	-1,547	-1,236	834	1,070	1,655	1,831	1,501	1,831
TBV / tangible assets	4%	-44%	-36%	-24%	16%	18%	25%	29%	25%	29%
TBV per share	1.74	-12.40	-8.98	-6.92	4.57	5.80	8.90	9.90	8.07	9.90
EBIT/capital employed	24%	26%	31%	29%	34%	67%	82%	35%	>100%	>100%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Molson Coors Brewing Co. (MCBC) produces beer. Adolph Coors and Molson merged in 2005 to create MCBC.

INVESTMENT HIGHLIGHTS

- **#2 brewer in the U.S. (via 42% MillerCoors stake) and in Canada.** MillerCoors, accounted for via the equity method, had ~30% volume share in 2010 (AB InBev: 48%). MCBC has ~40% market share in Canada (AB InBev-owned Labatt: 41%).
- **Key owned brands:** *Coors Light* and *Molson Canadian* in Canada (14% and 8% market share), *Miller Lite* and *Coors Light* in the U.S. (50+% of MillerCoors revenue), and *Carling* in the U.K.
- **Trades at a ~9% TTM FCF yield** based on 2011 underlying* FCF guidance of \$750 million, +/- 10%. Underlying FCF was \$924 million in 2010.
- **Pursuing three growth strategies:** 1) maximizing the value of core markets; 2) expanding exposure to emerging markets; and 3) taking advantage of M&A.
- **Announced a new share buyback in August of up to \$1.2 billion** over three-years. In Q3, MCBC bought back 6.3 million shares for \$271 million.
- **Molson/Coors families own a 15+% economic stake** and have prioritized share buybacks over M&A.

* Defined as operating cash flow, plus asset sale proceeds, less capital spend and one-time cash uses, plus or minus investing cash from/to MillerCoors.

INVESTMENT RISKS & CONCERNS

- **Operates in mature beer markets.** In each of 2009 and in 2010, beer industry shipments declined ~2% in the U.S. and ~1% in Canada. MCBC has little exposure to faster growing emerging markets.
- **Limited margin improvement potential?** Merger synergies have largely been realized. While additional savings are targeted, it remains to be seen how much will flow through to the bottom line.
- **Underlying after-tax earnings decreased 11% y-y in Q3**, as “we continued to face high unemployment among core beer consumers, lower volume, and significant commodity inflation.”
- **Reinvestment risk** as FCF is reinvested in markets where MCBC may lack scale and brand recognition.

POTENTIAL CATALYSTS

- New \$1.2 billion share buyback plan

MAJOR HOLDERS

Shares out: 5.5 million Class A (not listed; voting) and 175.6 million Class B shares (NYSE: TAP; limited voting). The Molson and Coors families control voting via Class A shares.
Economic stake: Coors family 13% | Molson family 5% | Other insiders <1% | Cap Re 8% | Wellington 6% | Pzena 2%

SELECTED OPERATING DATA¹

FYE December 25	2006	2007	2008	2009	2010	9/24/11	YTD
Δ beer volume ²	1%	1%	24%	-3%	-3%	-2%	-2%
Δ revenue	6%	6%	-23%	-36%	7%	7%	7%
Δ gross profit	7%	5%	-22%	-32%	10%	-1%	-1%
Δ BV per share	1%	18%	-17%	16%	9%	4%	4%
Volume (mn hectoliters)	41	42	52	50	49	36	
Revenue (\$mn) ³	5,845	6,191	4,774	3,032	3,254	2,578	
<i>% of revenue by major segment:</i>							
Canada	31%	31%	39%	57%	60%	60%	
U.S.	45%	44%	32%	0%	0%	0%	
U.K.	24%	24%	28%	40%	38%	37%	
<i>EBIT by segment (\$mn):</i>							
Canada	470	406	451	413	461	353	
U.S.	157	286	263 ⁴	382 ⁴	456 ⁴	372 ⁴	
U.K.	74	78	79	87	90	61	
International, corporate	(119)	(129)	(171)	(128)	(142)	(107)	
<i>Selected items as % of revenue:</i>							
Gross profit	40%	40%	40%	43%	44%	42%	
EBIT (adjusted) ⁵	11%	12%	16% ⁴	26% ⁴	27% ⁴	27% ⁴	
Pretax income (adjusted) ⁵	9%	11%	14% ⁴	25% ⁴	26% ⁴	23% ⁴	
Net income (adjusted) ^{5,6}	8%	10%	12% ⁴	25% ⁴	21% ⁴	20% ⁴	
D&A	8%	6%	6%	7%	6%	6%	
Capex	8%	7%	5%	5%	5%	5%	
Industry gross margin ⁷	48%	48%	46%	47%	47%	42%	
Industry EBIT margin ⁷	14%	13%	8%	10%	13%	3%	
Tangible assets (\$mn)	4,239	5,066	5,165	6,011	6,553	6,364	
<i>Selected items as % of tangible assets:</i>							
Cash, investments	4%	7%	4%	12%	19%	16%	
LT investments	2%	1%	48%	44%	40%	41%	
PP&E, net	57%	53%	25%	22%	21%	21%	
Debt	50%	45%	34%	29%	30%	31%	
Tangible equity	-36%	-24%	16%	18%	25%	29%	
Return on equity (ROE)	8%	10%	9%	12%	9%	7%	
ROE – industry median ⁷	12%	16%	6%	11%	12%	19%	
Trailing P/E (end)	18x	18x	23x	12x	14x	15x	
Forward P/E (end)	14x	24x	12x	13x	14x	11x	
Diluted EPS (cont.) (\$)	2.16	2.81	2.11	3.92	3.57	2.68	
Dividends per share (\$)	0.64	0.64	0.76	0.92	1.08	0.92	
Shares out (avg) (mn)	172	179	183	184	186	186	
Δ shares out (avg)	8%	4%	2%	1%	1%	0%	

¹ Effective July 2008, MCBC and SABMiller combined their U.S. operations in the MillerCoors JV. The results of U.S. operations, which had historically comprised substantially all MCBC's U.S. segment, were deconsolidated. MCBC has a 42% economic stake in the JV and accounts for it via the equity method.

² Includes the proportionate share from equity investments. 2005 data reflect the Molson-Coors merger, while 2008/09 data the impact from the JV.

³ After excise taxes.

⁴ MCBC reports equity income in MillerCoors within EBIT (no related revenue!).

⁵ Adjusted for items of -\$68 million in 2006, -\$138 million in 2007, -\$171 million in 2008, -\$33 million in 2009, -\$21 million in 2010, -\$12 million YTD 9/24/11.

⁶ Adjusted for nonrecurring items of -\$13 million in 2006, -\$18 million in 2007, -\$12 million in 2008, -\$9.0 million in 2009, \$40 million in 2010, \$1.5 million YTD.

⁷ Beverages (Alcoholic) industry median.

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆

THE BOTTOM LINE

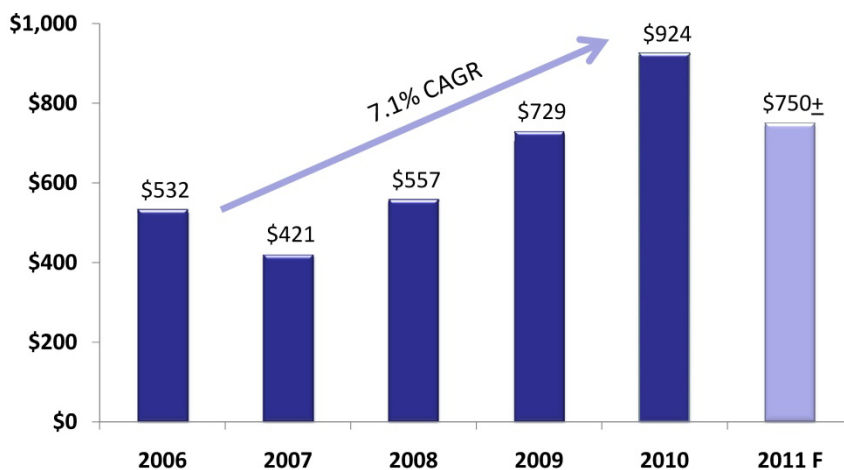
Molson Coors has a strong presence in three of the world's largest and highly consolidated beer markets including the U.S. (via the MillerCoors JV), Canada, and the U.K. Strong cash generation in these mature markets allows for reinvestment in faster-growing markets, and return of capital. Despite a lack of growth and reinvestment risk, the shares' high single digit trailing FCF yield is attractive. The new \$1.2 billion buyback plan signals management's continued capital allocation prudence.

MOLSON COORS – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS

Conservative	Base Case	Aggressive 
<i>Valuation methodology:</i> Based on average diluted EPS from continuing operations for the past seven fiscal years	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 24, 2012	<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended September 24, 2011
▼	▼	▼
<i>average of</i>	Consensus FY12 EPS estimate: \$3.65	Operating cash flow: \$610 million
FY04 continuing ops EPS: \$2.59	<i>minus</i>	<i>minus</i>
FY05 continuing ops EPS: \$1.44	Assumed haircut to FY12 consensus EPS estimate: 5% * \$3.65	Capex: \$209 million
FY06 continuing ops EPS: \$2.16	<i>equals</i>	<i>equals</i>
FY07 continuing ops EPS: \$2.81	Revised FY12 EPS estimate: \$3.47	Free cash flow: \$400 million
FY08 continuing ops EPS: \$2.11	<i>multiplied by</i>	<i>divided by</i>
FY09 continuing ops EPS: \$3.92	Corresponding industry P/E: 13.3x (*)	Industry median FCF yield: 2.5% (*)
FY10 continuing ops EPS: \$3.57	<i>equals</i>	<i>equals</i>
<i>equals</i>	Industry multiple-implied fair value: \$8.4 billion (\$46 per share)	Industry FCF yield-implied fair value: \$16 billion (\$87 per share)
Average seven-year EPS: \$2.66	<i>multiplied by</i>	<i>multiplied by</i>
<i>minus</i>	Assumed TAP multiple as a percentage of the industry multiple: 110%	Assumed required FCF yield as a percentage of the industry FCF yield: 120%
Assumed adjustment to average seven-year EPS: 10% * \$2.66	(14.6x fair value P/E multiple)	(3.1% required FCF yield)
<i>equals</i>	<i>equals</i>	<i>equals</i>
Revised “normalized” EPS: \$2.92	<i>Estimated fair value of the common equity of Molson Coors:</i>	<i>Estimated fair value of the common equity of Molson Coors:</i>
<i>multiplied by</i>	\$9.2 billion (\$51 per share)	\$13 billion, or \$72 per share
Assumed fair value P/E: 15x	(based on 181 million shares out)	(based on 181 million shares out)
<i>equals</i>	<i>19% upside to the recent stock price (\$43 per share)</i>	<i>70% upside to the recent stock price (\$43 per share)</i>
Estimated fair value of the common equity of Molson Coors: \$7.9 billion (\$44 per share) (based on 181 million shares out)		
<i>3% upside to the recent stock price (\$43 per share)</i>		

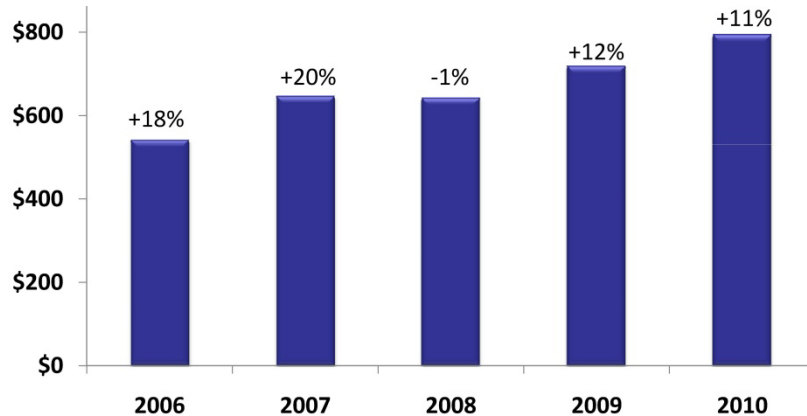
(*) Represents Beverages (Alcoholic) industry median multiple.
Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

MOLSON COORS – UNDERLYING FREE CASH FLOW (\$ in millions)



Source: Company presentation dated September 7, 2011.

MOLSON COORS – UNDERLYING PRETAX INCOME (\$ in millions)



Source: [Company presentation dated September 7, 2011.](#)

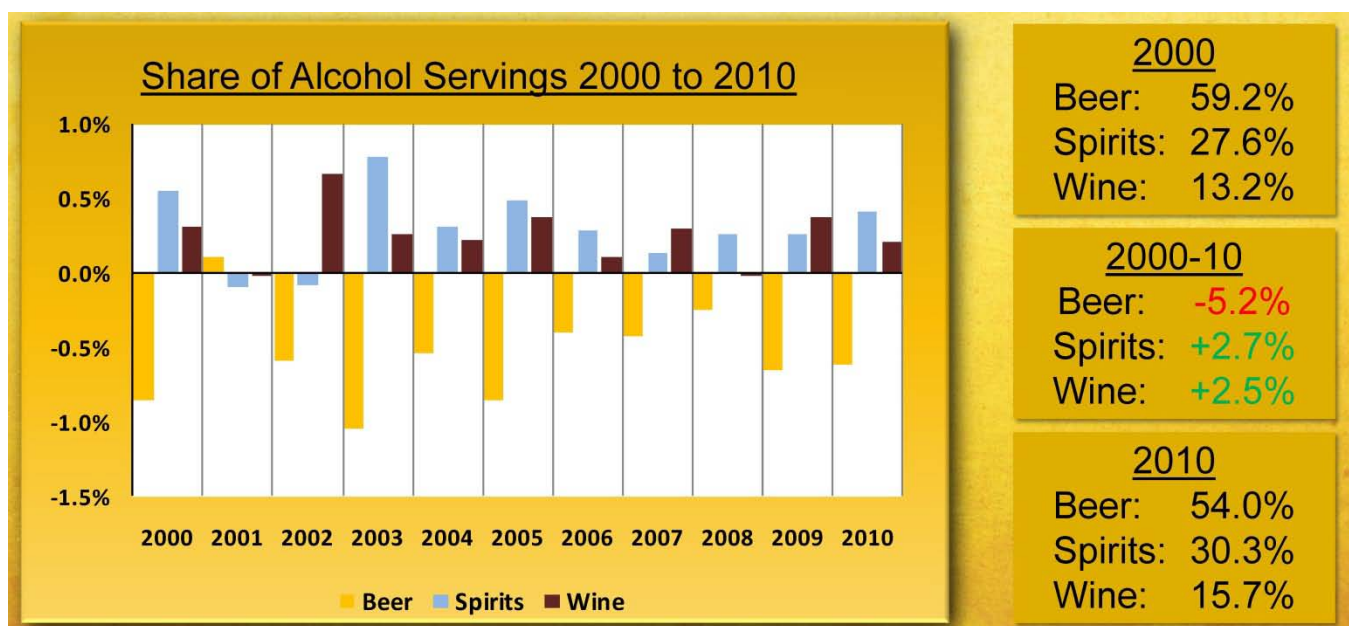
MOLSON COORS – HIGH-RETURN GROWTH OPPORTUNITIES?

Track record of recent growth opportunities:

- **Cobra (UK), Granville Island (Canada), and Sharp's (UK)**
 - All providing strong returns
- **Cobra India and China JV: Too early to call**
 - India: Completes global platform for high-potential Cobra brand
 - Si'hai China JV: progressing slower than planned
 - Key: broader China strategy for Coors Light
- **New markets: Spain, Vietnam, Russia, Ukraine**
- **International markets group: profitable in 5 years or less**

Source: [Company presentation dated September 7, 2011.](#)

BEER MARKET – SHARE LOSSES VERSUS OTHER ALCOHOLIC BEVERAGES



Source: [Company presentation dated December 5, 2011.](#)

Omnicom (OMC) – MFS, First Eagle, Pzena, Lord Abbett, Weitz

Services: Advertising, Member of S&P 500

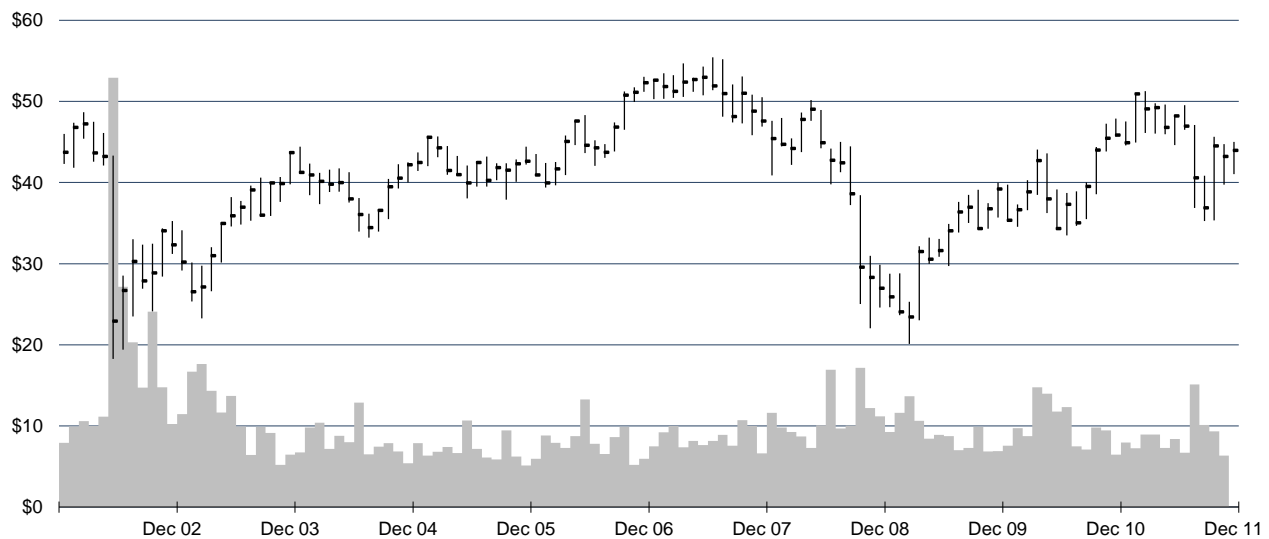
New York NY, 212-415-3600

omnicomgroup.com

Trading Data	Consensus EPS Estimates			Valuation
Price: \$43.91 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10
52-week range: \$35.27–\$51.25	Latest	Aqo	Ests	P/E FYE 12/31/11
Market value: \$12.1 billion	This quarter	\$0.96	15	P/E FYE 12/30/12
Enterprise value: \$14.4 billion	Next quarter	0.68	8	P/E FYE 12/30/13
Shares outstanding: 275.9 million	FYE 12/31/11	3.34	16	EV/ LTM revenue
	FYE 12/30/12	3.65	19	EV/ LTM EBIT
	FYE 12/30/13	4.13	12	P / tangible book
	LT growth	11.7%	4	
Ownership Data		EPS Surprise	Actual	Estimate
Insider ownership: <1%		10/18/11	\$0.72	\$0.70
Insider buys (last six months): 12				
Insider sales (last six months): 3				
Institutional ownership: 91%				
				Greenblatt Criteria
				LTM EBIT yield
				LTM pre-tax ROC

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME 9/30/11	FQE 9/30/10	FQE 9/30/11
	2004	2005	2006	2007	2008	2009	2010			
Revenue	9,747	10,481	11,377	12,694	13,360	11,721	12,543	13,607	2,995	3,381
Gross profit	2,900	3,068	3,289	3,686	3,800	3,270	3,328	3,523	784	876
Adjusted operating income	1,215	1,340	1,484	1,659	1,689	1,360	1,460	1,623	314	373
Adjusted pretax income	1,179	1,281	1,392	1,585	1,615	1,260	1,350	1,499	284	342
Adjusted net income	724	791	864	963	1,215	769	820	918	173	201
Adjusted diluted EPS	1.95	2.19	2.52	2.95	3.88	2.50	2.74	3.12	0.58	0.73
Dividend	0.90	0.93	1.00	0.58	0.60	0.60	0.80	0.95	0.20	0.25
Shares out (avg)	371	361	343	326	313	308	300	294	299	277
Cash from operations	1,288	991	1,741	1,599	1,394	1,732	1,488	1,445	214	263
... % of revenue:										
Gross profit	29.8%	29.3%	28.9%	29.0%	28.4%	27.9%	26.5%	25.9%	26.2%	25.9%
Adjusted operating income	12.5%	12.8%	13.0%	13.1%	12.6%	11.6%	11.6%	11.9%	10.5%	11.0%
Cash, investments	1,740	1,210	1,929	1,841	1,112	1,595	2,300	912	1,698	912
Receivables	4,917	5,366	5,994	6,830	5,776	5,574	5,977	5,971	5,517	5,971
LT investments	163	182	214	247	297	327	324	199	280	199
PP&E, net	636	609	640	707	720	677	653	632	637	632
Total assets	16,002	15,920	17,805	19,272	17,318	17,921	19,566	18,936	18,283	18,936
Tangible assets	9,481	9,305	10,810	11,758	9,877	10,059	11,479	10,103	10,300	10,103
Payables	6,012	6,219	7,333	8,081	6,881	7,144	7,727	6,948	6,593	6,948
Short-term debt	227	16	12	15	19	37	52	17	316	17
Long-term debt	2,358	2,358	3,055	3,055	3,054	2,221	3,125	3,184	2,905	3,184
Common equity	4,079	3,948	3,871	4,092	3,523	4,195	3,581	3,447	4,117	3,447
Tangible equity	-2,443	-2,667	-3,124	-3,423	-3,918	-3,667	-4,507	-5,387	-3,866	-5,387
TBV / tangible assets	-26%	-29%	-29%	-29%	-40%	-36%	-39%	-53%	-38%	-53%
TBV per share	-6.58	-7.40	-9.11	-10.50	-12.51	-11.90	-15.04	-19.44	-12.92	-19.44
EBIT/capital employed	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Omnicom is an advertising and marketing company.

INVESTMENT HIGHLIGHTS

- **Second-largest ad agency.** Trailing only WPP in revenue, Omnicom operates in four disciplines: traditional media advertising (46% of revenue), customer relationship management (37%), public relations (9%), and specialty communications (9%).
- **Owns three of top 10 global advertising brands: BBDO, DDB Needham Worldwide, and TBWA Worldwide.** Extensive national and regional agency networks with half of revenue outside the U.S. Management has focused on growth in Asia and recently acquired control of Clemenger, the largest marketing group in Australia and New Zealand.
- **Omnicom should post record revenue in 2011,** surpassing 2008 pre-recession levels. Traditional media advertising and CRM have posted double-digit revenue growth YTD. Revenue outside the U.S., U.K., and Europe have grown 33% YTD.
- **Generated FCF of \$6.9 billion since 2006, over half of recent market cap.** 80% of FCF was returned via dividends and share repurchases.

INVESTMENT RISKS & CONCERNS

- **Euro markets account for 19% of revenue.** With exception of Netherlands and Greece, Euro markets experienced growth in Q3 with no change in “tone of business” between Q3 and early Q4.*
- **YTD operating margin historically low at 11.8%.** Management aims to raise operating margin to 2007 levels (13.1%) by the end of 2012. However, few details have been provided on further cost cutting.**
- **\$3.2 billion of debt** (48% of capital). While the debt load is significant, FCF, access to credit facilities and long-term maturities mitigate risk.
- **Online display ads may threaten business model.** However, Google and others may find partnership with ad agencies preferable to direct competition.***
- **Negative tangible equity** eliminates downside protection if model becomes less profitable.

CATALYSTS

- Margin expansion to pre-recession levels would significantly improve profitability and FCF.
- Benign macro outcome in Euro zone could remove a perceived cloud of uncertainty and prompt market to assign valuation closer to pre-recession levels.

* See Q3 earnings call for management’s comments on Euro markets.
 ** CEO Wren: “... At this point, for 2012, for the full year, we’re still pretty confident that we’re going to hit our objectives of getting back to that 2007 level ...” – Q3 earnings conference call on 10/18/11: <http://bit.ly/qn3OCA>

SELECTED OPERATING DATA

FYE December 31	2006	2007	2008	2009	2010	9/30/11	YTD
Revenue (\$bn)	11.4	12.7	13.4	11.7	12.5	10.0	
Change (y-y)	9%	12%	5%	-12%	7%	12%	
<i>% of revenue by discipline:</i>							
Traditional advertising	43%	43%	43%	44%	45%	46%	
CRM	36%	37%	38%	37%	36%	37%	
Public relations	10%	10%	9%	9%	9%	9%	
Specialty communications	11%	10%	10%	9%	9%	9%	
<i>Revenue growth by discipline:</i>							
Traditional advertising	6%	12%	5%	-9%	9%	14%	
CRM	13%	14%	9%	-14%	4%	13%	
Public relations	10%	11%	0%	-15%	7%	7%	
Specialty communications	4%	3%	-3%	-16%	10%	4%	
<i>Components of revenue growth:¹</i>							
Foreign exchange impact	1%	4%	1%	-3%	0%	4%	
Acquisitions, net	0%	1%	1%	0%	0%	2%	
Organic growth	8%	7%	3%	-9%	6%	7%	
<i>% of revenue by region:</i>							
U.S.	54%	53%	52%	53%	53%	51%	
U.K.	11%	11%	10%	9%	9%	9%	
Europe	20%	21%	22%	22%	20%	19%	
Other ²	14%	15%	16%	17%	18%	21%	
<i>Revenue growth by selected region:</i>							
U.S.	8%	8%	3%	-10%	8%	6%	
U.K.	12%	13%	-5%	-21%	4%	15%	
Europe	7%	17%	10%	-15%	-4%	8%	
<i>Selected items as % of revenue:</i>							
Operating income	13%	13%	13%	12%	12%	12%	
Salary and service	71%	71%	72%	72%	73%	74%	
Office and general	16%	16%	16%	16%	15%	14%	
D&A	2%	2%	2%	2%	2%	2%	
Capex	2%	2%	2%	1%	1%	1%	
Net income	8%	8%	7%	7%	7%	7%	
Free cash flow ³	14%	11%	9%	14%	11%	-1%	
Free cash flow (\$bn) ³	1.6	1.4	1.2	1.6	1.3	-0.1	
<i>Selected items as % of free cash flow:⁴</i>							
Acquisitions	15%	26%	37%	9%	11%	n/a	
Dividends	11%	13%	16%	12%	17%	n/a	
Share repurchases	67%	58%	64%	0%	88%	n/a	
Δ shares outstanding	-6%	-4%	-5%	0%	-7%	-3%	

¹ See MD&A discussions for details on calculation of organic growth and forex impact. Figures may not add up to total change in revenue due to rounding.
² “Other” markets include BRICs and other high-growth countries where management has been devoting more attention in recent years.
³ Free cash flow = operating cash flow less capex not including acquisitions
⁴ From 2006 to 2011 YTD, cumulative FCF was allocated 24% to acquisitions, 17% to dividends, and 63% to repurchases.

MAJOR HOLDERS

CEO Wren <1% | Other insiders 2% | MFS 8% | Mellon 4%

RATINGS

- VALUE** Intrinsic value materially higher than market value? ☆☆☆
- DOWNSIDE PROTECTION** Low risk of permanent loss? ☆☆☆
- MANAGEMENT** Capable and properly incentivized? ☆☆☆
- FINANCIAL STRENGTH** Solid balance sheet? ☆☆☆
- MOAT** Able to sustain high returns on invested capital? ☆☆☆☆
- EARNINGS MOMENTUM** Fundamentals improving? ☆☆☆
- MACRO** Poised to benefit from economic and secular trends? ☆☆☆

*** Google and Omnicom entered into a display advertising partnership in July 2010. See WSJ article for more details: <http://on.wsj.com/aoHMSH>

THE BOTTOM LINE

Omnicom has recovered from the recession quite well and should post record revenue in 2011. While operating margin remains somewhat depressed, management appears confident that margins can be restored to 2007 levels by 2012. Trading at less than 10x EV/EBIT, the shares have upside if margins return to pre-recession levels. Long-term business model risks exist but long-standing relationships, client service and creativity may represent a “moat” that is not easily breached.

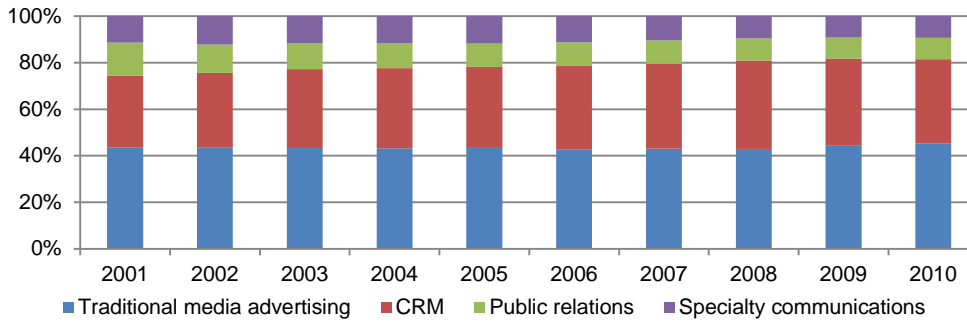
OMNICOM – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS

<i>(in millions, except per share data)</i>		Conservative	Base Case	Aggressive
Valuation methodology	Q4 is typically the highest revenue quarter of the year. However our 2011 projected revenue figures in all markets simply annualize 9ME 9/30/11 for simplicity and in order to be conservative.	The valuation model forecasts 2013 revenue based on projected regional growth rates and then estimates 2013 operating income based on various margin assumptions. 2013 enterprise value is estimated and discounted back by two years to arrive at current enterprise value from which net debt is deducted to arrive at estimated value of the equity.		
United States Revenue:				
2011 Projected revenue (9ME 9/30/11 annualized)		6,827	6,827	6,827
Annual growth rate projection		3%	5%	7%
2013 Projected revenue		7,242	7,526	7,816
Euro Markets Revenue:				
2011 Projected revenue (9ME 9/30/11 annualized)		2,475	2,475	2,475
Annual growth rate projection		-10%	3%	6%
2013 Projected revenue		2,005	2,626	2,781
United Kingdom Revenue:				
2011 Projected revenue (9ME 9/30/11 annualized)		1,198	1,198	1,198
Annual growth rate projection		3%	5%	7%
2013 Projected revenue		1,271	1,321	1,372
Other Markets Revenue: (Includes BRICs, other emerging markets)				
2011 Projected revenue (9ME 9/30/11 annualized)		2,860	2,860	2,860
Annual growth rate projection		7%	10%	13%
2013 Projected revenue		3,274	3,460	3,652
Total 2013 Projected revenues - all markets		13,792	14,933	15,620
Projected 2013 operating margin		12.0%	13.0%	14.0%
2013 Projected operating income		1,655	1,941	2,187
Fair value multiple of 2013 operating income		9	10	11
Fair value of enterprise at year-end 2013		14,896	19,413	24,055
Annual discount rate applied for two years		10%	10%	10%
Present value of enterprise, December 2011		12,310	16,044	19,880
Less total debt at 9/30/2011		(3,202)	(3,202)	(3,202)
Plus cash at 9/30/2011		901	901	901
Present value of equity, December 2011		10,009	13,743	17,579
Shares outstanding 9/30/2011		275.9	275.9	275.9
Present value of equity per share		36.28	49.82	63.72
Price per share on 12/9/2011		44.21		
<i>Implied upside/downside to recent price</i>		-18%	13%	44%
<i>Implied equity value to 2011 estimated revenue (YTD annualized)</i>		0.75	1.03	1.32
<i>Implied 2011 P/E ratio (assuming YTD net income annualized)</i>		11.5	15.8	20.2
Additional Data:				
Market capitalization as of 12/9/2011		12,196		
Plus debt as of 9/30/2011		3,202		
Less cash as of 9/30/2011		(901)		
Enterprise value		14,497		
Projected 2011 EBIT (2011 YTD annualized)		1,578		
Enterprise value / EBIT		9.2		
EBIT/Enterprise value yield		10.9%		

According to Value Line, average P/E ratio from 2006 to 2010 was 15.2. OMC traded at much higher P/E ratios prior to 2005.

Source: Company filings, Ravi Nagarajan analysis, assumptions and estimates, The Manual of Ideas.

OMNICOM – REVENUE BY DISCIPLINE, 2001–2010



Revenue by discipline as a percent of total is very stable over time. Over the past decade, CRM has made the largest gains as a percentage of revenue while public relations and specialty communications have declined in relative importance.

Source: Company data, Ravi Nagarajan, The Manual of Ideas.

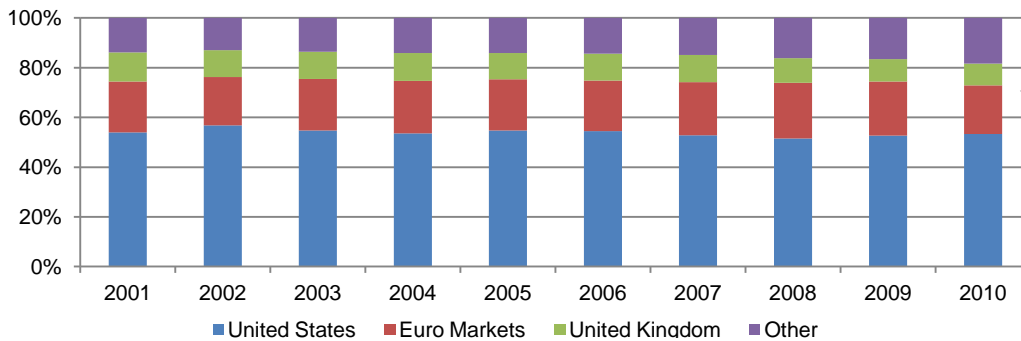
OMNICOM – COMPOUNDED ANNUAL REVENUE GROWTH, BY DISCIPLINE, 2001–2010

Traditional media advertising	7.3%
CRM	8.8%
Public relations	1.7%
Specialty communications	4.6%
Total	6.9%

Respectable annualized growth rate in total revenue from 2001 to 2010 driven primarily by Traditional Media Advertising and CRM.

Source: Company data, Ravi Nagarajan, The Manual of Ideas.

OMNICOM – REVENUE BY GEOGRAPHY, 2001–2010



“Other” regions drove revenue growth over the last decade compounding at 10.3% and rising from 13.8% of revenue in 2001 to 18.4% in 2010.

Source: Company data, Ravi Nagarajan, The Manual of Ideas.

OMNICOM – COMPOUNDED ANNUAL REVENUE GROWTH, BY GEOGRAPHY, 2001–2010

United States	6.7%
Euro Markets	6.3%
United Kingdom	3.4%
Other	10.3%
Total	6.9%

While the United States market partially recovered from the recession in 2010, the Euro area continued to decline although the area has seen a return to growth in 2011 YTD. Although concerns about the European economy may be weighing on the stock, we should note that only 18.5% of revenues in 2011 YTD were attributed to the Euro area.

Source: Company data, Ravi Nagarajan, The Manual of Ideas.

OMNICOM – FREE CASH FLOW AND MAIN USES OF FCF (\$ in millions)

	2006 to 2011 YTD	As % of FCF
Free cash flow	6,943.5	
Uses of cash:		
Acquisition of businesses	(1,640.8)	24%
Payment of dividends	(1,166.4)	17%
Repurchase of stock, net of proceeds from employee stock plans	(4,388.8)	63%
Total	(7,196.0)	104%

From 2006 to 9/30/2011, Omnicom has deployed slightly more than cumulative free cash flow toward acquisitions and returning cash to shareholders through dividends and repurchases.

Source: Company data, Ravi Nagarajan, The Manual of Ideas.

Procter & Gamble (PG) – Berkshire, Cap World, Weitz, Markel

Personal & Household Products, Member of S&P 500

Cincinnati OH, 513-983-1100

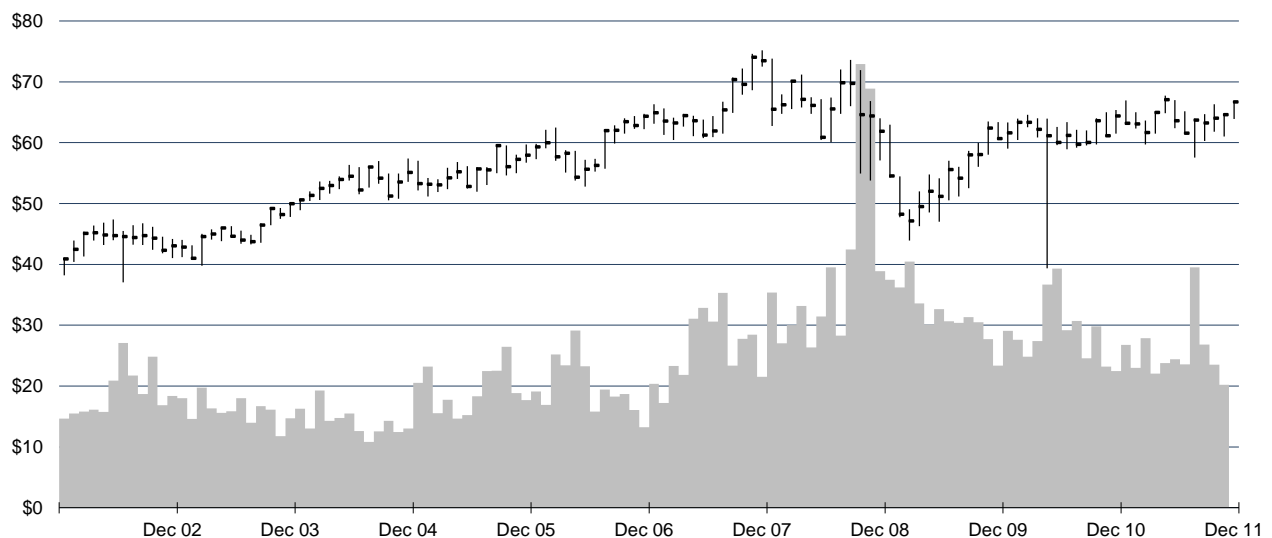
www.pg.com

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$66.67 (as of 12/23/11)		Month	# of	P/E FYE 7/1/11	
52-week range: \$57.56–\$67.72	<u>Latest</u>	<u>Ago</u>	<u>Ests</u>	P/E FYE 6/30/12	
Market value: \$183.4 billion	This quarter	\$1.09	\$1.09	19	
Enterprise value: \$214.9 billion	Next quarter	1.07	1.08	19	
Shares outstanding: 2,751.3 million	FYE 6/30/12	4.19	4.19	21	
	FYE 6/30/13	4.56	4.57	23	
	FYE 6/30/14	4.93	4.95	8	
	LT growth	8.8%	8.8%	7	
Ownership Data		<u>EPS Surprise</u>	<u>Actual</u>	<u>Estimate</u>	Greenblatt Criteria
Insider ownership: <1%		10/27/11	\$1.03	\$1.03	LTM EBIT yield
Insider buys (last six months): 18					LTM pre-tax ROC
Insider sales (last six months): 11					7%
Institutional ownership: 58%					69%

Operating Performance and Financial Position

(\$ millions, except per share data)	Fiscal Years Ended June 30,							LTME 9/30/11	FQE 9/30/10	FQE 9/30/11
	2005	2006	2007	2008	2009	2010	2011			
Revenue	53,210	64,416	72,441	79,257	76,694	78,938	82,559	84,354	20,122	21,917
Gross profit	26,391	32,549	37,065	39,996	38,004	41,019	41,791	42,214	10,433	10,856
Adjusted operating income	9,666	12,551	14,485	15,979	15,374	16,021	15,818	15,651	4,501	4,334
Adjusted pretax income	6,384	11,652	13,662	14,885	14,413	15,047	15,189	15,002	4,282	4,095
Adjusted net income	6,248	8,039	9,501	11,115	10,488	10,727	11,564	11,505	3,028	2,969
Adjusted diluted EPS	2.43	2.58	3.01	3.61	3.55	3.70	4.12	4.12	1.07	1.08
Dividend	1.03	1.15	1.28	1.45	1.64	1.80	1.97	2.01	0.48	0.53
Shares out (avg)	2,574	3,113	3,159	3,081	2,952	2,901	2,804	2,792	2,829	2,756
Cash from operations	8,679	11,375	13,410	15,008	14,919	16,072	13,231	12,946	2,452	2,167
... % of revenue:										
Gross profit	49.6%	50.5%	51.2%	50.5%	49.6%	52.0%	50.6%	50.0%	51.8%	49.5%
Adjusted operating income	18.2%	19.5%	20.0%	20.2%	20.0%	20.3%	19.2%	18.6%	22.4%	19.8%
Cash, investments	8,133	7,826	5,556	3,541	4,781	2,879	2,768	3,582	2,603	3,582
Receivables	4,185	5,725	6,629	6,761	5,836	5,335	6,275	6,584	6,082	6,584
Inventory	5,006	6,291	6,819	8,416	6,880	6,384	7,379	8,001	7,277	8,001
Total current assets	20,329	24,329	24,031	24,515	21,905	18,782	21,970	23,125	20,496	23,125
PP&E, net	14,332	18,770	19,540	20,640	19,462	19,244	21,293	20,765	19,877	20,765
Total assets	61,527	135,695	138,014	143,992	134,833	128,172	138,354	136,617	133,692	136,617
Tangible assets	37,364	46,668	47,836	49,992	45,715	42,524	48,172	48,680	45,152	48,680
Payables	3,802	4,910	5,710	6,775	5,980	7,251	8,022	7,290	6,716	7,290
Short-term debt	11,441	2,128	12,039	13,084	16,320	8,472	9,981	11,476	11,512	11,476
Long-term debt	12,887	35,976	23,375	23,581	20,652	21,360	22,033	22,372	21,464	22,372
Preferred stock	1,483	1,451	1,406	1,366	1,324	1,277	1,234	1,221	1,260	1,221
Common equity	16,992	61,457	65,354	68,128	61,775	59,838	66,406	64,023	61,595	64,023
Tangible equity	-7,171	-27,570	-24,824	-25,872	-27,343	-25,810	-23,776	-23,914	-26,945	-23,914
EBIT/capital employed	75%	83%	79%	74%	67%	78%	74%	69%	>100%	95%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Procter & Gamble (P&G) provides branded consumer goods.

INVESTMENT HIGHLIGHTS

- **Strong presence in consumer product markets.** Globally, P&G has ~20% share of the \$200 billion household care market, ~13% share of the \$300 billion beauty and grooming market, and ~5% share of the \$240 billion consumer healthcare market.
- **Owns 22 brands with \$1+ billion revenue each:** Ariel, Tide, Gain, Dawn, Downy, Charmin, Bounty, Pampers, Duracell, Olay, Head & Shoulders, Pantene, Wella, Braun, Fusion, Gillette, Mach3, Always, Crest, Oral-B, Iams, and Pringles.
- **Exploiting developing markets opportunities.** Developing markets contribute roughly one-third of revenue, up from about 20% in 2000. P&G aims to reach five billion consumers by 2015, up from the four billion customers it serves currently.
- **Aims to reach more consumers by extending core brands vertically and horizontally.** For example, Gillette Fusion five-bladed razors are expanding the category vertically into the premium-end, while Febreze candles exemplify horizontal extension by adding an adjacent product line to the odor remover.
- **Guiding for sales and organic sales to rise 3-6% in FY12.** Pricing is expected to add 3-4% to sales while unfavorable product and geographic mix is expected to cut sales by 1-2%. EPS is expected to range from \$4.17-4.33, implying ~16x forward P/E.

INVESTMENT RISKS & CONCERNS

- **Competition from branded and private-label products.** Wal-Mart accounts for 16% of revenue.
- **P&G's brands may hold less appeal in emerging markets** due to cultural differences. Potentially higher marketing needs could reduce profitability.
- **\$28 billion of net debt.** At ~1.5x net debt to trailing EBITDA, balance sheet is already quite efficient.
- **Long-time CEO and chairman Lafley (62) retired in 2009.** Bob McDonald (56), at P&G since 1980, became CEO in 2009 and chairman in 2010.

CATALYSTS

- Recently implemented price increases and cost saving efforts start contributing to earnings growth
- Emerging markets grow from one-third of revenue toward one-half of revenue over time

MAJOR HOLDERS

Insiders <1% | Berkshire 3% | Cap World 1% | JPM 1%

SELECTED OPERATING DATA

FYE June 30	2007	2008	2009	2010	2011	1Q12
Δ revenue	12%	9%	-3%	3%	5%	9%
Δ gross profit	14%	8%	-5%	8%	2%	4%
Δ assets	2%	4%	-6%	-5%	8%	2%
Δ book value	6%	4%	-9%	-3%	11%	4%
Δ BV per share	5%	7%	-5%	-1%	15%	7%
Revenue (\$bn)	72.4	79.3	76.7	78.9	82.6	21.9
<i>Revenue by segment (ex. eliminations):</i>						
Beauty	25%	25%	25%	25%	24%	25%
Grooming	10%	10%	10%	10%	10%	10%
Health care	15%	15%	15%	15%	15%	15%
Snacks and pet care	4%	4%	4%	4%	4%	4%
Fabric and home care	29%	30%	30%	30%	30%	30%
Baby and family care	18%	18%	18%	19%	19%	19%
<i>Net margin by segment:</i>						
Beauty	15%	14%	14%	14%	13%	14%
Grooming	18%	20%	18%	19%	20%	21%
Health care	17%	17%	16%	16%	15%	16%
Snacks and pet care	8%	8%	8%	10%	8%	8%
Fabric and home care	15%	14%	13%	14%	12%	12%
Baby and family care	11%	12%	13%	14%	13%	12%
<i>Selected items as % of revenue:</i>						
Gross profit	51%	50%	50%	52%	51%	50%
EBIT (GAAP)	20%	20%	20%	20%	19%	20%
Pretax income (GAAP)	19%	19%	19%	19%	18%	19%
Net income (GAAP)	14%	15%	17%	16%	14%	14%
Net income (adjusted) ¹	13%	14%	14%	14%	14%	14%
D&A	4%	4%	4%	4%	3%	3%
Capex	4%	4%	4%	4%	4%	4%
Industry gross margin ²	50%	54%	50%	50%	49%	49%
Industry EBIT margin ²	6%	6%	4%	4%	5%	5%
Tangible assets (\$bn)	47.8	50.0	45.7	42.5	48.2	48.7
<i>Selected items as % of tangible assets:</i>						
Cash, investments	12%	7%	10%	7%	6%	7%
Inventory	14%	17%	15%	15%	15%	16%
PP&E, net	41%	41%	43%	45%	44%	43%
ST debt	25%	26%	36%	20%	21%	24%
LT debt	49%	47%	45%	50%	46%	46%
Preferred stock	3%	3%	3%	3%	3%	3%
Tangible equity	-52%	-52%	-60%	-61%	-49%	-49%
Return on equity (ROE)	15%	17%	16%	18%	18%	5%
ROE - industry median ²	11%	14%	13%	12%	13%	9%
Trailing P/E (end)	23x	22x	18x	17x	16x	61x
Forward P/E (end)	19x	22x	18x	15x	15x	15x
Diluted EPS (cont.) (\$)	2.84	3.40	3.39	3.53	3.93	1.03
Dividends per share (\$)	1.28	1.45	1.64	1.80	1.97	0.53
Shares out (avg) (mn)	3,159	3,081	2,952	2,901	2,804	2,756
Δ shares out (avg)	1%	-2%	-4%	-2%	-3%	-3%

¹ Adjusted for nonrecurring items of \$678 million in 2007, \$784 million in 2008, \$2.8 billion in 2009, and \$1.8 billion in 2010.

² Personal & Household Products industry median.

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆

THE BOTTOM LINE

P&G is home to many of the world's best-selling branded consumer products, including Gillette, which has 70+% share of the global blades and razors market for men. While other products may not have the attributes of the razor-and-blades model, they generally have high and defensible market share. P&G's brand and distribution strength, coupled with a tradition of recruiting and grooming brand management talent from top universities, makes it likely that the company will retain market leadership in key consumer product categories for a long time to come. That said, we don't consider the shares particularly cheap and would prefer to wait for the inevitable short-term performance hiccup before becoming shareholders.

PROCTER & GAMBLE – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS

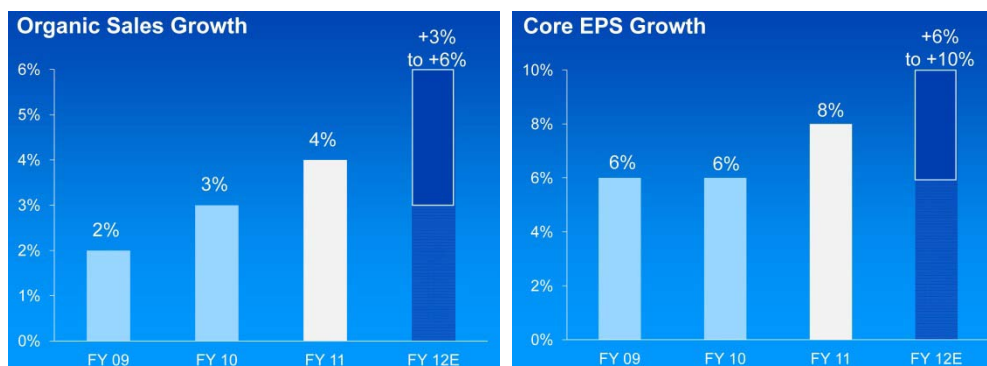
Conservative	Base Case	Aggressive X
<i>Valuation methodology:</i> Based on revenue for the twelve months ended September 30, 2011 and average EBIT margin for past seven fiscal years	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending June 29, 2013	<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended September 30, 2011
▼	▼	▼
TTM net sales: \$84 billion <i>multiplied by</i>	Consensus FY13 EPS estimate: \$4.57 <i>minus</i>	Operating cash flow: \$13 billion <i>minus</i>
Average 7-year EBIT margin: 19.6% <i>equals</i>	Assumed haircut to FY13 consensus EPS estimate: 5% * \$4.57 <i>equals</i>	Capex: \$3.6 billion <i>equals</i>
Estimated EBIT: \$17 billion <i>multiplied by</i>	Revised FY13 EPS estimate: \$4.34 <i>multiplied by</i>	Free cash flow: \$9.3 billion <i>divided by</i>
Assumed fair value multiple of EBIT: 8x <i>equals</i>	Corresponding industry P/E: 14.0x (*) <i>equals</i>	Industry median FCF yield: 4.0% (*) <i>equals</i>
Estimated fair enterprise value of Procter & Gamble: \$132 billion <i>plus</i>	Industry multiple-implied fair value: \$167 billion (\$61 per share) <i>multiplied by</i>	Industry FCF yield-implied fair value: \$233 billion (\$85 per share) <i>multiplied by</i>
Cash, ST investments: \$3.6 billion <i>minus</i>	Assumed PG multiple as a percentage of the industry multiple: 110% <i>equals</i>	Assumed required FCF yield as a percentage of the industry FCF yield: 90% <i>equals</i>
Total debt: \$35 billion <i>equals</i>	(15.4x fair value P/E multiple) <i>equals</i>	(3.6% required FCF yield) <i>equals</i>
Estimated fair value of the common equity of Procter & Gamble: \$101 billion, or \$37 per share (based on 2.8 billion shares out) <i>44% downside from the recent stock price (\$65 per share)</i>	Estimated fair value of the common equity of Procter & Gamble: \$184 billion (\$67 per share) (based on 2.8 billion shares out) <i>3% upside to the recent stock price (\$65 per share)</i>	Estimated fair value of the common equity of Procter & Gamble: \$259 billion, or \$94 per share (based on 2.8 billion shares out) <i>45% upside to the recent stock price (\$65 per share)</i>

(*) Represents Personal & Household Products industry median multiple. Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

PROCTER & GAMBLE – ANALYSIS OF SELECTED COMPARABLE COMPANIES

<i>(Click to visit relevant websites)</i>	Trading Data					Public Market Valuation					Operating Performance					
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	TTM FCF Yield	EPS Yield			LTM Rev./EV	Rev./Empl. (\$000)	Δ Rev.		% TTM Rev.		
		Low	High				This FY	Next FY	TTM			Last Q	Gross Profit	R&D	Adj. EBIT	
	(\$)	%	%	(\$bn)	(\$bn)	%	%	%	%	%	%	%	%	%	%	
Clorox / CLX	65	-30%	16%	9	11	5%	3%	6%	7%	49%	651	1%	3%	43%	2%	18%
Colgate Palmolive / CL	90	-52%	6%	44	47	6%	6%	6%	6%	35%	422	6%	11%	58%	0%	23%
Energizer Holdings / ENR	74	-59%	61%	5	7	6%	5%	8%	9%	68%	310	9%	13%	46%	2%	14%
Johnson & Johnson / JNJ	64	-28%	13%	176	163	7%	6%	8%	8%	40%	551	3%	7%	69%	11%	24%
Kimberly-Clark / KMB	71	-40%	3%	28	34	6%	6%	7%	7%	61%	364	6%	8%	30%	0%	12%
Unilever / UN	33	-48%	15%	154	164	1%	6%	7%	7%	36%	352	9%	125%	n/m	0%	16%
				Median		5%	3%	6%	7%	49%	651	1%	3%	43%	2%	18%
Procter & Gamble / PG	65	-40%	15%	179	211	5%	6%	6%	7%	40%	654	6%	9%	50%	0%	19%

 Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue Δ = change
 Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items
 Source: Company and market data, The Manual of Ideas analysis.

PROCTER & GAMBLE – FY2012 MANAGEMENT GUIDANCE


Source: Company presentation dated October 27, 2011.

PROCTER & GAMBLE – FY2012 MANAGEMENT GUIDANCE *(continued)*

Cash Generation and Usage

Free Cash Flow Productivity: +/- 90%

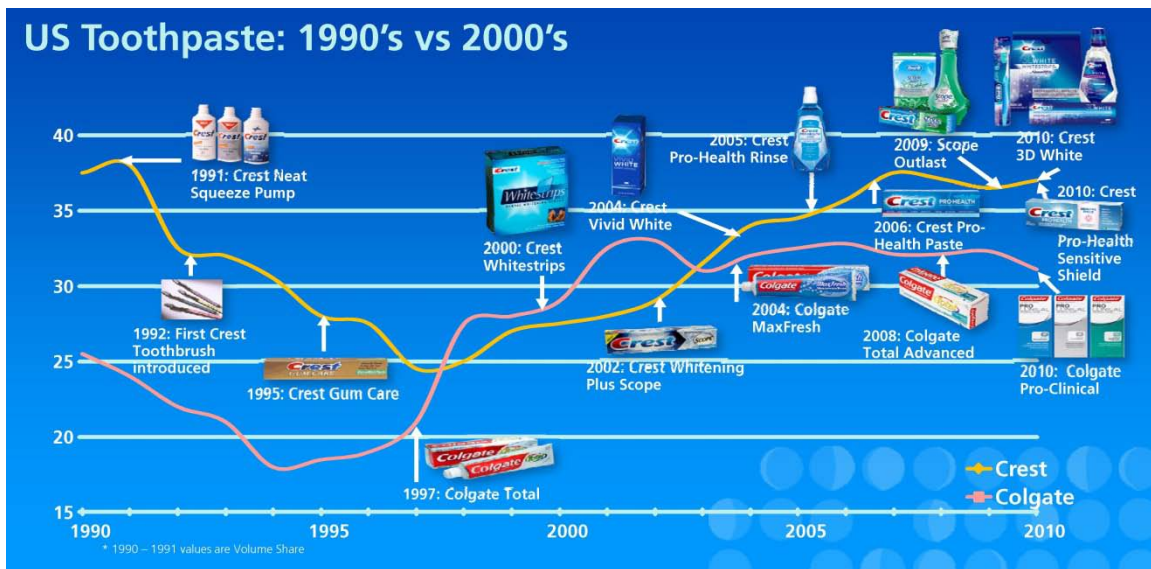
Capital Spending: 4% to 5% of sales

Returning Value to Shareholders

	FY '09	FY '10	FY '11	FY '12E
Dividends, \$bn	5.0	5.5	5.8	~6
Share Repurchase, \$bn	6.4	6.0	7.0	~4 to 6
Value to Shareholders, \$bn	11.4	11.5	12.8	~10 to 12
Shareholder Yield, % of market cap	6.5%	6.6%	7.5%	~ 5.5% to 6.5%

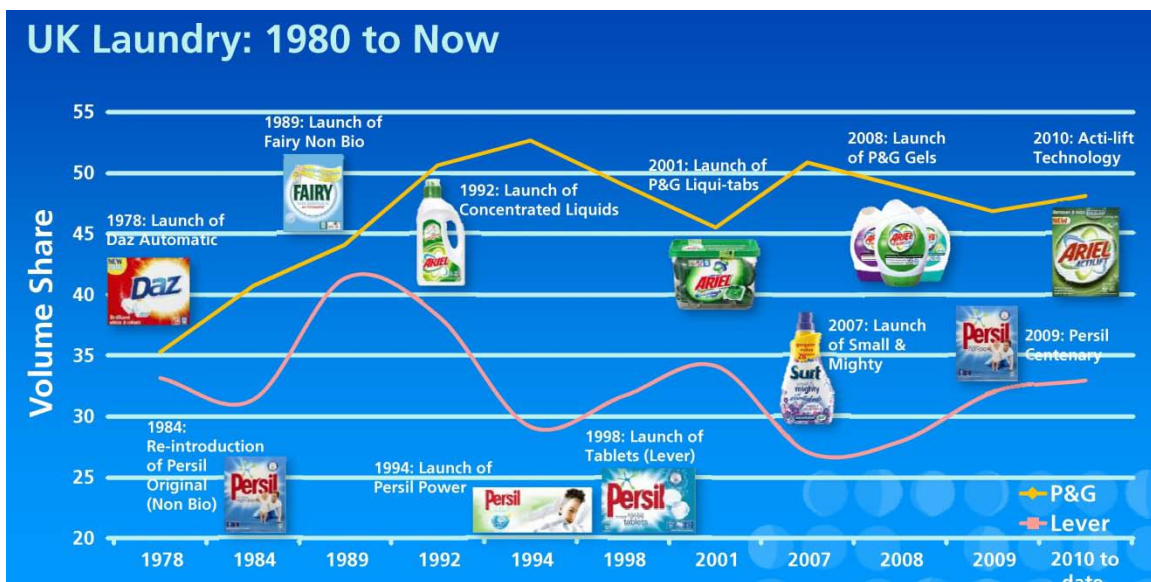
Source: Company presentation dated October 27, 2011.

PROCTER & GAMBLE – U.S. TOOTHPASTE: CREST vs. COLGATE



Source: Company presentation dated October 11, 2011.

PROCTER & GAMBLE – UK LAUNDRY: P&G vs. UNILEVER



Source: Company presentation dated October 11, 2011.

Raytheon (RTN) – Barrow, T Rowe, Adage, NWQ, Atlantic

Capital Goods: Aerospace and Defense, Member of S&P 500

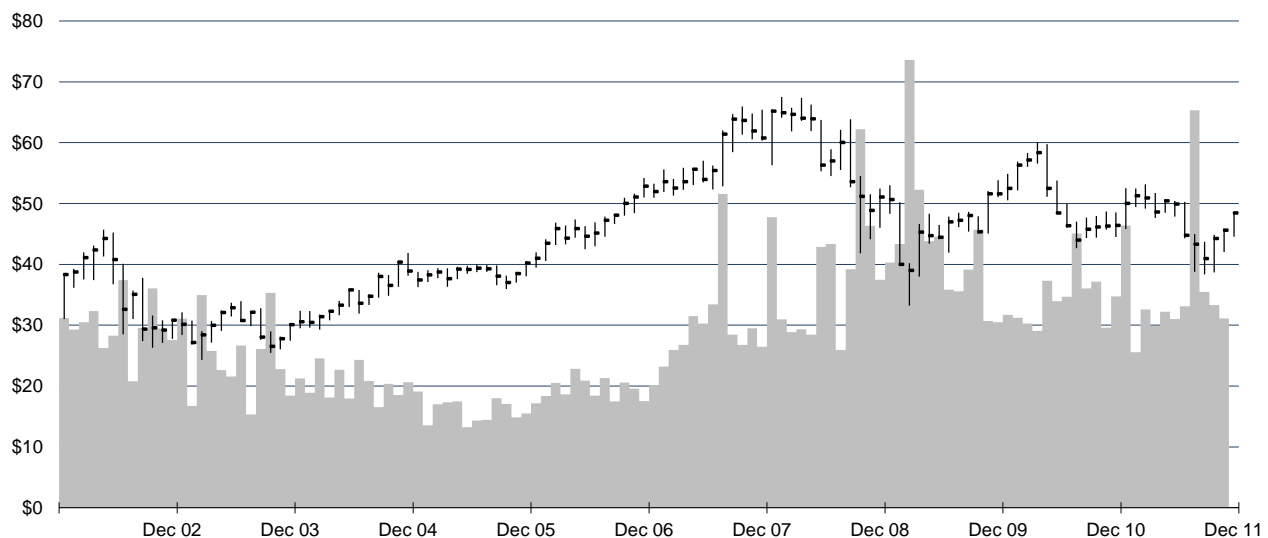
Waltham MA, 781-522-3000

www.raytheon.com

Trading Data	Consensus EPS Estimates			Valuation
Price: \$48.37 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10
52-week range: \$38.35–\$53.12	<u>Latest</u>	<u>Ago</u>	<u>Ests</u>	P/E FYE 12/31/11
Market value: \$16.7 billion	This quarter	\$1.34	\$1.34	21
Enterprise value: \$17.9 billion	Next quarter	1.21	1.21	10
Shares outstanding: 346.1 million	FYE 12/31/11	5.04	5.04	21
	FYE 12/30/12	5.22	5.22	22
	FYE 12/30/13	5.79	5.79	14
	LT growth	9.0%	9.0%	4
Ownership Data	EPS Surprise	Actual	Estimate	Greenblatt Criteria
Insider ownership: <1%	10/27/11	\$1.43	\$1.33	LTM EBIT yield
Insider buys (last six months): 7				LTM pre-tax ROC
Insider sales (last six months): 5				
Institutional ownership: 76%				

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME	FQE	FQE
	2004	2005	2006	2007	2008	2009	2010	10/2/11	9/26/10	10/2/11
Revenue	17,825	18,491	19,707	21,301	23,174	24,881	25,183	25,301	6,272	6,132
Gross profit	2,916	3,277	3,730	4,290	4,685	5,134	4,880	5,123	1,297	1,306
R&D	413	430	464	502	517	565	625	597	154	153
Adjusted operating income	1,301	1,619	1,944	2,354	2,620	3,042	2,607	2,801	749	725
Adjusted pretax income	615	1,366	1,791	2,251	2,522	2,930	2,432	2,584	726	675
Adjusted net income	506	898	1,187	1,693	1,674	1,936	1,804	1,820	640	500
Adjusted diluted EPS	1.15	2.01	2.69	3.86	4.01	4.96	4.84	4.96	1.72	1.43
Dividend	0.80	0.88	0.96	1.02	1.12	1.24	1.50	1.67	0.38	0.43
Shares out (avg)	438	447	442	439	417	390	373	367	372	351
Cash from operations	2,071	2,515	2,743	1,198	2,015	2,725	1,942	1,654	418	861
<i>... % of revenue:</i>										
Gross profit	16.4%	17.7%	18.9%	20.1%	20.2%	20.6%	19.4%	20.2%	20.7%	21.3%
R&D	2.3%	2.3%	2.4%	2.4%	2.2%	2.3%	2.5%	2.4%	2.5%	2.5%
Adjusted operating income	7.3%	8.8%	9.9%	11.1%	11.3%	12.2%	10.4%	11.1%	11.9%	11.8%
Cash, investments	556	3,575	5,035	2,655	2,259	2,642	3,638	2,405	2,149	2,405
Inventory	5,259	3,901	3,976	4,207	4,118	4,717	4,777	5,410	4,822	5,410
LT investments	620	456	360	329	163	113	149	149	149	149
PP&E, net	2,738	2,136	2,025	2,058	2,024	2,001	2,003	1,958	1,951	1,958
Tangible assets	11,972	12,268	13,569	11,153	10,989	11,156	11,866	11,652	10,928	11,652
Payables	867	813	910	1,141	1,201	1,397	1,538	1,349	1,413	1,349
Short-term debt	516	487	687	0	0	0	0	0	0	0
Long-term debt	4,637	3,969	3,278	2,268	2,309	2,329	3,610	3,612	2,326	3,612
Debt	5,153	4,456	3,965	2,268	2,309	2,329	3,610	3,612	2,326	3,612
Common equity	10,551	10,709	11,101	12,542	9,087	9,827	9,754	10,255	10,100	10,255
Tangible equity	-1,630	-1,404	-821	414	-3,058	-2,624	-2,802	-2,213	-1,824	-2,213
EBIT/capital employed	28%	61%	>100%	>100%	>100%	>100%	>100%	>100%	>100%	>100%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Raytheon is a defense contractor with 72,000 employees.

INVESTMENT HIGHLIGHTS

- **One of the largest U.S. defense contractors.** The U.S. government represented 88% of 2010 revenue, with the vast majority from the Dept. of Defense.
- **Involved in 15,000+ contracts,** with no single contract accounting for more than 5% of revenue in 2010. Notable contracts include the Zumwalt Class Destroyer, Patriot Air Missile Defense System and the Tomahawk Cruise Missile.
- **\$35 billion backlog (down 2% y-y) represents 1.4x TTM revenue.** 3Q bookings were \$6.9 billion (up 15% y-y) with a book-to-bill ratio of 1.1x.
- **Guiding for EPS of \$4.94-5.04 in 2011 (10% yield)** on revenue of \$25.0-25.3 billion. EPS guidance includes a negative \$0.61 impact due to pension items. Operating cash flow guidance is \$2.1-2.3 billion.
- **Announced new \$2.0 billion share buyback in September.** Raytheon has been aggressively buying back shares over the years.
- **Chairman & CEO Swanson (62)** has been with the company since 1972.

INVESTMENT RISKS & CONCERNS

- **U.S. defense funding pressures.** DoD funding is likely to trail historical growth rates given federal budget pressures. The DoD also plans to in-source certain work now performed by private contractors.
- **Material pension liabilities.** The projected benefit obligation for pension plans was ~\$19 billion compared to plan assets of ~\$15 billion at yearend 2010. Raytheon made required contributions of \$1.1 billion YTD under the Pension Protection Act rules.
- **Riskier fixed-price contracts represent ~50% of backlog.** The remainder consists of cost reimbursement contracts, which provide for the reimbursement of allowable costs plus payment of a fee. 38% of backlog is based on orders for which funding has not been appropriated by the customer.
- **\$1.2 billion of net debt** as of September 30.

POTENTIAL CATALYSTS

- U.S. President's defense budget request for FY13 in February 2012
- Additional share repurchases based on the new \$2.0 billion share buyback plan

MAJOR HOLDERS

Insiders <1% | Barrow, Hanley 6% | Vanguard 4% | State Street 4% | Franklin 4% | BlackRock 3% | Wellington 2%

SELECTED OPERATING DATA ¹

FYE December 31	2006	2007	2008	2009	2010	YTD 10/2/11
Δ backlog (end)	7%	8%	6%	-5%	-6%	1%
Δ bookings	8%	14%	5%	-7%	-2%	5%
Δ revenue	7%	8%	9%	7%	1%	1%
Δ BV per share	5%	14%	-24%	16%	4%	8%
Backlog (end) (\$bn)	33.8	36.6	38.9	36.9	34.6	35.0
Bookings (\$bn)	22.4	25.5	26.8	25.1	24.4	19.4
Revenue (\$bn)	19.7	21.3	23.2	24.9	25.2	18.4
<i>% of revenue by geography:</i>						
U.S.	81%	80%	80%	79%	77%	n/a
Asia Pacific	9%	9%	9%	10%	11%	n/a
Europe and other	10%	11%	11%	11%	12%	n/a
<i>% of revenue by segment (ex. corporate --8%):</i>						
Integrated defense	21%	22%	22%	22%	22%	20%
Intelligence & information	13%	13%	14%	13%	11%	12%
Missile	23%	24%	23%	22%	23%	22%
Network centric	18%	20%	19%	19%	20%	18%
Space & airborne	21%	20%	18%	18%	19%	21%
Technical services	11%	10%	11%	13%	14%	13%
<i>EBIT margin by segment (ex. corporate):</i>						
Integrated defense	16%	18%	17%	16%	16%	16%
Intelligence & information	9%	9%	8%	8%	-5%	4%
Missile	11%	11%	11%	11%	11%	12%
Network centric	11%	12%	12%	14%	14%	15%
Space and airborne	14%	13%	13%	14%	14%	13%
Technical services	7%	6%	7%	7%	9%	9%
<i>Selected items as % of revenue:</i>						
Gross profit	19%	20%	20%	21%	19%	20%
R&D	2%	2%	2%	2%	2%	2%
EBIT (GAAP)	10%	11%	11%	12%	10%	11%
Net income (GAAP)	7%	12%	7%	8%	7%	7%
Net income (adjusted) ¹	6%	8%	7%	8%	7%	7%
D&A	2%	2%	2%	2%	2%	2%
Capex	2%	2%	2%	1%	2%	1%
Industry gross margin ²	26%	26%	23%	23%	24%	24%
Industry EBIT margin ²	8%	9%	7%	7%	7%	4%
Tangible assets (\$bn)	13.6	11.2	11.0	11.2	11.9	11.7
<i>Selected items as % of tangible assets:</i>						
Cash, investments	37%	24%	21%	24%	31%	21%
Inventory	29%	38%	37%	42%	40%	46%
Debt	29%	20%	21%	21%	30%	31%
Tangible equity	-6%	4%	-28%	-24%	-24%	-19%
Trailing P/E (end)	20x	16x	13x	11x	10x	11x
Forward P/E (end)	14x	15x	10x	11x	9x	8x
Diluted EPS (cont.) (\$)	2.63	3.78	3.92	4.89	4.79	3.71
Dividends per share (\$)	0.96	1.02	1.12	1.24	1.50	1.29
Shares out (avg) (mn)	442	439	417	390	373	354
Δ shares out (avg)	-1%	-1%	-5%	-6%	-5%	-6%

¹ Adjusted for items of \$96 million in 2006, \$885 million in 2007, -\$2.0 million in 2008, -\$1.0 million in 2009, \$36 million in 2010, and \$2.0 million YTD 10/2/11.

² Aerospace and Defense industry median.

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆

THE BOTTOM LINE

The share price of defense contractor Raytheon has been under pressure due to U.S. budget deficits and related uncertainty over future defense funding levels. Raytheon's diverse portfolio of 15,000+ contracts (with no single contract accounting for more than 5% of revenue) and ongoing global security risks, however, should mitigate any contract losses in the short term. Longer term, Raytheon should benefit from its strong position in a fundamentally attractive industry with high barriers to entry. With shares trading at an 8% trailing FCF yield (after pension-related payments), we find Raytheon modestly undervalued.


RAYTHEON – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS

Conservative	Base Case	Aggressive
<i>Valuation methodology:</i> Based on revenue for the twelve months ended October 2, 2011 and average EBIT margin for past seven fiscal years	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012	<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended October 2, 2011
▼	▼	▼
TTM net sales: \$25 billion <i>multiplied by</i>	Consensus FY12 EPS estimate: \$5.22 <i>minus</i>	Operating cash flow: \$1.7 billion <i>minus</i>
Average 7-year EBIT margin: 10.1% <i>equals</i>	Assumed haircut to FY12 consensus EPS estimate: 5% * \$5.22 <i>equals</i>	Capex: \$430 million <i>equals</i>
Estimated EBIT: \$2.6 billion <i>multiplied by</i>	Revised FY12 EPS estimate: \$4.96 <i>multiplied by</i>	Free cash flow: \$1.2 billion <i>divided by</i>
Assumed fair value multiple of EBIT: 6x <i>equals</i>	Corresponding industry P/E: 11.9x (*) <i>equals</i>	Industry median FCF yield: 5.2% (*) <i>equals</i>
Estimated fair enterprise value of Raytheon: \$15 billion <i>plus</i>	Industry multiple-implied fair value: \$20 billion (\$59 per share) <i>multiplied by</i>	Industry FCF yield-implied fair value: \$24 billion (\$69 per share) <i>multiplied by</i>
Cash, ST investments: \$2.4 billion <i>minus</i>	Assumed RTN multiple as a percentage of the industry multiple: 110% (13.1x fair value P/E multiple) <i>equals</i>	Assumed required FCF yield as a percentage of the industry FCF yield: 95% (4.9% required FCF yield) <i>equals</i>
Total debt: \$3.6 billion <i>equals</i>		
Estimated fair value of the common equity of Raytheon: \$14 billion, or \$41 per share (based on 350 million shares out) <i>10% downside from the recent stock price (\$46 per share)</i>	Estimated fair value of the common equity of Raytheon: \$22 billion (\$65 per share) (based on 350 million shares out) <i>43% upside to the recent stock price (\$46 per share)</i>	Estimated fair value of the common equity of Raytheon: \$25 billion, or \$72 per share (based on 350 million shares out) <i>59% upside to the recent stock price (\$46 per share)</i>

(*) Represents Aerospace and Defense industry median multiple. Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

RAYTHEON – ANALYSIS OF SELECTED COMPARABLE COMPANIES

<i>(Click to visit relevant websites)</i>	Trading Data					Public Market Valuation						Operating Performance				
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/ MV	TTM FCF Yield	EPS Yield			LTM Rev./ EV	Rev./ Empl. (\$000)	Δ Rev.		% TTM Rev.	
		Low	High					This FY	Next FY	Rev.			Empl.	TMM	Last Q	Gross Profit
Boeing / BA	71	-59%	52%	53	56	n/m	1%	7%	6%	7%	118%	410	0%	4%	19%	8%
General Dynamics / GD	63	-44%	51%	23	25	n/m	10%	11%	11%	12%	128%	365	1%	-2%	19%	12%
Lockheed Martin / LMT	77	-44%	56%	25	27	n/m	9%	10%	10%	10%	172%	374	-15%	7%	8%	9%
Northrop Grumman / NOC	56	-45%	39%	15	16	n/m	11%	11%	13%	12%	141%	275	-9%	-6%	23%	14%
Textron / TXT	18	-80%	318%	5	9	34%	10%	6%	6%	9%	118%	348	9%	14%	17%	6%
United Technologies / UTX	72	-48%	27%	66	71	1%	8%	7%	8%	8%	82%	279	9%	9%	27%	14%
				Median		n/m	1%	7%	6%	7%	118%	410	0%	4%	19%	8%
Raytheon / RTN	46	-36%	48%	16	17	n/m	8%	11%	11%	11%	149%	351	1%	-2%	20%	11%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change
 Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items
 Source: Company and market data, The Manual of Ideas analysis.

RAYTHEON – 2011 MANAGEMENT GUIDANCE

	Current	Prior*
Net Sales (\$B)	25.0 - 25.3**	25.5 - 25.9
FAS/CAS Adjustment (\$M)	(338)**(1)	(365)
Interest Expense, Net (\$M)	(155) - (165)	(155) - (165)
Diluted Shares (M)	353 - 354**	353 - 359
Effective Tax Rate	~28.6%**	~28.3%
EPS from Continuing Operations	\$4.94 - \$5.04**	\$4.82 - \$4.97
Adjusted EPS⁽²⁾	\$5.55 - \$5.65**	\$5.50 - \$5.65
Operating Cash Flow from Cont. Ops. (\$B)	2.1 - 2.3	2.1 - 2.3
ROIC (%)⁽²⁾	13.2 - 13.6**	13.1 - 13.6

* As of July 28, 2011

** Denotes changes from prior guidance

Source: [Company presentation dated October 26, 2011](#).

¹ Reflects \$27 million or \$0.05 per share reduction in FAS/CAS Adjustment due to the annual update in Q3 2011 of our actuarial estimates for pension and other postretirement benefit plans.

² Adjusted EPS is EPS from continuing operations attributable to Raytheon common stockholders excluding the EPS impact of the FAS/CAS Adjustment and, from time to time, certain other items. In addition to the FAS/CAS Adjustment, Adjusted EPS and ROIC exclude the impact of the Q1 2011 UKBA LOC Adjustment and the Q3 2011 favorable tax settlement and interest.

RAYTHEON – 2011 MANAGEMENT GUIDANCE, BY BUSINESS

	Current**	Prior *	Current	Prior *
	Net Sales (\$B)	Net Sales (\$B)	Op. Margins (%)	Op. Margins (%)
IDS	4.9 - 5.0	5.1 - 5.2	16.2 - 16.4%	16.2 - 16.4%
IIS	3.0 - 3.1	3.0 - 3.2	5.0 - 5.2%	5.0 - 5.2%
MS	5.7 - 5.8	5.9 - 6.0	11.5 - 11.7%**	11.1 - 11.5%
NCS	4.6 - 4.7	4.9 - 5.0	14.1 - 14.3%**	13.6 - 14.0%
SAS	5.1 - 5.2	4.9 - 5.1	13.0 - 13.2%**	13.3 - 13.5%
TS	3.3 - 3.4	3.5 - 3.6	8.5 - 8.7%**	7.6 - 8.1%
FAS/CAS Adjustment	-	-	(338)**	(365)
Corp./Elims.	(1.8) - (1.9)	(2.0) - (2.1)	(\$210M)-(\$230M)**	(\$260M)-(\$265M)
Total Cont. Ops.	\$25.0 - \$25.3	\$25.5 - \$25.9	10.8 - 11.0%**	10.3 - 10.7%
UKBA LOC Adjustment			0.3%	0.3%
FAS/CAS Adjustment			1.3%**	1.4%
Adjusted Operating Margin⁽¹⁾			12.4 - 12.6%**	12.0 - 12.4%

* As of July 28, 2011

** Change from prior guidance

RAYTHEON – CALCULATION OF RETURN ON INVESTED CAPITAL (ROIC) (\$ in millions)

	2010	2011 Outlook
Income from cont. ops.	\$1,843	} Combined
FAS/CAS Adjustment, after-tax*	122	
Q2 2010 UK Border Agency program adjustment, after-tax**	284	
Q3 2010 favorable tax settlement	(170)	
2010 early debt retirement make-whole provision, after-tax*	47	
Net interest expense, after-tax*	72	
Lease expense, after-tax*	67	
Return	\$2,265	\$2,180-2,215
Net debt***	(171)	} Combined
Equity less investment in disc. ops.	9,944	
Lease exp. X 8, plus fin. guarantees	2,890	
Pension & PRB liability, net of tax	3,323	
Invested capital from cont. ops.****	\$15,986	\$16,530-16,330
ROIC	14.2%	13.2-13.6%

* Calculated utilizing the federal statutory rate of 35%

** Calculated utilizing the UK statutory tax rate of 28%

*** Net debt is defined as total debt less cash and cash equivalents and is calculated using a 2-point average

**** Calculated using a 2 point average

RAYTHEON – ADJUSTED EPS NON-GAAP RECONCILIATION

(In millions, except per share amounts)

	Three Months Ended		Nine Months Ended		2011 Current Guidance		2011 Prior Guidance	
	2011	2010	2011	2010	Low end of range	High end of range	Low end of range	High end of range
Diluted earnings per share from continuing operations attributable to Raytheon Company common stockholders	\$ 1.43	\$ 1.71	\$ 3.71	\$ 3.43	\$ 4.94	\$ 5.04	\$ 4.82	\$ 4.97
Per share impact of the FAS/CAS Adjustment (A)	0.14	0.09	0.46	0.24	0.62	0.62	0.66	0.67
Per share impact of the UK Border Agency (UKBA) Program Adjustment (B)	-	-	-	0.72	-	-	-	-
Per share impact of the UKBA LOC Adjustment (C)	-	-	0.17	-	0.17	0.17	0.16	0.16
Per share impact of the favorable tax settlements (D)	(0.17)	(0.45)	(0.17)	(0.45)	(0.17)	(0.17)	(0.15)	(0.16)
Adjusted EPS (4), (5)	\$ 1.39	\$ 1.35	\$ 4.17	\$ 3.94	\$ 5.55	\$ 5.65	\$ 5.50	\$ 5.65
(A) FAS/CAS Adjustment	\$ 75	\$ 52	\$ 254	\$ 138	\$ 338	\$ 338	\$ 365	\$ 365
Tax effect (1)	(26)	(18)	(89)	(48)	(118)	(118)	(128)	(128)
After-tax impact	49	34	165	90	220	220	237	237
Diluted shares	351.4	374.5	356.4	380.7	354.0	353.0	359.0	353.0
Per share impact	\$ 0.14	\$ 0.09	\$ 0.46	\$ 0.24	\$ 0.62	\$ 0.62	\$ 0.66	\$ 0.67
(B) UKBA Program Adjustment	\$ -	\$ -	\$ -	\$ 395	\$ -	\$ -	\$ -	\$ -
Tax effect (2)	-	-	-	(121)	-	-	-	-
After-tax impact	-	-	-	274	-	-	-	-
Diluted shares	-	-	-	380.7	-	-	-	-
Per share impact	\$ -	\$ -	\$ -	\$ 0.72	\$ -	\$ -	\$ -	\$ -
(C) UKBA LOC Adjustment	\$ -	\$ -	\$ 80	\$ -	\$ 80	\$ 80	\$ 80	\$ 80
Tax effect (3)	-	-	(21)	-	(20)	(20)	(22)	(22)
After-tax impact	-	-	59	-	60	60	58	58
Diluted shares	-	-	356.4	-	354.0	353.0	359.0	353.0
Per share impact	\$ -	\$ -	\$ 0.17	\$ -	\$ 0.17	\$ 0.17	\$ 0.16	\$ 0.16
(D) Favorable tax settlements	\$ (60)	\$ (170)	\$ (60)	\$ (170)	\$ (60)	\$ (60)	\$ (55)	\$ (55)
Diluted shares	351.4	374.5	356.4	380.7	354.0	353.0	359.0	353.0
Per share impact	\$ (0.17)	\$ (0.45)	\$ (0.17)	\$ (0.45)	\$ (0.17)	\$ (0.17)	\$ (0.15)	\$ (0.16)

Source for above charts: [Company presentation dated October 26, 2011.](#)

Sotheby's (BID) – Royce, Eagle Asset, Marathon

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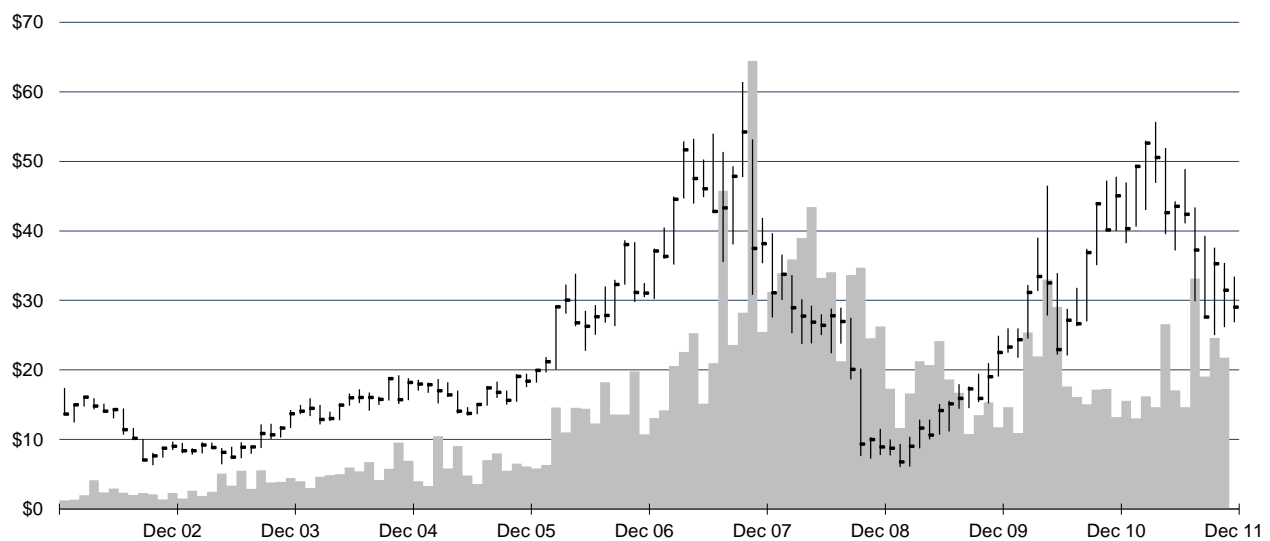
New York NY, 212-606-7000

www.sothebys.com

Trading Data	Consensus EPS Estimates			Valuation
Price: \$29.01 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10
52-week range: \$25.00–\$55.67	Latest	Agg	Ests	P/E FYE 12/31/11
Market value: \$2.0 billion	This quarter	\$1.33	\$1.40	6
Enterprise value: \$1.9 billion	Next quarter	0.01	0.02	5
Shares outstanding: 67.6 million	FYE 12/31/11	2.80	2.90	5
	FYE 12/30/12	2.90	2.94	6
	FYE 12/30/13	3.22	3.20	2
	LT growth	18.0%	18.0%	2
Ownership Data	EPS Surprise			Greenblatt Criteria
Insider ownership: <1%	11/7/11	Actual	Estimate	LTM EBIT yield
Insider buys (last six months): 0		-\$0.44	-\$0.35	LTM pre-tax ROC
Insider sales (last six months): 1				16%
Institutional ownership: 98%				54%

(\$ millions, except per share data)	Operating Performance and Financial Position								LTME	FQE	FQE
	Fiscal Years Ended December 31,										
	2004	2005	2006	2007	2008	2009	2010	2011	9/30/11	9/30/10	9/30/11
Revenue	497	514	665	918	692	485	774	866	866	73	58
Gross profit	442	456	595	788	534	417	689	775	775	54	47
Adjusted operating income	127	123	197	291	74	65	274	314	314	-29	-43
Adjusted pretax income	97	94	166	298	39	30	232	276	276	-39	-54
Adjusted net income	63	66	107	221	19	8	163	207	207	-19	-26
Adjusted diluted EPS	1.01	1.09	1.78	3.46	0.29	0.13	2.46	3.11	3.11	-0.29	-0.39
Dividend	0.00	0.00	0.20	0.50	0.60	0.30	0.20	0.20	0.20	0.05	0.05
Shares out (avg)	62	61	60	64	65	65	66	67	67	66	67
Cash from operations	146	59	270	-37	-176	159	342	347	347	-93	-83
D&A	24	22	23	22	25	22	17	21	21	4	5
Capex	14	15	13	17	74	101	18	19	19	5	4
Free cash flow	133	44	258	-55	-250	58	324	328	328	-97	-87
... % of revenue:											
Gross profit	88.8%	88.7%	89.6%	85.9%	77.2%	86.0%	88.9%	89.5%	89.5%	73.3%	80.9%
Adjusted operating income	25.5%	24.0%	29.6%	31.7%	10.6%	13.5%	35.4%	36.3%	36.3%	-39.9%	-74.4%
D&A	4.8%	4.3%	3.4%	2.4%	3.6%	4.5%	2.1%	2.4%	2.4%	5.3%	7.7%
Capex	2.7%	2.9%	1.9%	1.9%	10.7%	20.8%	2.3%	2.2%	2.2%	6.3%	7.6%
Cash, investments	257	125	347	348	254	322	484	542	542	346	542
Receivables	468	440	542	954	717	446	789	475	475	402	475
LT investments	64	83	80	79	43	117	191	182	182	118	182
Tangible assets	1,211	1,047	1,430	1,986	1,645	1,570	2,164	1,905	1,905	1,545	1,905
Debt	272	306	269	267	458	513	473	463	463	519	463
Tangible equity	222	113	254	570	554	561	757	856	856	633	856
TBV / tangible assets	18%	11%	18%	29%	34%	36%	35%	45%	45%	41%	45%
TBV per share	3.58	1.86	4.21	8.94	8.58	8.60	11.40	12.69	12.69	9.54	12.69
EBIT/capital employed	65%	55%	>100%	>100%	16%	8%	52%	54%	54%	-18%	-33%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Sotheby's, founded in 1744, conducts auctions and private sales of paintings (60% of 2010 auction sales of \$4.3 billion), furniture/decorative arts (29%) and other auction items (11%).

INVESTMENT HIGHLIGHTS

- **High-end art auctioneer operating in a duopoly with Christie's.** Sotheby's global auction market share has ranged from 43-57% since 1989. In 2010, Sotheby's and Christie's had shares of 48% and 49%.*
- **Recent valuation ignores high earning power and value of owned real estate in NYC and London.** At an EV of \$1.9 billion, the implied multiple of TTM EBIT is 6x (~10x avg 2006-10 EBIT). NYC and London premises may be worth \$500+ million.
- **Attractive business model.** Sotheby's principally acts as an agent accepting property on consignment. Revenue derives mainly from charging the buyer a commission ("buyer's premium") on the hammer price. This is a capital-light, high-margin business.
- **Barriers to entry.** The Sotheby's brand evokes trust and facilitates client relationships. It has valuable intellectual capital (100+ years old art provenance databases, extensive appraisal history) and significant logistical know-how (e.g. import/export expertise).
- **Capitalizing on the rise of high net worth individuals globally.** In 2010, 13% of auction sales went to Chinese buyers, up from 3% in 2004.
- **\$80 million of net cash** as of September 30.

INVESTMENT RISKS & CONCERNS

- **Sub-par cash generation and capital allocation.** Sustainable value creation requires a more profit-driven remuneration structure, tighter working capital, and growth initiatives to extend the brand (e.g. licensing). Management runs the business mainly for the benefit of employees, not shareholders.
- **Cyclicality.** Despite attractive long-term trends, the business can be highly volatile. However, the "4D's" (death, divorce, discretion, debt) ensure that demand for Sotheby's services will continue.
- **Potential dilution** from \$168 million of convertible notes, which are convertible at \$34 per share.
- **Recent insider selling.**

POTENTIAL CATALYSTS

- More aggressive return of capital. While the Q4 dividend was raised, buybacks remain off the table.
- February auctions of impressionist art in London.
- Potential acquisition candidate (e.g. for luxury consumer houses such as LVMH or Richemont).

SELECTED OPERATING DATA

FYE December 31	2006	2007	2008	2009	2010	YTD 9/30/11
Δ net auction sales ¹	37%	43%	-9%	-54%	91%	33%
Δ private sales ²	21%	123%	-49%	26%	5%	60%
Δ auction revenue ³	27%	32%	-26%	-27%	63%	23%
Δ revenue	29%	38%	-25%	-30%	60%	20%
Δ employees (end)	4%	4%	5%	-19%	4%	n/a
Revenue (\$mn)	665	918	692	485	774	548
<i>% of revenue by segment:</i>						
Auction ³	95%	91%	89%	93%	94%	94%
Other ⁴	5%	9%	11%	7%	6%	6%
<i>% of revenue by geography:</i>						
U.S.	47%	40%	33%	42%	41%	n/a
U.K.	35%	38%	43%	30%	30%	n/a
Other	18%	21%	24%	28%	29%	n/a
<i>Selected items as % of revenue:</i>						
Gross profit	90%	86%	77%	86%	89%	90%
Salaries & related costs	34%	32%	35%	40%	33%	35%
EBIT	30%	30%	11%	11%	35%	28%
Net income	16%	23%	4%	-1%	21%	18%
D&A	3%	2%	4%	4%	2%	2%
Capex ⁵	2%	2%	11%	21%	2%	2%
<i>Selected Sotheby's auction metrics:</i>						
Auction sales (\$bn) ⁶	3.7	5.4	4.9	2.3	4.3	3.2
Net auction sales (\$bn)	3.2	4.6	4.2	1.9	3.6	2.7
Private sales (\$mn)	328	730	374	473	495	533
Commission margin ⁷	17%	17%	15%	21%	18%	17%
Guarantees (\$mn) ⁸	450	902	626	7	34	78
Principal gain/loss (\$mn) ⁹	14	-22	-83	-6	-2	0
Avg loan portfolio (\$mn) ¹⁰	158	171	186	155	182	217
Free cash flow (\$mn) ¹¹	196	-8	-255	85	215	106
Δ shares out (avg)	1%	4%	1%	1%	2%	2%

¹ Represents hammer (sale) price of items sold at auction, excluding buyers' premium. Buyers' premium is currently calculated as 25% on the first \$50k, 20% on the next \$950k and 12% above \$1 million of the hammer price.
² Represents purchase of items sold in private sales brokered by Sotheby's.
³ Includes auction and private sale commissions as well as gains/losses from principal activities, auction expense recoveries, and catalogue subscriptions.
⁴ Includes revenue from financing, dealer operations, and licensing.
⁵ High 2008/09 capex is mainly due to payments to purchase U.S. premises.
⁶ Auction hammer price plus buyer's premium of Sotheby's auctions.
⁷ Auction commission revenue as a percentage of net auction sales.
⁸ Used mainly as a means of securing consignments of art from sellers.
⁹ Arises mainly from auction guarantees. Excl. impact of commissions, if any.
¹⁰ Consists mainly of loans extended by Sotheby's to art market participants.
¹¹ Includes net funding of loans extended by Sotheby's finance operations.

MAJOR HOLDERS

CEO Ruprecht <1% | Other insiders 1% | Vanguard 6% | Royce 5% | Eagle AM 4% | Marsico 4% | Marathon 4%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆☆

* Based on industry auction sales of \$9.0 billion (up from \$5.3 billion in 2009). Phillips de Pury has the remaining 3% of the market.

THE BOTTOM LINE

Despite a rise in the share price since the 2009 low, Sotheby's remains undervalued relative to earning power and a franchise that is very difficult to replicate. Investors may also be ignoring the value of owned real estate, which alone may justify 30+% of enterprise value. Together with rival Christie's, the business should continue to dominate global art auctions and represent an inflation-resistant "royalty" on the art market. However, sustainable shareholder value creation may prove elusive under current management as much value accrues to employees and potential growth initiatives (e.g. licensing) remain largely unexplored.


SOTHEBY'S – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS

	Conservative	Base Case	Aggressive
Valuation Methodology	Sum-of-the-parts valuation (see detailed assumptions below)		
Value of owned real estate:			
Land and building located at 1334 York Avenue, New York, NY ¹	\$350 million	\$370 million	\$400 million
London, U.K., property located in Mayfair ²	\$100 million	\$150 million	\$200 million
Estimated value of owned real estate	\$450 million	\$520 million	\$600 million
Value of operating business:			
Average EBITDA during 2006-10 ³	\$200 million	\$200 million	\$200 million
Estimated adjustment to reflect sale-and-leaseback of owned property	-\$23 million	-\$26 million	-\$30 million
Adjusted “normalized” EBITDA	\$178 million	\$174 million	\$170 million
Fair value multiple	8x	12x	15x
Estimated enterprise value of the operating business	\$1,420 million	\$2,088 million	\$2,550 million
Value of other assets/liabilities:			
Plus: Net cash (9/30/2011)	\$80 million	\$80 million	\$80 million
Estimated fair value of the equity of Sotheby's⁴	\$1,950 million	\$2,688 million	\$3,230 million
	\$29 per share	\$40 per share	\$48 per share
<i>Implied upside/(downside) to recent stock price (\$29 per share)</i>	0%	37%	65%
Implied valuation metrics based on trailing financials (year to September 2011):			
<i>EV to revenue (\$866 million)</i>	2.2x	3.0x	3.6x
<i>EV to EBIT (\$310 million)</i>	6x	8x	10x
<i>MV to net income (\$196 million)</i>	10x	14x	16x
<i>FCF yield (FCF: \$283 million)⁵</i>	15%	11%	9%

¹ In February 2009, Sotheby's purchased the York property from RFR Holding Corp. for \$370 million. The York property is home to Sotheby's sole North American auction salesroom and its principal North American exhibition space, as well as its corporate headquarters.

² Sotheby's U.K. operations are centered at New Bond Street, London, where the main salesrooms, exhibition space and administrative offices are located. Almost the entire New Bond Street complex is either owned or held under various freehold and long-term lease arrangements. The total net Book Value of New Bond Street premises is carried at \$46 million but is likely worth multiples of that. Sotheby's owns ~97,000 square feet and has another 200,000+ square feet of space under various ownership arrangements, including long-term leaseholds.

³ We use EBITDA as D&A largely reflects depreciation of owned PP&E. EBITDA approximates EBIT (ongoing capex needs of the business are minimal).

⁴ Based on 68 million shares outstanding.

⁵ Adjusted net cash from operations less capex. Reported net cash from operations is adjusted to include the funding/collections of notes receivable.

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

SOTHEBY'S – CALCULATION OF ADJUSTED EBITDA

Reference: Page 18	Year Ended December 31,											
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
GAAP Operating Income (Loss)	\$274.0	\$53.1	\$74.4	\$275.8	\$197.2	\$123.3	\$126.7	(\$7.4)	(\$61.2)	(\$55.3)	(\$248.5)	\$46.1
Adjustments:												
Depreciation and amortization	16.5	21.6	24.8	22.1	22.8	22.1	23.8	25.3	21.8	23.3	22.2	16.2
Other income (expense)	3.0	5.3	(3.0)	1.4	(4.2)	(1.5)	0.3	0.7	0.9	(0.1)	(0.6)	(0.8)
Insurance recovery	-	-	-	20.0	-	-	-	-	-	-	-	-
Extinguishment of debt (net)	(6.3)	1.0	5.4	-	-	-	-	-	-	-	-	-
Write-off of credit facility amendment fees	-	(3.8)	-	-	-	-	-	-	-	-	-	-
Equity in earnings of investees (pre-tax)	1.1	0.4	3.9	4.3	2.7	1.3	-	-	-	-	-	-
EBITDA	\$288.3	\$77.7	\$105.6	\$323.6	\$218.4	\$145.1	\$150.8	\$18.6	(\$38.5)	(\$32.0)	(\$226.9)	\$61.5
Adjustments:												
Retention costs (a)	-	-	-	-	-	-	0.3	8.5	22.6	19.8	3.4	-
Net restructuring charges (b)	(0.1)	12.2	4.3	-	-	-	0.1	5.0	2.0	16.5	12.6	-
Antitrust related matters (c)	-	-	(18.4)	-	-	-	1.9	3.1	41.0	2.5	203.1	-
License fee revenue (d)	-	-	-	-	-	-	(43.6)	-	-	-	-	-
Impairment loss (e)	-	-	13.2	15.0	-	-	-	-	-	-	-	-
Gain on extinguishment of debt (net)	-	-	(5.4)	-	-	-	-	-	-	-	-	-
Gain on sale of land and buildings	-	-	-	(4.8)	-	-	-	-	-	-	-	-
Insurance recovery	-	-	-	(20.0)	-	-	-	-	-	-	-	-
Extinguishment of debt (net)	6.3	(1.0)	-	-	-	-	-	-	-	-	-	-
Sothebys.com EBITDA	-	-	-	-	-	-	-	2.0	3.9	12.7	44.9	40.8
Adjusted EBITDA	\$294.5	\$88.8	\$99.3	\$313.8	\$218.4	\$145.1	\$109.5	\$37.2	\$30.9	\$19.4	\$37.1	\$102.2

(a) Consists of costs related to the Company's employee retention programs.

(b) Consists of charges related to the Company restructuring plans.

(c) Consists of charges and a benefit in 2008 related to the investigation by the Antitrust Division of the United States Department of Justice, other governmental investigations and the related civil antitrust litigation.

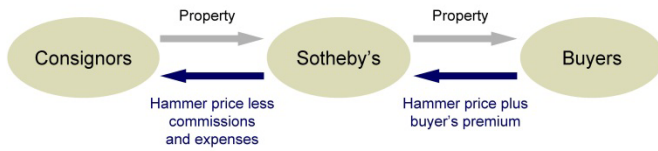
(d) Represents the one-time, upfront revenue and associated expenses relating to the license agreement entered into in conjunction with the sale of the Company's real estate brokerage business.

(e) Impairment charge of intangible assets and goodwill of Noortman Master Paintings.

Source: Company presentation dated August 15, 2011.

SOTHEBY'S – THE AUCTION BUSINESS MODEL

General Auction Transaction



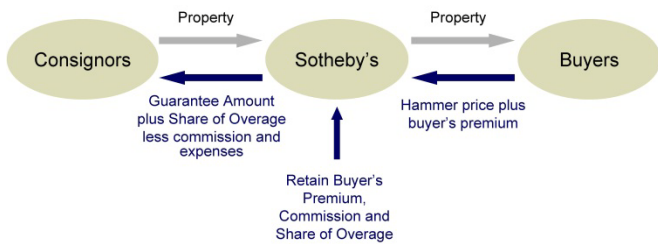
“Agency Business”

Hammer Price of \$1,100,000

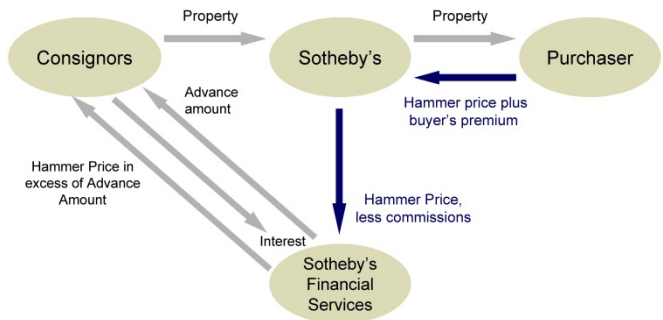
Sotheby's Revenue

• Buyers' Premium			
– 25% x \$50,000	=	\$12,500	
– 20% x \$950,000	=	190,000	
– 12% x \$100,000	=	12,000	
• Vendors' Commission			
– 0.5% x \$1,100,000	=	5,500	
• Recoverables	=	<u>3,000</u>	
• Total Revenue	=	<u>\$223,000</u>	20% of hammer price

Guarantee Transaction



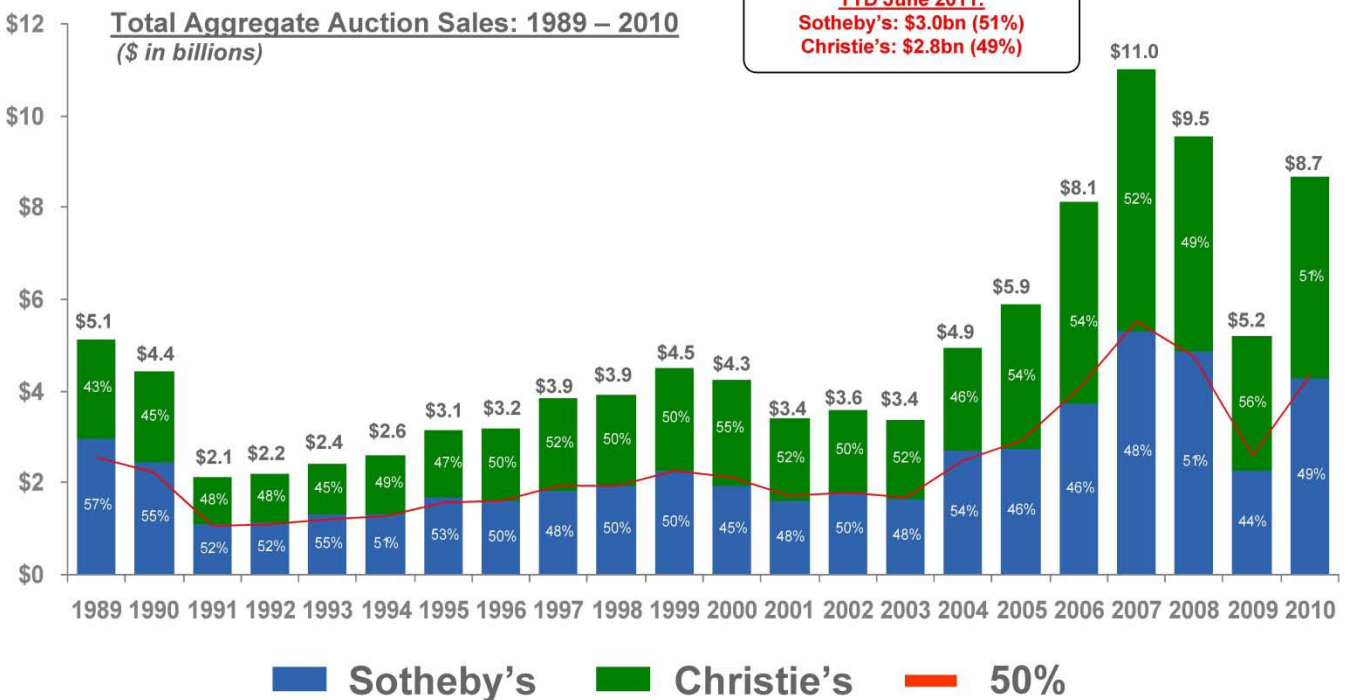
Consignor Advance Transaction



Source: Company presentation dated August 15, 2011.

SOTHEBY'S – HISTORICAL AUCTION MARKET SHARE

Total Aggregate Auction Sales: 1989 – 2010 (\$ in billions)



YTD June 2011:
Sotheby's: \$3.0bn (51%)
Christie's: \$2.8bn (49%)

Source: Company presentation dated August 15, 2011.



Telefonica (TEF) – Franklin, Brandes, RenTech, Fairholme

Services: Communications Services

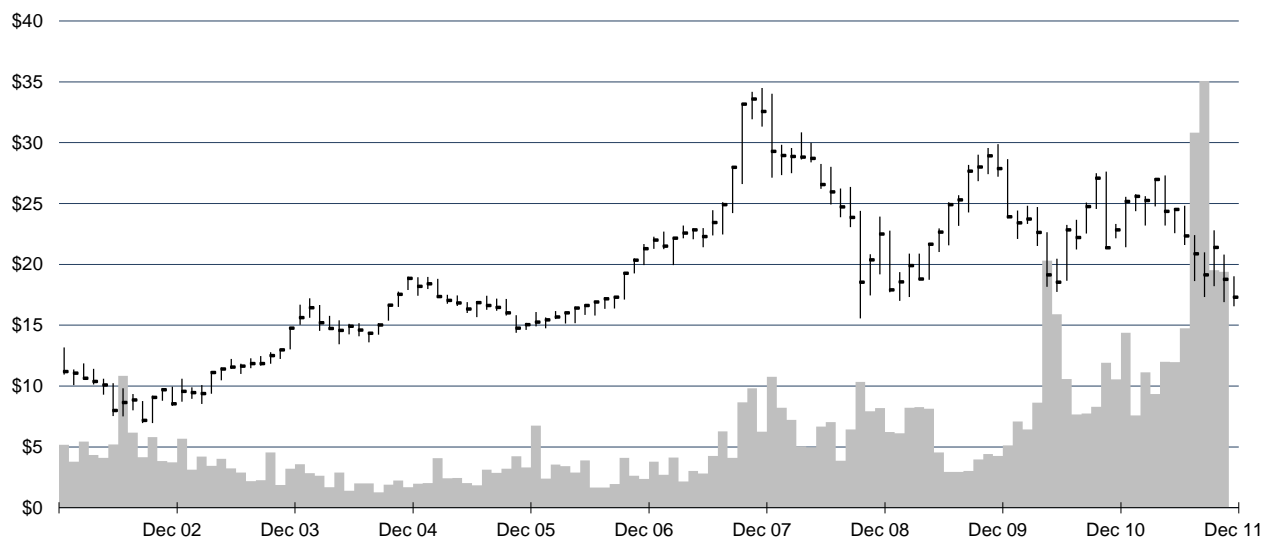
Madrid MA, Spain, 34-91-482-8548

www.telefonica.com

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$17.27 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10	2x
52-week range: \$16.56–\$27.31	<u>Latest</u>	<u>Ago</u>	<u>Ests</u>	P/E FYE 12/31/11	10x
Market value: \$79.1 billion	This quarter	n/a	n/a	P/E FYE 12/30/12	8x
Enterprise value: \$151.3 billion	Next quarter	n/a	n/a	P/E FYE 12/30/13	n/a
Shares outstanding: 4,579.3 million	FYE 12/31/11	1.73	2.24	EV/ LTM revenue	1.8x
	FYE 12/30/12	2.20	2.34	EV/ LTM EBIT	12x
	FYE 12/30/13	n/a	n/a	P / tangible book	n/m
	LT growth	-0.9%	-0.1%		
	<u>EPS Surprise</u>	<u>Actual</u>	<u>Estimate</u>		
	7/28/11	n/a	n/a		
				Greenblatt Criteria	
				LTM EBIT yield	8%
				LTM pre-tax ROC	41%

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended December 31,							LTME 9/30/11	FQE 9/30/10	FQE 9/30/11
	2004	2005	2006	2007	2008	2009	2010			
Revenue	38,744	48,589	68,758	73,359	75,315	73,736	78,943	82,320	19,791	20,518
Gross profit	28,896	35,592	47,145	50,085	52,156	52,008	56,059	56,657	14,121	14,664
Adjusted operating income	8,287	10,870	12,246	17,401	18,031	17,738	21,412	12,465	9,309	456
Adjusted pretax income	6,100	8,587	8,792	13,887	14,187	13,501	18,068	8,270	8,368	-650
Adjusted net income	3,125	5,618	6,027	11,576	9,868	10,107	13,215	5,299	6,569	-554
Adjusted diluted EPS	1.88	3.46	3.78	7.30	6.37	6.66	8.77	3.52	4.37	-0.37
Dividend	0.90	0.97	2.34	2.92	3.90	3.90	5.07	2.54	0.00	0.00
Shares out (avg)	1,663	1,624	1,593	1,586	1,549	1,518	1,507	1,506	1,505	1,503
Cash from operations	13,168	14,478	20,034	20,212	21,272	20,988	21,669	22,172	5,887	6,626
D&A	7,333	8,699	12,613	12,264	11,758	11,641	12,092	13,144	2,983	3,377
Capex	4,534	5,749	9,011	9,454	10,254	9,869	11,625	11,141	2,689	2,885
Free cash flow	8,634	8,729	11,023	10,758	11,018	11,119	10,045	11,031	3,197	3,741
... % of revenue:										
Gross profit	74.6%	73.3%	68.6%	68.3%	69.3%	70.5%	71.0%	68.8%	71.3%	71.5%
Adjusted operating income	21.4%	22.4%	17.8%	23.7%	23.9%	24.1%	27.1%	15.1%	47.0%	2.2%
D&A	18.9%	17.9%	18.3%	16.7%	15.6%	15.8%	15.3%	16.0%	15.1%	16.5%
Capex	11.7%	11.8%	13.1%	12.9%	13.6%	13.4%	14.7%	13.5%	13.6%	14.1%
Cash, investments	4,511	4,849	7,112	8,691	8,439	14,322	7,531	7,290	8,287	7,290
Receivables	9,084	11,651	14,583	12,994	12,471	14,166	16,248	17,505	17,989	17,505
LT investments	2,184	2,208	1,248	4,155	3,611	6,422	6,781	6,781	6,781	6,781
PP&E, net	30,146	36,384	44,045	42,190	39,701	41,591	46,527	44,216	44,529	44,216
Tangible assets	62,980	73,289	86,414	88,101	85,331	94,529	97,698	95,361	97,632	95,361
Short-term debt	13,271	12,005	10,893	9,080	10,528	11,937	12,665	9,474	12,459	9,474
Long-term debt	22,736	32,712	65,866	61,013	58,603	61,877	66,750	70,041	66,667	70,041
Tangible equity	-1,539	-5,269	-32,908	-23,350	-22,113	-17,778	-39,195	-44,168	-41,816	-44,168
EBIT/capital employed	30%	36%	35%	49%	54%	52%	61%	41%	>100%	6%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Telefonica is a telecommunications services provider.

INVESTMENT HIGHLIGHTS

- **One of the world's largest telcos with 300 million accesses***. 65% of "accesses" are in Latin America (nearly half of which Brazil), 16% in Spain, and 19% in other European countries (mainly UK, Germany).
- **Focuses on mobile services (77% of all accesses)**. Fixed telephony, Internet/data and wholesale accesses comprise another 14%, 6%, and 2%, respectively.
- **Shares appear undervalued based on a trailing FCF yield of ~15%**, based on €9.1 billion of free cash flow for the year to September 2011. Free cash flow totaled €8.5 billion in 2010.
- **Targets "total shareholder remuneration" of €1.50 per share (11% yield) in 2012**, consisting of €1.30 per share cash dividend and a stock buyback.
- **Latin America is key profit contributor (47% of TTM EBITDA) and growth driver**. Telefonica is the #1 wireless and wireline provider in Brazil via 59%-owned Vivo and 88%-owned Telesp.
- **€5+ billion of investments in associates**, based on yearend 2010 carrying value. Telefonica owns ~7% of Telecom Italia and ~10% of China Unicom.
- **Chairman Cesar Alierta (65) owns four million shares**, worth €50+ million at recent prices.

INVESTMENT RISKS & CONCERNS

- **Competition and weak economies are affecting Telefonica's mature markets**, which contribute 50+% of TTM pro-rata EBITDA. 3Q revenue declined by 7% y-y in Spain and was down 5% y-y in the U.K., on a local currency basis.
- **Significant minority interests in Latin American businesses** due to 41% minority stake in Vivo and 12% minority stake in Telesp. Minority interests are carried at €5.2 billion, but may be worth more.
- **More than 65% of mobile accesses are prepaid**, implying low switching costs. Prepays are ~80% of all mobile accesses in the Latin America segment.
- **Capex requirements may increase** as a result of technological change and competition.
- **€55 billion of net debt (2.5x TTM adjusted EBITDA)**. 2012 debt maturities total €7 billion.

POTENTIAL CATALYSTS

- Execution of €1.50 "total shareholder remuneration" target for 2012 (and beyond)

* "Access" refers to a connection to any of the telecommunications services offered by the company. For example, a customer that has fixed line telephony service and broadband service represents two accesses. Accesses are up 6% y-y.

SELECTED OPERATING DATA ¹

FYE December 31	2006	2007	2008	2009	2010	YTD 9/30/11
Δ revenue	42%	7%	3%	-2%	7%	5%
Δ gross profit	32%	6%	4%	0%	8%	5%
Δ assets	49%	-3%	-6%	8%	20%	-3%
Δ book value	35%	17%	-14%	26%	13%	-20%
Δ BV per share	38%	18%	-12%	29%	13%	-20%
Revenue (\$bn)	70.8	75.6	77.6	76.0	81.3	62.5
<i>% of revenue by segment:</i>						
Spain	37%	36%	35%	34%	30%	28%
Latin America	34%	35%	38%	40%	43%	46%
Europe	25%	26%	25%	24%	25%	25%
Other/eliminations	4%	3%	2%	2%	2%	1%
<i>Revenue growth by segment:</i>						
Spain	-1%	4%	0%	-6%	-5%	-7%
Latin America	27%	11%	10%	4%	13%	18%
Europe	n/m	10%	-1%	-6%	13%	0%
<i>EBITDA margin by segment:</i>						
Spain	44%	46%	50%	50%	47%	25% ¹
Latin America	37%	36%	38%	40%	53% ²	36%
Europe	28%	35%	29%	29%	26%	28%
Other/eliminations	0%	2%	0%	0%	-1%	0%
<i>Selected items as % of revenue:</i>						
Gross profit	69%	68%	69%	71%	71%	71%
EBIT (adjusted) ³	18%	24%	24%	24%	27%	14%
Pretax income (adjusted) ³	13%	19%	19%	18%	23%	9%
Net income (adjusted) ^{3,4}	9%	16%	13%	14%	17%	6%
D&A	18%	17%	16%	16%	15%	16%
Capex	13%	13%	14%	13%	15%	14%
Tangible assets (\$bn)	89.0	90.8	87.9	97.4	100.7	98.2
<i>Selected items as % of tangible assets:</i>						
Cash, investments	8%	10%	10%	15%	8%	8%
Receivables	17%	15%	15%	15%	17%	18%
LT investments	1%	5%	4%	7%	7%	0%
PP&E, net	51%	48%	47%	44%	48%	46%
Payables	21%	13%	12%	10%	12%	12%
ST debt	13%	10%	12%	13%	13%	10%
LT debt	76%	69%	69%	65%	68%	73%
Tangible equity	-38%	-27%	-26%	-19%	-40%	-46%
Trailing P/E (end)	5x	4x	3x	4x	3x	8x
Forward P/E (end)	3x	5x	3x	3x	13x	9x
Diluted EPS (cont.) (\$)	3.90	7.52	6.56	6.85	9.02	2.43
Dividends per share (\$)	2.41	3.01	4.02	4.02	5.22	-
Shares out (avg) (mn)	1,593	1,586	1,549	1,518	1,507	1,506
Δ shares out (avg)	-2%	0%	-2%	-2%	-1%	0%

¹ EBITDA margin would have been 45% excluding personnel restructuring costs.

² EBITDA margin would have been 38%, excl. a gain on sale of fixed assets.

³ Adjusted for unusual items of -\$6.6 million YTD 9/30/11.

⁴ Adjusted for nonrecurring items of \$2.1 billion in 2006.

MAJOR HOLDERS

Insiders <1% | BBVA 6% | La Caixa 5% | Blackrock 4%

RATINGS

VALUE Intrinsic value materially higher than market value? ☆☆☆☆

DOWNSIDE PROTECTION Low risk of permanent loss? ☆☆☆

MANAGEMENT Capable and properly incentivized? ☆☆☆

FINANCIAL STRENGTH Solid balance sheet? ☆☆☆

MOAT Able to sustain high returns on invested capital? ☆☆☆

EARNINGS MOMENTUM Fundamentals improving? ☆☆☆

MACRO Poised to benefit from economic and secular trends? ☆☆☆

THE BOTTOM LINE

Telecommunications services provider Telefonica benefits from exposure to fast-growing Latin America, including the #1 wireless and wireline market position in Brazil. This offsets a still significant dependence on more mature markets such as Spain and the U.K. At the recent share price, investors may be underestimating Telefonica's ability to generate free cash flow as well as management's commitment to return capital to shareholders. Based on a ~15% trailing FCF yield, and a targeted "total shareholder remuneration" of €1.50 per share (11% yield, incl. a 10% dividend yield) in 2012, the shares are attractive.

TELEFONICA – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS



Conservative	Base Case	Aggressive
<i>Valuation methodology:</i> Based on revenue for the twelve months ended September 30, 2011 and average EBIT margin for past seven fiscal years	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012	<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended September 30, 2011
▼	▼	▼
TTM net sales: \$82 billion	Consensus FY12 EPS estimate: \$2.19	Operating cash flow: \$23 billion
<i>multiplied by</i>	<i>minus</i>	<i>minus</i>
Average 7-year EBIT margin: 22.9%	Assumed haircut to FY12 consensus EPS estimate: 5% * \$2.19	Capex: \$11 billion
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated EBIT: \$19 billion	Revised FY12 EPS estimate: \$2.08	Free cash flow: \$11 billion
<i>multiplied by</i>	<i>multiplied by</i>	<i>divided by</i>
Assumed fair value multiple of EBIT: 7x	Corresponding industry P/E: 11.0x (*)	Industry median FCF yield: 5.9% (*)
<i>equals</i>	<i>equals</i>	<i>equals</i>
Estimated fair enterprise value of Telefonica: \$132 billion	Industry multiple-implied fair value: \$105 billion (\$23 per share)	Industry FCF yield-implied fair value: \$192 billion (\$42 per share)
<i>plus</i>	<i>multiplied by</i>	<i>multiplied by</i>
Cash, ST investments: \$7.5 billion	Assumed TEF multiple as a percentage of the industry multiple: 95%	Assumed required FCF yield as a percentage of the industry FCF yield: 110%
<i>minus</i>	<i>(10.5x fair value P/E multiple)</i>	<i>(6.5% required FCF yield)</i>
Total debt: \$82 billion	<i>equals</i>	<i>equals</i>
<i>equals</i>	<i>Estimated fair value of the common equity of Telefonica:</i>	<i>Estimated fair value of the common equity of Telefonica:</i>
\$58 billion, or \$13 per share (based on 4.6 billion shares out)	\$100 billion (\$22 per share) (based on 4.6 billion shares out)	\$175 billion, or \$38 per share (based on 4.6 billion shares out)
<i>24% downside from the recent stock price (\$17 per share)</i>	<i>31% upside to the recent stock price (\$17 per share)</i>	<i>129% upside to the recent stock price (\$17 per share)</i>

(*) Represents Communications Services industry median multiple.
Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

Telefonica shares are cheap on the basis of earnings and free cash flow.

TELEFONICA – MANAGEMENT’S FINANCIAL POLICY

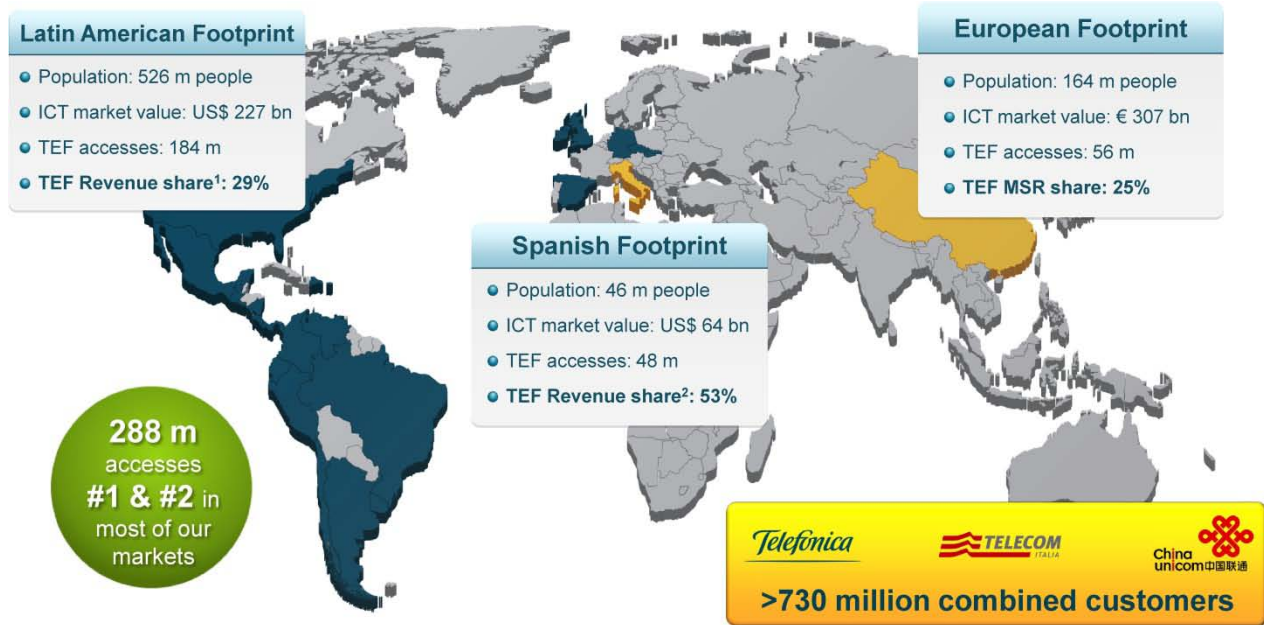
- Shareholder remuneration**
 - € 1.60 DPS for FY 2011E (14.3% y-o-y)
 - € 1.75 DPS minimum target for FY 2012E
 - € 1.75 minimum annual shareholder remuneration beyond 2012
- Solvency Protection**
 - Net debt + cash commitments within the range 2.0 to 2.5x OIBDA
- Predictable M&A strategy**
 - Spectrum auctions in current markets to foster growth
 - Product & Service innovation to further strengthen our growth capabilities

Source: Company presentation dated April 2011.

TELEFONICA – LONG-TERM GUIDANCE

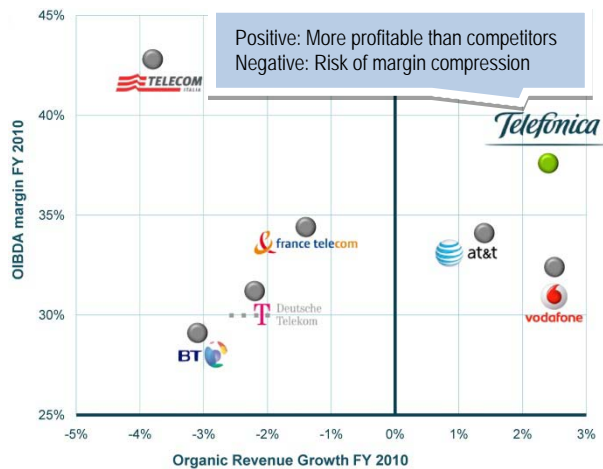
- CAGR 10/13E
Revenues **+1/4%**
- 2011E-2013E
OIBDA margin **Upper 30s**
limited erosion from 2010
- Cumulative 2011E-2013E
CapEx **< €27 bn**

TELEFONICA – GLOBAL PROFILE



Source: Company presentation dated April 2011.

TELEFONICA – ORGANIC GROWTH and OIBDA MARGIN, 2010



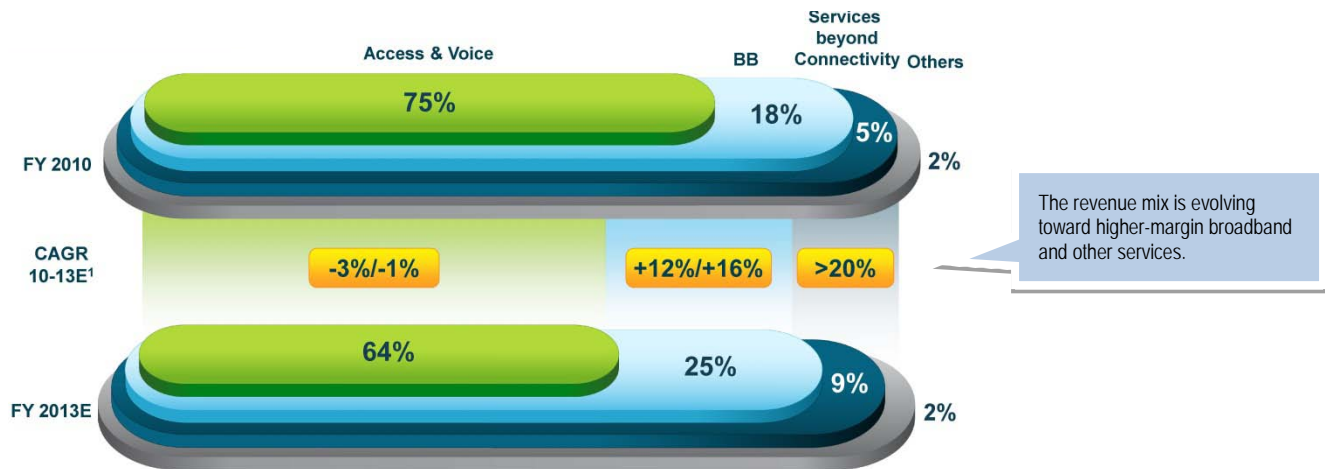
TELEFONICA – PORTIONS OUTSIDE COUNTRY OF ORIGIN

	Accesses	Revenues	OIBDA
vodafone	95%	89%	92%
Telefonica	83%	68%	64%
america movil	68%	59%	46%
france telecom	66%	49%	39%
Deutsche Telekom	60%	60%	51%
TELECOM ITALIA	45%	27%	18%

Source: Company presentation dated April 2011.

A truly international business, a positive for investors seeking exposure to diversified global growth and different currencies

TELEFONICA – EVOLUTION OF REVENUE MIX



Source: Company presentation dated April 2011.

Verisk Analytics (VRSK) – Berkshire, MS, Cap Re, T Rowe, Artisan

Financial: Insurance (Miscellaneous)

Jersey City NJ, 201-469-2000

www.verisk.com

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$39.63 (as of 12/23/11)		Month	# of	P/E FYE 12/31/10	30x
52-week range: \$30.76–\$40.00	<u>Latest</u>	<u>Agg</u>	<u>Ests</u>	P/E FYE 12/31/11	23x
Market value: \$6.5 billion	This quarter	\$0.44	\$0.44	P/E FYE 12/30/12	21x
Enterprise value: n/m	Next quarter	0.45	0.45	P/E FYE 12/30/13	18x
Shares outstanding: 163.5 million	FYE 12/31/11	1.69	1.69	EV/ LTM revenue	n/m
Ownership Data	FYE 12/30/12	1.91	1.90	EV/ LTM EBIT	n/m
Insider ownership: <1%	FYE 12/30/13	2.15	2.17	P / tangible book	n/m
Insider buys (last six months): 10	LT growth	13.5%	13.5%		
Insider sales (last six months): 9				Greenblatt Criteria	
Institutional ownership: 82%	<u>EPS Surprise</u>	<u>Actual</u>	<u>Estimate</u>	LTM EBIT yield	n/m
	11/1/11	\$0.45	\$0.41	LTM pre-tax ROC	n/m

Operating Performance and Financial Position									
(\$ millions, except per share data)	Fiscal Years Ended December 31,						LTME 9/30/11	FQE 9/30/10	FQE 9/30/11
	2005	2006	2007	2008	2009	2010			
Revenue	646	730	802	894	1,027	1,138	1,273	287	340
Gross profit	351	398	445	507	536	675	764	170	203
Adjusted operating income	220	243	272	311	302	440	485	113	131
Adjusted pretax income	213	233	258	279	265	406	437	105	117
Adjusted net income	127	141	155	158	127	242	265	62	71
Adjusted diluted EPS	0.60	0.68	0.77	0.87	0.72	1.36	1.52	0.35	0.43
Shares out (avg)	213	207	201	183	175	178	174	179	164
Cash from operations	174	224	249	248	326	336	418	69	137
D&A	42	55	66	65	71	68	77	16	20
Capex	24	26	33	31	39	39	58	7	14
Free cash flow	150	198	216	217	288	297	360	62	123
... % of revenue:									
Gross profit	54.3%	54.6%	55.5%	56.7%	52.2%	59.3%	60.0%	59.3%	59.5%
Adjusted operating income	34.1%	33.3%	33.9%	34.8%	29.4%	38.7%	38.1%	39.4%	38.6%
D&A	6.5%	7.5%	8.2%	7.3%	6.9%	6.0%	6.0%	5.6%	5.8%
Capex	3.7%	3.5%	4.1%	3.4%	3.8%	3.4%	4.6%	2.3%	4.1%
Cash, investments		107	52	38	77	61	58	61	58
Receivables		101	91	97	106	151	159	151	159
LT investments		12	12	8	7	2	2	2	2
PP&E, net		71	85	83	89	93	110	93	110
Total assets		745	830	929	997	1,217	1,380	1,217	1,380
Tangible assets		380	349	369	398	384	435	384	435
Short-term debt		121	35	219	67	438	166	438	166
Long-term debt		328	403	450	528	402	854	402	854
Common equity		10	-32	-260	-35	-114	-159	-114	-159
Tangible equity		-355	-513	-820	-634	-947	-1,104	-947	-1,104

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Verisk provides data and risk management software.

Verisk, which became public in 2009, is the holding company of Insurance Services Office (ISO). ISO was formed in 1971 to provide services to the P&C insurance industry.

The company operates in two segments:

Risk assessment (55% of TTM EBIT): provides statistical, actuarial and underwriting data for the U.S. P&C insurance industry. Verisk's database includes ~15 billion records, and each year, it is updated with ~3 billion validated new records.

Decision analytics (45% of TTM EBIT): provides software and databases that help customers in insurance, health care and other industries detect fraud, predict and quantify loss. Databases cover 600+ million P&C claims, natural catastrophe data for 50+ countries, data from 13+ million mortgage loan applications, and 312+ million U.S. criminal records.

INVESTMENT HIGHLIGHTS

- **One of the largest providers of data for P&C insurance risks in the U.S.** Verisk helps insurers manage operational risk (80+% of revenue). It also provides software/databases for the mortgage and healthcare sectors (12% and 5% of 2010 revenue).
- **High-margin, capital-light model with significant barriers to entry.** Verisk's databases and specialized software are very difficult to replicate.
- **Latent pricing power a "hidden asset?"** Verisk estimates that customers' ROIs for industry-standard services is 5x and for value-added services 9x - 37x.*
- **Negative working capital** due to subscription sales model (~70% of revenue).
- **Capitalizing on organic growth opportunities** by broadening its data assets and entering new markets.
- **Chairman and CEO Frank Coyne (62)** and other insiders own ~10%.
- **Repurchased 10.2 million shares YTD** at ~\$33.

INVESTMENT RISKS & CONCERNS

- **Valuation.** While Verisk has a wide moat and good earnings growth prospects, a trailing FCF yield of 5% reflects much of the positives.
- **Decision analytics segment growth is shifting the mix toward more transactional revenue,** which may result in more cyclicality and lower margin.
- **\$1.0 billion of net debt** (1.7x TTM EBITDA).

POTENTIAL CATALYSTS

- Potential for above-inflation pricing increases
- Additional share repurchases

* We thank Josh Tarasoff of Greenlea Lane for his thoughts on pricing power and Verisk made at a [presentation at the Value Investing Seminar in July '11](#).

SELECTED OPERATING DATA¹

FYE December 31	2006	2007	2008	2009	2010	YTD 9/30/11
Δ revenue	13%	10%	11%	15%	11%	16% ²
Δ EBIT	11%	12%	14%	-3%	46%	14%
Δ net income	11%	10%	2%	-20%	92%	15%
Revenue (\$mn)	730	802	894	1,027	1,138	980
<i>% of revenue by segment:</i>						
Risk assessment	65%	60%	56%	51%	48%	43%
Decision analytics	35%	40%	44%	49%	52%	57%
<i>Revenue growth by segment:</i>						
Risk assessment	5%	3%	4%	4%	3%	4% ³
Decision analytics	31%	23%	23%	29%	18%	27% ⁴
<i>EBIT margin by segment:⁵</i>						
Risk assessment	38%	40%	40%	37%	46%	48%
Decision analytics	24%	25%	28%	22%	32%	31%
EBIT margin	33%	34%	35%	29%	39%	38%
<i>% of revenue by type:</i>						
Non-transactional ⁶	76%	74%	76%	71%	70%	69%
Transactional ⁷	24%	26%	24%	29%	30%	31%
<i>Selected items as % of revenue:</i>						
Gross profit	55%	55%	57%	52%	59%	60%
EBIT	33%	34%	35%	29%	39%	38%
Net income	19%	19%	18%	12%	21%	21%
Net cash from ops	31%	31%	28%	32%	30%	33%
D&A	8%	8%	7%	7%	6%	6%
Capex	4%	4%	3%	4%	3%	4%
<i>% of risk assessment segment revenue by type:</i>						
Industry-standard info	n/a	64%	65%	65%	65%	66%
Property-specific info	n/a	26%	25%	25%	25%	24%
Statistical data services	n/a	6%	5%	5%	5%	6%
Actuarial services	n/a	4%	4%	4%	4%	4%
<i>% of decision analytics segment revenue by type:</i>						
Fraud detection	65%	54%	55%	54%	54%	49%
Loss prediction	26%	26%	24%	27%	27%	31%
Loss quantification	9%	20%	21%	18%	20%	20%
Δ shares out (avg)	-3%	-3%	-9%	-4%	2%	-7%

¹ Between 2006 and 2010 Verisk acquired 15 businesses, which affects the comparability of above financials.

² Excluding acquisitions, revenue increased 8% y-y.

³ Reflects organic revenue growth.

⁴ Excluding acquisitions, revenue increased 11% y-y.

⁵ Central costs are allocated to the segments.

⁶ Includes annual subscriptions and long-term contracts (3-7 years). Examples include subscriptions that allow customers to access Verisk's standardized coverage language or actuarial services throughout the subscription period.

⁷ Includes databases that allow clients to access fraud detection tools related to a mortgage application, obtain rating/underwriting information to price a policy on a commercial building, or evaluate a medical claim relative to historic claims.

MAJOR HOLDERS

CEO Coyne 4% | Other insiders 5% | GreatBanc Trust 12% | MS 6% | Berkshire Hathaway 4% | Neuberger 4% | Cap Re 4%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆☆

THE BOTTOM LINE

Verisk is a provider of unique databases and analytics software used by the insurance, and increasingly other sectors, to manage operational risk. The company's high-margin, capital-light model derives from proprietary products that are deeply embedded within customers' workflows, and a subscription-based sales model resulting in negative working capital. Another positive is the incentivized management that owns nearly 10% of shares. While we like Verisk's "build it once, sell many times" model and latent pricing power, the recent valuation of 20x trailing free cash flow tempers our enthusiasm.

VERISK ANALYTICS – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS


Conservative	Base Case	Aggressive
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2013	<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending December 30, 2012	<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended September 30, 2011
▼	▼	▼
Consensus FY13 EPS estimate: \$2.15 <i>multiplied by</i>	Consensus FY12 EPS estimate: \$1.91 <i>minus</i>	Operating cash flow: \$420 million <i>minus</i>
Corresponding industry P/E: 11.8x (*) <i>equals</i>	Assumed haircut to FY12 consensus EPS estimate: 0% * \$1.91 <i>equals</i>	Capex: \$58 million <i>equals</i>
Industry multiple-implied fair value: \$4.1 billion (\$25 per share) <i>multiplied by</i>	Revised FY12 EPS estimate: \$1.91 <i>multiplied by</i>	Free cash flow: \$360 million <i>divided by</i>
Assumed VRSK multiple as a percentage of the industry multiple: 125% (14.8x fair value P/E multiple) <i>equals</i>	Corresponding industry P/E: 13.3x (*) <i>equals</i>	Industry median FCF yield: 6.5% (*) <i>equals</i>
Estimated fair value of the common equity of Verisk Analytics: \$5.2 billion (\$32 per share)	Industry multiple-implied fair value: \$4.2 billion (\$25 per share) <i>multiplied by</i>	Industry FCF yield-implied fair value: \$5.5 billion (\$34 per share) <i>multiplied by</i>
<i>20% downside from the recent stock price (\$39 per share)</i>	Assumed VRSK multiple as a percentage of the industry multiple: 150% (20.0x fair value P/E multiple) <i>equals</i>	Assumed required FCF yield as a percentage of the industry FCF yield: 50% (3.3% required FCF yield) <i>equals</i>
	Estimated fair value of the common equity of Verisk Analytics: \$6.2 billion (\$38 per share) (based on 164 million shares out) <i>3% downside from the recent stock price (\$39 per share)</i>	Estimated fair value of the common equity of Verisk Analytics: \$11 billion, or \$67 per share (based on 164 million shares out) <i>71% upside to the recent stock price (\$39 per share)</i>

(*) Represents Insurance (Miscellaneous) industry median multiple.


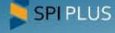















Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

VERISK ANALYTICS – SUPPLEMENTAL REVENUE DATA

	2008 FY	2009 FY	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2010 FY	2011 Q1	2011 Q2	2011 Q3
Revenue										
Risk Assessment	\$ 504,391	\$ 523,976	\$ 134,578	\$ 134,289	\$ 136,269	\$ 137,002	\$ 542,138	\$ 140,543	\$ 140,530	\$ 139,977
Decision Analytics (by Theme)										
Insurance	\$ 311,125	\$ 331,587	\$ 87,817	\$ 93,018	\$ 93,828	\$ 98,180	\$ 372,843	\$ 105,300	\$ 112,334	\$ 116,281
Mortgage and Financial Services	55,196	105,627	33,767	32,955	36,056	34,587	137,365	32,696	35,643	34,272
Healthcare	21,503	50,064	14,294	15,037	14,389	14,252	57,972	15,617	19,322	30,277
Specialized Markets	1,335	15,850	5,698	6,378	6,812	9,137	28,025	18,713	19,451	19,291
Total Decision Analytics	\$ 389,159	\$ 503,128	\$ 141,576	\$ 147,388	\$ 151,085	\$ 156,156	\$ 596,205	\$ 172,326	\$ 186,750	\$ 200,121
Total Revenue	\$ 893,550	\$ 1,027,104	\$ 276,154	\$ 281,677	\$ 287,354	\$ 293,158	\$ 1,138,343	\$ 312,869	\$ 327,280	\$ 340,098
Growth										
Risk Assessment		3.9%	3.9%	0.7%	4.8%	4.5%	3.5%	4.4%	4.6%	2.7%
Decision Analytics (by Theme)										
Insurance		6.6%	11.2%	12.3%	10.2%	16.0%	12.4%	19.9%	20.8%	23.9%
Mortgage and Financial Services		91.4%	44.3%	35.9%	34.5%	11.0%	30.0%	-3.2%	8.2%	-4.9%
Healthcare		132.8%	42.8%	4.7%	15.8%	7.4%	15.8%	9.3%	28.5%	110.4%
Specialized Markets		nm	48.7%	100.4%	74.9%	85.0%	76.8%	228.4%	205.0%	183.2%
Total Decision Analytics		29.3%	21.9%	18.3%	17.8%	16.5%	18.5%	21.7%	26.7%	32.5%
Total Revenue Growth		14.9%	12.4%	9.2%	11.2%	10.6%	10.8%	13.3%	16.2%	18.4%
Growth excluding Acquisitions										
Risk Assessment		3.9%	3.9%	0.7%	4.8%	4.5%	3.5%	4.4%	4.6%	2.7%
Decision Analytics (by Theme)										
Insurance		6.5%	10.9%	11.9%	9.9%	14.3%	11.8%	12.9%	14.2%	16.8%
Mortgage and Financial Services		91.4%	43.9%	32.6%	31.0%	7.5%	27.3%	-6.4%	8.2%	-4.9%
Healthcare		46.5%	32.4%	-4.8%	8.0%	7.4%	9.1%	9.3%	7.5%	25.8%
Specialized Markets		na	48.7%	100.4%	74.9%	45.3%	64.5%	29.0%	22.1%	4.3%
Total Decision Analytics		20.8%	20.6%	16.3%	16.1%	13.2%	16.4%	8.6%	12.5%	11.9%
Total Revenue Growth		11.2%	11.8%	8.2%	10.4%	8.9%	9.8%	6.6%	8.8%	7.6%

Source: Company supplemental data, dated November 2, 2011.

VERISK ANALYTICS – BREADTH OF SOLUTIONS AND MARKET SHARE

	Competitors	Verisk Share ⁽¹⁾
Risk Assessment		
 Industry Standard Programs	Internal	Very high
 Specific Property Information	Internal	~85%
Decision Analytics		
 Claim Fraud Detection	Internal	~93%
 Catastrophe Modeling	 	#2
 Property Damage Claims Estimating	Marshall & Swift/Boeckh	~80% on claims #2 on underwriting
 Property and Auto Claims Data		<10%
 Mortgage Fraud Analytics	 	Most applications not reviewed by external tool
	   	Low
Certain competitors offer point solutions that compete with Verisk, but no other firm provides the same depth of products and analytics		

(1) Management calculations and estimates.

Source: Company presentation dated June 14, 2011.

VERISK ANALYTICS – CAPITAL AVAILABLE FOR DEPLOYMENT

Capitalization (\$ million) as of 3/31/2011 ¹		Available Capacity (\$ million)	
Cash and equivalents	\$172	Incremental Debt to reach 2.0x Debt/EBITDA (based on TTM 3/31/11, net of excess cash)	~\$200
\$600 million Revolving Credit	--	Annual Free Cash Flow	~\$300
Private Placement Notes	525	Total Capacity	~\$500
Senior Notes due 2021	450		
Total	\$975		
Pro forma total debt / EBITDA	1.86x		

Each year as EBITDA grows, FCF and debt capacity increase

1) Proforma for \$450 million Senior Notes due 2021 which closed on April 5, 2011, repayment of \$295 million of revolver debt and \$82 million acquisition of Bloodhound.

Source: Company presentation dated June 14, 2011.

Wal-Mart (WMT) – Berkshire, Eagle Capital, Fairfax, IVA, Markel, Scout, Weitz

Services: Retail (Department & Discount), Member of S&P 500

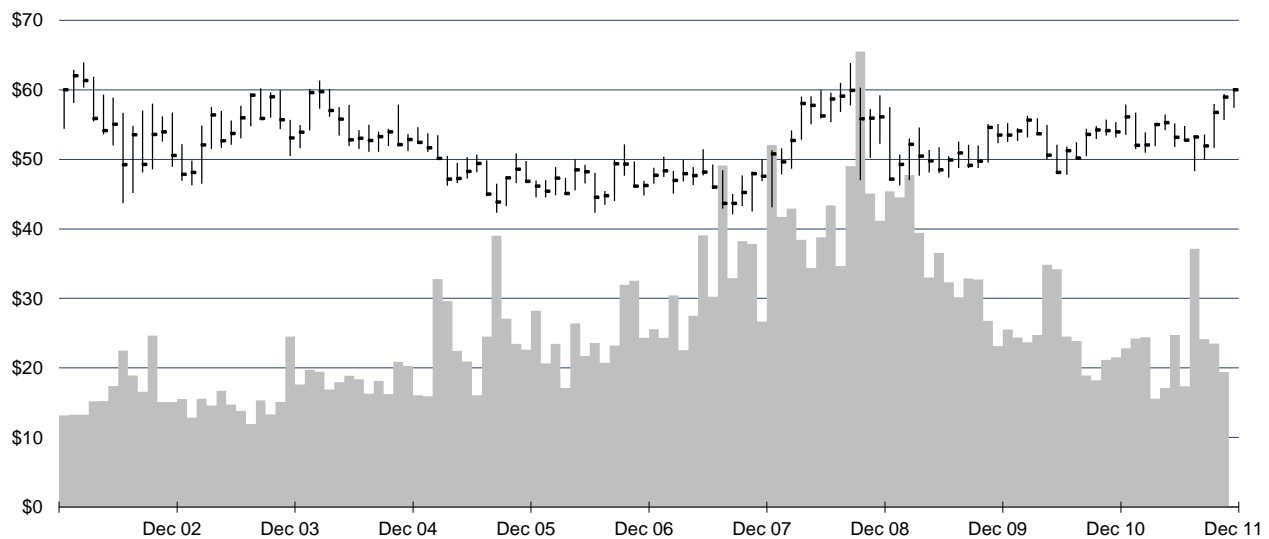
Bentonville AR, 479-273-4000

walmartstores.com

Trading Data	Consensus EPS Estimates			Valuation		
Price: \$59.99 (as of 12/23/11)		Month	# of	P/E FYE 1/31/11	14x	
52-week range: \$48.31–\$60.00	<u>Latest</u>	<u>Agg</u>	<u>Ests</u>	P/E FYE 1/31/12	13x	
Market value: \$205.4 billion	This quarter	\$1.45	\$1.45	25	P/E FYE 1/30/13	12x
Enterprise value: \$257.6 billion	Next quarter	1.05	1.05	10	P/E FYE 1/30/14	11x
Shares outstanding: 3,424.7 million	FYE 1/31/12	4.49	4.49	21	EV/ LTM revenue	0.6x
	FYE 1/30/13	4.91	4.91	30	EV/ LTM EBIT	10x
	FYE 1/30/14	5.43	5.43	16	P / tangible book	4.4x
	LT growth	9.6%	9.6%	9		
Ownership Data		<u>EPS Surprise</u>	<u>Actual</u>	<u>Estimate</u>	Greenblatt Criteria	
Insider ownership: 48%		11/15/11	\$0.97	\$0.98	LTM EBIT yield	10%
Insider buys (last six months): 8					LTM pre-tax ROC	25%
Insider sales (last six months): 12						
Institutional ownership: 31%						

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended January 31,							LTME 10/31/11	FQE 10/31/10	FQE 10/31/11
	2005	2006	2007	2008	2009	2010	2011			
Revenue	284,310	312,101	348,368	377,023	404,254	408,085	421,849	440,141	101,952	110,226
Gross profit	67,478	74,452	84,389	92,886	100,313	103,641	106,562	110,445	26,133	27,635
Adjusted operating income	17,300	18,713	20,497	21,952	22,767	24,262	25,542	26,161	5,611	5,878
Adjusted pretax income	16,320	17,535	18,968	20,158	20,867	22,378	23,538	23,998	5,095	5,343
Adjusted net income	10,482	11,408	12,189	12,863	13,235	14,709	15,355	15,594	3,436	3,344
Adjusted diluted EPS	2.46	2.73	2.93	3.16	3.36	3.80	4.20	4.33	0.95	0.97
Dividend	0.52	0.60	0.67	0.88	0.95	1.09	1.21	1.40	0.30	0.37
Shares out (avg)	4,259	4,183	4,164	4,066	3,939	3,866	3,656	3,603	3,617	3,445
Cash from operations	15,044	18,241	20,235	20,642	23,147	26,249	23,643	24,292	2,246	3,206
... % of revenue:										
Gross profit	23.7%	23.9%	24.2%	24.6%	24.8%	25.4%	25.3%	25.1%	25.6%	25.1%
Adjusted operating income	6.1%	6.0%	5.9%	5.8%	5.6%	5.9%	6.1%	5.9%	5.5%	5.3%
Cash, investments	5,488	6,193	7,767	5,492	7,275	7,907	7,395	7,063	10,616	7,063
Receivables	1,715	2,575	2,840	3,642	3,905	4,144	5,089	4,757	4,374	4,757
Inventory	29,762	31,910	33,685	35,159	34,511	32,713	36,318	44,135	41,059	44,135
PP&E, net	68,118	77,865	88,440	96,867	95,653	102,307	107,878	110,392	106,542	110,392
Intangible assets	10,803	12,097	13,759	15,879	15,260	16,126	16,763	20,409	16,586	20,409
Tangible assets	109,351	126,090	137,828	147,635	148,169	154,281	163,900	174,630	170,304	174,630
Payables	21,987	25,101	28,484	30,344	28,849	30,451	33,557	37,350	36,208	37,350
Short-term debt	7,794	8,633	8,283	11,269	7,669	4,919	6,022	11,385	12,895	11,385
Long-term debt	23,258	30,096	30,735	33,402	34,549	36,401	43,842	47,851	43,899	47,851
Debt	31,052	38,729	39,018	44,671	42,218	41,320	49,864	59,236	56,794	59,236
Tangible equity	38,593	41,074	47,814	48,729	50,025	54,342	51,779	46,754	48,939	46,754
TBV / tangible assets	35%	33%	35%	33%	34%	35%	32%	27%	29%	27%
TBV per share	9.06	9.82	11.49	11.98	12.70	14.06	14.16	13.57	13.53	13.57
EBIT/capital employed	26%	26%	26%	25%	25%	26%	27%	25%	24%	24%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Retail giant Wal-Mart operates through three segments:

Walmart U.S. (~75% of EBIT): ~3,800 stores, walmart.com. Wal-Mart owns 85+% of stores and 80% of 150 distribution sites. 75% of stores are supercenters (avg 185,000 sq ft), with the rest smaller discount and neighbor-hood stores. Groceries are 50% of revenue; the rest splits roughly evenly into entertainment, hardlines, apparel, health, home goods.

International (~20% of EBIT): ~4,500 stores (35% owned), 35% in Mexico, 10% each in Brazil, U.K., Japan, Canada. Store size is 65,000 sq ft (50% supermarkets/discount stores).

Sam's Club (~5% of EBIT) runs 600 U.S. warehouse clubs (80% owned, 135K sq ft. average store size); samsclub.com.

INVESTMENT HIGHLIGHTS

- **World's largest retailer** and one of the largest private employers in the U.S., Mexico and Canada, with 1.4 million employees in the U.S. and 0.7 million internationally, including part-time staff.
- **Price leadership through scale and supply-chain expertise** results in a sustainable moat. "Everyday low prices" marketing (versus changing promotions) reinforces the pricing strategy in customers' minds.
- **Global reinvestment opportunity.** If Wal-Mart can replicate its U.S. model abroad (evidence to date appears favorable), the recent equity valuation may not reflect the value of global growth opportunities.
- **Owns ~85% of U.S. and ~35% of non-U.S. stores.** High real estate ownership and FCF generation lower risks associated with ~\$46 billion of net debt.
- **Founder's son Rob Walton (65) is chairman since 1992.** The Walton family owns a ~48% stake.

INVESTMENT RISKS & CONCERNS

- **Walmart U.S. same-store sales have stagnated for three years.** Without a pickup in SSS, Walmart U.S. may find it difficult to maintain ROI over time.
- **Directly exposed to U.S. consumer spending.** Structural issues such as record consumer debt and high unemployment may be headwinds for years.
- **Non-U.S. expansion** presents unique challenges, spanning sourcing, merchandising, legal, cultural, political, ownership, and other considerations.

CATALYSTS

- Continued double-digit international growth
- Potential benefit from Sears/Kmart store closings

MAJOR HOLDERS

Walton family 48% | Non-Walton insiders <1% | Berkshire 1% | Dodge & Cox 1% | GMO <1% | Lazard <1%

SELECTED OPERATING DATA

	YTD					
FYE January 31	2007	2008	2009	2010	2011	10/31/11
Δ SSS – Walmart U.S.	2%	1%	3%	-1%	-2%	0%
Δ SSS – Sam's Club	3%	5%	5%	-1%	4%	9%
Δ revenue	12%	8%	7%	1%	3%	6%
Δ gross profit	13%	10%	8%	3%	3%	5%
Δ BV per share	16%	7%	4%	10%	3%	8%
Stores – Walmart U.S.	3,488	3,595	3,703	3,755	3,804	3,850
Stores – Walmart Intl	2,733	3,093	3,595	4,099	4,557	5,366
Stores – Sam's Club	588	600	611	605	609	610
Revenue (\$bn)	348	377	404	408	422	324
<i>% of revenue by segment:</i>						
Walmart U.S.	65%	63%	64%	64%	62%	60%
Walmart International	22%	24%	24%	24%	26%	28%
Sam's Club	13%	13%	12%	12%	12%	12%
<i>Revenue growth by segment:</i>						
Walmart U.S.	8%	6%	8%	1%	0%	1%
Walmart International	93%	18%	6%	1%	12%	16%
Sam's Club	-27%	5%	1%	0%	3%	9%
<i>EBIT margin by segment (ex. corporate ~-0.5%):</i>						
Walmart U.S.	7.3%	7.3%	7.1%	7.4%	7.7%	7.5%
Walmart International	5.5%	5.2%	5.0%	5.0%	5.1%	4.3%
Sam's Club	3.3%	3.5%	3.4%	3.2%	3.5%	3.4%
<i>Selected items as % of revenue:</i>						
Gross profit	24%	25%	25%	25%	25%	25%
EBIT (adjusted) ¹	6%	6%	6%	6%	6%	6%
Net income (adjusted) ^{1,2}	3%	3%	3%	4%	4%	3%
D&A	2%	2%	2%	2%	2%	2%
Capex	4%	4%	3%	3%	3%	3%
Industry gross margin ³	36%	36%	34%	36%	36%	36%
Industry EBIT margin ³	5%	3%	1%	3%	4%	3%
Tangible assets (\$bn)	138	148	148	154	164	175
<i>Selected items as % of tangible assets:</i>						
Cash, investments	6%	4%	5%	5%	5%	4%
Inventory	24%	24%	23%	21%	22%	25%
PP&E, net	64%	66%	65%	66%	66%	63%
Debt	28%	31%	28%	27%	31%	24%
Tangible equity	35%	33%	34%	35%	32%	27%
Pre-tax ROI	20%	20%	19%	19%	19%	18%
Return on tang. equity	27%	27%	27%	28%	29%	21%
Return on equity (ROE)	21%	20%	20%	22%	22%	16%
ROE – industry median ³	10%	8%	4%	6%	12%	17%
Trailing P/E (end)	16x	15x	17x	14x	13x	19x
Forward P/E (end)	15x	14x	15x	13x	12x	12x
Diluted EPS (cont.) (\$)	2.92	3.16	3.35	3.73	4.18	3.04
Dividends per share (\$)	0.67	0.88	0.95	1.09	1.21	1.11
Shares out (avg) (mn)	4,164	4,066	3,939	3,866	3,656	3,471
Δ shares out (avg)	0%	-2%	-3%	-2%	-5%	-6%

¹ Adjusted for unusual items of -\$260 million in 2010.

² Adjusted for items of -\$905 million in 2007, -\$132 million in 2008, \$146 million in 2009, -\$79 million in 2010, \$1.0 billion in 2011, -\$36 million YTD 10/31/11.

³ Retail (Department & Discount) industry median.

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆

THE BOTTOM LINE

We like Wal-Mart's U.S. market position, real estate holdings, as well as the prospect for globally replicating its high-return operating model. While recent same-store sales stagnation in the U.S. is a concern, this may be tied more to a weak economy than structural issues. Trading at ~12x forward EPS of \$4.91, Wal-Mart does not strike us as expensive even if we assume that the U.S. market has become rather saturated. Wal-Mart retains a large growth opportunity abroad, as the international segment still account for only about 20% of EBIT. We find the shares intriguing but not yet compelling.

WAL-MART – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS


Conservative
<i>Valuation methodology:</i> Based on average adjusted EBIT for the past seven fiscal years
▼
<i>average of</i>
FY11 adjusted EBIT: \$26 billion
FY10 adjusted EBIT: \$24 billion
FY09 adjusted EBIT: \$23 billion
FY08 adjusted EBIT: \$22 billion
FY07 adjusted EBIT: \$20 billion
FY06 adjusted EBIT: \$19 billion
FY05 adjusted EBIT: \$17 billion
<i>equals</i>
Average adjusted EBIT: \$22 billion
<i>minus</i>
Assumed adjustment to average seven-year EPS: -5% * \$22 billion
<i>equals</i>
Revised "normalized" EBIT: \$20 billion
<i>multiplied by</i>
Assumed fair value EBIT multiple: 8x
<i>equals</i>
Estimated fair enterprise value of Wal-Mart: \$164 billion
<i>plus</i>
Net cash, investments: \$7.1 billion
<i>minus</i>
Total debt: \$59 billion
<i>equals</i>
Estimated fair value of the common equity of Wal-Mart: \$112 billion (\$33 per share) (based on 3.4 billion shares out)
<i>44% downside from the recent stock price (\$58 per share)</i>

Base Case
<i>Valuation methodology:</i> Based on median consensus EPS estimate for the fiscal year ending January 30, 2013
▼
Consensus FY12 EPS estimate: \$4.91
<i>minus</i>
Assumed haircut to FY12 consensus EPS estimate: 5% * \$4.91
<i>equals</i>
Revised FY12 EPS estimate: \$4.66
<i>multiplied by</i>
Corresponding industry P/E: 13.8x (*)
<i>equals</i>
Industry multiple-implied fair value: \$220 billion (\$64 per share)
<i>multiplied by</i>
Assumed WMT multiple as a percentage of the industry multiple: 110% (15.2x fair value P/E multiple)
<i>equals</i>
Estimated fair value of the common equity of Wal-Mart: \$242 billion (\$71 per share) (based on 3.4 billion shares out)
<i>22% upside to the recent stock price (\$58 per share)</i>

Aggressive
<i>Valuation methodology:</i> Based on free cash flow for the twelve months ended October 31, 2011
▼
Operating cash flow: \$24 billion
<i>minus</i>
Capex: \$13 billion
<i>equals</i>
Free cash flow: \$11 billion
<i>divided by</i>
Industry median FCF yield: 4.3% (*)
<i>equals</i>
Industry FCF yield-implied fair value: \$265 billion (\$77 per share)
<i>multiplied by</i>
Assumed required FCF yield as a percentage of the industry FCF yield: 90% (3.9% required FCF yield)
<i>equals</i>
Estimated fair value of the common equity of Wal-Mart: \$294 billion, or \$86 per share (based on 3.4 billion shares out)
<i>47% upside to the recent stock price (\$58 per share)</i>

(*) Represents Retail (Department & Discount) industry median multiple.

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

WAL-MART – ANALYSIS OF SELECTED COMPARABLE COMPANIES

<i>(Click to visit relevant websites)</i>	Trading Data					Public Market Valuation						Operating Performance				
	Stock Price (\$)	Δ to Reach 7-Year		MV (\$bn)	EV (\$bn)	Tang. Book/ MV	TTM FCF Yield	EPS Yield			LTM Rev./ EV	Rev./ Empl. (\$000)	Δ Rev.		% TTM Rev.	
		Low	High					This TTM	Next FY	Next FY			Rev./ Empl.	Last Q	Gross Profit	Adj. EBIT
Costco Wholesale / COST	83	-63%	7%	36	32	33%	0%	4%	4%	5%	283%	992	14%	12%	12%	3%
Sears Holdings / SHLD	46	-52%	320%	5	9	64%	-9%	neg.	neg.	neg.	482%	137	-2%	-1%	27%	0%
Target / TGT	52	-52%	36%	35	53	44%	3%	8%	8%	8%	130%	195	3%	5%	31%	8%
				Median		33%	0%	4%	4%	5%	283%	992	14%	12%	12%	3%
Wal-Mart / WMT	58	-28%	10%	200	252	23%	6%	8%	8%	8%	175%	210	5%	8%	25%	6%

Abbreviations: MV = market value | EV = enterprise value | TTM = trailing twelve months | FY = fiscal year | Empl. = employee | Rev. = revenue | Δ = change
 Explanations: Δ revenue = year-over-year change | EPS yield for this and next FY is based on consensus EPS estimates | EBIT adjusted for certain unusual items
 Source: Company and market data, The Manual of Ideas analysis.

WAL-MART – CALCULATION OF FREE CASH FLOW (fiscal years ended January 31)

(Amounts in millions)	2011	2010	2009	2008	2007
Net cash provided by operating activities	\$ 23,643	\$ 26,249	\$ 23,147	\$ 20,642	\$ 20,280
Payments for property and equipment	(12,699)	(12,184)	(11,499)	(14,937)	(15,666)
Free cash flow	\$ 10,944	\$ 14,065	\$ 11,648	\$ 5,705	\$ 4,614

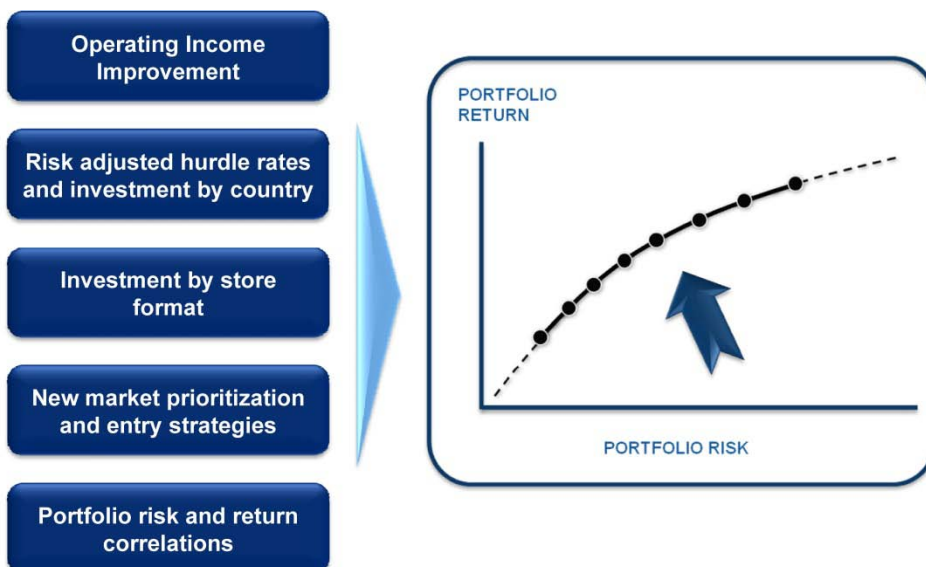
Source: [Company information](#).

WAL-MART – CALCULATION OF ROI AND ROA (twelve months ended October 31)

(Dollar amounts in millions)	2011	2010
CALCULATION OF RETURN ON INVESTMENT		
Numerator		
Operating income	\$ 26,161	\$ 24,996
+ Interest income	171	214
+ Depreciation and amortization	8,073	7,537
+ Rent	2,253	1,922
= Adjusted operating income	\$ 36,658	\$ 34,669
Denominator		
Average total assets of continuing operations ¹	\$ 190,852	\$ 179,555
+ Average accumulated depreciation and amortization ¹	46,040	42,262
- Average accounts payable ¹	36,779	33,564
- Average accrued liabilities ¹	17,204	17,078
+ Rent * 8	18,024	15,376
= Average invested capital	\$ 200,933	\$ 186,551
Return on investment (ROI)	18.2%	18.6%
CALCULATION OF RETURN ON ASSETS		
Numerator		
Income from continuing operations	\$ 16,194	\$ 15,771
Denominator		
Average total assets of continuing operations ¹	\$ 190,852	\$ 179,555
Return on assets (ROA)	8.5%	8.8%

Source: [Company information](#).

WAL-MART – IMPROVING RETURNS OF STORE PORTFOLIO THROUGH CAPITAL ALLOCATION AND LOWER OPEX



Source: [Company presentation dated September 2011](#).

Walt Disney (DIS) – Southeastern, Children’s, Market, Weitz, Ancient Art

Services: Broadcasting & Cable TV, Member of S&P 500

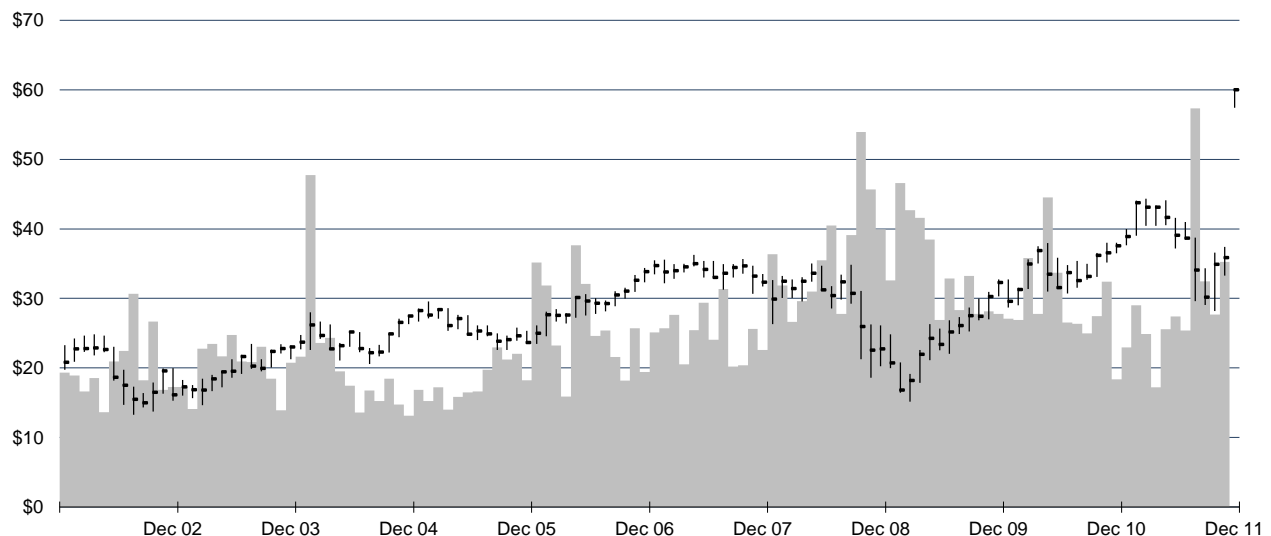
Burbank CA, 818-560-1000

disney.go.com

Trading Data	Consensus EPS Estimates			Valuation
Price: \$37.70 (as of 12/23/11)		Month	# of	P/E FYE 10/1/11
52-week range: \$28.19–\$44.34	<u>Latest</u>	<u>Agg</u>	<u>Ests</u>	P/E FYE 9/30/12
Market value: \$67.7 billion	This quarter	\$0.71	\$0.71	P/E FYE 9/30/13
Enterprise value: \$78.5 billion	Next quarter	0.61	0.61	P/E FYE 9/30/14
Shares outstanding: 1,796.5 million	FYE 9/30/12	2.90	2.90	EV/ LTM revenue
	FYE 9/30/13	3.33	3.34	EV/ LTM EBIT
	FYE 9/30/14	3.81	3.80	P / tangible book
	LT growth	13.6%	14.0%	
	<u>EPS Surprise</u>	<u>Actual</u>	<u>Estimate</u>	Greenblatt Criteria
	11/10/11	\$0.59	\$0.54	LTM EBIT yield
				LTM pre-tax ROC

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended October 1,							LTME 10/1/11	FQE 10/2/10	FQE 10/1/11
	2005	2006	2007	2008	2009	2010	2011			
Revenue	31,374	33,747	35,510	37,843	36,149	38,063	40,893	40,893	9,742	10,425
Gross profit	3,931	5,355	6,855	7,443	5,697	6,726	7,781	7,781	1,521	1,867
Adjusted operating income	3,944	5,306	7,751	7,514	5,922	6,897	8,098	7,856	1,492	1,912
Adjusted net income	2,593	3,286	4,700	4,539	3,571	4,233	4,862	4,862	893	1,096
Adjusted diluted EPS	1.28	1.64	2.35	2.40	1.92	2.21	2.59	2.60	0.47	0.60
Dividend	0.27	0.31	0.35	0.35	0.35	0.40	0.40	0.40	0.00	0.00
Shares out (avg)	2,028	2,005	2,004	1,890	1,856	1,915	1,878	1,869	1,909	1,840
Cash from operations	4,269	6,058	5,421	5,701	5,319	6,578	6,994	6,994	2,206	2,104
... % of revenue:										
Gross profit	12.5%	15.9%	19.3%	19.7%	15.8%	17.7%	19.0%	19.0%	15.6%	17.9%
Adjusted operating income	12.6%	15.7%	21.8%	19.9%	16.4%	18.1%	19.8%	19.2%	15.3%	18.3%
Cash, investments	1,723	2,411	3,670	3,001	3,417	2,722	3,185	3,185	2,722	3,185
Receivables	4,585	4,707	5,032	5,373	4,854	5,784	6,182	6,182	5,784	6,182
Inventory	626	694	641	1,124	1,271	1,442	1,595	1,595	1,442	1,595
LT investments	1,652	1,815	1,566	3,050	3,779	3,788	4,118	2,435	2,513	2,435
PP&E, net	16,968	17,167	17,433	17,532	17,597	17,806	19,695	19,695	17,806	19,695
Tangible assets	28,026	29,351	31,226	33,210	34,062	35,252	38,501	38,501	35,252	38,501
Payables	4,294	4,006	4,429	4,355	4,002	4,413	4,546	6,362	6,109	6,362
Short-term debt	2,310	2,682	3,280	3,529	1,206	2,350	3,055	3,055	2,350	3,055
Long-term debt	10,531	11,135	12,166	11,351	11,721	10,354	11,210	10,922	10,130	10,922
Debt	12,841	13,817	15,446	14,880	12,927	12,704	14,265	13,977	12,480	13,977
Common equity	26,210	31,820	30,753	32,323	33,734	37,519	37,385	37,385	37,519	37,385
Tangible equity	1,078	1,173	1,051	3,036	4,679	3,565	3,762	3,762	3,565	3,762
TBV / tangible assets	4%	4%	3%	9%	14%	10%	10%	10%	10%	10%
TBV per share	0.53	0.59	0.52	1.61	2.52	1.86	2.00	2.04	1.87	2.04
EBIT/capital employed	22%	31%	46%	42%	31%	36%	40%	39%	34%	41%

Ten-Year Stock Price Performance and Trading Volume Dynamics



BUSINESS OVERVIEW

Entertainment giant Disney operates in five segments:

Media Networks: cable, broadcasting and radio, including ABC, 80% of ESPN, and 42% of A&E/Lifetime

Parks and Resorts: owns venues in FL, CA, Paris (51%), and Hong Kong (47%), licenses venue in Tokyo; owns cruise line

Studio: movies (Disney Pictures, Pixar, Touchstone), music

Consumer Products: licenses character-based merchandise

Interactive Media: produces games and owns websites

INVESTMENT HIGHLIGHTS

- **Unique content and production/ distribution assets**, with timeless appeal. ABC is one of four U.S. TV networks, while ESPN is leading provider of sports programming. The film library includes Mickey Mouse, Disney Princess, Winnie the Pooh, Spider-Man, Iron Man, Lion King, Toy Story, Cars.
- **Ability to invest incremental capital at high rates of return should benefit long-term investors**, despite a “fair” 5-6% trailing FCF yield. Disney may also offer inflation protection due to its proven pricing power and low-capital-intensity model.
- **Steady theme park attendance suggests enduring brand relevance.** Despite recent stagnation, annual attendance growth at U.S. parks averaged 3% since 2005 (with average spending per guest up 2% p.a.). International parks attendance and per-capital guest spending rose 6% and 5%, respectively, in FY11.
- **Emerging markets (<10% of revenue) may be a growth opportunity**, assuming Disney’s largely children-oriented content holds universal appeal.

INVESTMENT RISKS & CONCERNS

- **Media networks represent ~70% of total EBIT.** Despite diversified assets, profitability is vulnerable to programming cost increases (e.g. ESPN sports rights). So far, these have been more than offset by higher affiliate fees and advertising rates.
- **Will online distribution yield the same ROIC as network/cable TV, DVD, and theaters?** Emerging platforms such as YouTube and Hulu have become popular, free hubs of video content. Companies like Apple and Google appear poised to try to upset the traditional TV viewing experience, with potentially major ramifications for content providers. Despite major technological changes, however, Disney is in a strong position as a provider of premium content.
- **Relying on acquisitions for growth.** Even after spending a total \$12+ billion on Pixar (‘06), Marvel (‘09) and Playdom (‘10), growth remains a challenge.

MAJOR HOLDERS

Insiders <1% | Steve Jobs estate 7% | Southeastern 2%

SELECTED OPERATING DATA¹

FYE October 1	2007	2008	2009	2010	2011
Δ employees	3%	9%	-4%	3%	5%
Δ U.S. parks attendance	3%	2%	2%	-1%	2%
Δ U.S. parks spend/guest	3%	3%	-6%	3%	7%
Δ revenue	5%	7%	-4%	5%	7%
Δ BV per share	-3%	11%	6%	8%	2%
Employees (end) ('000)	137	150	144	149	156
Revenue (\$bn)	35.5	37.8	36.1	38.1	40.9
<i>% of revenue by segment:</i>					
Media networks	42%	42%	45%	45%	46%
Parks and resorts	30%	30%	30%	28%	29%
Studio entertainment	21%	19%	17%	18%	16%
Consumer products	6%	6%	7%	7%	7%
Interactive media	1%	2%	2%	2%	2%
<i>EBIT margin by segment (ex. corporate: -1%):</i>					
Media networks	30%	31%	29%	30%	33%
Parks and resorts	16%	16%	13%	12%	13%
Studio entertainment	16%	15%	3%	10%	10%
Consumer products	35%	32%	25%	25%	27%
Interactive media	-59%	-36%	-41%	-31%	-31%
<i>% of revenue by major geography:</i>					
U.S./Canada	77%	75%	76%	74%	75%
Europe	17%	18%	17%	17%	16%
Asia Pacific	5%	5%	5%	6%	6%
<i>Revenue growth by major geography:</i>					
U.S./Canada	5%	4%	-4%	3%	9%
Europe	12%	15%	-12%	9%	-1%
Asia Pacific	-10%	5%	3%	25%	8%
<i>EBIT margin by major geography:</i>					
U.S./Canada	20%	21%	16%	18%	21%
Europe	20%	21%	19%	19%	24%
Asia Pacific	25%	21%	23%	27%	25%
<i>Selected items as % of revenue:</i>					
Gross profit	19%	20%	16%	18%	19%
EBIT	22%	20%	16%	17%	20%
Net income	13%	12%	9%	10%	12%
D&A	4%	4%	5%	5%	5%
Capex	4%	4%	5%	6%	9%
Tangible assets (\$bn)	31.2	33.2	34.1	35.3	38.5
<i>Selected items as % of tangible assets:</i>					
Cash, investments	12%	9%	10%	8%	8%
LT investments	5%	9%	11%	11%	11%
PP&E, net	56%	53%	52%	51%	51%
ST debt	11%	11%	4%	7%	8%
LT debt	39%	34%	34%	29%	29%
Tangible equity	3%	9%	14%	10%	10%
Return on tang. equity	423%	222%	93%	103%	133%
Return on equity (ROE)	15%	14%	11%	12%	13%
Trailing P/E (end)	15x	14x	13x	16x	15x
Forward P/E (end)	15x	18x	11x	13x	13x
Diluted EPS (cont.) (\$)	2.24	2.28	1.76	2.03	2.52
Dividends per share (\$)	0.35	0.35	0.35	0.40	0.40
Shares out (avg) (mn)	2,004	1,890	1,856	1,915	1,878
Δ shares out (avg)	0%	-6%	-2%	3%	-2%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
DOWNSIDE PROTECTION Low risk of permanent loss?	☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆
MOAT Able to sustain high returns on invested capital?	☆☆☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆☆☆☆

THE BOTTOM LINE

Disney owns content with timeless appeal and “one-of-a-kind” media production and distribution assets. The shares appear only modestly undervalued at a 5-6% trailing FCF yield and 13x forward EPS. However, Disney may benefit from an ability to reinvest capital at high rates of return. Pricing power and low capital intensity are positives if inflation accelerates.

WALT DISNEY – EQUITY FAIR VALUE UNDER SELECTED VALUATION SCENARIOS



Conservative	Base Case	Aggressive
<i>Valuation methodology:</i>	<i>Valuation methodology:</i>	<i>Valuation methodology:</i>
Based on free cash flow for the twelve months ended October 1, 2011	Based on average diluted EPS from continuing operations for the past seven fiscal years	Based on median consensus EPS estimate for the fiscal year ending September 30, 2013
▼	▼	▼
Operating cash flow: \$7.0 billion	<i>average of</i>	Consensus FY13 EPS estimate: \$3.33
<i>minus</i>	FY05 continuing ops EPS: \$1.19	<i>minus</i>
Capex: \$3.6 billion	FY06 continuing ops EPS: \$1.60	Assumed haircut to FY13 consensus EPS estimate: 5% * \$3.33
<i>equals</i>	FY07 continuing ops EPS: \$2.24	<i>equals</i>
Free cash flow: \$3.4 billion	FY08 continuing ops EPS: \$2.28	Revised FY13 EPS estimate: \$3.16
<i>divided by</i>	FY09 continuing ops EPS: \$1.76	<i>multiplied by</i>
Industry median FCF yield: 10.0% (*)	FY10 continuing ops EPS: \$2.03	Corresponding industry P/E: 10.7x (*)
<i>equals</i>	FY11 continuing ops EPS: \$2.52	<i>equals</i>
Industry FCF yield-implied fair value: \$34 billion (\$19 per share)	<i>equals</i>	Industry multiple-implied fair value: \$61 billion (\$34 per share)
<i>multiplied by</i>	Average seven-year EPS: \$1.95	<i>multiplied by</i>
Assumed required FCF yield as a percentage of the industry FCF yield:	<i>minus</i>	Assumed DIS multiple as a percentage of the industry multiple:
75%	Assumed adjustment to average seven-year EPS: 20% * \$1.95	150%
(7.5% required FCF yield)	<i>equals</i>	(16.1x fair value P/E multiple)
<i>equals</i>	Revised "normalized" EPS: \$2.33	<i>equals</i>
Estimated fair value of the common equity of Walt Disney:	<i>multiplied by</i>	Estimated fair value of the common equity of Walt Disney:
\$46 billion, or \$25 per share	Assumed fair value P/E: 15x	\$91 billion (\$51 per share)
(based on 1.8 billion shares out)	<i>equals</i>	(based on 1.8 billion shares out)
28% downside from the recent stock price (\$35 per share)	Estimated fair value of the common equity of Walt Disney:	44% upside to the recent stock price (\$35 per share)
	\$63 billion (\$35 per share)	
	(based on 1.8 billion shares out)	
	1% downside from the recent stock price (\$35 per share)	

(*) Represents Broadcasting & Cable TV industry median multiple.

Source: Company filings, The Manual of Ideas analysis, assumptions and estimates.

WALT DISNEY – CALCULATION OF FREE CASH FLOW (\$ in millions)

	Quarter ended		Change
	10/1/2011	10/2/2010	
Cash provided by operations	\$ 2,104	\$ 2,206	\$ (102)
Less: Investments in parks, resorts and other property	(998)	(797)	(201)
Free cash flow	<u>\$ 1,106</u>	<u>\$ 1,409</u>	<u>\$ (303)</u>
			<u>(22)%</u>
	Year ended		Change
	10/1/2011	10/2/2010	
Cash provided by operations	\$ 6,994	\$ 6,578	\$ 416
Less: Investments in parks, resorts and other property	(3,559)	(2,110)	(1,449)
Free cash flow	<u>\$ 3,435</u>	<u>\$ 4,468</u>	<u>\$ (1,033)</u>
			<u>(23)%</u>

Source: [Company data](#).

WALT DISNEY – PARKS AND RESORTS SNAPSHOT

Business Unit	Opened	Resort Size (Acres) (a)	# of Hotels / Venues (b)	# of Hotel Rooms
Walt Disney World Resort		25,000 (c)	17 (d)	22,350
Magic Kingdom	1971			
Epcot	1982			
Disney's Hollywood Studios	1989			
Disney's Animal Kingdom	1998			
Disney's Typhoon Lagoon	1989			
Disney's Blizzard Beach	1995			
ESPN Wide World of Sports (e)	1997			
Disneyland Resort		510 (f)	3	2,415
Disneyland Park	1955			
Disney California Adventure	2001			
Disneyland Paris (g)		5,510 (h)	7	5,760
Disneyland Park	1992			
Walt Disney Studios Park	2002			
Hong Kong Disneyland Resort (i)	2005	311	2	1,000
Tokyo Disney Resort (j)		494	3	1,710
Tokyo Disneyland	1983			
Tokyo DisneySea	2001			
Disney Vacation Club	1991	N/A	10 (k)	3,060
Disney Cruise Line				
Disney Magic	1998	964 ft.	N/A	877
Disney Wonder	1999	964 ft.	N/A	877
Adventures by Disney	2005	N/A	22 (l)	N/A
Walt Disney Imagineering	1952	N/A	N/A	N/A
TOTAL Hotels: 42				
TOTAL Hotel rooms: 36,000+				
<i>Note: All figures are approximations as of end of Fiscal Year 2010</i>				

(a) Includes theme parks, hotels, dining and entertainment areas and surrounding land

(b) Includes only hotels and Disney Vacation Club properties owned and operated by The Walt Disney Company; Oriental Land Co., Ltd.; Euro Disney S.C.A.; and Hong Kong International Theme Parks, Ltd.

(c) Total acreage, including undeveloped land

(d) Includes Disney's Fort Wilderness Resort & Campground, but does not include Disney Vacation Club properties

(e) Opened under the name Disney's Wide World of Sports and was rebranded in 2010

(f) Total acreage including 461 Company owned acres and 49 acres under long-term lease in Anaheim, CA

(g) The Walt Disney Company has an indirect investment in Euro Disney S.C.A., a publicly held French entity that owns Disneyland Paris. A subsidiary of The Walt Disney Company manages the resort and another subsidiary earns royalties on Disneyland Paris revenues

(h) Total acreage, including undeveloped land

(i) The Walt Disney Company owns a 47% interest in the Hong Kong Disneyland Resort through Hong Kong International Theme Parks Ltd. A separate Hong Kong subsidiary of the Company is responsible for managing Hong Kong Disneyland Resort

(j) A subsidiary of The Walt Disney Company earns royalties on revenues generated by the Tokyo Disney Resort, which is owned and operated by Oriental Land Co., Ltd., a Japanese corporation

(k) Includes the seven Disney Vacation Club properties at the Walt Disney World Resort, one property at Disneyland Resort, and two beach resorts. We are currently selling ownership interest at our eleventh property, Aulani, a Disney Resort & Spa, Ko Olina, Hawai'i

(l) Adventures by Disney provided 22 specialized excursion packages during 2010

Source: [Company 2010 fact book](#).

Browsing the Losers of 2011

100 Biggest Decliners (MV > \$25mn)

<i>(Click data to visit relevant websites)</i>	Trading Data				Public Market Valuation					Operating Performance				
	Stock Price (\$)	YTD Price Δ	Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./ EV	EPS Yield			Tang. Book/ MV	Rev./ Empl. (\$000)	Δ Revenue		% TTM Revenue	
						TTM	This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT
Motricity / MOTR	1.04	-94%	48	51	262%	neg.	neg.	neg.	44%	393	9%	-20%	65%	-8%
Smith Micro Software / SMSI	1.15	-93%	41	-13	n/m	neg.	neg.	neg.	179%	149	-35%	-63%	82%	n/m
AMR Corp. / AMR	0.65	-92%	218	7,542	313%	neg.	neg.	neg.	n/m	302	9%	9%	16%	-1%
Trident Microsystems / TRID	0.17	-90%	31	-5	n/m	neg.	neg.	neg.	232%	234	-24%	-55%	22%	-40%
SemiLEDs / LEDS	2.84	-90%	78	2	>999%	neg.	neg.	neg.	198%	58	-32%	-54%	13%	-35%
Torm / TRMD	0.69	-90%	47	1,883	62%	neg.	neg.	neg.	>999%	2,179	39%	47%	9%	-9%
Advanced Battery / ABAT	0.46	-88%	71	-3	n/m	120%	n/a	n/a	308%	28,675	41%	38%	44%	37%
THQ / THQI	0.77	-87%	52	101	771%	neg.	neg.	n/a	n/m	446	0%	89%	18%	-25%
Am. Superconductor / AMSC	3.69	-87%	190	91	133%	neg.	neg.	neg.	106%	143	-67%	-79%	-89%	n/m
SatCon Technology / SATC	0.60	-87%	72	114	198%	neg.	neg.	neg.	33%	n/m	84%	-23%	20%	-13%
Powerwave Tech / PWAV	1.70	-87%	54	270	207%	neg.	neg.	neg.	17%	262	0%	-51%	25%	0%
NeurogesX / NGSX	0.94	-85%	28	48	23%	neg.	neg.	neg.	n/m	103	12%	38%	91%	n/m
Frontline / FRO	3.83	-85%	284	2,713	31%	neg.	neg.	neg.	192%	12,204	-29%	-31%	34%	7%
DHT Maritime / DHT	0.72	-85%	45	299	33%	neg.	17%	11%	452%	19,540	-15%	14%	67%	24%
Eastman Kodak / EK	0.83	-85%	224	928	668%	neg.	neg.	neg.	n/m	330	-21%	-17%	15%	-19%
Bank of Ireland / IRE	4.16	-84%	3,059	n/m	n/m	neg.	n/a	n/a	268%	459	-73%	-20%	n/m	-12%
Pacific Biosciences / PACB	2.50	-84%	137	-54	n/m	neg.	neg.	neg.	154%	50	1450%	5150%	n/m	n/m
SIGA Technologies / SIGA	2.20	-84%	113	101	11%	3%	28%	neg.	40%	166	-46%	-45%	n/m	n/m
Comverge / COMV	1.12	-84%	29	30	456%	neg.	neg.	neg.	95%	244	11%	-6%	40%	-11%
Skyline / SKY	4.40	-83%	37	-2	n/m	neg.	n/a	n/a	188%	128	14%	10%	1%	-16%
A123 Systems / AONE	1.65	-83%	208	186	77%	neg.	neg.	neg.	165%	70	46%	145%	-43%	n/m
Pacific Ethanol / PEIX	0.91	-82%	71	167	475%	neg.	n/a	n/a	32%	5,473	181%	490%	2%	0%
Savient Pharma / SVNT	2.09	-81%	149	121	6%	neg.	neg.	neg.	13%	53	70%	160%	-13%	n/m
USEC / USU	1.14	-81%	139	722	260%	neg.	neg.	6%	946%	979	2%	-34%	7%	-2%
Somaxon Pharma / SOMX	0.60	-81%	29	10	139%	neg.	neg.	neg.	51%	340	n/a	n/a	88%	n/m
Primo Water / PRMW	2.72	-81%	65	65	115%	neg.	neg.	10%	78%	593	88%	121%	27%	-9%
Paragon Shipping / PRGN	0.66	-81%	39	222	44%	neg.	neg.	neg.	>999%	363	-18%	-27%	76%	7%
Delcath Systems / DCTH	1.89	-81%	91	46	0%	neg.	neg.	neg.	45%	-	n/a	n/a	n/m	#DIV/0!
Canadian Solar / CSIQ	2.40	-81%	105	777	242%	neg.	neg.	neg.	485%	215	45%	32%	12%	4%
Orexigen Therapeutics / OREX	1.60	-80%	77	13	34%	neg.	neg.	neg.	21%	133	1367%	200%	n/m	n/m
Golden Minerals / AUMN	5.35	-80%	191	151	0%	neg.	neg.	neg.	169%	-	-100%	-100%	n/m	#DIV/0!
TOP Ships / TOPS	2.19	-80%	37	327	28%	neg.	n/a	n/a	408%	22,600	-4%	1%	91%	20%
K-Swiss / KSWK	2.54	-80%	90	62	419%	neg.	neg.	neg.	197%	433	21%	31%	36%	-24%
Microvision / MVIS	0.38	-80%	45	36	13%	neg.	neg.	neg.	19%	44	-6%	38%	-235%	n/m
Dex One / DEXO	1.53	-79%	77	2,433	61%	neg.	n/a	n/a	n/m	464	31%	39%	80%	23%
Elbit Imaging / EMITF	2.75	-79%	71	609	53%	neg.	n/a	n/a	181%	1,880	7%	9%	34%	24%
Central European / CEDC	4.79	-79%	348	1,574	52%	neg.	5%	11%	n/m	199	12%	45%	39%	7%
Hampton Roads Bank / HMPR	2.72	-79%	94	n/m	n/m	neg.	n/a	n/a	140%	142	-34%	-17%	n/m	-99%
NuPathe / PATH	1.90	-79%	28	13	6%	neg.	neg.	neg.	65%	27	n/a	n/a	n/m	n/m
Porter Bancorp / PBIB	2.18	-79%	26	n/m	n/m	neg.	neg.	7%	436%	281	-13%	-13%	n/m	-67%
Furniture Brands / FBN	1.09	-79%	61	116	970%	neg.	neg.	neg.	253%	127	-4%	-5%	23%	-5%
Eagle Bulk Shipping / EGLE	1.07	-79%	67	1,169	27%	neg.	neg.	neg.	999%	395	9%	10%	61%	12%
Meru Networks / MERU	3.33	-78%	59	12	761%	neg.	neg.	neg.	62%	308	10%	9%	64%	-13%
iGo / IGOI	0.83	-78%	28	14	311%	neg.	neg.	2%	112%	692	-11%	-20%	28%	-15%
Dendreon / DNDN	7.57	-78%	1,128	1,170	14%	neg.	neg.	neg.	27%	110	615%	218%	30%	n/m
Oclaro / OCLR	2.89	-78%	146	115	394%	neg.	neg.	2%	132%	146	5%	-13%	25%	-6%
School Specialty / SCHS	3.07	-78%	58	364	205%	neg.	n/a	n/a	n/m	388	-3%	-14%	39%	1%
Anooraq Resources / ANO	0.36	-78%	86	928	16%	neg.	neg.	neg.	n/m	13,591	11%	31%	-35%	-52%
XOMA Limited / XOMA	1.15	-78%	39	20	286%	neg.	neg.	neg.	55%	242	27%	49%	n/m	-66%
Penson / PNSN	1.10	-78%	30	n/m	n/m	neg.	neg.	neg.	834%	320	-14%	-4%	86%	-3%

<i>(Click data to visit relevant websites)</i>	Trading Data				Public Market Valuation					Operating Performance				
	Stock Price (\$)	YTD Price Δ	Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./ EV	EPS Yield			Tang. Book/ MV	Rev./ Empl. (\$000)	Δ Revenue		% TTM Revenue	
						TTM	This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT
BioMimetic Thera. / BMTI	2.87	-77%	81	14	12%	neg.	neg.	neg.	75%	18	6%	0%	94%	n/m
National Bank Greece / NBG	1.90	-77%	1,979	n/m	n/m	neg.	neg.	34%	362%	226	2%	2%	n/m	27%
Gentiva Health / GTIV	6.07	-77%	187	999	182%	neg.	27%	14%	n/m	118	16%	18%	48%	9%
Alliance Imaging / AIQ	0.98	-77%	52	659	74%	neg.	neg.	neg.	n/m	251	2%	5%	43%	6%
RIMM / RIMM	13.44	-77%	7,056	5,749	344%	32%	n/a	n/a	100%	1,131	-13%	-6%	39%	15%
CPI Corp. / CPY	5.28	-77%	37	91	435%	4%	10%	44%	n/m	81	-34%	-7%	93%	4%
Stereotaxis / STXS	0.90	-77%	50	62	73%	neg.	neg.	neg.	n/m	220	-16%	-39%	71%	-69%
L&L Energy / LLEN	2.58	-76%	85	85	222%	26%	n/a	n/a	176%	119	3%	-27%	28%	16%
First Solar / FSLR	31.91	-75%	2,758	2,603	104%	19%	21%	23%	129%	445	5%	26%	40%	21%
Hoku Scientific / HOKU	0.65	-75%	36	353	1%	neg.	neg.	neg.	224%	30	-17%	58%	18%	n/m
Imperial Sugar / IPSU	3.30	-75%	40	119	742%	neg.	neg.	18%	508%	1,269	11%	-25%	0%	-4%
Uranium Resources / URRE	0.84	-75%	79	74	0%	neg.	n/a	n/a	33%	-	-100%	n/a	n/m	#DIV/0!
Geokinetics / GOK	2.31	-75%	44	475	155%	neg.	neg.	neg.	n/m	142	26%	54%	22%	-11%
Toreador Resources / TRGL	3.87	-75%	101	128	28%	neg.	neg.	neg.	13%	1,020	-9%	27%	64%	-15%
OfficeMax / OMX	4.46	-75%	384	1,668	423%	11%	13%	13%	142%	353	-2%	-2%	26%	2%
Radian Group / RDN	2.04	-75%	272	n/m	n/m	neg.	2%	neg.	474%	2,004	40%	-13%	10%	13%
CDC Software / CDCS	1.61	-74%	44	21	>999%	neg.	n/a	n/a	108%	156	4%	1%	55%	1%
GMX Resources / GMXR	1.41	-74%	85	455	26%	neg.	neg.	neg.	152%	1,081	24%	15%	90%	60%
Bon-Ton Stores / BONT	3.24	-74%	64	1,106	269%	neg.	neg.	2%	n/m	112	-2%	-6%	38%	3%
Network Equipment / NWK	1.19	-74%	36	27	201%	neg.	n/a	n/a	65%	232	-21%	-19%	37%	-53%
CytRx Corp. / CYTR	0.26	-74%	38	-4	n/m	neg.	neg.	neg.	75%	20	200%	n/a	n/m	n/m
Meritor / MTOR	5.30	-74%	502	1,319	351%	13%	25%	33%	n/m	440	-11%	29%	10%	5%
Exide Technologies / XIDE	2.48	-74%	194	881	351%	4%	15%	33%	100%	308	12%	16%	18%	4%
Minco Gold / MGH	0.72	-74%	37	29	0%	7%	n/a	n/a	38%	-	n/a	n/a	n/m	#DIV/0!
AVI BioPharma / AVII	0.56	-74%	76	32	155%	neg.	neg.	neg.	36%	499	157%	-14%	n/m	-59%
Penn Virginia Corp. / PVA	4.46	-73%	204	813	36%	neg.	neg.	neg.	429%	1,435	16%	21%	77%	-21%
James River Coal / JRCC	6.81	-73%	243	613	160%	8%	4%	neg.	175%	563	43%	77%	18%	4%
Sun Healthcare / SUNH	3.41	-73%	516	575	337%	neg.	27%	7%	30%	65	3%	3%	37%	4%
Overseas Shipholding / OSG	9.62	-73%	293	2,237	46%	neg.	neg.	neg.	517%	293	-3%	-1%	11%	-15%
Active Power / ACPW	0.67	-73%	54	50	154%	neg.	neg.	1%	35%	423	28%	11%	25%	-4%
MIPS Technologies / MIPS	4.16	-73%	220	114	68%	5%	4%	6%	47%	473	-2%	-24%	99%	16%
BioSante Pharma / BPAX	0.45	-73%	49	0	n/m	neg.	neg.	neg.	90%	11	-86%	100%	n/m	n/m
Lee Enterprises / LEE	0.68	-72%	31	1,002	75%	neg.	15%	29%	n/m	133	-3%	-3%	53%	14%
BioDelivery Sciences / BDSI	0.99	-72%	29	14	26%	neg.	neg.	neg.	n/m	185	-94%	1250%	62%	n/m
Flagstar Bancorp / FBC	0.46	-72%	253	n/m	n/m	neg.	neg.	2%	286%	139	-17%	-10%	n/m	-62%
SupportSoft / SPRT	1.86	-71%	90	34	152%	neg.	neg.	neg.	61%	67	35%	2%	41%	-36%
Geron / GERN	1.49	-71%	196	57	6%	neg.	neg.	neg.	89%	19	10%	-60%	n/m	n/m
Ivanhoe Energy / IVAN	0.79	-71%	272	275	13%	neg.	neg.	neg.	3%	166	69%	156%	21%	n/m
Teekay Tankers / TNK	3.59	-71%	222	558	22%	1%	6%	4%	225%	n/m	-15%	-12%	98%	20%
Human Genome / HGSI	6.99	-71%	1,612	1,597	7%	neg.	neg.	neg.	28%	97	-44%	-33%	33%	n/m
Allos Therapeutics / ALTH	1.35	-71%	143	43	178%	neg.	neg.	neg.	55%	487	180%	73%	80%	-58%
PharmAthene / PIP	1.24	-71%	60	50	50%	neg.	neg.	neg.	20%	293	17%	-15%	n/m	-72%
Targacept / TRGT	7.79	-71%	260	51	202%	neg.	neg.	neg.	70%	774	56%	-13%	n/m	-1%
Nanosphere / NSPH	1.29	-70%	57	11	19%	neg.	neg.	neg.	88%	17	-20%	50%	20%	n/m
ValueVision Media / VVTV	1.82	-70%	88	86	688%	neg.	neg.	neg.	94%	776	9%	2%	36%	-1%
Orrstown Financial / ORRF	8.19	-70%	66	n/m	n/m	3%	neg.	17%	210%	224	8%	5%	n/m	4%
Covenant Transport / CVTI	2.90	-70%	43	279	235%	neg.	neg.	9%	206%	138	2%	-2%	53%	2%
Excel Maritime / EXM	1.69	-70%	144	1,154	37%	14%	neg.	neg.	>999%	351	-51%	-47%	53%	14%
Pacific Sunwear / PSUN	1.63	-70%	110	130	695%	neg.	neg.	neg.	137%	329	-6%	-6%	22%	-9%
Verso Paper Corp. / VRS	1.03	-70%	54	1,262	133%	neg.	n/a	n/a	n/m	600	6%	6%	16%	4%

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

100 Biggest Decliners (... and Next FY EPS > 0)

(Click data to visit relevant websites)	Trading Data				Public Market Valuation					Operating Performance				
	Stock Price (\$)	YTD Price Δ	Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./EV	EPS Yield			Tang. Book/MV	Rev./Empl. (\$000)	Δ Revenue		% TTM Revenue	
						TTM	This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT
DHT Maritime / DHT	0.72	-85%	45	299	33%	neg.	17%	11%	452%	19,540	-15%	14%	67%	24%
USEC / USU	1.14	-81%	139	722	260%	neg.	neg.	6%	946%	979	2%	-34%	7%	-2%
Primo Water / PRMW	2.72	-81%	65	65	115%	neg.	neg.	10%	78%	593	88%	121%	27%	-9%
Central European / CEDC	4.79	-79%	348	1,574	52%	neg.	5%	11%	n/m	199	12%	45%	39%	7%
Porter Bancorp / PBIB	2.18	-79%	26	n/m	n/m	neg.	neg.	7%	436%	281	-13%	-13%	n/m	-67%
iGo / IGOI	0.83	-78%	28	14	311%	neg.	neg.	2%	112%	692	-11%	-20%	28%	-15%
Oclaro / OCLR	2.89	-78%	146	115	394%	neg.	neg.	2%	132%	146	5%	-13%	25%	-6%
National Bank Greece / NBG	1.90	-77%	1,979	n/m	n/m	neg.	neg.	34%	362%	226	2%	2%	n/m	27%
Gentiva Health / GTIV	6.07	-77%	187	999	182%	neg.	27%	14%	n/m	118	16%	18%	48%	9%
CPI Corp. / CPY	5.28	-77%	37	91	435%	4%	10%	44%	n/m	81	-34%	-7%	93%	4%
First Solar / FSLR	31.91	-75%	2,758	2,603	104%	19%	21%	23%	129%	445	5%	26%	40%	21%
Imperial Sugar / IPSU	3.30	-75%	40	119	742%	neg.	neg.	18%	508%	1,269	11%	-25%	0%	-4%
OfficeMax / OMX	4.46	-75%	384	1,668	423%	11%	13%	13%	142%	353	-2%	-2%	26%	2%
Bon-Ton Stores / BONT	3.24	-74%	64	1,106	269%	neg.	neg.	2%	n/m	112	-2%	-6%	38%	3%
Meritor / MTOR	5.30	-74%	502	1,319	351%	13%	25%	33%	n/m	440	-11%	29%	10%	5%
Exide Technologies / XIDE	2.48	-74%	194	881	351%	4%	15%	33%	100%	308	12%	16%	18%	4%
Sun Healthcare / SUNH	3.41	-73%	516	575	337%	neg.	27%	7%	30%	65	3%	3%	37%	4%
Active Power / ACPW	0.67	-73%	54	50	154%	neg.	neg.	1%	35%	423	28%	11%	25%	-4%
MIPS Technologies / MIPS	4.16	-73%	220	114	68%	5%	4%	6%	47%	473	-2%	-24%	99%	16%
Lee Enterprises / LEE	0.68	-72%	31	1,002	75%	neg.	15%	29%	n/m	133	-3%	-3%	53%	14%
Flagstar Bancorp / FBC	0.46	-72%	253	n/m	n/m	neg.	neg.	2%	286%	139	-17%	-10%	n/m	-62%
Teekay Tankers / TNK	3.59	-71%	222	558	22%	1%	6%	4%	225%	n/m	-15%	-12%	98%	20%
Orrstown Financial / ORRF	8.19	-70%	66	n/m	n/m	3%	neg.	17%	210%	224	8%	5%	n/m	4%
Covenant Transport / CVTI	2.90	-70%	43	279	235%	neg.	neg.	9%	206%	138	2%	-2%	53%	2%
Ferro Corp. / FOE	4.43	-70%	384	670	336%	16%	17%	18%	105%	447	11%	3%	20%	7%
Mechel / MTL	8.95	-69%	4,610	13,611	91%	17%	31%	31%	83%	141	42%	21%	35%	16%
Amedsys / AMED	10.39	-69%	306	430	351%	neg.	19%	10%	40%	n/m	-8%	-7%	48%	8%
Aixtron AG / AIXG	11.71	-69%	1,199	773	117%	16%	13%	8%	63%	979	-19%	-58%	50%	31%
Synutra International / SYUT	4.25	-68%	244	452	59%	neg.	8%	22%	28%	51	-12%	141%	30%	-10%
Willbros Group / WG	3.13	-68%	152	381	434%	neg.	neg.	14%	73%	227	47%	15%	7%	-2%
Amtech Systems / ASYS	8.08	-68%	76	9	>999%	29%	neg.	14%	129%	587	105%	32%	37%	17%
Monster Worldwide / MWW	7.71	-67%	993	894	117%	5%	5%	7%	1%	173	20%	13%	54%	4%
Alpha Natural / ANR	19.62	-67%	4,313	6,534	92%	2%	11%	9%	n/m	927	58%	130%	21%	2%
RealD / RLD	8.55	-67%	466	458	58%	3%	5%	4%	36%	2,314	22%	35%	43%	11%
Citi Trends / CTRN	8.10	-67%	121	88	722%	4%	2%	6%	166%	276	2%	2%	37%	1%
Cree / CREE	21.75	-67%	2,522	1,889	52%	4%	5%	8%	59%	208	-13%	0%	41%	11%
Joe's Jeans / JOEZ	0.52	-67%	34	22	424%	n/a	n/a	6%	109%	608	-6%	-5%	46%	3%
Career Education / CECO	7.03	-66%	533	85	>999%	29%	31%	13%	86%	232	-4%	-18%	68%	15%
Aviat Networks / AVNW	1.72	-66%	105	32	>999%	neg.	2%	18%	156%	463	-42%	11%	29%	0%
Transatlantic Petro / TAT	1.13	-66%	413	550	22%	neg.	4%	3%	58%	149	77%	71%	74%	-19%
MEMC Electronic / WFR	3.83	-66%	883	2,030	140%	neg.	10%	13%	188%	509	63%	3%	16%	1%
Artio Global Invest. / ART	5.09	-65%	302	n/m	n/m	25%	25%	15%	51%	1,439	-9%	-21%	n/m	46%
Quad Graphics / QUAD	14.33	-65%	672	2,330	193%	1%	16%	15%	46%	214	84%	-2%	24%	8%
Local.com / LOCM	2.26	-65%	50	48	153%	neg.	neg.	1%	18%	632	-9%	-7%	37%	-17%
Rambus / RMBS	7.27	-65%	799	673	48%	2%	neg.	1%	18%	820	21%	216%	94%	28%
Veolia Environnement / VE	10.57	-64%	5,470	25,694	172%	neg.	8%	12%	n/m	154	-53%	-6%	16%	4%
Cal Dive / DVR	2.05	-64%	195	373	138%	neg.	neg.	14%	171%	270	-12%	-31%	6%	-5%
Spansion / CODE	7.49	-64%	446	595	198%	1%	18%	13%	54%	346	3%	-16%	24%	5%
Venoco / VQ	6.72	-64%	414	1,096	29%	9%	7%	10%	10%	834	-18%	12%	66%	27%
Calix / CALX	6.26	-63%	296	264	131%	neg.	6%	9%	25%	720	21%	11%	35%	-10%

<i>(Click data to visit relevant websites)</i>	Trading Data				Public Market Valuation					Operating Performance				
	Stock Price (\$)	YTD Price Δ	Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./EV	EPS Yield			Tang. Book/MV	Rev./Empl. (\$000)	Δ Revenue		% TTM Revenue	
						TTM	This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT
AXT / AXTI	3.87	-63%	124	102	108%	18%	16%	14%	106%	84	27%	6%	43%	27%
Axcelis / ACLS	1.29	-63%	137	93	379%	9%	4%	4%	157%	346	60%	-3%	35%	4%
STR / STRI	7.47	-63%	311	181	162%	13%	13%	11%	34%	133	-16%	-18%	36%	23%
Ambassadors Group / EPAX	4.30	-63%	75	23	307%	6%	4%	2%	97%	327	-13%	-11%	89%	4%
Gafisa / GFA	5.46	-62%	1,184	2,940	69%	10%	11%	20%	170%	381	-1%	5%	27%	10%
N.A. Palladium / PAL	2.61	-62%	425	391	41%	neg.	neg.	6%	74%	376	146%	0%	29%	-6%
BSQUARE / BSQR	3.30	-62%	35	19	543%	13%	6%	11%	59%	470	20%	-5%	21%	2%
Power-One / PWER	3.85	-62%	401	275	406%	26%	21%	17%	87%	322	14%	-22%	35%	23%
CTC Media / CTCM	8.89	-62%	1,399	1,267	59%	11%	11%	12%	15%	659	34%	27%	94%	35%
Rovi Corp. / ROVI	23.83	-62%	2,627	3,265	21%	3%	10%	11%	n/m	576	4%	42%	84%	15%
TriQuint Semi / TQNT	4.53	-61%	753	606	152%	11%	11%	8%	119%	332	13%	-9%	38%	12%
U.S. Gold Corp. / UXG	3.13	-61%	427	366	0%	neg.	neg.	3%	55%	-	n/a	n/a	n/m	#DIV/0!
Popular / BPOP	1.22	-61%	1,251	n/m	n/m	neg.	18%	25%	260%	241	-13%	-6%	n/m	15%
Almost Family / AFAM	14.93	-61%	140	113	297%	16%	15%	12%	36%	52	2%	2%	52%	11%
Bank of America / BAC	5.20	-61%	52,808	n/m	n/m	neg.	0%	19%	233%	238	-27%	-13%	n/m	19%
OmniVision / OVTI	11.62	-61%	678	258	394%	20%	12%	6%	111%	695	36%	-9%	31%	13%
Office Depot / ODP	2.13	-61%	597	1,184	970%	neg.	neg.	4%	108%	287	-2%	-2%	29%	0%
Five Star Quality / FVE	2.79	-61%	133	199	636%	21%	16%	11%	160%	56	-16%	8%	86%	2%
Accuride / ACW	6.27	-61%	297	581	153%	neg.	neg.	12%	n/m	280	9%	35%	8%	1%
DryShips / DRYS	2.10	-60%	890	4,766	20%	3%	21%	28%	445%	6,435	15%	41%	66%	30%
Netflix / NFLX	69.82	-60%	3,865	3,734	78%	6%	6%	0%	n/m	1,342	45%	49%	37%	13%
Banco Macro / BMA	19.95	-60%	1,298	n/m	n/m	22%	22%	24%	37%	120	15%	26%	n/m	47%
FuelCell Energy / FCCEL	0.92	-60%	117	139	88%	neg.	neg.	10%	n/m	278	76%	76%	-10%	-37%
VirtualScopics / VSCP	0.86	-60%	25	20	72%	neg.	2%	5%	27%	163	12%	-8%	46%	3%
Alaska Comms / ALSK	4.49	-60%	203	750	46%	neg.	n/a	4%	n/m	430	2%	1%	61%	17%
Arch Coal / ACI	14.32	-59%	3,030	6,760	58%	6%	8%	18%	96%	828	27%	37%	24%	11%
Entropic Comms / ENTR	4.94	-59%	429	298	86%	17%	12%	11%	67%	851	46%	-16%	55%	21%
Voyager Oil & Gas / VOG	2.21	-59%	128	121	5%	neg.	neg.	7%	62%	1,180	211%	867%	83%	7%
Logitech / LOGI	7.61	-59%	1,445	1,066	222%	4%	6%	9%	36%	216	8%	1%	33%	2%
Farmer Brothers / FARM	7.31	-59%	118	139	342%	neg.	2%	9%	90%	262	7%	11%	32%	-11%
Ternium / TX	17.43	-59%	3,494	3,206	277%	14%	17%	19%	135%	559	30%	31%	22%	13%
Terex / TEX	12.81	-59%	1,405	3,034	194%	1%	3%	13%	11%	369	43%	68%	14%	1%
DG FastChannel / DGIT	11.93	-59%	328	740	39%	10%	7%	11%	n/m	326	6%	52%	67%	29%
Aegean Marine Petrol / ANW	4.31	-59%	201	864	773%	neg.	9%	19%	205%	6,120	29%	37%	4%	0%
Digital River / DRIV	14.24	-59%	532	221	173%	3%	7%	9%	65%	300	4%	12%	83%	6%
Central Pacific Fin. / CPF	12.67	-59%	529	n/m	n/m	18%	8%	6%	75%	166	-21%	-10%	n/m	26%
Sterlite Industries / SLT	6.86	-59%	5,603	3,528	207%	5%	20%	16%	138%	503	30%	-27%	n/m	26%
WMS Industries / WMS	18.78	-58%	1,047	1,013	74%	6%	8%	9%	65%	400	-5%	-17%	60%	15%
Himax Tech / HIMX	0.99	-58%	175	169	359%	10%	7%	13%	205%	451	-11%	17%	20%	3%
Xerium Technologies / XRM	6.71	-58%	102	534	110%	6%	16%	21%	n/m	172	9%	9%	38%	12%
Wilshire Bancorp / WIBC	3.21	-58%	229	n/m	n/m	neg.	neg.	13%	102%	357	-20%	-22%	n/m	-54%
PGT / PGTI	1.04	-58%	56	94	182%	neg.	neg.	6%	25%	142	-1%	-3%	23%	-7%
Gaia / GAIA	3.27	-58%	74	50	521%	neg.	n/a	6%	114%	471	-6%	1%	46%	0%
Illumina / ILMN	26.91	-58%	3,268	2,935	36%	3%	5%	5%	18%	508	30%	-1%	66%	23%
Cameco / CCJ	17.17	-57%	6,751	6,595	30%	5%	6%	7%	67%	542	-22%	26%	33%	20%
BBVA Banco Frances / BFR	4.99	-57%	993	n/m	n/m	24%	21%	27%	77%	177	-3%	8%	n/m	47%
LHC Group / LHCG	12.92	-57%	243	286	225%	neg.	13%	11%	13%	116	6%	-7%	46%	10%
Unifi / UFI	7.32	-57%	147	290	245%	10%	7%	24%	184%	263	9%	-2%	9%	3%
United States Steel / X	25.87	-56%	3,725	7,440	260%	neg.	0%	10%	58%	461	18%	13%	8%	1%
Ultrapetrol / ULTR	2.85	-56%	85	570	47%	neg.	neg.	19%	280%	218	19%	37%	28%	5%

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

100 Biggest Decliners (... and TTM Revenue / EV > 50%)

(Click data to visit relevant websites)	Trading Data				Public Market Valuation				Operating Performance					
	Stock Price (\$)	YTD Price Δ	Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./ EV	EPS Yield			Tang. Book/ MV	Rev./ Empl. (\$000)	Δ Revenue		% TTM Revenue	
						TTM	This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT
USEC / USU	1.14	-81%	139	722	260%	neg.	neg.	6%	946%	979	2%	-34%	7%	-2%
Primo Water / PRMW	2.72	-81%	65	65	115%	neg.	neg.	10%	78%	593	88%	121%	27%	-9%
Central European / CEDC	4.79	-79%	348	1,574	52%	neg.	5%	11%	n/m	199	12%	45%	39%	7%
iGo / IGOI	0.83	-78%	28	14	311%	neg.	neg.	2%	112%	692	-11%	-20%	28%	-15%
Oclaro / OCLR	2.89	-78%	146	115	394%	neg.	neg.	2%	132%	146	5%	-13%	25%	-6%
Gentiva Health / GTIV	6.07	-77%	187	999	182%	neg.	27%	14%	n/m	118	16%	18%	48%	9%
CPI Corp. / CPY	5.28	-77%	37	91	435%	4%	10%	44%	n/m	81	-34%	-7%	93%	4%
First Solar / FSLR	31.91	-75%	2,758	2,603	104%	19%	21%	23%	129%	445	5%	26%	40%	21%
Imperial Sugar / IPSU	3.30	-75%	40	119	742%	neg.	neg.	18%	508%	1,269	11%	-25%	0%	-4%
OfficeMax / OMX	4.46	-75%	384	1,668	423%	11%	13%	13%	142%	353	-2%	-2%	26%	2%
Bon-Ton Stores / BONT	3.24	-74%	64	1,106	269%	neg.	neg.	2%	n/m	112	-2%	-6%	38%	3%
Meritor / MTOR	5.30	-74%	502	1,319	351%	13%	25%	33%	n/m	440	-11%	29%	10%	5%
Exide Technologies / XIDE	2.48	-74%	194	881	351%	4%	15%	33%	100%	308	12%	16%	18%	4%
Sun Healthcare / SUNH	3.41	-73%	516	575	337%	neg.	27%	7%	30%	65	3%	3%	37%	4%
Active Power / ACPW	0.67	-73%	54	50	154%	neg.	neg.	1%	35%	423	28%	11%	25%	-4%
MIPS Technologies / MIPS	4.16	-73%	220	114	68%	5%	4%	6%	47%	473	-2%	-24%	99%	16%
Lee Enterprises / LEE	0.68	-72%	31	1,002	75%	neg.	15%	29%	n/m	133	-3%	-3%	53%	14%
Covenant Transport / CVTI	2.90	-70%	43	279	235%	neg.	neg.	9%	206%	138	2%	-2%	53%	2%
Ferro Corp. / FOE	4.43	-70%	384	670	336%	16%	17%	18%	105%	447	11%	3%	20%	7%
Mechel / MTL	8.95	-69%	4,610	13,611	91%	17%	31%	31%	83%	141	42%	21%	35%	16%
Amedisys / AMED	10.39	-69%	306	430	351%	neg.	19%	10%	40%	n/m	-8%	-7%	48%	8%
Aixtron AG / AIXG	11.71	-69%	1,199	773	117%	16%	13%	8%	63%	979	-19%	-58%	50%	31%
Synutra International / SYUT	4.25	-68%	244	452	59%	neg.	8%	22%	28%	51	-12%	141%	30%	-10%
Willbros Group / WG	3.13	-68%	152	381	434%	neg.	neg.	14%	73%	227	47%	15%	7%	-2%
Amtech Systems / ASYS	8.08	-68%	76	9	>999%	29%	neg.	14%	129%	587	105%	32%	37%	17%
Monster Worldwide / MWW	7.71	-67%	993	894	117%	5%	5%	7%	1%	173	20%	13%	54%	4%
Alpha Natural / ANR	19.62	-67%	4,313	6,534	92%	2%	11%	9%	n/m	927	58%	130%	21%	2%
RealD / RLD	8.55	-67%	466	458	58%	3%	5%	4%	36%	2,314	22%	35%	43%	11%
Citi Trends / CTRN	8.10	-67%	121	88	722%	4%	2%	6%	166%	276	2%	2%	37%	1%
Cree / CREE	21.75	-67%	2,522	1,889	52%	4%	5%	8%	59%	208	-13%	0%	41%	11%
Joe's Jeans / JOEZ	0.52	-67%	34	22	424%	n/a	n/a	6%	109%	608	-6%	-5%	46%	3%
Career Education / CECO	7.03	-66%	533	85	>999%	29%	31%	13%	86%	232	-4%	-18%	68%	15%
Aviat Networks / AVNW	1.72	-66%	105	32	>999%	neg.	2%	18%	156%	463	-42%	11%	29%	0%
MEMC Electronic / WFR	3.83	-66%	883	2,030	140%	neg.	10%	13%	188%	509	63%	3%	16%	1%
Quad Graphics / QUAD	14.33	-65%	672	2,330	193%	1%	16%	15%	46%	214	84%	-2%	24%	8%
Local.com / LOCM	2.26	-65%	50	48	153%	neg.	neg.	1%	18%	632	-9%	-7%	37%	-17%
Veolia Environnement / VE	10.57	-64%	5,470	25,694	172%	neg.	8%	12%	n/m	154	-53%	-6%	16%	4%
Cal Dive / DVR	2.05	-64%	195	373	138%	neg.	neg.	14%	171%	270	-12%	-31%	6%	-5%
Spansion / CODE	7.49	-64%	446	595	198%	1%	18%	13%	54%	346	3%	-16%	24%	5%
Calix / CALX	6.26	-63%	296	264	131%	neg.	6%	9%	25%	720	21%	11%	35%	-10%
AXT / AXTI	3.87	-63%	124	102	108%	18%	16%	14%	106%	84	27%	6%	43%	27%
Axcelis / ACLS	1.29	-63%	137	93	379%	9%	4%	4%	157%	346	60%	-3%	35%	4%
STR / STRI	7.47	-63%	311	181	162%	13%	13%	11%	34%	133	-16%	-18%	36%	23%
Ambassadors Group / EPAX	4.30	-63%	75	23	307%	6%	4%	2%	97%	327	-13%	-11%	89%	4%
Gafsa / GFA	5.46	-62%	1,184	2,940	69%	10%	11%	20%	170%	381	-1%	5%	27%	10%
BSQUARE / BSQR	3.30	-62%	35	19	543%	13%	6%	11%	59%	470	20%	-5%	21%	2%
Power-One / PWER	3.85	-62%	401	275	406%	26%	21%	17%	87%	322	14%	-22%	35%	23%
CTC Media / CTCM	8.89	-62%	1,399	1,267	59%	11%	11%	12%	15%	659	34%	27%	94%	35%
TriQuint Semi / TQNT	4.53	-61%	753	606	152%	11%	11%	8%	119%	332	13%	-9%	38%	12%
Almost Family / AFAM	14.93	-61%	140	113	297%	16%	15%	12%	36%	52	2%	2%	52%	11%

<i>(Click data to visit relevant websites)</i>	Trading Data				Public Market Valuation					Operating Performance				
	Stock Price (\$)	YTD Price Δ	Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./EV	EPS Yield			Tang. Book/MV	Rev./Empl. (\$000)	Δ Revenue		% TTM Revenue	
						TTM	This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT
OmniVision / OVTI	11.62	-61%	678	258	394%	20%	12%	6%	111%	695	36%	-9%	31%	13%
Office Depot / ODP	2.13	-61%	597	1,184	970%	neg.	neg.	4%	108%	287	-2%	-2%	29%	0%
Five Star Quality / FVE	2.79	-61%	133	199	636%	21%	16%	11%	160%	56	-16%	8%	86%	2%
Accuride / ACW	6.27	-61%	297	581	153%	neg.	neg.	12%	n/m	280	9%	35%	8%	1%
Netflix / NFLX	69.82	-60%	3,865	3,734	78%	6%	6%	0%	n/m	1,342	45%	49%	37%	13%
FuelCell Energy / FCEL	0.92	-60%	117	139	88%	neg.	neg.	10%	n/m	278	76%	76%	-10%	-37%
VirtualScopics / VSCP	0.86	-60%	25	20	72%	neg.	2%	5%	27%	163	12%	-8%	46%	3%
Arch Coal / ACI	14.32	-59%	3,030	6,760	58%	6%	8%	18%	96%	828	27%	37%	24%	11%
Entropic Comms / ENTR	4.94	-59%	429	298	86%	17%	12%	11%	67%	851	46%	-16%	55%	21%
Logitech / LOGI	7.61	-59%	1,445	1,066	222%	4%	6%	9%	36%	216	8%	1%	33%	2%
Farmer Brothers / FARM	7.31	-59%	118	139	342%	neg.	2%	9%	90%	262	7%	11%	32%	-11%
Ternium / TX	17.43	-59%	3,494	3,206	277%	14%	17%	19%	135%	559	30%	31%	22%	13%
Terex / TEX	12.81	-59%	1,405	3,034	194%	1%	3%	13%	11%	369	43%	68%	14%	1%
Aegean Marine Petrol / ANW	4.31	-59%	201	864	773%	neg.	9%	19%	205%	6,120	29%	37%	4%	0%
Digital River / DRIV	14.24	-59%	532	221	173%	3%	7%	9%	65%	300	4%	12%	83%	6%
Sterlite Industries / SLT	6.86	-59%	5,603	3,528	207%	5%	20%	16%	138%	503	30%	-27%	n/m	26%
WMS Industries / WMS	18.78	-58%	1,047	1,013	74%	6%	8%	9%	65%	400	-5%	-17%	60%	15%
Himax Tech / HIMX	0.99	-58%	175	169	359%	10%	7%	13%	205%	451	-11%	17%	20%	3%
Xerium Technologies / XRM	6.71	-58%	102	534	110%	6%	16%	21%	n/m	172	9%	9%	38%	12%
PGT / PGTI	1.04	-58%	56	94	182%	neg.	neg.	6%	25%	142	-1%	-3%	23%	-7%
GaiaM / GAIA	3.27	-58%	74	50	521%	neg.	n/a	6%	114%	471	-6%	1%	46%	0%
LHC Group / LHCG	12.92	-57%	243	286	225%	neg.	13%	11%	13%	116	6%	-7%	46%	10%
Unifi / UFI	7.32	-57%	147	290	245%	10%	7%	24%	184%	263	9%	-2%	9%	3%
United States Steel / X	25.87	-56%	3,725	7,440	260%	neg.	0%	10%	58%	461	18%	13%	8%	1%
Corinthian Colleges / COCO	2.31	-56%	196	366	486%	neg.	6%	14%	95%	160	-5%	-17%	39%	4%
Homex Development / HXM	15.01	-56%	841	1,656	93%	14%	16%	21%	112%	67	10%	10%	30%	14%
Partner Comms / PTNR	9.04	-56%	1,416	2,676	71%	17%	17%	19%	n/m	311	-12%	6%	33%	22%
NII Holdings / NIHD	19.88	-55%	3,403	5,222	127%	9%	8%	10%	59%	492	25%	21%	61%	15%
Kratos Defense / KTOS	5.88	-55%	202	748	84%	neg.	neg.	6%	n/m	216	72%	76%	25%	6%
Rentrak / RENT	13.47	-55%	148	126	74%	neg.	neg.	1%	24%	302	-4%	-9%	44%	-3%
NuVasive / NUVA	11.46	-55%	484	540	96%	neg.	9%	9%	52%	659	14%	10%	81%	7%
EDENOR / EDN	6.09	-55%	146	450	140%	neg.	neg.	12%	323%	236	28%	76%	21%	2%
Tower Semiconductor / TSEM	0.63	-55%	197	471	121%	n/a	75%	71%	63%	298	20%	31%	18%	6%
Avid Technology / AVID	7.81	-55%	302	281	245%	neg.	1%	5%	49%	280	5%	0%	53%	-1%
Community Health / CYH	16.74	-55%	1,533	10,096	135%	19%	20%	21%	n/m	213	10%	9%	87%	8%
Rubicon Technology / RBCN	9.46	-55%	214	142	102%	23%	17%	9%	108%	577	156%	64%	60%	49%
ArcelorMittal / MT	17.16	-55%	26,715	51,602	179%	8%	13%	14%	168%	348	23%	23%	95%	6%
Industrial Services / IDSA	5.55	-55%	39	82	398%	neg.	3%	9%	71%	1,764	16%	-27%	5%	0%
Nokia / NOK	4.68	-55%	17,771	10,564	510%	5%	8%	7%	40%	396	-3%	-13%	30%	3%
Winnebago / WGO	6.94	-54%	202	133	374%	6%	6%	7%	53%	233	10%	6%	8%	2%
Isle of Capri / ISLE	4.67	-54%	182	1,274	78%	1%	2%	6%	n/m	116	1%	0%	48%	9%
Thompson Creek / TC	6.73	-54%	1,128	1,130	63%	21%	10%	5%	146%	764	30%	-4%	39%	32%
LoJack Corp. / LOJN	2.96	-54%	55	11	>999%	neg.	neg.	2%	58%	222	-3%	-10%	51%	1%
AK Steel / AKS	7.52	-54%	829	1,717	370%	neg.	2%	11%	71%	962	8%	1%	7%	0%
Patriot Coal Corp. / PCX	8.90	-54%	813	1,033	225%	neg.	neg.	5%	99%	629	16%	18%	12%	0%
NN / NNBR	5.68	-54%	96	175	243%	19%	19%	22%	93%	232	22%	11%	18%	7%
Image Sensing / ISNS	6.05	-53%	30	23	141%	neg.	3%	9%	86%	262	16%	-19%	73%	2%
McClatchy / MNI	2.20	-53%	188	1,771	73%	15%	25%	19%	n/m	166	-8%	-8%	52%	17%
Albany Molecular / AMRI	2.65	-53%	81	70	298%	neg.	neg.	2%	265%	148	9%	-1%	17%	-8%
Spartech Corp. / SEH	4.44	-53%	137	300	356%	neg.	10%	13%	74%	445	-13%	8%	9%	1%

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

100 Biggest Decliners (... and Gross Margin > 50%)

(Click data to visit relevant websites)	Trading Data				Public Market Valuation					Operating Performance				
	Stock Price (\$)	YTD Price Δ	Market Value (\$mn)	Enter. Value (\$mn)	TTM Rev./EV	EPS Yield			Tang. Book/MV	Rev./Empl. (\$000)	Δ Revenue		% TTM Revenue	
						TTM	This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT
CPI Corp. / CPY	5.28	-77%	37	91	435%	4%	10%	44%	n/m	81	-34%	-7%	93%	4%
MIPS Technologies / MIPS	4.16	-73%	220	114	68%	5%	4%	6%	47%	473	-2%	-24%	99%	16%
Lee Enterprises / LEE	0.68	-72%	31	1,002	75%	neg.	15%	29%	n/m	133	-3%	-3%	53%	14%
Covenant Transport / CVTI	2.90	-70%	43	279	235%	neg.	neg.	9%	206%	138	2%	-2%	53%	2%
Monster Worldwide / MWW	7.71	-67%	993	894	117%	5%	5%	7%	1%	173	20%	13%	54%	4%
Career Education / CECO	7.03	-66%	533	85	>999%	29%	31%	13%	86%	232	-4%	-18%	68%	15%
Ambassadors Group / EPAX	4.30	-63%	75	23	307%	6%	4%	2%	97%	327	-13%	-11%	89%	4%
CTC Media / CTCM	8.89	-62%	1,399	1,267	59%	11%	11%	12%	15%	659	34%	27%	94%	35%
Almost Family / AFAM	14.93	-61%	140	113	297%	16%	15%	12%	36%	52	2%	2%	52%	11%
Five Star Quality / FVE	2.79	-61%	133	199	636%	21%	16%	11%	160%	56	-16%	8%	86%	2%
Entropic Comms / ENTR	4.94	-59%	429	298	86%	17%	12%	11%	67%	851	46%	-16%	55%	21%
Digital River / DRIV	14.24	-59%	532	221	173%	3%	7%	9%	65%	300	4%	12%	83%	6%
WMS Industries / WMS	18.78	-58%	1,047	1,013	74%	6%	8%	9%	65%	400	-5%	-17%	60%	15%
NII Holdings / NIHD	19.88	-55%	3,403	5,222	127%	9%	8%	10%	59%	492	25%	21%	61%	15%
NuVasive / NUVA	11.46	-55%	484	540	96%	neg.	9%	9%	52%	659	14%	10%	81%	7%
Avid Technology / AVID	7.81	-55%	302	281	245%	neg.	1%	5%	49%	280	5%	0%	53%	-1%
Community Health / CYH	16.74	-55%	1,533	10,096	135%	19%	20%	21%	n/m	213	10%	9%	87%	8%
Rubicon Technology / RBCN	9.46	-55%	214	142	102%	23%	17%	9%	108%	577	156%	64%	60%	49%
ArcelorMittal / MT	17.16	-55%	26,715	51,602	179%	8%	13%	14%	168%	348	23%	23%	95%	6%
LoJack Corp. / LOJN	2.96	-54%	55	11	>999%	neg.	neg.	2%	58%	222	-3%	-10%	51%	1%
Image Sensing / ISNS	6.05	-53%	30	23	141%	neg.	3%	9%	86%	262	16%	-19%	73%	2%
McClatchy / MNI	2.20	-53%	188	1,771	73%	15%	25%	19%	n/m	166	-8%	-8%	52%	17%
Capella Education / CPLA	33.01	-50%	477	339	128%	11%	11%	10%	32%	146	7%	-3%	61%	21%
Juniper / JNPR	18.35	-50%	9,652	7,296	62%	5%	7%	8%	30%	538	18%	9%	66%	16%
Medifast / MED	14.49	-50%	224	192	152%	10%	10%	11%	32%	575	21%	13%	75%	11%
Lincoln / LINC	7.89	-49%	179	189	298%	20%	13%	7%	78%	155	-10%	-26%	59%	14%
Talisman Energy / TLM	11.30	-49%	11,685	15,436	52%	1%	7%	12%	76%	2,617	15%	12%	75%	39%
Chindex International / CHDX	8.49	-49%	143	99	133%	3%	2%	6%	98%	122	-24%	-36%	72%	5%
Sonic Foundry / SOFO	7.30	-48%	28	24	103%	neg.	1%	2%	6%	268	24%	24%	71%	3%
Cbeyond / CBEY	8.01	-48%	243	235	204%	neg.	neg.	1%	56%	233	8%	8%	67%	-1%
Global Sources / GSOL	5.04	-47%	170	81	265%	23%	17%	18%	60%	596	14%	19%	53%	14%
Cablevision / CVC	12.75	-46%	3,563	13,765	50%	8%	8%	10%	n/m	421	8%	8%	56%	18%
KIT digital / KITD	8.76	-45%	404	362	51%	neg.	neg.	9%	18%	255	117%	125%	68%	7%
Transport. de Gas / TGS	3.09	-45%	246	552	71%	8%	36%	38%	232%	472	-7%	-5%	55%	22%
Universal Technical / UTI	12.25	-44%	303	199	227%	9%	7%	8%	40%	200	4%	-7%	51%	10%
China Cord Blood / CO	2.26	-44%	166	74	80%	11%	11%	13%	90%	96	27%	19%	77%	38%
Jamba / JMBA	1.30	-43%	87	80	280%	neg.	neg.	2%	12%	38	-17%	-14%	78%	-3%
Avon Products / AVP	16.72	-42%	7,203	9,465	121%	10%	11%	11%	11%	272	5%	6%	63%	11%
Palomar Medical / PMTI	8.18	-42%	160	59	163%	4%	3%	0%	97%	454	21%	192%	61%	10%
Vitesse Semiconductor / VTSS	2.42	-42%	59	98	144%	neg.	neg.	12%	n/m	302	-32%	-29%	62%	-6%
Demand Media / DMD	7.05	-42%	591	512	61%	neg.	3%	5%	12%	523	34%	25%	52%	-2%
Cosi / COSI	0.69	-42%	36	28	364%	neg.	neg.	3%	21%	50	-10%	-7%	78%	-6%
Innovative Solutions / ISSC	3.30	-42%	55	13	204%	1%	4%	4%	98%	220	2%	-13%	54%	2%
Tele Norte Leste / TNE	8.70	-41%	4,538	13,579	112%	6%	7%	12%	n/m	536	-8%	-6%	65%	12%
Alphatec / ATEC	1.60	-41%	143	176	111%	neg.	n/a	4%	36%	422	22%	6%	64%	-4%
Shenandoah Telecom / SHEN	11.17	-40%	266	430	56%	5%	5%	7%	40%	412	37%	18%	59%	13%
PMC-Sierra / PMCS	5.15	-40%	1,186	1,010	65%	6%	12%	11%	32%	456	7%	7%	67%	10%
Silicon Image / SIMG	4.41	-40%	362	206	104%	1%	4%	8%	48%	496	22%	-1%	59%	3%
Emulex / ELX	7.07	-39%	604	441	83%	neg.	9%	10%	43%	376	-27%	15%	56%	-6%
NutriSystem / NTRI	12.87	-39%	362	319	132%	6%	4%	7%	22%	653	-38%	-29%	52%	8%

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						TTM	This FY	Next FY			TTM	Last Q	Gross Profit	Adj. EBIT
Kindred Healthcare / KND	11.28	-39%	588	1,989	258%	8%	17%	15%	n/m	126	-5%	44%	93%	3%
Strayer Education / STRA	93.59	-39%	1,124	1,171	55%	10%	9%	8%	4%	307	5%	-8%	57%	30%
P.F. Chang's / PFCB	29.81	-38%	632	709	175%	6%	5%	5%	44%	50	-1%	-3%	74%	4%
Freeport-McMoRan / FCX	36.99	-38%	35,063	33,470	67%	15%	13%	13%	43%	752	24%	1%	52%	49%
AudioCodes / AUDC	3.68	-38%	152	133	119%	8%	8%	12%	48%	260	11%	-6%	58%	6%
Lawson Products / LAWS	15.85	-36%	136	117	276%	1%	neg.	3%	83%	346	5%	-8%	59%	2%
Learning Tree / LTRE	6.12	-36%	83	40	336%	4%	6%	8%	46%	n/m	5%	1%	54%	4%
Applied Micro / AMCC	6.84	-36%	416	300	82%	neg.	0%	5%	47%	367	4%	-2%	58%	-9%
Nexen / NXY	14.67	-36%	7,722	11,101	55%	8%	11%	14%	103%	1,560	4%	6%	73%	35%
Dolan Media / DM	8.95	-36%	274	459	64%	7%	5%	6%	n/m	144	-3%	-4%	57%	10%
Integra LifeSciences / IART	30.68	-35%	823	1,254	61%	5%	9%	11%	n/m	257	7%	8%	63%	9%
NetApp / NTAP	35.71	-35%	12,806	9,340	61%	5%	7%	8%	20%	557	24%	20%	63%	14%
Atmel Corp. / ATML	8.07	-34%	3,733	3,255	58%	13%	9%	8%	30%	361	0%	8%	51%	24%
Broadcom / BRCM	28.72	-34%	13,958	11,597	65%	6%	10%	9%	28%	995	-2%	8%	51%	15%
O2Micro / OIIM	4.10	-34%	137	24	529%	8%	7%	8%	134%	180	-10%	-5%	58%	7%
Intersil / ISIL	10.14	-34%	1,282	1,139	69%	5%	4%	5%	30%	448	-2%	-15%	58%	12%
Quest Software / QSFT	18.43	-34%	1,531	1,333	62%	4%	7%	9%	0%	239	11%	14%	86%	9%
Shutterfly / SFLY	23.22	-33%	805	736	51%	2%	2%	4%	16%	615	38%	56%	53%	-2%
Natus Medical / BABY	9.48	-33%	279	249	93%	4%	5%	6%	37%	309	12%	-4%	57%	5%
Net1 UEPS / UEPS	8.22	-33%	370	406	93%	4%	19%	13%	3%	166	36%	55%	67%	26%
Atlas Air Worldwide / AAWW	37.78	-32%	994	1,092	125%	10%	11%	15%	107%	894	5%	11%	74%	12%
Boston Scientific / BSX	5.14	-32%	7,615	11,602	67%	7%	9%	10%	n/m	311	-1%	-2%	66%	23%
Telephone & Data / TDS	24.82	-32%	2,462	3,146	163%	9%	10%	8%	66%	654	-17%	5%	61%	7%
Quiksilver / ZQK	3.46	-32%	572	1,192	164%	neg.	8%	10%	22%	315	6%	10%	52%	7%
SRS Labs / SRSL	6.02	-32%	88	55	57%	neg.	2%	4%	59%	680	0%	-2%	98%	-1%
Mobile TeleSystems / MBT	14.28	-32%	14,201	19,869	62%	9%	10%	12%	5%	309	12%	13%	71%	22%
Compuware Corp. / CPWR	8.04	-31%	1,756	1,818	54%	6%	6%	7%	4%	220	11%	15%	67%	15%
Neutral Tandem / TNDM	10.00	-31%	315	231	114%	8%	9%	10%	55%	1,142	45%	45%	60%	18%
Mercury Computer / MRCY	12.77	-31%	391	225	100%	5%	6%	9%	54%	375	10%	-6%	57%	11%
Suncor Energy / SU	26.86	-30%	42,171	49,761	76%	9%	12%	12%	81%	3,147	26%	39%	53%	18%
Progress Software / PRGS	20.01	-29%	1,281	935	58%	5%	7%	8%	29%	344	4%	0%	81%	20%
Emergent BioSolution / EBS	16.61	-29%	597	522	51%	3%	3%	6%	54%	350	14%	-21%	83%	8%
Microsemi Corp. / MSCC	16.23	-29%	1,416	1,511	55%	4%	12%	16%	8%	464	61%	50%	53%	11%
Media General / MEG	4.10	-29%	95	750	85%	neg.	neg.	4%	n/m	137	-4%	-11%	77%	7%
DeVry / DV	34.10	-29%	2,294	1,969	111%	13%	11%	12%	21%	212	9%	0%	57%	21%
City Telecom / CTEL	10.54	-29%	412	360	60%	10%	11%	13%	56%	67	-40%	13%	87%	23%
VistaPrint / VPRT	32.74	-29%	1,258	1,097	78%	5%	6%	7%	28%	330	24%	25%	65%	11%
Orbitz Worldwide / OWW	3.98	-29%	413	744	104%	neg.	3%	5%	n/m	551	3%	4%	81%	7%
EarthLink / ELNK	6.18	-28%	659	1,055	107%	5%	5%	4%	5%	353	82%	146%	56%	15%
Hasbro / HAS	34.02	-28%	4,388	5,619	75%	9%	9%	10%	10%	730	3%	5%	58%	14%
Tessera Technologies / TSRA	16.00	-28%	825	289	96%	neg.	4%	5%	71%	580	0%	-28%	92%	35%
France Telecom / FTE	15.32	-27%	40,751	76,127	79%	10%	13%	12%	n/m	362	-56%	1%	58%	21%
Marvell Technology / MRVL	13.52	-27%	7,889	5,464	65%	9%	10%	9%	36%	603	0%	-1%	58%	21%
Telefonica / TEF	16.63	-27%	76,241	150,649	55%	21%	10%	13%	n/m	2,320	4%	4%	71%	15%
Mindspeed Tech / MSPD	4.45	-27%	154	123	132%	neg.	3%	11%	34%	300	-9%	-29%	63%	0%
Luby's / LUB	4.58	-27%	129	149	234%	2%	3%	13%	106%	47	42%	39%	69%	1%
Celadon Group / CGI	10.83	-27%	244	250	223%	6%	8%	10%	64%	160	4%	1%	74%	4%
Health Mgmt Assoc. / HMA	7.04	-26%	1,789	5,072	110%	11%	11%	12%	n/m	196	13%	12%	87%	10%
Telecom Argentina / TEO	18.37	-26%	1,941	1,468	279%	16%	16%	18%	n/m	255	26%	27%	80%	23%
American Greetings / AM	16.45	-26%	611	635	256%	14%	16%	18%	126%	220	1%	8%	57%	11%

MV = market value, EV = enterprise value, Rev. = revenue, GP = gross profit, NI = net income, TTM = trailing twelve months, Cap. Empl. = capital employed.

Favorite Screens for Value Investors

"Magic Formula," Based on Trailing Operating Income

Companies with high returns on capital employed, trading at high trailing EBIT-to-enterprise value yield

Company	Ticker	Price (\$)	Move To 52-Week		MV (\$mn)	EV (\$mn)	EV/Sales	Trailing EBIT/EV	EBIT/Capital Employed	Tax Rate	Price/Tangible Book	Insiders		
			Low	High								% Own.	Buys/Sells	
1	Unisys	UIS	20.37	-32%	103%	883	661	.2x	51%	11069%	30%	n/m	<1%	5 / 1
2	ITT Educational	ESI	52.04	-2%	84%	1,388	1,218	.8x	45%	infinite	39%	>9.9x	<1%	- / -
3	Astex Pharma	ASTX	1.66	-9%	102%	154	29	.5x	34%	infinite	n/m	1.8x	<1%	- / -
4	Bridgepoint Edu.	BPI	21.62	-27%	42%	1,110	860	1.0x	33%	infinite	38%	3.5x	<1%	6 / 6
5	DepoMed	DEPO	4.59	-8%	127%	254	145	1.0x	31%	infinite	n/m	2.2x	<1%	4 / -
6	PDL BioPharma	PDLI	6.01	-22%	11%	840	1,101	3.0x	31%	infinite	35%	n/m	<1%	4 / -
7	Career Education	CECO	7.03	-6%	293%	533	85	.0x	359%	493%	34%	1.2x	<1%	1 / 4
8	Tessera Technologies	TSRA	16.00	-30%	45%	825	289	1.0x	34%	322%	>99%	1.4x	<1%	4 / 2
9	Nova Measuring	NVMI	7.12	-28%	66%	166	83	.7x	36%	304%	n/m	1.8x	<1%	- / -
10	Global Sources	GSOL	5.04	-2%	154%	170	81	.4x	37%	271%	5%	1.7x	<1%	- / -
11	Dell	DELL	15.03	-14%	17%	27,002	21,425	.3x	22%	infinite	18%	>9.9x	<1%	15 / 3
12	Veeco Instruments	VECO	22.29	-3%	159%	863	440	.4x	78%	195%	22%	1.3x	<1%	5 / 6
13	General Motors	GM	20.15	-5%	96%	31,526	21,605	.1x	27%	324%	0%	n/m	<1%	16 / 14
14	* InterMune	ITMN	11.09	-4%	366%	727	499	1.9x	20%	infinite	0%	3.4x	<1%	7 / 9
15	Capella Education	CPLA	33.01	-21%	112%	477	339	.8x	27%	250%	37%	3.2x	<1%	5 / -
16	Apollo Group	APOL	50.15	-31%	8%	6,549	5,576	1.2x	21%	729%	44%	6.6x	3%	20 / 12
17	Amerigroup	AGP	56.12	-33%	35%	2,685	2,122	.3x	19%	infinite	37%	2.7x	2%	9 / 10
18	Vonage	VG	2.36	-14%	128%	532	588	.7x	19%	infinite	9%	n/m	14%	10 / 4
19	Forest Labs	FRX	29.03	-2%	40%	7,756	5,551	1.2x	26%	235%	21%	2.8x	1%	18 / 11
20	ePlus	PLUS	28.20	-21%	8%	227	205	.2x	19%	infinite	42%	1.2x	12%	6 / 7
21	* Exelis	XLS	8.80	-6%	53%	1,624	2,209	.4x	29%	194%	35%	n/m	<1%	19 / 1
22	Power-One	PWER	3.85	-2%	215%	401	275	.2x	93%	134%	36%	1.2x	3%	3 / 7
23	DeVry	DV	34.10	-4%	96%	2,294	1,969	.9x	23%	227%	32%	4.7x	2%	19 / 11
24	USA Mobility	USMO	14.26	-14%	33%	315	303	1.3x	20%	381%	n/m	4.7x	1%	7 / -
25	CTC Media	CTCM	8.89	-10%	181%	1,399	1,267	1.7x	21%	289%	33%	6.7x	<1%	2 / 1
26	United Online	UNTD	5.30	-9%	42%	473	622	.7x	17%	infinite	32%	n/m	3%	- / 4
27	Spirit Airlines	SAVE	15.33	-34%	14%	1,112	761	.8x	17%	infinite	35%	2.5x	<1%	- / 1
28	Cray	CRAY	6.19	-20%	35%	225	136	.4x	29%	133%	5%	1.7x	4%	7 / -
29	Almost Family	AFAM	14.93	-16%	173%	140	113	.3x	34%	118%	40%	2.8x	<1%	- / -
30	C&J Energy	CJES	20.30	-38%	62%	1,053	1,003	1.6x	21%	175%	37%	4.3x	4%	3 / 2
31	Microsoft	MSFT	26.00	-9%	13%	218,717	173,241	2.4x	16%	infinite	17%	4.8x	6%	15 / 11
32	* Nevsun Resources	NSU	5.29	-18%	47%	1,063	835	2.2x	33%	110%	38%	2.3x	<1%	- / -
33	Kulicke and Soffa	KLIC	8.61	-22%	48%	634	355	.4x	49%	100%	21%	1.6x	2%	13 / 9
34	Dolby Laboratories	DLB	31.40	-18%	119%	3,414	2,472	2.6x	18%	276%	30%	2.5x	<1%	2 / 2
35	Visa Gold Corp.	VGZ	3.27	-31%	40%	234	206	n/m	28%	113%	39%	1.6x	1%	2 / 7
36	STR Holdings	STRI	7.47	-4%	177%	311	181	.6x	38%	97%	30%	3.0x	1%	8 / -
37	* Korn/Ferry	KFY	15.42	-27%	61%	737	518	.6x	19%	170%	35%	1.8x	1%	11 / 4
38	* Terra Nitrogen	TNH	155.68	-36%	28%	2,880	2,730	3.7x	16%	577%	n/m	>9.9x	75%	2 / -
39	* CA	CA	20.12	-8%	28%	9,927	8,945	1.9x	15%	infinite	33%	n/m	<1%	- / 7
40	* QAD	QADB	10.72	-26%	18%	172	113	.5x	15%	infinite	35%	3.1x	<1%	- / 4
41	Interpublic Group	IPG	9.09	-26%	47%	4,192	4,339	.6x	15%	infinite	28%	n/m	<1%	1 / 1
42	Applied Materials	AMAT	10.33	-6%	64%	13,487	9,191	.9x	26%	107%	19%	1.9x	<1%	14 / 11
43	Metropolitan Health	MDF	7.78	-51%	3%	340	278	.7x	16%	405%	39%	4.1x	3%	6 / 5
44	* GameStop	GME	23.34	-21%	23%	3,184	2,866	.3x	22%	120%	35%	5.0x	<1%	3 / 2
45	* Rimage	RIMG	11.11	-7%	48%	115	(0)	n/m	infinite	89%	37%	.9x	2%	5 / -


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* New additions are highlighted. Screening criteria: ► Market value > \$100 million ► ADRs and banks excluded ► China RTOs excluded

“Magic Formula,” Based on This Year’s EPS Estimates

Companies with high returns on capital employed, trading at high earnings yields (based on this FY EPS estimates)

Company	Ticker	Price (\$)	Move To 52-Week		MV (\$mn)	EV (\$mn)	EV/Sales	This FY EPS Yield	EBIT/ Capital Employed	Tax Rate	Price to Tangible Book	Insiders	
			Low	High								% Own.	Buys/Sells
1	DepoMed	DEPO	4.59	-8% 127%	254	145	1.0x	26%	infinite	n/m	2.2x	<1%	4 / -
2	GT Solar	GTAT	7.15	-10% 145%	910	517	.5x	21%	infinite	33%	9.3x	<1%	11 / 6
3	Career Education	CECO	7.03	-6% 293%	533	85	.0x	31%	493%	34%	1.2x	<1%	1 / 4
4	ITT Educational	ESI	52.04	-2% 84%	1,388	1,218	.8x	20%	infinite	39%	>9.9x	<1%	- / -
5	Dell	DELL	15.03	-14% 17%	27,002	21,425	.3x	14%	infinite	18%	>9.9x	<1%	15 / 3
6	Bridgepoint Edu.	BPI	21.62	-27% 42%	1,110	860	1.0x	14%	infinite	38%	3.5x	<1%	6 / 6
7	Global Sources	GSOL	5.04	-2% 154%	170	81	.4x	17%	271%	5%	1.7x	<1%	- / -
8	Veeco Instruments	VECO	22.29	-3% 159%	863	440	.4x	21%	195%	22%	1.3x	<1%	5 / 6
9	* Medley Capital	MCC	9.76	-11% 28%	169	96	12.5x	13%	infinite	n/m	.8x	28%	3 / 1
10	Majesco	COOL	2.79	-76% 62%	115	96	.8x	14%	261%	4%	4.3x	4%	7 / 7
11	C&J Energy	CJES	20.30	-38% 62%	1,053	1,003	1.6x	16%	175%	37%	4.3x	4%	3 / 2
12	Power-One	PWER	3.85	-2% 215%	401	275	.2x	21%	134%	36%	1.2x	3%	3 / 7
13	PMC-Sierra	PMCS	5.15	-5% 79%	1,186	1,010	1.5x	12%	828%	30%	3.1x	<1%	3 / -
14	Forest Labs	FRX	29.03	-2% 40%	7,756	5,551	1.2x	13%	235%	21%	2.8x	1%	18 / 11
15	Almost Family	AFAM	14.93	-16% 173%	140	113	.3x	15%	118%	40%	2.8x	<1%	- / -
16	CTC Media	CTCM	8.89	-10% 181%	1,399	1,267	1.7x	11%	289%	33%	6.7x	<1%	2 / 1
17	Microsoft	MSFT	26.00	-9% 13%	218,717	173,241	2.4x	11%	infinite	17%	4.8x	6%	15 / 11
18	DeVry	DV	34.10	-4% 96%	2,294	1,969	.9x	11%	227%	32%	4.7x	2%	19 / 11
19	Kulicke and Sofa	KLIC	8.61	-22% 48%	634	355	.4x	14%	100%	21%	1.6x	2%	13 / 9
20	Medicines	MDCO	19.50	-37% 2%	1,057	749	1.6x	10%	544%	n/m	2.8x	<1%	2 / 3
21	Capella Education	CPLA	33.01	-21% 112%	477	339	.8x	11%	250%	37%	3.2x	<1%	5 / -
22	GameStop	GME	23.34	-21% 23%	3,184	2,866	.3x	12%	120%	35%	5.0x	<1%	3 / 2
23	H&R Block	HRB	15.36	-26% 17%	4,499	5,031	1.5x	10%	infinite	37%	>9.9x	<1%	14 / 4
24	Cisco Systems	CSCO	17.94	-26% 25%	96,443	68,908	1.6x	10%	10099%	17%	3.4x	<1%	20 / 13
25	STR Holdings	STRI	7.47	-4% 177%	311	181	.6x	13%	97%	30%	3.0x	1%	8 / -
26	TRW Automotive	TRW	30.30	-2% 109%	3,749	4,391	.3x	23%	68%	14%	6.7x	<1%	3 / 1
27	CF Industries	CF	129.89	-11% 48%	8,493	8,685	1.5x	17%	72%	36%	4.0x	<1%	10 / 10
28	* Datalink Corp.	DTLK	7.55	-43% 52%	134	99	.3x	11%	151%	41%	2.8x	13%	8 / 3
29	Gilead Sciences	GILD	37.16	-7% 17%	27,912	29,549	3.6x	11%	160%	24%	7.0x	<1%	5 / 4
30	* USANA Health	USNA	29.91	-23% 48%	447	411	.7x	11%	135%	34%	4.5x	54%	4 / 5
31	KBR	KBR	25.36	-18% 55%	3,775	3,184	.3x	13%	91%	9%	2.6x	<1%	2 / 1
32	Entropic Comms	ENTR	4.94	-32% 183%	429	298	1.2x	12%	94%	n/m	1.5x	<1%	5 / 2
33	Darling	DAR	12.54	-10% 56%	1,468	1,749	1.1x	13%	93%	37%	9.7x	<1%	1 / 3
34	j2 Global Comms	JCOM	26.33	-4% 24%	1,249	1,086	3.4x	10%	infinite	13%	8.2x	6%	5 / 8
35	* Ross Stores	ROST	47.00	-36% 1%	10,746	10,343	1.2x	12%	96%	38%	7.4x	<1%	2 / 2
36	Jazz Pharma	JAZZ	36.98	-50% 29%	1,559	1,446	6.0x	9%	infinite	n/m	>9.9x	<1%	9 / 2
37	ePlus	PLUS	28.20	-21% 8%	227	205	.2x	9%	infinite	42%	1.2x	12%	6 / 7
38	* SanDisk	SNDK	47.91	-33% 12%	11,513	10,542	1.9x	10%	311%	15%	1.8x	<1%	9 / 9
39	* Broadcom	BRCM	28.72	-2% 65%	13,958	11,597	1.5x	10%	218%	1%	3.5x	<1%	3 / 10
40	* Lear	LEA	36.65	-3% 56%	3,750	2,769	.2x	14%	66%	13%	1.9x	<1%	9 / 10
41	* Skyworks Solutions	SWKS	14.37	-5% 163%	2,700	2,316	1.6x	13%	72%	23%	3.1x	<1%	7 / 7
42	LHC Group	LHCG	12.92	-4% 145%	243	286	.4x	13%	72%	34%	7.9x	<1%	1 / 3
43	Apple	AAPL	381.02	-19% 12%	354,123	328,171	3.0x	9%	infinite	24%	4.9x	<1%	7 / 8
44	* Portfolio Recovery	PRAA	64.39	-12% 41%	1,102	1,334	3.0x	9%	infinite	40%	2.2x	<1%	1 / -
45	* HollyFrontier	HFC	22.51	-19% 73%	4,710	4,219	.3x	29%	55%	36%	1.8x	1%	21 / 7


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* New additions are highlighted. Criteria: ▶ MV > \$100 million ▶ ADRs, banks excluded ▶ EV to MV < 1.5 ▶ China RTOs excluded

"Magic Formula," Based on Next Year's EPS Estimates

Companies with high returns on capital employed, trading at high earnings yields (based on next FY EPS estimates)

Company	Ticker	Price (\$)	Move To 52-Week		MV (\$mn)	EV (\$mn)	EV/Sales	Next FY EPS Yield	EBIT/ Capital Employed	Tax Rate	Price to Tangible Book	Insiders	
			Low	High								% Own.	Buys/Sells
1	GT Solar	GTAT	7.15	-10% 145%	910	517	.5x	22%	infinite	33%	9.3x	<1%	11 / 6
2	ITT Educational	ESI	52.04	-2% 84%	1,388	1,218	.8x	15%	infinite	39%	>9.9x	<1%	- / -
3	Global Sources	GSOL	5.04	-2% 154%	170	81	.4x	18%	271%	5%	1.7x	<1%	- / -
4	C&J Energy	CJES	20.30	-38% 62%	1,053	1,003	1.6x	21%	175%	37%	4.3x	4%	3 / 2
5	* Medley Capital	MCC	9.76	-11% 28%	169	96	12.5x	14%	infinite	n/m	.8x	28%	3 / 1
6	Majesco	COOL	2.79	-76% 62%	115	96	.8x	16%	261%	4%	4.3x	4%	7 / 7
7	Dell	DELL	15.03	-14% 17%	27,002	21,425	.3x	13%	infinite	18%	>9.9x	<1%	15 / 3
8	Bridgepoint Edu.	BPI	21.62	-27% 42%	1,110	860	1.0x	13%	infinite	38%	3.5x	<1%	6 / 6
9	Career Education	CECO	7.03	-6% 293%	533	85	.0x	13%	493%	34%	1.2x	<1%	1 / 4
10	Power-One	PWER	3.85	-2% 215%	401	275	.2x	17%	134%	36%	1.2x	3%	3 / 7
11	Spirit Airlines	SAVE	15.33	-34% 14%	1,112	761	.8x	13%	infinite	35%	2.5x	<1%	- / 1
12	Kulicke and Soffa	KLIC	8.61	-22% 48%	634	355	.4x	18%	100%	21%	1.6x	2%	13 / 9
13	CTC Media	CTCM	8.89	-10% 181%	1,399	1,267	1.7x	12%	289%	33%	6.7x	<1%	2 / 1
14	Microsoft	MSFT	26.00	-9% 13%	218,717	173,241	2.4x	12%	infinite	17%	4.8x	6%	15 / 11
15	GameStop	GME	23.34	-21% 23%	3,184	2,866	.3x	13%	120%	35%	5.0x	<1%	3 / 2
16	* PMC-Sierra	PMCS	5.15	-5% 79%	1,186	1,010	1.5x	11%	828%	30%	3.1x	<1%	3 / -
17	TRW Automotive	TRW	30.30	-2% 109%	3,749	4,391	.3x	21%	68%	14%	6.7x	<1%	3 / 1
18	H&R Block	HRB	15.36	-26% 17%	4,499	5,031	1.5x	11%	infinite	37%	>9.9x	<1%	14 / 4
19	* Ross Stores	ROST	47.00	-36% 1%	10,746	10,343	1.2x	13%	96%	38%	7.4x	<1%	2 / 2
20	CF Industries	CF	129.89	-11% 48%	8,493	8,685	1.5x	17%	72%	36%	4.0x	<1%	10 / 10
21	DeVry	DV	34.10	-4% 96%	2,294	1,969	.9x	12%	227%	32%	4.7x	2%	19 / 11
22	Datalink Corp.	DTLK	7.55	-43% 52%	134	99	.3x	12%	151%	41%	2.8x	13%	8 / 3
23	Portfolio Recovery	PRAA	64.39	-12% 41%	1,102	1,334	3.0x	11%	infinite	40%	2.2x	<1%	1 / -
24	Metropolitan Health	MDF	7.78	-51% 3%	340	278	.7x	11%	405%	39%	4.1x	3%	6 / 5
25	Cisco Systems	CSCO	17.94	-26% 25%	96,443	68,908	1.6x	11%	10099%	17%	3.4x	<1%	20 / 13
26	USANA Health	USNA	29.91	-23% 48%	447	411	.7x	12%	135%	34%	4.5x	54%	4 / 5
27	* Skyworks Solutions	SWKS	14.37	-5% 163%	2,700	2,316	1.6x	14%	72%	23%	3.1x	<1%	7 / 7
28	Almost Family	AFAM	14.93	-16% 173%	140	113	.3x	12%	118%	40%	2.8x	<1%	- / -
29	Lear	LEA	36.65	-3% 56%	3,750	2,769	.2x	15%	66%	13%	1.9x	<1%	9 / 10
30	TransGlobe Energy	TGA	7.10	-5% 134%	521	473	2.0x	24%	58%	52%	1.8x	<1%	- / -
31	Gilead Sciences	GILD	37.16	-7% 17%	27,912	29,549	3.6x	11%	160%	24%	7.0x	<1%	5 / 4
32	SanDisk	SNDK	47.91	-33% 12%	11,513	10,542	1.9x	11%	311%	15%	1.8x	<1%	9 / 9
33	ePlus	PLUS	28.20	-21% 8%	227	205	.2x	10%	infinite	42%	1.2x	12%	6 / 7
34	* Foster Wheeler	FWLT	17.42	-6% 128%	2,037	1,230	.3x	11%	223%	26%	2.7x	<1%	9 / 8
35	Apple	AAPL	381.02	-19% 12%	354,123	328,171	3.0x	10%	infinite	24%	4.9x	<1%	7 / 8
36	HollyFrontier	HFC	22.51	-19% 73%	4,710	4,219	.3x	19%	55%	36%	1.8x	1%	21 / 7
37	Kronos Worldwide	KRO	17.87	-21% 93%	2,071	2,318	1.2x	18%	56%	37%	2.3x	<1%	4 / -
38	Darling	DAR	12.54	-10% 56%	1,468	1,749	1.1x	12%	93%	37%	9.7x	<1%	1 / 3
39	* j2 Global Comms	JCOM	26.33	-4% 24%	1,249	1,086	3.4x	10%	infinite	13%	8.2x	6%	5 / 8
40	IDT Corp.	IDT	9.74	-4% 76%	222	123	.1x	10%	infinite	n/m	4.2x	13%	3 / 3
41	* Applied Materials	AMAT	10.33	-6% 64%	13,487	9,191	.9x	11%	107%	19%	1.9x	<1%	14 / 11
42	* WABCO Holdings	WBC	40.53	-16% 85%	2,660	2,624	1.0x	12%	70%	6%	>9.9x	<1%	4 / 4
43	* RPC	RES	17.08	-17% 70%	2,533	2,667	1.6x	15%	55%	38%	3.6x	2%	- / -
44	* Amdocs	DOX	27.48	-8% 16%	4,801	3,877	1.2x	11%	146%	12%	4.4x	<1%	- / -
45	Lexmark	LXK	32.74	-21% 24%	2,462	1,890	.4x	13%	60%	20%	2.1x	1%	19 / 3


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* New additions are highlighted. Criteria: ▶ MV > \$100 million ▶ ADRs, banks excluded ▶ EV to MV < 1.5 ▶ China RTOs excluded

Contrarian: Biggest YTD Losers (deleveraged & profitable)

Non-financial companies with no net debt, positive analyst estimates for next year's EPS, and large YTD price drop

Company	Ticker	Price (\$)	MV (\$mn)	EV (\$mn)	Price Change Since December 31,			EV / TTM Revenue	Price to Tangible Book	Next FY P/E	Insiders		
					2004	2009	2010				% Own.	Buys/Sells	
1	Oclaro	OCLR	2.89	146	115	-88%	-61%	-78%	.3x	.8x	48x	1%	12 / 6
2	First Solar	FSLR	31.91	2,758	2,603	n/m	-76%	-75%	1.0x	.8x	4x	<1%	17 / 8
3	MIPS Technologies	MIPS	4.16	220	114	-58%	-5%	-73%	1.5x	2.1x	16x	<1%	17 / 6
4	Aixtron AG	AIXG	11.71	1,199	773	n/m	-65%	-69%	.9x	1.6x	12x	<1%	- / -
5	Monster Worldwide	MWW	7.71	993	894	-77%	-56%	-67%	.9x	>100x	14x	3%	4 / 5
6	RealD	RLD	8.55	466	458	n/m	n/m	-67%	1.7x	2.8x	24x	11%	12 / 2
7	Citi Trends	CTRN	8.10	121	88	n/m	-71%	-67%	.1x	.6x	17x	1%	1 / -
8	Cree	CREE	21.75	2,522	1,889	-46%	-61%	-67%	1.9x	1.7x	12x	2%	10 / 4
9	Career Education	CECO	7.03	533	85	-82%	-70%	-66%	.0x	1.2x	7x	<1%	1 / 4
10	Aviat Networks	AVNW	1.72	105	32	-24%	-75%	-66%	.1x	.6x	6x	2%	8 / 6
11	* Rambus	RMBS	7.27	799	673	-68%	-70%	-65%	2.1x	5.5x	145x	3%	10 / 6
12	Calix	CALX	6.26	296	264	n/m	n/m	-63%	.8x	3.9x	12x	6%	11 / 5
13	AXT	AXTI	3.87	124	102	145%	19%	-63%	.9x	.9x	7x	2%	5 / 3
14	Axcelis Technologies	ACLS	1.29	137	93	-84%	-9%	-63%	.3x	.6x	26x	<1%	- / 5
15	STR Holdings	STRI	7.47	311	181	n/m	-52%	-63%	.6x	3.0x	9x	1%	8 / -
16	N.A. Palladium	PAL	2.61	425	391	-68%	-25%	-62%	2.4x	1.4x	16x	<1%	- / -
17	Power-One	PWER	3.85	401	275	-57%	-11%	-62%	.2x	1.2x	6x	3%	3 / 7
18	CTC Media	CTCM	8.89	1,399	1,267	n/m	-40%	-62%	1.7x	6.7x	8x	<1%	2 / 1
19	TriQuint Semi	TQNT	4.53	753	606	2%	-25%	-61%	.7x	.8x	13x	<1%	5 / -
20	* U.S. Gold Corp.	UXG	3.13	427	366	645%	26%	-61%	>99x	1.8x	39x	<1%	- / -
21	Almost Family	AFAM	14.93	140	113	103%	-62%	-61%	.3x	2.8x	8x	<1%	- / -
22	OmniVision	OVTI	11.62	678	258	-37%	-20%	-61%	.3x	.9x	16x	<1%	6 / 6
23	Neflix	NFLX	69.82	3,865	3,734	466%	27%	-60%	1.3x	n/m	388x	<1%	11 / 10
24	* FuelCell Energy	FCEL	0.92	117	139	-91%	-76%	-60%	1.1x	n/m	10x	2%	4 / 1
25	Entropic Comms	ENTR	4.94	429	298	n/m	61%	-59%	1.2x	1.5x	10x	<1%	5 / 2
26	Voyager Oil & Gas	VOG	2.21	128	121	-87%	113%	-59%	20.4x	1.6x	15x	4%	- / 1
27	Logitech	LOGI	7.61	1,445	1,066	-50%	-56%	-59%	.4x	2.8x	12x	<1%	- / -
28	* Ternium	TX	17.43	3,494	3,206	n/m	-51%	-59%	.4x	.7x	5x	<1%	- / -
29	Digital River	DRIV	14.24	532	221	-66%	-47%	-59%	.6x	1.5x	12x	<1%	2 / -
30	* Sterlite Industries	SLT	6.86	5,603	3,528	n/m	-62%	-59%	.5x	.7x	6x	<1%	- / -
31	WMS Industries	WMS	18.78	1,047	1,013	-16%	-53%	-58%	1.3x	1.5x	11x	1%	16 / 7
32	Himax Tech	HIMX	0.99	175	169	n/m	-64%	-58%	.3x	.5x	8x	<1%	- / -
33	Illumina	ILMN	26.91	3,268	2,935	468%	-12%	-58%	2.8x	5.4x	19x	1%	7 / 7
34	Cameco	CCJ	17.17	6,751	6,595	-2%	-47%	-57%	3.3x	1.5x	13x	<1%	- / -
35	* TransGlobe Energy	TGA	7.10	521	473	39%	113%	-56%	2.0x	1.8x	4x	<1%	- / -
36	Rentrak	RENT	13.47	148	126	8%	-24%	-55%	1.4x	4.2x	96x	5%	10 / 1
37	Avid Technology	AVID	7.81	302	281	-87%	-39%	-55%	.4x	2.1x	21x	<1%	- / 5
38	Rubicon Technology	RBCN	9.46	214	142	n/m	-53%	-55%	1.0x	.9x	11x	<1%	- / -
39	* Nokia	NOK	4.68	17,771	10,564	-70%	-64%	-55%	.2x	2.5x	14x	<1%	- / -
40	Urangerz Energy	URZ	1.81	139	98	n/m	39%	-55%	>99x	2.9x	36x	1%	2 / 2
41	Winnebago	WGO	6.94	202	133	-82%	-43%	-54%	.3x	1.9x	14x	<1%	1 / -
42	Dolby Laboratories	DLB	31.40	3,414	2,472	n/m	-34%	-53%	2.6x	2.5x	13x	<1%	2 / 2
43	* Silver Standard	SSRI	13.49	1,090	821	12%	-38%	-52%	4.6x	1.1x	10x	<1%	- / -
44	Sony	SNE	17.31	17,539	13,772	-56%	-40%	-52%	.2x	.9x	51x	<1%	- / -
45	* Taseko Mines	TGB	2.55	508	368	48%	-40%	-51%	1.3x	1.0x	8x	<1%	- / -

Company website SEC Y! Stock Price Charts Proxy Y!

* New additions are highlighted. Criteria: ▶ Positive net cash ▶ Positive next FY EPS ▶ MV > \$100 million ▶ China RTOs excluded

Value with Catalyst: Cheap Repurchasers of Stock

Companies that may be creating value by reducing their shares outstanding at relatively cheap prices

	Company	Ticker	Price (\$)	MV (\$mn)	EV (\$mn)	Q-Q Change in Shares	EV / TTM Revenue	Next FY P/E	Price to Tangible Book	Net Cash as % of MV	Insiders		
											% Own.	Buys/Sells	
1	* Ameristar Casinos	ASCA	17.88	584	2,429	-12.5%	2.0x	8x	n/m	-316%	2%	9 / 4	
2	* Skullcandy	SKUL	12.15	331	330	-8.8%	1.5x	10x	5.1x	0%	5%	8 / 8	
3	Comtech Telecomm.	CMTL	28.45	579	305	-8.6%	.6x	21x	1.5x	47%	2%	10 / 5	
4	* Neutral Tandem	TNDM	10.00	315	231	-7.5%	.9x	10x	1.8x	27%	5%	8 / 5	
5	Ingersoll-Rand	IR	30.65	9,568	11,805	-7.4%	.8x	10x	n/m	-23%	<1%	- / -	
6	Bank of East Asia	BKEAY	3.40	7,231	n/m	-7.4%	n/m	13x	1.3x	n/m	<1%	- / -	
7	Big Lots	BIG	36.62	2,402	2,628	-7.4%	.5x	11x	3.3x	-9%	<1%	7 / 7	
8	Gap	GPS	18.30	8,936	9,177	-7.2%	.6x	10x	3.6x	-3%	2%	7 / 5	
9	* China Cord Blood	CO	2.26	166	74	-6.7%	1.3x	8x	1.1x	56%	<1%	- / -	
10	Oritani Financial	ORIT	12.62	589	n/m	-6.3%	n/m	18x	1.1x	n/m	6%	10 / 2	
11	Banco Argentaria	BBVA	7.89	39,247	n/m	-5.9%	n/m	8x	1.1x	n/m	<1%	- / -	
12	Plexus Corp.	PLXS	27.43	950	995	-5.9%	.4x	10x	1.7x	-5%	1%	10 / -	
13	Northwest Bancorp	NWBI	12.17	1,187	n/m	-5.2%	n/m	17x	1.2x	n/m	<1%	8 / 7	
14	Richardson Electron.	RELL	12.23	208	57	-4.7%	.4x	22x	.9x	73%	<1%	2 / 1	
15	LSI Corp.	LSI	5.42	3,054	2,175	-4.6%	1.1x	11x	4.1x	29%	<1%	1 / 1	
16	Parker-Hannifin	PH	75.02	11,334	12,657	-4.3%	1.0x	9x	11.4x	-12%	<1%	33 / 22	
17	Xyratex	XRTX	13.73	416	280	-4.3%	.2x	11x	1.2x	33%	<1%	- / -	
18	FXCM	FXCM	9.63	148	n/m	-4.3%	n/m	9x	4.7x	n/m	<1%	6 / -	
19	* Fox Chase Bancorp	FXCB	12.70	174	n/m	-4.2%	n/m	32x	.9x	n/m	3%	14 / 2	
20	* hhgregg	HGG	13.97	518	549	-4.2%	.2x	9x	1.8x	-6%	10%	6 / 5	
21	KBW	KBW	13.83	457	n/m	-4.1%	n/m	13x	1.1x	n/m	<1%	- / -	
22	Oplink Comms	OPLK	15.37	294	121	-4.0%	.6x	15x	1.1x	59%	3%	9 / 5	
23	HCC Insurance	HCC	27.04	2,880	n/m	-4.0%	n/m	9x	1.2x	n/m	<1%	5 / -	
24	NTT	NTT	24.87	66,075	104,700	-4.0%	.8x	6x	.9x	-58%	<1%	- / -	
25	Cirrus Logic	CRUS	15.10	965	826	-4.0%	2.2x	11x	2.7x	14%	<1%	8 / 2	
26	Domtar	UFS	78.63	3,327	3,725	-3.9%	.7x	9x	1.3x	-12%	<1%	2 / 1	
27	Veeco Instruments	VECO	22.29	863	440	-3.9%	.4x	12x	1.3x	49%	<1%	5 / 6	
28	* Fred's	FRED	13.63	505	492	-3.9%	.3x	14x	1.3x	2%	<1%	3 / 1	
29	* Chico's FAS	CHS	10.39	1,742	1,502	-3.8%	.7x	11x	2.7x	14%	<1%	13 / 6	
30	Capella Education	CPLA	33.01	477	339	-3.7%	.8x	10x	3.2x	29%	<1%	5 / -	
31	Navigators Group	NAVJ	47.95	685	n/m	-3.7%	n/m	17x	.9x	n/m	<1%	1 / 1	
32	Hallmark Financial	HALL	7.56	146	n/m	-3.7%	n/m	27x	1.0x	n/m	<1%	1 / -	
33	* Legg Mason	LM	23.51	3,286	n/m	-3.6%	n/m	11x	8.1x	n/m	<1%	11 / -	
34	RadioShack	RSH	9.63	961	960	-3.4%	.2x	7x	1.3x	0%	<1%	2 / 1	
35	Devon Energy	DVN	60.45	24,416	26,824	-3.3%	2.4x	9x	1.6x	-10%	<1%	4 / 9	
36	* Flextronics	FLEX	5.79	4,129	4,743	-3.3%	.2x	5x	2.1x	-15%	<1%	- / -	
37	Best Buy	BBY	23.19	8,402	8,287	-3.3%	.2x	6x	2.3x	1%	<1%	10 / 1	
38	Sterlite Industries	SLT	6.86	5,603	3,528	-3.2%	.5x	6x	.7x	37%	<1%	- / -	
39	CF Industries	CF	129.89	8,493	8,685	-3.1%	1.5x	6x	4.0x	-2%	<1%	10 / 10	
40	ConocoPhillips	COP	68.40	90,817	107,941	-3.0%	.4x	8x	1.5x	-19%	<1%	2 / 2	
41	* Rockwell Automation	ROK	71.85	10,197	10,113	-2.9%	1.7x	12x	17.7x	1%	<1%	24 / 17	
42	Medifast	MED	14.49	224	192	-2.8%	.7x	9x	3.2x	14%	1%	10 / 1	
43	Synaptics	SYNA	30.74	990	751	-2.8%	1.3x	11x	3.1x	24%	<1%	11 / 4	
44	* OmniAmerican Bancorp	OABC	15.29	172	n/m	-2.8%	n/m	40x	.9x	n/m	<1%	3 / -	
45	Amdocs	DOX	27.48	4,801	3,877	-2.8%	1.2x	9x	4.4x	19%	<1%	- / -	
🔗 Company website		SEC	Y!									Proxy	Y!

* New additions are highlighted. Criteria: ▶ MV < 2 * BV ▶ Next FY P/E < 12 ▶ Debt/equity < 0.4 ▶ MV > \$100mn ▶ Q-Q Δ shares < 0

Profitable Dividend Payors with Decent Balance Sheets

Dividend-paying companies with no net debt and EPS estimates in excess of 75% of the indicated annual dividend

Company	Ticker	Price (\$)	Move To 52-Week		MV (\$mn)	EV (\$mn)	Dividend Yield		Est. P/E		Price to Tangible Book	Insiders		
			Low	High			Last 12 Months	Annual Indicated	This FY	Next FY		% Own.	Buys/Sells	
1	Invesco Mortgage	IVR	15.00	-16%	60%	1,731	1,674	25%	23%	4x	5x	.9x	<1%	8 / -
2	BBVA Banco Frances	BFR	4.99	-2%	152%	993	n/m	21%	22%	5x	4x	1.3x	<1%	- / -
3	Cypress Sharpridge	CYS	13.05	-19%	6%	1,080	1,073	19%	15%	8x	6x	1.0x	<1%	6 / 1
4	Societe Generale	SCGLY	4.17	-4%	242%	16,712	n/m	11%	12%	5x	4x	.3x	<1%	- / -
5	Banco Santander	STD	7.16	-5%	78%	62,442	n/m	4%	12%	7x	6x	1.6x	<1%	- / -
6	BGC Partners	BGCP	5.62	-4%	79%	726	n/m	11%	12%	7x	7x	2.4x	<1%	6 / 2
7	PennyMac Mortgage	PMT	16.75	-16%	15%	467	n/m	11%	12%	7x	7x	.9x	<1%	1 / 1
8	* Life Partners	LPHI	6.85	-53%	146%	128	n/m	15%	12%	4x	-	2.7x	<1%	- / -
9	Crexus Investment	CXS	10.35	-22%	31%	793	n/m	10%	12%	7x	8x	.9x	<1%	8 / -
10	Banco Macro	BMA	19.95	-9%	161%	1,298	n/m	10%	10%	5x	4x	2.7x	<1%	- / -
11	Mesabi Trust	MSB	24.17	-22%	108%	317	n/m	10%	10%	8x	9x	>9.9x	<1%	- / -
12	CTC Media	CTCM	8.89	-10%	181%	1,399	1,267	10%	10%	9x	8x	6.7x	<1%	2 / 1
13	THL Credit	TCRD	11.38	-9%	31%	230	n/m	9%	10%	11x	9x	.9x	<1%	7 / -
14	Santander Brasil	BSBR	7.57	-11%	85%	27,895	n/m	16%	10%	9x	8x	1.1x	<1%	- / -
15	* NGP Capital	NGPC	7.56	-24%	35%	164	n/m	10%	10%	10x	11x	.8x	<1%	2 / -
16	IDT Corp.	IDT	9.74	-4%	76%	222	123	12%	9%	31x	10x	4.2x	13%	3 / 3
17	Ellington Financial	EFC	17.00	-7%	48%	280	274	15%	9%	14x	6x	.7x	<1%	4 / 1
18	Telecom Argentina	TEO	18.37	-8%	48%	1,941	1,468	6%	9%	6x	6x	n/m	<1%	- / -
19	Westpac Banking	WBK	101.51	-12%	37%	61,656	n/m	8%	8%	10x	9x	2.0x	<1%	- / -
20	AXA	AXAHY	12.56	-14%	85%	29,977	n/m	7%	8%	4x	5x	.9x	<1%	- / -
21	Nat'l Australia Bank	NABZY	23.18	-15%	31%	51,201	n/m	7%	8%	9x	9x	1.4x	<1%	- / -
22	Banco Argentaria	BBVA	7.89	-11%	65%	39,247	n/m	6%	8%	8x	8x	1.1x	<1%	- / -
23	Solar Senior	SUNS	15.94	-15%	24%	151	116	2%	8%	26x	11x	.9x	1%	2 / -
24	Sun Life Financial	SLF	18.63	-7%	86%	10,920	n/m	7%	7%	72x	7x	1.2x	<1%	- / -
25	City Telecom	CTEL	10.54	-15%	52%	412	360	7%	7%	9x	8x	1.8x	<1%	- / -
26	STMicroelectronics	STM	5.48	-1%	147%	4,989	4,170	4%	7%	11x	16x	.8x	<1%	- / -
27	Aixtron AG	AIXG	11.71	-5%	284%	1,199	773	7%	7%	8x	12x	1.6x	<1%	- / -
28	Australia and NZ	ANZBY	20.65	-15%	29%	54,672	n/m	7%	7%	9x	9x	1.8x	<1%	- / -
29	Intersections	INTX	11.28	-22%	104%	195	189	6%	7%	12x	12x	3.8x	44%	11 / 10
30	Siliconware	SPIL	4.11	-5%	77%	2,608	2,504	10%	7%	26x	19x	1.3x	<1%	- / -
31	* First Financial Banc	FFBC	16.24	-21%	21%	946	n/m	4%	7%	15x	14x	1.5x	<1%	11 / 6
32	Credit Suisse	CS	22.77	-7%	109%	27,403	n/m	6%	6%	9x	7x	1.0x	<1%	- / -
33	Rimage	RIMG	11.11	-7%	48%	115	(0)	3%	6%	19x	21x	.9x	2%	5 / -
34	United Overseas Bank	UOVEY	23.60	-5%	48%	18,855	n/m	4%	6%	11x	12x	1.3x	<1%	- / -
35	AstraZeneca	AZN	45.25	-10%	16%	58,510	57,175	6%	6%	6x	7x	>9.9x	<1%	- / -
36	Chunghwa Telecom	CHT	33.16	-13%	13%	25,688	24,009	5%	6%	17x	18x	2.2x	<1%	- / -
37	* Telular	WRLS	7.75	-30%	15%	118	105	5%	6%	19x	16x	1.9x	2%	5 / 5
38	* Univest Corp. of PA	UVSP	14.24	-15%	40%	238	n/m	6%	6%	12x	11x	1.1x	1%	7 / -
39	Mercury General	MCY	44.45	-24%	5%	2,438	n/m	5%	5%	16x	16x	1.4x	<1%	1 / 3
40	NutriSystem	NTRI	12.87	-19%	76%	362	319	6%	5%	28x	13x	4.6x	3%	2 / 2
41	Reed Elsevier	ENL	22.22	-6%	26%	17,608	17,606	5%	5%	10x	10x	>9.9x	<1%	- / -
42	* DDi Corp.	DDIC	9.07	-27%	36%	184	166	4%	5%	10x	9x	1.9x	<1%	4 / 4
43	* RadioShack	RSH	9.63	-1%	96%	961	960	3%	5%	8x	7x	1.3x	<1%	2 / 1
44	Can. Imperial Bank	CM	69.64	-7%	27%	28,229	n/m	5%	5%	9x	8x	2.4x	<1%	- / -
45	PetMed Express	PETS	9.84	-14%	92%	200	143	5%	5%	13x	14x	2.6x	1%	5 / -


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* New additions are highlighted.

Criteria: ▶ Positive net cash ▶ Positive EPS for this/next FY ▶ MV > \$100 million ▶ China RTOs excl.

Deep Value: Lots of Revenue, Low Enterprise Value

Companies that trade at low multiples of net revenue

Company	Ticker	Price (\$)	Move To 52-Week		MV (\$mn)	EV (\$mn)	EV/Sales	Est. P/E		Annual Dividend Yield	Price to Tangible Book	Insiders		
			Low	High				This FY	Next FY			% Own.	Buys/Sells	
1	Career Education	CECO	7.03	-6%	293%	533	85	.04x	3x	7x	-	1.2x	<1%	1 / 4
2	Ingram Micro	IM	17.16	-10%	26%	2,632	2,070	.06x	11x	9x	-	.8x	<1%	3 / 5
3	Tech Data	TECD	49.57	-23%	9%	2,046	1,619	.06x	10x	9x	-	1.0x	<1%	1 / 2
4	World Fuel Services	INT	40.69	-27%	7%	2,895	3,036	.10x	15x	14x	.4%	3.5x	<1%	2 / 6
5	Office Depot	ODP	2.13	-18%	193%	597	1,184	.10x	n/m	27x	-	.9x	<1%	5 / 1
6	AmerisourceBergen	ABC	36.75	-12%	18%	9,494	9,033	.11x	13x	12x	1.4%	>9.9x	<1%	5 / 2
7	Celestica	CLS	7.24	-6%	72%	1,427	841	.11x	-	-	-	1.1x	<1%	- / -
8	Tesoro	TSO	22.10	-22%	34%	3,081	3,550	.13x	4x	6x	-	.9x	<1%	2 / -
9	Systemax	SYX	16.17	-33%	6%	589	471	.13x	11x	10x	-	1.5x	2%	2 / 1
10	Delek US Holdings	DK	10.85	-37%	61%	630	835	.13x	3x	6x	1.4%	1.1x	2%	6 / 1
11	Sunoco	SUN	39.12	-30%	20%	4,176	6,044	.14x	>99x	21x	1.5%	3.2x	<1%	5 / 3
12	Manpower	MAN	35.05	-9%	99%	2,860	3,000	.14x	11x	10x	2.3%	2.4x	<1%	3 / 3
13	Insight Enterprises	NSIT	15.16	-14%	29%	665	724	.14x	8x	7x	-	1.4x	<1%	9 / 8
14	Cardinal Health	CAH	40.94	-8%	15%	14,145	14,663	.14x	13x	12x	2.1%	9.7x	<1%	19 / 10
15	SYNNEX	SNX	28.99	-22%	27%	1,065	1,422	.14x	7x	7x	-	1.2x	19%	7 / 7
16	Valero Energy	VLO	20.52	-20%	52%	11,486	16,305	.14x	4x	5x	2.9%	.7x	<1%	7 / 7
17	General Motors	GM	20.15	-5%	96%	31,526	21,605	.14x	5x	5x	-	n/m	<1%	16 / 14
18	Marathon Petroleum	MPC	31.96	-18%	48%	11,394	11,736	.15x	4x	6x	3.1%	1.2x	<1%	23 / 3
19	Sony	SNE	17.31	-7%	114%	17,539	13,772	.16x	n/m	51x	1.8%	.9x	<1%	- / -
20	Flextronics	FLEX	5.79	-13%	47%	4,129	4,743	.16x	7x	5x	-	2.1x	<1%	- / -
21	Brightpoint	CELL	9.35	-21%	41%	638	783	.16x	9x	8x	-	6.8x	<1%	2 / 2
22	McKesson	MCK	77.70	-14%	12%	19,080	19,129	.16x	12x	11x	1.0%	>9.9x	<1%	3 / 2
23	Best Buy	BBY	23.19	-6%	57%	8,402	8,287	.16x	7x	6x	2.8%	2.3x	<1%	10 / 1
24	Unisys	UIS	20.37	-32%	103%	883	661	.17x	9x	6x	-	n/m	<1%	5 / 1
25	ITT Corp.	ITT	19.19	-32%	11%	1,780	2,267	.19x	12x	11x	1.9%	n/m	<1%	21 / 4
26	* Nokia	NOK	4.68	-1%	151%	17,771	10,564	.20x	13x	14x	12.2%	2.5x	<1%	- / -
27	Lear	LEA	36.65	-3%	56%	3,750	2,769	.20x	7x	7x	1.4%	1.9x	<1%	9 / 10
28	Sanmina-SCI	SANM	8.95	-33%	94%	723	1,325	.20x	6x	5x	-	.9x	<1%	- / 3
29	Barnes & Noble	BKS	16.08	-47%	31%	968	1,411	.20x	n/m	>99x	-	n/m	1%	8 / 10
30	* Sears Holdings	SHLD	46.16	-1%	104%	4,934	8,862	.21x	n/m	n/m	-	1.6x	<1%	4 / 1
31	Avnet	AVT	29.08	-19%	31%	4,315	5,600	.21x	7x	7x	-	1.5x	<1%	10 / 11
32	* Western Refining	WNR	12.78	-32%	70%	1,161	1,820	.21x	4x	4x	-	1.4x	29%	- / 5
33	Owens & Minor	OMI	27.93	-7%	28%	1,772	1,788	.21x	15x	13x	2.9%	2.8x	<1%	2 / 4
34	Alcatel-Lucent	ALU	1.48	-1%	348%	3,487	4,479	.21x	4x	5x	-	n/m	<1%	- / -
35	Supervalu	SVU	7.49	-16%	57%	1,590	7,834	.21x	6x	6x	4.7%	n/m	<1%	12 / -
36	NACCO Industries	NC	84.01	-33%	58%	571	691	.21x	6x	6x	2.5%	1.2x	1%	9 / 3
37	Insperity	NSP	24.60	-19%	32%	635	410	.21x	19x	15x	2.4%	3.0x	2%	7 / 5
38	Benchmark Electron.	BHE	12.93	-7%	57%	747	504	.22x	15x	13x	-	.7x	<1%	1 / 1
39	China Yuchai	CYD	13.69	-8%	145%	510	533	.22x	-	-	3.7%	.7x	<1%	- / -
40	* RadioShack	RSH	9.63	-1%	96%	961	960	.22x	8x	7x	5.2%	1.3x	<1%	2 / 1
41	Bunge	BG	56.61	-5%	34%	8,239	12,446	.23x	10x	8x	1.8%	.8x	<1%	- / -
42	Magna International	MGA	32.51	-8%	91%	7,644	6,514	.23x	-	-	3.1%	1.1x	<1%	- / -
43	Kroger	KR	23.71	-11%	9%	13,628	21,102	.24x	12x	11x	1.9%	3.6x	<1%	27 / 16
44	EMCOR Group	EME	25.20	-28%	30%	1,681	1,358	.24x	14x	11x	.8%	5.8x	2%	6 / 5
45	* hhgregg	HGG	13.97	-36%	63%	518	549	.25x	10x	9x	-	1.8x	10%	6 / 5



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* New additions are highlighted. Criteria: ► EV to TTM revenue < 0.5x ► MV < revenue ► MV > \$500 million ► China RTOs excluded

Deep Value: Neglected Gross Profiteers

Companies that trade at low multiples of gross profit

Company	Ticker	Price (\$)	Move To 52-Week		MV (\$mn)	EV (\$mn)	Enterprise Value /			Est. P/E		Price/ Tang. Book	Insiders		
			Low	High			Sales	Gross Profit	EBIT	This FY	Next FY		% Own.	Buys/ Sells	
1	Career Education	CECO	7.03	-6%	293%	533	85	.0x	.1x	.4x	3x	7x	1.2x	<1%	1 / 4
2	Winn-Dixie Stores	WINN	5.43	-7%	86%	305	198	.0x	.1x	n/m	n/m	n/m	.5x	2%	20 / 14
3	* Stewart Information	STC	11.28	-28%	13%	218	173	.1x	.1x	.2x	51x	13x	1.0x	<1%	- / -
4	Office Depot	ODP	2.13	-18%	193%	597	1,184	.1x	.4x	n/m	n/m	27x	.9x	<1%	5 / 1
5	Kindred Healthcare	KND	11.28	-32%	157%	588	1,989	.4x	.4x	17.2x	6x	6x	n/m	<1%	1 / 1
6	First American	FAF	12.35	-15%	41%	1,302	950	.2x	.4x	.9x	17x	11x	1.2x	<1%	3 / 2
7	RealNetworks	RNWK	7.79	-11%	121%	267	95	.3x	.4x	n/m	n/m	n/m	1.0x	<1%	11 / 4
8	IDT Corp.	IDT	9.74	-4%	76%	222	123	.1x	.4x	18.9x	31x	10x	4.2x	13%	3 / 3
9	Telecom Argentina	TEO	18.37	-8%	48%	1,941	1,468	.4x	.4x	1.6x	6x	6x	n/m	<1%	- / -
10	Molina Healthcare	MOH	21.35	-35%	36%	976	331	.1x	.5x	2.6x	14x	12x	2.0x	2%	1 / 6
11	RadioShack	RSH	9.63	-1%	96%	961	960	.2x	.5x	4.3x	8x	7x	1.3x	<1%	2 / 1
12	Investment Tech	ITG	10.27	-13%	93%	411	253	.4x	.5x	n/m	13x	10x	1.4x	2%	9 / 7
13	Humana	HUM	84.75	-36%	7%	13,857	3,933	.1x	.5x	1.8x	10x	11x	2.8x	<1%	7 / 7
14	Charming Shoppes	CHRS	4.79	-52%	4%	558	544	.3x	.5x	n/m	68x	22x	2.6x	<1%	- / -
15	Kelly Services	KELYA	13.03	-17%	76%	482	488	.1x	.6x	7.9x	8x	7x	.8x	3%	10 / 8
16	Alcatel-Lucent	ALU	1.48	-1%	348%	3,487	4,479	.2x	.6x	10.4x	4x	5x	n/m	<1%	- / -
17	* E.W. Scripps	SSP	7.95	-20%	33%	435	288	.4x	.6x	n/m	n/m	14x	.8x	<1%	1 / 4
18	ArcelorMittal	MT	17.16	-14%	127%	26,715	51,602	.6x	.6x	9.8x	8x	7x	.6x	<1%	- / -
19	Amedisys	AMED	10.39	-12%	274%	306	430	.3x	.6x	n/m	5x	10x	2.5x	2%	6 / 2
20	* WellCare	WCG	51.61	-47%	14%	2,209	681	.1x	.6x	1.5x	9x	12x	2.4x	<1%	13 / 14
21	Celadon Group	CGI	10.83	-24%	55%	244	250	.4x	.6x	10.3x	13x	10x	1.6x	8%	9 / 1
22	Haverty Furniture	HVT	11.38	-17%	24%	251	193	.3x	.6x	74.2x	>99x	21x	1.0x	<1%	1 / 4
23	American Equity	AEL	10.45	-23%	33%	623	659	.5x	.6x	.6x	5x	5x	.5x	<1%	2 / 1
24	Stein Mart	SMRT	6.64	-15%	65%	293	191	.2x	.6x	4.6x	14x	11x	1.1x	2%	1 / 1
25	Nature's Sunshine	NATR	15.20	-49%	39%	237	188	.5x	.6x	13.3x	11x	11x	3.0x	<1%	3 / 2
26	* Gleacher & Co.	GLCH	1.66	-40%	70%	212	167	.6x	.6x	n/m	17x	6x	.9x	<1%	- / -
27	* Unisys	UIS	20.37	-32%	103%	883	661	.2x	.6x	2.0x	9x	6x	n/m	<1%	5 / 1
28	* Nokia	NOK	4.68	-1%	151%	17,771	10,564	.2x	.7x	10.6x	13x	14x	2.5x	<1%	- / -
29	Best Buy	BBY	23.19	-6%	57%	8,402	8,287	.2x	.7x	4.7x	7x	6x	2.3x	<1%	10 / 1
30	ITT Corp.	ITT	19.19	-32%	11%	1,780	2,267	.2x	.7x	2.4x	12x	11x	n/m	<1%	21 / 4
31	US Airways	LCC	6.18	-36%	87%	1,002	3,430	.3x	.7x	8.1x	19x	4x	n/m	<1%	- / -
32	* ReachLocal	RLOC	7.16	-2%	297%	210	116	.3x	.7x	n/m	n/m	n/m	6.5x	<1%	8 / 2
33	American Greetings	AM	16.45	-8%	51%	611	635	.4x	.7x	3.5x	6x	6x	.8x	<1%	1 / 3
34	Sony	SNE	17.31	-7%	114%	17,539	13,772	.2x	.7x	11.8x	n/m	51x	.9x	<1%	- / -
35	* Digital River	DRIV	14.24	0%	180%	532	221	.6x	.7x	9.9x	14x	12x	1.5x	<1%	2 / -
36	* Power-One	PWER	3.85	-2%	215%	401	275	.2x	.7x	1.2x	5x	6x	1.2x	3%	3 / 7
37	Vanguard Health	VHS	9.56	-10%	94%	735	2,926	.5x	.7x	18.8x	12x	9x	n/m	12%	22 / 1
38	Skechers	SKX	12.23	-4%	93%	610	501	.3x	.7x	n/m	n/m	17x	.7x	2%	- / 7
39	Coca-Cola FEMSA	KOF	90.53	-21%	13%	2,456	2,727	.3x	.7x	2.3x	20x	17x	.4x	<1%	- / -
40	* Blyth	BTH	57.06	-47%	25%	469	388	.4x	.7x	12.6x	-	-	2.6x	32%	2 / 3
41	* Cbeyond	CBEY	8.01	-28%	104%	243	235	.5x	.7x	n/m	n/m	>99x	1.8x	2%	10 / 1
42	Orbotech	ORBK	10.04	-11%	56%	355	171	.3x	.7x	2.8x	7x	8x	.9x	<1%	- / -
43	* Research In Motion	RIMM	13.44	-2%	425%	7,056	5,749	.3x	.8x	2.0x	-	-	1.0x	<1%	- / -
44	Barnes & Noble	BKS	16.08	-47%	31%	968	1,411	.2x	.8x	n/m	n/m	>99x	n/m	1%	8 / 10
45	Brown Shoe	BWS	9.03	-35%	75%	379	758	.3x	.8x	15.7x	12x	8x	1.4x	<1%	2 / 2

 Company website
  SEC
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  Proxy
  Y!

* New additions are highlighted. Criteria: ► EV < TTM gross profit ► MV < 2x gross profit ► MV > \$200 million ► China RTOs excluded

Activist Targets: Potential Sales, Liquidations or Recaps

Companies that may unlock value through a corporate event

	Company	Ticker	Price (\$)	Move To 52-Week		MV (\$mn)	EV (\$mn)	Price to Tangible Book	Net Cash (% of MV)	NCAV (% of MV)	EV/Sales	Next FY P/E	Insiders	
				Low	High								% Own.	Buys/Sells
1	Exceed Company	EDS	4.40	-36%	100%	112	(36)	.4x	132%	218%	n/m	-	<1%	- / -
2	Pacific Biosciences	PACB	2.50	-4%	580%	137	(54)	.7x	139%	141%	n/m	n/m	<1%	3 / 1
3	Imation	IMN	5.98	-10%	107%	228	(5)	.6x	102%	137%	n/m	n/m	1%	4 / -
4	FormFactor	FORM	4.85	-1%	128%	245	(71)	.6x	129%	135%	n/m	n/m	<1%	3 / 4
5	Aviat Networks	AVNW	1.72	-6%	278%	105	32	.6x	70%	132%	.1x	6x	2%	8 / 6
6	NeoPhotonics	NPTN	4.90	-26%	327%	121	32	.6x	73%	118%	.2x	n/m	<1%	5 / -
7	Crexus Investment	CXS	10.35	-22%	31%	793	(128)	.9x	116%	116%	n/m	8x	<1%	8 / -
8	Axcelis Technologies	ACLS	1.29	-22%	192%	137	93	.6x	32%	116%	.3x	26x	<1%	- / 5
9	PennyMac Mortgage	PMT	16.75	-16%	15%	467	(408)	.9x	187%	114%	n/m	7x	<1%	1 / 1
10	* Endocyte	ECYT	3.06	-1%	384%	109	(17)	.9x	116%	111%	n/m	n/m	<1%	1 / -
11	Benchmark Electron.	BHE	12.93	-7%	57%	747	504	.7x	32%	111%	.2x	13x	<1%	1 / 1
12	Ingram Micro	IM	17.16	-10%	26%	2,632	2,070	.8x	21%	105%	.1x	9x	<1%	3 / 5
13	Maxygen	MAXY	5.60	-33%	11%	157	(6)	1.0x	103%	104%	n/m	-	<1%	- / -
14	Orbotech	ORBK	10.04	-11%	56%	355	171	.9x	52%	103%	.3x	8x	<1%	- / -
15	Kimball	KBALB	5.62	-18%	40%	154	120	.4x	23%	101%	.1x	-	2%	6 / -
16	Rimage	RIMG	11.11	-7%	48%	115	(0)	.9x	100%	99%	n/m	21x	2%	5 / -
17	MedCath	MDTH	7.15	-6%	109%	146	38	.5x	74%	97%	.1x	-	2%	- / 12
18	Sprott Physical Gold	PHYS	14.15	-19%	19%	2,065	66	1.0x	97%	97%	.2x	-	<1%	- / -
19	Westell Technologies	WSTL	2.03	-4%	94%	139	31	.8x	78%	93%	.2x	15x	2%	1 / 1
20	Richardson Electron.	RELL	12.23	-9%	26%	208	57	.9x	73%	87%	.4x	22x	<1%	2 / 1
21	EXFO Electro-Optical	EXFO	5.34	-2%	147%	155	88	.7x	44%	85%	.3x	-	<1%	- / -
22	West Marine	WMAR	10.23	-32%	32%	233	189	.9x	19%	85%	.3x	11x	<1%	3 / 2
23	* Keegan Resources	KGN	3.59	-5%	169%	269	41	1.2x	85%	81%	n/m	-	<1%	- / -
24	Skechers	SKX	12.23	-4%	93%	610	501	.7x	18%	79%	.3x	17x	2%	- / 7
25	QLT	QLTI	6.61	-19%	34%	314	110	.9x	65%	79%	2.7x	-	<1%	3 / -
26	Tellabs	TLAB	3.87	-5%	89%	1,412	382	.9x	73%	79%	.3x	n/m	<1%	- / 4
27	Sycamore Networks	SCMR	17.94	-13%	56%	516	113	1.2x	78%	79%	2.1x	n/m	<1%	2 / 2
28	Tech Data	TECD	49.57	-23%	9%	2,046	1,619	1.0x	21%	79%	.1x	9x	<1%	1 / 2
29	* Oplink Comms	OPLK	15.37	-13%	92%	294	121	1.1x	59%	76%	.6x	15x	3%	9 / 5
30	ModusLink	MLNK	5.08	-36%	41%	223	111	.9x	50%	75%	.1x	-	2%	2 / 5
31	* Oclaro	OCLR	2.89	-7%	556%	146	115	.8x	22%	75%	.3x	48x	1%	12 / 6
32	Hooker Furniture	HOFT	10.32	-23%	43%	111	79	.9x	29%	75%	.4x	9x	<1%	3 / 1
33	* Hurco	HURC	21.23	-18%	65%	137	89	1.1x	35%	75%	.5x	9x	<1%	2 / -
34	Movado	MOV	17.78	-39%	11%	443	305	1.1x	31%	74%	.7x	-	<1%	3 / 3
35	* DragonWave	DRWI	3.67	-26%	146%	130	59	1.2x	55%	73%	.9x	n/m	<1%	- / -
36	Callaway Golf	ELY	5.52	-15%	54%	358	294	.9x	18%	73%	.3x	39x	<1%	4 / 3
37	Electro Scientific	ESIO	12.78	-15%	63%	368	188	1.0x	49%	73%	.6x	16x	2%	1 / 4
38	* OmniVision	OVTI	11.62	-13%	219%	678	258	.9x	62%	72%	.3x	16x	<1%	6 / 6
39	Enstar Group	ESGR	99.72	-20%	15%	1,442	(2,505)	1.4x	274%	71%	n/m	8x	<1%	1 / 1
40	* Citi Trends	CTRN	8.10	-2%	211%	121	88	.6x	27%	69%	.1x	17x	1%	1 / -
41	* Safeguard Scientific	SFE	15.37	-15%	39%	319	99	.9x	69%	69%	n/m	n/m	2%	5 / -
42	* Geron Corp.	GERN	1.49	-5%	262%	196	57	1.1x	71%	68%	17.3x	n/m	<1%	1 / -
43	InfoSpace	INSP	10.24	-24%	1%	404	125	1.4x	69%	68%	.6x	22x	<1%	4 / 6
44	* Michael Baker	BKR	19.19	-10%	72%	183	87	1.3x	53%	67%	.2x	8x	<1%	2 / 7
45	* JAKKS Pacific	JAKK	17.35	-19%	22%	451	310	1.2x	31%	67%	.4x	11x	<1%	1 / -


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* New additions are highlighted. Criteria: ▶ TBV > 50% of MV ▶ ST assets - liabilities > 50% of MV ▶ MV > \$100mn ▶ China RTOs excl.

This Month's Top 10 Web Links

A Selection of Our Favorite Internet Resources

1	Seth Klarman	<i>Interview with Charlie Rose</i>		http://vimeo.com/32333102
2	Li Lu	<i>Panel with Bruce Greenwald</i>		http://bit.ly/sU1uGu
3	Michael Ovitz	<i>Interview with Marc Andreessen</i>		http://bit.ly/gc6aY2
4	Bill Gross, Larry Fink	<i>Interview at UCLA</i>		http://bloom.bg/ryU0Yw
5	Tweedy Browne	<i>Semi-annual Letter and Report</i>		http://bit.ly/uQ3JTR
6	Lee Cooperman, Marty Whitman	<i>Graham & Doddsville Newsletter</i>		http://bit.ly/szFq8Q
7	Kyle Bass	<i>Q3 2011 Letter</i>		http://scr.bi/tOrjpb
8	European Equities	<i>Morgan Stanley Equity Strategy Report</i>		http://bit.ly/sDZ9LT
9	Jeffrey Gundlach	<i>Macroeconomic Analysis and Outlook</i>		http://bit.ly/tIEaB5
10	Energy Outlook	<i>ExxonMobil Long-Term Energy Report</i>		http://bit.ly/tIEaB5

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