

Year end	Dec	Mkt. Cap:	174.8 mil	GBP	Debt measures												Calculation					
Year	EPS	EPS+ GW	Oper CF / Share	FCF / Cover	Share	Div Cover	DPS	Shares Outst	D/E All	Cash	LT Debt to WC	Debt to book1	Tot Debt / FCF	Current Ratio	Quick Ratio2	FCF/CE	PTROCE3	AT ROE4	Inc Ret on inc BV5	Change in BV	Book Value	CE6
0 FY 2002	0.24	0.22	0.28	1.1	0.22	6.3	0.03	154.0	4%	-34%	0.0	1.4	0.26	1.4	1.2	14%	21%	14%				
1 FY 2003	0.30	0.33	0.19	0.6	0.10	1.1	0.09	157.4	17%	-18%	0.0	1.7	3.03	1.4	1.2	5%	25%	18%	25%	14%	1.8	283.1
2 FY 2004	0.29	0.29	0.31	1.1	0.24	2.7	0.09	158.2	18%	-24%	0.0	1.4	1.58	1.5	1.3	11%	21%	14%	-6%	14%	2.1	325.6
3 FY 2005	0.13	0.13	0.34	2.6	0.30	3.3	0.09	158.4	19%	-30%	0.0	1.4	1.35	1.5	1.3	15%	10%	6%	-499%	2%	2.1	326.8
4 FY 2006	0.11	0.11	0.11	1.0	0.07	0.8	0.09	159.5	25%	-4%	0.1	1.8	6.37	1.4	1.2	4%	12%	7%	5%	-20%	1.7	271.5
5 FY 2007	0.19	0.19	0.20	1.1	0.14	1.9	0.08	158.4	39%	29%	0.2	1.9	4.87	1.3	1.1	7%	14%	10%	80%	6%	1.8	306.5
6 FY 2008	0.25	0.25	0.53	2.1	0.46	5.7	0.08	153.0	43%	26%	0.2	2.0	1.94	1.3	1.1	20%	11%	12%	18%	20%	2.1	347.9
Average	0.21	0.22	0.28	1.3	0.22	2.8	0.08						2.8			11%	16%	12%	-63%	6%	1.9	300.9
Sum	1.50	1.51	1.96	1.3	1.53	2.8	0.55															
6 Growth	0%	2%	11%	13%		15%	0%						40%								5%	6%

Gov 10 yr Avg Yield **5.70%** Current Price: **1.14**

	EBIT/Assets	EBIT/EV	EV/EBIT*	PE + GW	PE	DY	PB	Price/FCF
Latest Year	14.9%	17.6%	5.7	4.6	4.6	7.2%	54%	2.46
Average	16.8%	19.2%	5.2	5.3	5.3	6.9%	61%	5.24
Altman Z Score	4.02							Bestinver
Dilution (Shares m / % of issued)	1.34	0.9%						15 times

Checklist	
Operating cash flow higher than EPS	
FCF/Share higher than dividends paid	
Debt to equity below 30%	
Debt less than book value	
LT debt less than 2 times WC	
Pre-tax margins higher than 15%	
FCF Margin higher than 10%	
Current asset ratio greater than 1.5	
Quick ratio greater than 1	
Growth in EPS	
Management shareholding (> 10%)	
Altman Z Score > 3	
Diluted shares outstanding used	
Flow ratio (Good < 1.25 Bad > 3 = Meltdown)	
What are the incentives?	
Is the salary too high?	
What the management has done with the cash?	
Bargaining power of suppliers?	
Is there heavy insider buying?	
Is there heavy insider selling?	
Net share buybacks? (Significant Outperf)	
Is it a low risk business?	
Is there high uncertainty?	

- 8 to 10 times free cash flow is equals 50-60% discount Bruce Sherman
Private Capital Management

Investment presentation (Michael Steinhardt)

- The idea
- The Consensus view EBIT/Assets > 30%
- Your variant view EBIT/EV > 22%
- Trigger event

BV is irrelevant in non-capital intensive companies - David Einhorn

Focus on decisions not outcomes!

Look for disconfirming evidence

Free cash flow calculation

	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004	FY 2003	FY 2002	Average
Cash Flow Net Income	37.3	28.9	18.9	20.4	44.4	46.3	56.2	36.1
Depreciation & Amortization	41.5	30.7	16.5	17.3	18.4	18.9	13.9	22.5
Other Non-Cash Adjustments	1.2	1.6	6.7	(4.0)	9.6	(4.8)	(12.3)	(0.3)
Changes in Non-Cash Work Cap	0.1	(30.2)	(24.0)	20.8	(23.5)	(30.3)	(15.0)	(14.4)
Cash From Operations	81.2	31.0	18.0	54.6	49.0	30.1	42.7	43.8
Disposal of Fixed Assets	0.0	0.3	0.0	0.2	1.8	-	0.8	0.5
Capital Expenditures/Prop Add	(10.1)	(8.6)	(7.5)	(7.0)	(11.6)	(14.6)	(9.2)	(9.8)
Decrease in Investments	-	-	-	-	4.7	-	-	0.7
Increase in Investments	-	-	-	-	-	-	-	-
Decrease(Increase) in Loans	-	-	-	-	-	-	-	-
Other Investing Activities	(14.3)	(38.2)	(2.1)	23.3	(2.4)	(37.3)	6.8	(9.2)
Cash from Investing Activities	(24.3)	(46.5)	(9.6)	16.5	(7.6)	(51.9)	(1.5)	(17.8)
Cash available	56.9	(15.5)	8.4	71.2	41.4	(21.8)	41.1	26.0
Dividends Paid	(12.0)	(11.8)	(13.3)	(14.4)	(13.6)	(14.4)	(5.3)	(12.1)
Inc(Dec) in ST Borrowings	-	-	-	(6.4)	-	-	(38.3)	(7.5)
Increase in LT Borrowings	46.6	19.8	12.4	-	-	-	-	13.1
Reimbursement of LT Borrowings	(54.3)	(23.3)	(8.2)	(0.3)	(0.0)	-	(0.5)	(14.4)
Increase in Capital Stocks	-	0.7	2.4	0.8	2.5	-	0.4	1.1
Decrease in Capital Stocks	(9.7)	(11.3)	(74.4)	-	-	-	(4.6)	(16.7)
Other Financing Activities	12.2	(8.7)	(1.7)	-	-	2.2	-	0.6
Cash from Financing Activities	(17.3)	(34.7)	(82.8)	(20.4)	(11.1)	(12.2)	(48.4)	(32.4)
Net Changes in Cash	39.6	(50.2)	(74.4)	50.8	30.2	(34.0)	(7.3)	(6.5)
Free Cash Flow*	71.1	22.4	10.5	47.7	37.4	15.5	33.5	34.0
FCF / Share	0.5	0.1	0.1	0.3	0.2	0.1	0.2	0.2
Dep + Sales / Capex	4.1	3.6	2.2	2.5	1.7	1.3	1.6	2.4
Oper CF/share	0.5	0.2	0.1	0.3	0.3	0.2	0.3	0.3
Capex/share	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
FCF/share growth	229%	114%	-78%	27%	139%	-55%	63%	63%
Oper CF/share growth	171%	73%	-67%	11%	62%	-31%	37%	37%
Oper CF-Capex/Share growth	229%	114%	-78%	27%	139%	-55%	63%	63%
FCF / Sales	3%	1%	0%	2%	2%	1%	2%	1%

Free cash flow = Cash from operations - capex

1 Debt to book = (WC Liab. + Total debt) / Capital

2 Quick ratio = (WC Assets - Inv) / WC Liab.

3 PTROCE = (EBT+GW)/(Capital+LT Debt+Def tax liab)

4 AT ROE = (NPAT+GW)/Capital

5 Inc Ret on BV = Change in EPS / Change in BV

6 CE = Capital+LT Debt+Deferred tax

COMPUTA

Year end	IS										Balance Sheet													
Year	Total Debt	Pre tax	Sales	Sales ▲	EBIT	Gross Margin	Pre tax Margin	Tax Rate	Goodwill WO	Cash	Capital	ST Debt	LT Debt	Def Tax	Curr Assets	Curr Liab	Working Capital	Inv	Days Inv	AR	AR Ch	Days AR	Flow Ratio	
0 FY 2002	8.6	55.4	1,926.7		60.7	3.1	2.9	33.2	(3.3)	92.1	242.6	8.3	0.3	1.7	474.7	328.5	146.2	95.7	23.6	266.0		50.4	1.2	
1 FY 2003	47.1	66.7	2,432.3	26%	67.4	2.8	2.7	28.4	4.8	97.0	282.8	46.7	0.3	0.0	673.4	466.8	206.6	134.1	22.9				1.4	
2 FY 2004	59.1	67.9	2,410.6	-1%	69.9	2.9	2.8	28.9	0.0	138.2	325.2	58.7	0.4	(0.0)	711.7	468.6	243.0	118.9	20.9	359.6		54.4	1.4	
3 FY 2005	64.4	34.0	2,285.2	-5%	27.6	1.2	1.5	39.9	0.0	164.8	330.7	64.1	0.3	(4.1)	711.7	461.9	249.8	100.2	18.3	381.6	6%	61.0	1.4	
4 FY 2006	67.1	32.9	2,269.9	-1%	34.0	1.5	1.5	42.5	0.0	77.9	265.1	55.7	11.4	(4.9)	650.3	459.8	190.5	94.6	17.5	426.1	12%	68.5	1.4	
5 FY 2007	109.0	42.1	2,379.1	5%	43.6	1.8	1.8	31.3	0.0	29.2	278.2	74.4	34.7	(6.3)	655.3	496.5	158.8	110.5	19.6	453.2	6%	69.5	1.5	
6 FY 2008	138.0	39.5	2,560.1	8%	45.6	1.8	1.5	5.5	0.0	53.4	321.2	96.2	41.8	(15.1)	786.4	603.2	183.2	105.8	17.5				1.4	
Average Sum	70.5	48.4	2,323.4	5%	49.8	2.2	2.1	30.0	0.2	93.2	292.2	57.7	12.7	(4.1)	666.2	469.3	196.9	108.6	20.0	377.3			1.4	
6 Growth	59%	-5%	5%		-5%	-9%	-10%		-100%	-9%	5%	50%	125%	#NUM!	9%	11%	4%	2%		-5%			3%	

Is it in my circle of competence?
 Is it a good business?
 Do I like the management? (Operators, capital allocators, integrity)
 Is the stock screaming cheap?
 How capital intensive is the business?
 Four main points about company (How long can this go on and what will stop it?):

High Profitability	Where is FCF invested?
High Return on Capital	- Buybacks
Enormous moat	- Dividends
Profitable reinvestment	- Reinvested
Future growth	- ROE & ROCE
Strong cash flow	- Incr BV incr.

Using last 7 years Average CF and Capex per share values

Year	0	1	2	3	4	5	6	7	8	9	10
Cash Flow per share	0.28										
Capital Spending per share	0.06										
Common Shares Outstanding	153.0										
Owner Earnings	33.4	35.02	36.77	38.61	40.54	42.57	44.70	46.93	49.28	51.74	54.33
Discounted Owner Earnings		31.84	30.39	29.01	27.69	26.43	25.23	24.08	22.99	21.94	20.95
Present Value of Owner Earnings	260.5	Present Value of Residual		199.9							
Residual Value	54.3	Market Value of Firm		460.5							
Year 11 Owner Earnings	57.0	Total Debt		(138.0)							
Capitalization Rate	10.00%	Market Value per share		2.1							
Value at end of Year 10	570.4	Current price discount/(Premium)		46%							

Owners earnings Calculation (Davis Funds)

Year	Assets	Net WC	Total
FY 2002	96.7	146.2	242.9
FY 2003	100.5	206.6	307.2
FY 2004	89.9	243.0	333.0
FY 2005	81.6	249.8	331.4
FY 2006	84.9	190.5	275.4
FY 2007	116.4	158.8	275.3
FY 2008	123.3	183.2	306.6
Average	99.1	196.9	296.0
5 yr Avg	99.2	205.1	304.3
Growth	4%	4%	4%
EBIT/ Assets			15%
Avg EBIT/Avg Assets			17%
5yr Avg EBIT/5yr Avg Assets			15%
5yr Avg EBIT/Last yr Assets			14%

Owners earnings = profit after maint capex & options
 EV = Mkt cap + net debt + off BS liab - cash

Average Cash flow and capex per share used in calculations which may be conservative depending on the values of the last year.

Using last year's CF and Capex per share values

Year	0	1	2	3	4	5	6	7	8	9	10
Cash Flow per share	0.53										
Capital Spending per share	0.07										
Common Shares Outstanding	153.0										
Owner Earnings	71.1	74.68	78.41	82.33	86.45	90.77	95.31	100.08	105.08	110.33	115.85
Discounted Owner Earnings		67.89	64.80	61.86	59.05	56.36	53.80	51.35	49.02	46.79	44.67
Present Value of Owner Earnings	555.6	Present Value of Residual		426.4							
Residual Value	115.9	Market Value of Firm		981.9							
Year 11 Owner Earnings	121.6	Total Debt		(138.0)							
Capitalization Rate	10.00%	Market Value per share		5.5							
Value at end of Year 10	1216.4	Current price discount/(Premium)		79%							

Stefan Penman valuation

Value = BV + (Res income from oper next year/Req Return-growth)

BV	2.1
Req Return	11.4% (2 * Risk free 10 yr rate)
EPS	0.25
Growth	5%
Exp earn	0.26
Res earn	-0.01
Value	1.95
Curr Price	1.14
Premium	-41.4% (Pos = Premium over value)

What will cause me to exit this investment? (Signposts to guide later decisions)

What is my reason for investing? NB

What are the 3 key variables for this company?