

Candidates—Deep Value: Japan

As we scouted for “deep value” opportunities to include in this report, we quickly realized that a number of major Japanese corporations were quite cheap on an earnings basis and even cheaper when underlying net asset values are considered. We are presenting eight Japanese public companies in this special section.

We have chosen the following stocks based on low multiples of price to tangible book value and some overlap in their businesses. We passed on a number of rather cheap Japanese auto makers, as the latter are dealing with a unique set of issues globally, and we felt that addressing such issues was beyond the scope of this report. As a result, we analyze the following companies:

- Canon (CAJ)
- Fujifilm (FUJI)
- Hitachi (HIT)
- Kyocera (KYO)
- Panasonic (PC)
- Sharp (SHCAY)
- Sony (SNE)
- TDK (TDK)

Japanese stocks are widely viewed as low-ROE businesses with little management focus on shareholder value, and we find this reputation to be largely deserved. We do note, however, that some firms appear to be warming up to the idea of share repurchases, albeit in limited magnitude. We also note that a few firms do appear focused on improving returns on equity.

We choose Sony as our top pick among the eight contenders, with Canon and Panasonic also deserving a closer look.

- *Sony (NYSE: SNE)* stands in a league of its own in terms of global brand recognition and brand preference. Our analysis shows it trades meaningfully below the sum of the value of its parts.
- *Canon (NYSE: CAJ)* is interesting due to best-in-class returns on equity among large Japanese companies.
- *Panasonic (NYSE: PC)*, formerly known as Matsushita Electric, derives value both from a branded global consumer electronics business and significant non-core assets.

Major Japanese Public Companies – Overview

Company	Ticker	Price (\$)	MV (\$bn)	EV (\$bn)	Tang. Book (\$bn)	LTM Rev. (\$bn)	Empl. ('000)	Shares per ADR	Industry
<u>Basic Materials</u>									
Kubota	KUB	27.21	7	11	7	13	25	5.0	Iron & Steel
Kobe Steel	KBSTY	6.60	4	12	6	50	34	5.0	Iron & Steel
Furukawa Electric	FUWAY	39.00	3	7	2	25	40	10.0	Metal Mining
<u>Capital Goods</u>									
Mitsui & Co.	MITSY	209.33	19	50	20	66	44	20.0	Misc. Capital Goods
Hitachi	HIT	28.64	10	34	13	118	359	10.0	Misc. Capital Goods
Komatsu	KMTUY	43.53	11	16	8	31	41	4.0	Construction & Agri Machinery
<u>Consumer Cyclical</u>									
Toyota Motor	TM	65.45	103	208	119	256	322	2.0	Auto & Truck Manufacturers
Honda Motor	HMC	24.02	44	86	47	123	186	1.0	Auto & Truck Manufacturers
Panasonic	PC	11.58	24	20	30	92	307	1.0	Audio & Video Equipment
Sony	SNE	18.50	19	17	26	89	179	1.0	Audio & Video Equipment
Nissan Motor	NSANY	5.95	12	60	30	217	158	2.0	Auto & Truck Manufacturers
Bridgestone	BRDCY	26.80	10	18	14	75	137	2.0	Tires
Fujifilm	FUJI	19.64	10	10	15	28	78	1.0	Photography
Sharp	SHCAY	8.00	9	13	11	34	56	1.0	Audio & Video Equipment
Sanyo	SANYY	7.30	3	5	3	20	93	5.0	Audio & Video Equipment
Kawasaki Heavy	KWHIY	7.05	3	6	3	29	32	4.0	Recreational Products
Makita	MKTAY	20.84	3	2	3	4	11	1.0	Appliances & Tools
Wacoal	WACLY	59.91	2	1	2	2	14	5.0	Apparel/Accessories
<u>Consumer Non-Cyclical</u>									
Kirin Holdings	KNBWW	10.27	10	16	5	49	34	1.0	Beverages (Alcoholic)
Shiseido	SSDOY	15.61	6	6	3	15	29	1.0	Personal & Household Products
Q.P. Corp.	QPCPY	24.15	2	2	2	10	10	2.0	Food Processing
<u>Financial</u>									
Mitsubishi UFJ	MTU	5.06	59	n/m	64	47	78	1.0	Money Center Banks
Mizuho Financial	MFG	4.43	25	n/m	0	0	49	2.0	Regional Banks
Tokio Marine	TKOMY	22.85	18	n/m	14	70	27	1.0	Insurance (Property & Casualty)
Nomura	NMR	5.10	10	n/m	15	7	26	1.0	Investment Services
<u>Healthcare</u>									
Eisai	ESALY	34.03	10	13	0	17	11	1.0	Biotechnology & Drugs
<u>Services</u>									
NTT DoCoMo	DCM	16.12	68	69	41	50	23	0.0	Communications Services
Nippon Telegraph	NTT	22.64	60	105	63	115	208	0.0	Communications Services
ORIX	IX	15.16	3	59	13	12	20	0.5	Rental & Leasing
Daiei	DAIEY	8.70	2	2	2	25	10	n/a	Retail (Department & Discount)
<u>Technology</u>									
Canon	CAJ	26.52	33	25	30	45	167	1.0	Computer Peripherals
Softbank	SFTBF	15.00	16	39	(9)	59	21	n/a	Computer Services
Kyocera	KYO	64.00	12	7	14	17	65	1.0	Semiconductors
Fujitsu	FJTSY	19.22	8	14	7	110	174	5.0	Computer Services
Ricoh	RICOY	59.10	9	15	7	23	110	5.0	Office Equipment
Nidec	NJ	11.33	6	7	3	7	95	0.3	Electronic Instruments & Controls
TDK	TDK	40.30	5	6	7	9	74	1.0	Electronic Instruments & Controls
Trend Micro	TMICY	29.40	4	3	1	2	4	1.0	Software & Programming
Konami	KNM	15.96	2	2	1	3	6	1.0	Software & Programming
Advantest	ATE	15.12	3	1	2	1	4	1.0	Semiconductors

[Japanese ADRs • Deep Value Browser 1 • dvbrowser1_data.xls, dvbrowser1.xls]

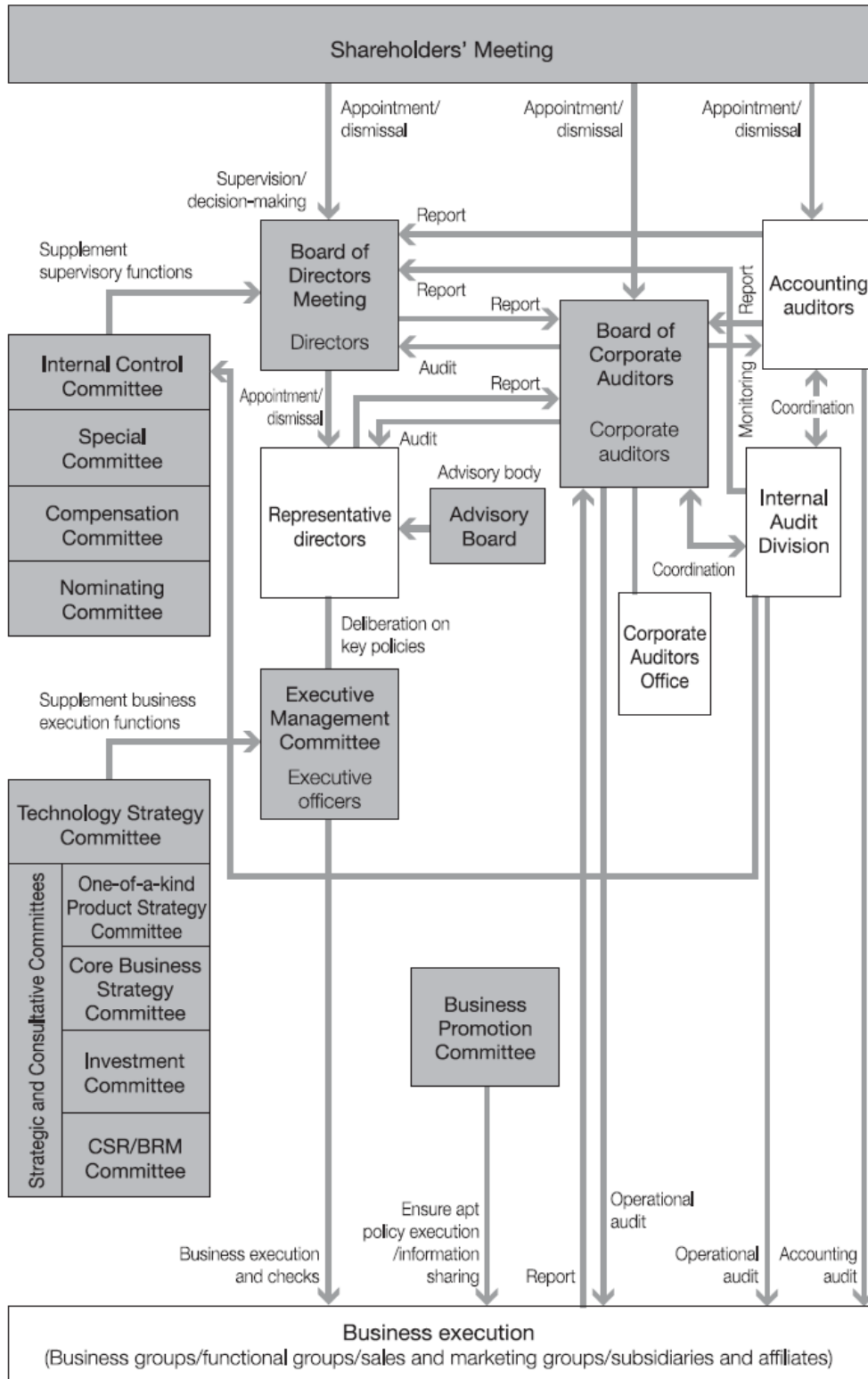
Major Japanese Public Companies – Overview

Company	Ticker	MV (\$bn)	EV (\$bn)	Price/ Tang. Book	EV/ LTM Revenue	Revenue/ Employee (\$'000)	Pre-Tax ROC	Net Net Assets/ MV	Δ Sh. Out (y-y)
<u>Basic Materials</u>									
Kubota	KUB	7	11	1.0x	.9x	506	18%	5%	-1%
Kobe Steel	KBSTY	4	12	.7x	.2x	1,451	33%	n/m	-3%
Furukawa Electric	FUWAY	3	7	1.5x	.3x	632	14%	n/m	-1%
<u>Capital Goods</u>									
Mitsui & Co.	MITSY	19	50	1.0x	.8x	1,491	15%	n/m	4%
Hitachi	HIT	10	34	.7x	.3x	328	6%	n/m	-0%
Komatsu	KMTUY	11	16	1.3x	.5x	756	36%	n/m	0%
<u>Consumer Cyclical</u>									
Toyota Motor	TM	103	208	.9x	.8x	796	5%	n/m	-1%
Honda Motor	HMC	44	86	.9x	.7x	658	-60%	n/m	-1%
Panasonic	PC	24	20	.8x	.2x	298	20%	n/m	-3%
Sony	SNE	19	17	.7x	.2x	495	4%	n/m	0%
Nissan Motor	NSANY	12	60	.4x	.3x	1,371	8%	n/m	-0%
Bridgestone	BRDCY	10	18	.8x	.2x	546	22%	n/m	0%
Fujifilm	FUJI	10	10	.6x	.4x	363	8%	26%	-0%
Sharp	SHCAY	9	13	.8x	.4x	614	0%	n/m	0%
Sanyo	SANYY	3	5	.9x	.2x	213	8%	n/m	-0%
Kawasaki Heavy	KWHIY	3	6	1.0x	.2x	915	12%	n/m	6%
Makita	MKTAY	3	2	1.0x	.6x	330	25%	71%	0%
Wacoal	WACLY	2	1	1.0x	.7x	135	8%	30%	-1%
<u>Consumer Non-Cyclical</u>									
Kirin Holdings	KNBWY	10	16	1.9x	.3x	1,418	27%	n/m	-0%
Shiseido	SSDOY	6	6	1.8x	.4x	531	40%	9%	-1%
Q.P. Corp.	QPCPY	2	2	1.2x	.2x	1,087	18%	n/m	-0%
<u>Financial</u>									
Mitsubishi UFJ	MTU	59	n/m	.9x	n/m	606	n/m	n/m	3%
Mizuho Financial	MFG	25	n/m	n/m	n/m	n/a	n/m	n/m	-1%
Tokio Marine	TKOMY	18	n/m	1.3x	n/m	2,538	n/m	n/m	-2%
Nomura	NMR	10	n/m	.6x	n/m	266	n/m	n/m	0%
<u>Healthcare</u>									
Eisai	ESALY	10	13	25.2x	.8x	1,565	28%	n/m	-0%
<u>Services</u>									
NTT DoCoMo	DCM	68	69	1.7x	1.4x	2,203	29%	n/m	-2%
Nippon Telegraph	NTT	60	105	1.0x	.9x	552	13%	n/m	-0%
ORIX	IX	3	59	.2x	4.9x	601	10%	n/m	1%
Daiei	DAIEY	2	2	.8x	.1x	2,407	3%	n/m	-0%
<u>Technology</u>									
Canon	CAJ	33	25	1.1x	.6x	267	27%	26%	-3%
Softbank	SFTBF	16	39	n/m	.7x	2,811	48%	n/m	1%
Kyocera	KYO	12	7	.8x	.4x	263	18%	48%	1%
Fujitsu	FJTSY	8	14	1.2x	.1x	635	12%	n/m	-0%
Ricoh	RICOY	9	15	1.3x	.6x	213	18%	n/m	-0%
Nidec	NJ	6	7	2.5x	.9x	79	22%	n/m	0%
TDK	TDK	5	6	.8x	.7x	117	4%	3%	-2%
Trend Micro	TMICY	4	3	3.7x	1.2x	606	>100%	18%	-1%
Konami	KNM	2	2	1.6x	.7x	574	39%	6%	0%
Avantest	ATE	3	1	1.1x	1.1x	289	-18%	62%	-3%

[Japanese ADRs • Deep Value Browser 1 • dvbrowser1_data.xls, dvbrowser1.xls]

Why “Japan Inc.” Has Long Way To Go — Corporate Governance at Sharp Corporation

Sharp presents the following “system” as evidence of its commitment to “improving the speed and quality of managerial decisions.” Note that the company even has a “One-of-a-kind Product Strategy Committee.” We are not quite sure that “one-of-a-kind” products are best conceived by committee.



Source: Sharp Corporation, Corporate Governance System (as of June 24, 2008), Annual Report for FY07, p. 31.

Canon (NYSE: CAJ)

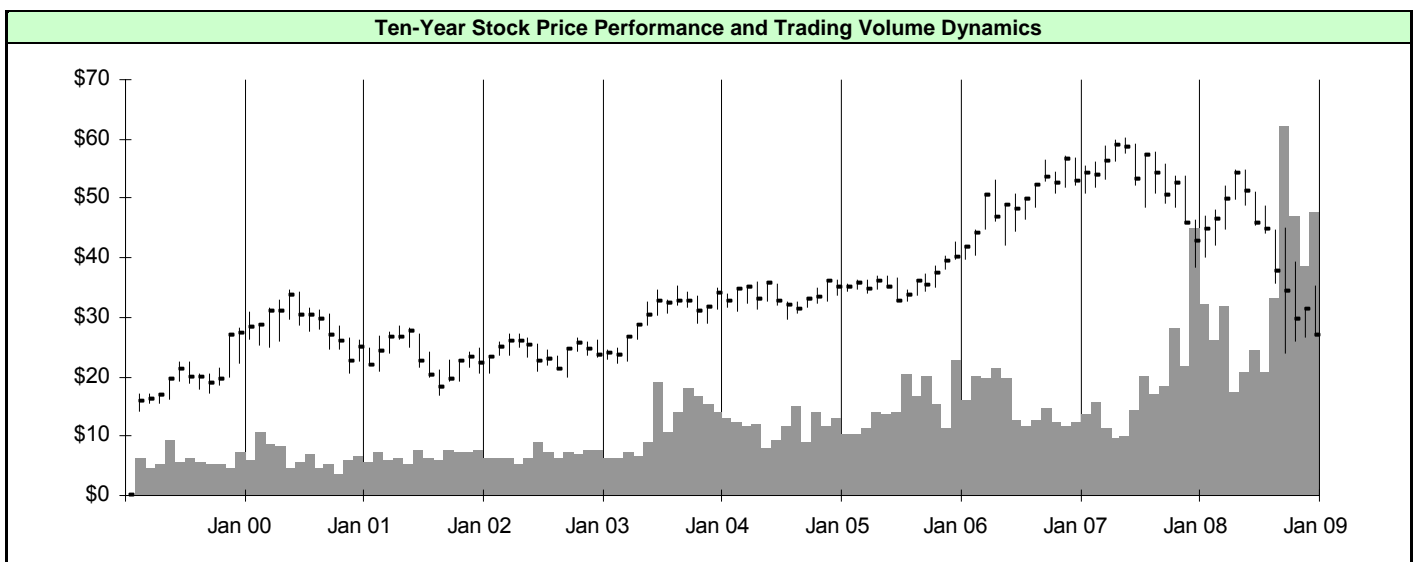
Technology: Computer Peripherals

Ohta-ku, TK, Japan, 81-3-375-2111

<http://www.canon.com>

Trading Data	Consensus EPS Estimates			Valuation
Price: \$26.52 (as of 2/13/09)		Month	# of	P/E FYE 12/31/08
52-week range: \$24.04 - \$54.99				P/E FYE 12/31/09
Market value: \$32.7 billion				P/E FYE 12/31/10
Enterprise value: \$25.3 billion				P/E FYE 12/31/11
Shares out: 1,234.9 million				EV / LTM revenue
				EV / LTM EBITDA
				EV / LTM EBIT
				P / tangible book
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria
Insider ownership: 12%				LTM EBIT yield
Insider buys (last six months): 0				LTM pre-tax ROC
Insider sales (last six months): 0				
Institutional ownership: 5%				
# of institutional owners: 293				

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/08	12/31/07	12/31/08
Revenue	32,737	35,609	38,613	41,802	46,284	49,898	45,587	44,519	14,072	11,076
Gross profit	15,589	17,915	19,077	20,254	22,943	25,019	21,579	21,162	6,804	4,692
EBIT	3,857	5,060	6,055	6,492	7,873	8,425	5,524	5,394	2,155	399
Net income	2,124	3,070	3,823	4,277	5,070	5,437	3,442	3,442	1,424	129
Diluted EPS	1.59	2.31	2.87	3.21	3.81	4.20	2.74	2.67	1.13	0.11
Cash from ops	4,999	5,185	6,252	6,744	7,741	9,345	6,867	6,866	3,080	2,018
Capex	2,213	2,339	2,858	4,399	4,731	5,281	4,768	4,768	1,233	950
Free cash flow	2,786	2,846	3,394	2,345	3,011	4,064	2,099	2,099	1,847	1,068
Cash & investments	5,885	7,701	9,902	11,192	12,984	10,745	7,648	7,648	10,745	7,648
Total current assets	18,984	21,499	24,854	27,375	30,980	29,048	22,991	22,991	29,048	22,991
Intangible assets	0	0	0	0	0	1,253	1,327	0	0	0
Total assets	32,766	35,432	39,940	45,023	50,350	50,246	44,204	44,204	50,246	44,204
Short-term debt	1,444	968	679	252	348	394	62	62	204	62
Total current liabilities	8,928	9,212	10,947	12,010	12,953	13,993	10,511	10,511	13,993	10,511
Long-term debt	906	660	319	302	176	97	94	94	97	94
Total liabilities	15,040	14,660	15,334	16,021	17,095	17,707	14,588	14,588	17,707	14,588
Preferred stock	0	0	0	0	0	0	0	0	0	0
Common equity	17,726	20,772	24,606	29,002	33,255	32,539	29,616	29,616	32,539	29,616
EBIT/capital employed	26%	34%	40%	40%	43%	43%	28%	27%	n/m	n/m



BUSINESS OVERVIEW

Canon provides branded digital multifunction devices, copying machines, printers, cameras, steppers, and aligners. The company sells through subsidiaries, each of which has localized marketing and distribution responsibility.

Canon entered the business machines field in the late 1950s utilizing photographic and optical products technology. The company introduced electronic calculators in 1964 and has since expanded into other technology-driven office products.

Seasonality is strongest during the Q4 holiday season. Corporate demand in Japan peaks in Q1.

SELECTED OPERATING DATA

FYE December 31	2006	2007	2008
<i>% of revenue by segment:</i>			
Office imaging products	29%	29%	27%
Computer peripherals	34%	34%	36%
Business information products	3%	2%	2%
Total business machines	65%	66%	65%
Cameras	25%	26%	25%
Optical and other products	10%	9%	10%
<i>Revenue growth by segment:</i>			
Office imaging products	3%	9%	-13%
Computer peripherals	12%	10%	-5%
Business information products	3%	0%	-20%
Total business machines	8%	9%	-9%
Cameras	19%	11%	-10%
Optical and other products	14%	-7%	0%
Total revenue growth	11%	8%	-9%
<i>EBIT margin by segment:</i>			
Business machines	22%	22%	20%
Cameras	26%	27%	18%
Optical and other products	10%	5%	-11%
Corporate and eliminations	-5%	-5%	-5%
Total EBIT margin	17%	17%	12%
D&A as % of revenue	7%	8%	8%
Capex as % of revenue	10%	10%	10%
R&D as % of revenue	7%	8%	9%
Net margin	11%	11%	8%
<i>% of revenue by geography:</i>			
Japan	22%	21%	21%
Americas	31%	30%	28%
Europe	32%	33%	33%
Other	15%	16%	18%
ROE	16%	17%	11%
Equity to total assets (avg)	65%	65%	66%
Δ shares out (period end)	12%	0%	0%

INVESTMENT HIGHLIGHTS

- **Leader in monochrome multifunction devices (MFDs) and copiers**, including personal-use machines. Canon also has a strong position in laser and inkjet printers and scanners. Most laser printer sales are on an OEM basis. HP accounts for roughly 20% (\$8 billion) of the company's annual revenue.
- **Canon is both incumbent and innovator in shifts from copying machines to digital MFDs**, and from monochrome to color products.

THE BOTTOM LINE

Canon scores highly among Japanese companies, as it exhibits a similarly low valuation while achieving superior returns on capital, with deleveraged returns on equity in the mid teens. We laud the company's repurchases of stock, which amounted to ¥550 billion in 2007-08. However, the company operates in consumer and corporate markets that are highly competitive, new feature-driven and economically sensitive. As a result, we do not see large upside to Canon's recent returns on equity.

- **Market for digital SLR cameras continues to grow.** The market for compact digital cameras is also growing amid intense price competition.
- **Strategy: develop high-value products based on advanced technology.** Even so, Canon could curtail basic research in favor of product-oriented R&D.
- **Repurchased 14 million shares for ¥50 billion (~\$520 million) in November 2008.** The company had spent \$4 billion on buybacks during 2007.
- **Shares trade at 1.1x tangible book value**, 10x trailing P/E and 18x forward P/E.

INVESTMENT RISKS & CONCERNS

- **Canon still makes most products in Japan**, a high-cost base of production. Canon has guided for revenue to decline 15% and EBIT to decline 68% in CY09. Yen appreciation has pressured results.
- **Demand for digital MFDs and laser printers to remain subdued.** The market for steppers, used in semiconductor production, is expected to stagnate.
- **Products launched in past two years account for two-thirds of revenue**, suggesting relatively high dependence on the success of new products. This is particularly noteworthy in the cameras segment, which depends on fickle consumer preferences.
- **Camera business more competitive in digital era.** Since the demise of analog cameras, new entrants have emerged, including electronics makers and other specialized firms. This has shortened product cycles and boosted price and feature competition.

COMPARABLE PUBLIC COMPANY ANALYSIS

	Market Value (\$mn)	Enterprise Value (\$mn)	EV / Rev.	Price to T. Book	This FY P/E	Next FY P/E
HPQ	86,360	93,970	.8x	n/m	9x	9x
RICOY	8,580	14,970	.6x	1.3x	13x	20x
XRX	5,570	13,370	.8x	2.3x	7x	6x
CAJ	32,750	25,260	.6x	1.1x	18x	n/a

MAJOR HOLDERS

Insiders <1% | Dai-Ichi Mutual Life 7% | Moxley 5% | Japan Trustee Services 5% | JP Morgan 2%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆☆
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?	☆☆
EXPLOSIVENESS 5%+ probability of 5x upside in one year?	☆

Fujifilm (Nasdaq: FUJI)

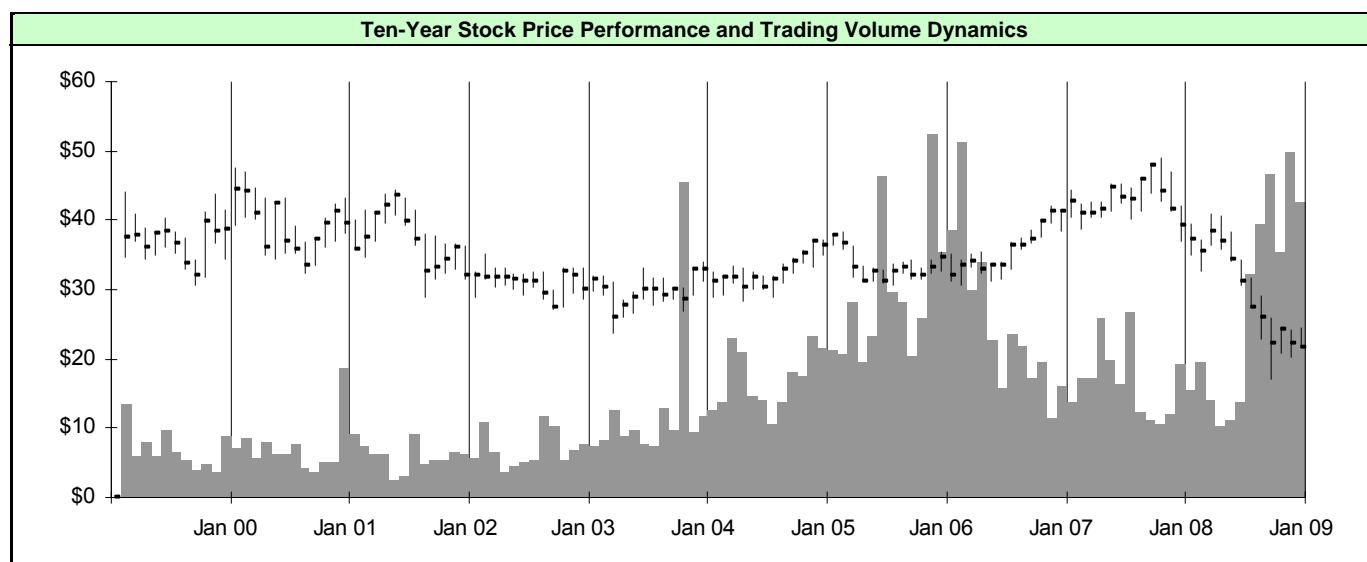
Consumer Cyclical: Photography

Minato-ku, TK, Japan, 877-248-4237

<http://www.fujifilmholdings.com>

Trading Data	Consensus EPS Estimates			Valuation		
Price: \$19.64 (as of 2/13/09)		Month	# of	P/E FYE 3/31/08	9.4x	
52-week range: \$16.93 - \$40.96		<u>Latest</u>	<u>Agg</u>	<u>Ests</u>	P/E FYE 3/31/09	16.4x
Market value: \$9.6 billion	This quarter	n/a	n/a	n/a	P/E FYE 3/31/10	15.6x
Enterprise value: \$10.4 billion	Next quarter	n/a	n/a	n/a	P/E FYE 3/31/11	n/a
Shares out: 488.8 million	FYE 3/31/09	1.20	1.20	1	EV / LTM revenue	0.4x
	FYE 3/31/10	1.26	1.26	1	EV / LTM EBITDA	n/a
	FYE 3/31/11	n/a	n/a	n/a	EV / LTM EBIT	8.6x
	LT EPS growth	n/a	n/a	n/a	P / tangible book	0.6x
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria		
Insider ownership: 9%	<u>Date</u>	<u>Actual</u>	<u>Estimate</u>	LTM EBIT yield	12%	
Insider buys (last six months): 0	7/30/08	\$0.55	n/a	LTM pre-tax ROC	8%	
Insider sales (last six months): 0						
Institutional ownership: 6%						
# of institutional owners: 87						

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	3/31/02	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07	3/31/08	12/31/08	12/31/07	12/31/08
Revenue	26,109	27,246	27,910	27,482	29,006	30,256	30,956	28,419	7,931	6,151
Gross profit	10,873	11,235	11,558	11,055	11,675	12,442	12,549	11,110	3,284	2,285
EBIT	1,751	1,558	2,006	1,785	766	969	2,245	1,211	754	14
Net income	884	528	895	919	403	375	1,136	326	427	(173)
Diluted EPS	1.72	1.03	1.74	1.79	0.79	0.71	2.10	0.59	0.79	(0.35)
Cash from ops	2,699	3,253	3,560	2,385	2,964	3,233	3,242	2,497	404	(146)
Capex	2,014	1,742	2,147	2,000	2,215	2,099	2,032	2,006	433	369
Free cash flow	684	1,512	1,413	385	749	1,133	1,210	491	(29)	(515)
Cash & investments	4,331	4,815	5,390	3,848	3,136	4,711	3,761	2,867	4,664	2,867
Total current assets	15,106	15,540	16,209	14,933	14,924	17,238	16,441	14,911	18,044	14,911
Intangible assets	2,705	2,816	2,723	3,008	3,113	3,450	4,550	4,400	3,399	4,400
Total assets	32,038	32,168	32,877	32,441	32,920	36,091	35,518	32,006	36,698	32,006
Short-term debt	2,036	1,736	1,558	1,344	1,078	1,153	1,237	855	1,812	855
Total current liabilities	7,838	7,746	8,178	7,982	7,861	8,496	8,206	6,341	8,907	6,341
Long-term debt	1,495	1,353	1,270	1,044	808	2,914	2,786	2,771	2,668	2,771
Total liabilities	13,574	13,893	13,849	12,335	11,570	14,599	14,615	12,449	14,665	12,449
Preferred stock	0	0	0	0	0	0	0	0	0	0
Common equity	18,464	18,275	19,028	20,107	21,351	21,492	20,903	19,558	22,033	19,558
EBIT/capital employed	14%	12%	17%	15%	6%	7%	16%	8%	n/m	n/m



BUSINESS OVERVIEW

Fujifilm operates in three segments:

Imaging Solutions includes color films, digital cameras, photofinishing equipment and services, and color paper.

Information Solutions includes medical systems, graphic arts equipment and materials, flat panel display materials, recording media, optical devices, and inkjet materials.

Document Solutions includes office copy machines, printers, production systems, paper, consumables, and office services.

SELECTED OPERATING DATA

FYE March 31	2006	2007	2008	YTD 12/31/08
<i>% of revenue by segment:</i>				
Imaging solutions	26%	22%	19%	18%
Information solutions	33%	37%	39%	39%
Document solutions	41%	41%	42%	44%
<i>Revenue growth by segment:</i>				
Imaging solutions	-7%	-12%	-10%	-24%
Information solutions	14%	17%	8%	-10%
Document solutions	8%	5%	4%	-5%
Total revenue growth	6%	4%	2%	-11%
<i>EBIT margin by segment:</i>				
Imaging solutions	-11%	-7%	0%	-2%
Information solutions	9%	9%	11%	5%
Document solutions	6%	5%	7%	7%
Total EBIT margin	3%	4%	7%	4%
D&A as % of revenue	8%	8%	8%	8%
Capex as % of revenue	7%	6%	6%	6%
R&D as % of revenue	7%	6%	7%	8%
Net margin	1%	1%	4%	2%
<i>% of revenue by type:</i>				
Sales	86%	86%	86%	85%
Rentals	14%	14%	14%	15%
<i>Gross margin by type:</i>				
Sales	38%	38%	37%	36%
Rentals	57%	58%	60%	58%
Total gross margin	40%	41%	41%	39%
<i>% of revenue by geography:</i>				
Japan	62%	60%	58%	45%
Asia Pacific	9%	10%	12%	21%
Americas	17%	18%	18%	19%
Europe	12%	12%	12%	15%
ROE	2%	2%	5%	2%
Equity to total assets (avg)	63%	62%	59%	60%
Δ shares out (period end)	0%	0%	-1%	0%

INVESTMENT HIGHLIGHTS

- **Downsized photosensitive materials businesses from 19,000 to 8,800 people in four years**, while focusing on growth segments: medical equipment, graphic systems, document solutions, optical devices, and flat panel display (FPD) materials.
- **Expects to repurchase ¥35 billion (\$370 million)** of stock in the year ending March 31st, following a ¥34 billion buyback in the previous fiscal year.

THE BOTTOM LINE

Fujifilm made good strides in the fiscal year ended March 31st in terms of growing the business and expanding profit margins amid continuing secular challenges to the company's photosensitive materials businesses. However, performance has suffered in the first nine months of the current fiscal year due to deteriorating business conditions. We are concerned that the combination of a more difficult operating environment and the continuing decline of film-related products will overwhelm management's ability to create meaningful shareholder value. While Fujifilm could take aggressive steps to boost its lagging revenue-per-employee metric (<\$400,000 per year), we doubt that management will move forward with sufficient urge.

- **Shares trade at .6x tangible book value**, 16x forward P/E and .6x tangible book value.

INVESTMENT RISKS & CONCERNS

- **Guiding for revenue decline of 15%** and EBIT decline of 86% in current fiscal year.
- **Imaging solutions business in decline**, primarily due to near-obsolete of color films and "harsh" price competition in color paper market. Fujifilm is consolidating facilities and reducing personnel to try to transform imaging business into cash cow.
- **Recent Document Solutions margin expansion at risk?** Segment margin expanded in FY08 and so far in FY09, but a downtrend in domestic demand and slowdown in export sales may erode margin again.
- **Panel makers' manufacturing adjustments impacting FPD materials business** (part of info solutions segment). Fujifilm views this as a core business and is increasing supply of WV film for which demand is expected to rise. The company is also expanding its share of film for laptops.
- **Competition, slowdown in endoscope business** (part of info solutions). In response, Fujifilm has taken control of the business from Fujinon.
- **Lower demand for medical use films affecting medical systems business** (part of info solutions). The company is shifting from a film-centered portfolio to equipment and network products.

COMPARABLE PUBLIC COMPANY ANALYSIS

	Market Value (\$mn)	Enterprise Value (\$mn)	EV / Rev.	Price to T. Book	This FY P/E	Next FY P/E
CAJ	32,750	25,260	.6x	1.1x	18x	n/a
RICOY	8,580	14,970	.6x	1.3x	13x	20x
EK	1,090	250	.0x	17.9x	n/m	n/m
FUJI	9,600	10,360	.4x	.6x	16x	16x

MAJOR HOLDERS

Insiders <1% | Japan Trustee Services 6% | Master Trust Bank of Japan 5% | State Street 4% | Nippon Life 4%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
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?	☆☆
EXPLOSIVENESS 5%+ probability of 5x upside in one year?	☆☆

Hitachi (NYSE: HIT)

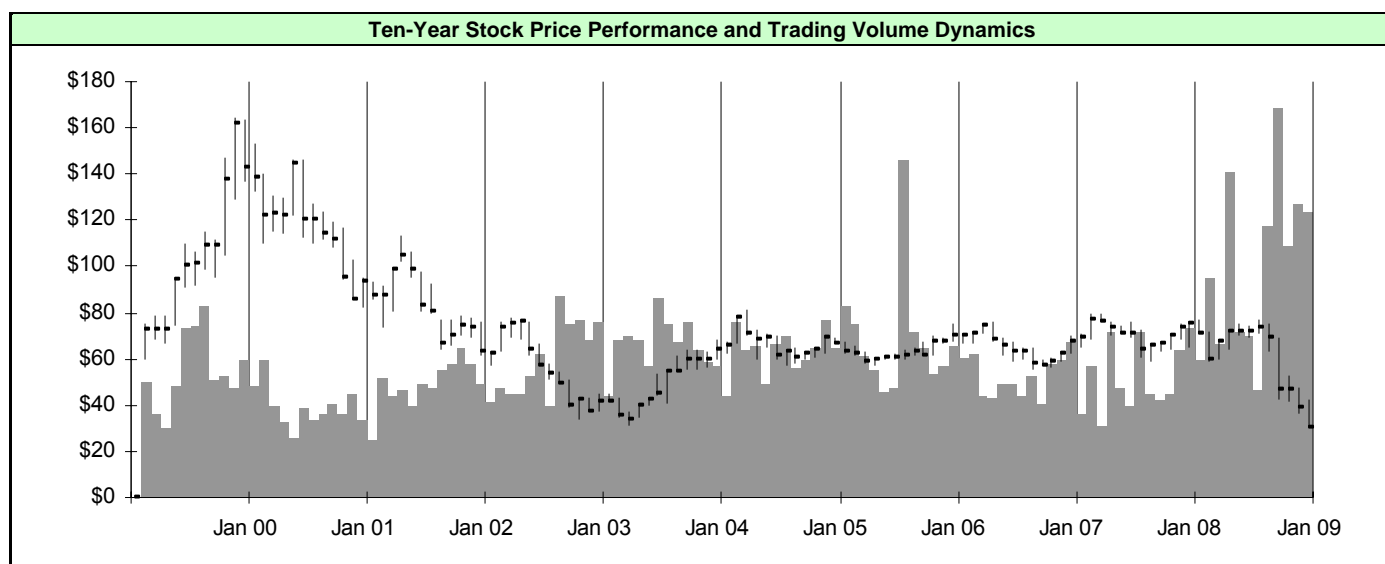
Chiyoda-ku, TK, Japan, 650-244-7900

Capital Goods: Misc. Capital Goods

<http://www.hitachi.co.jp>

Trading Data	Consensus EPS Estimates			Valuation
Price: \$28.64 (as of 2/13/09)		Month	# of	P/E FYE 3/31/08
52-week range: \$26.54 - \$77.33				n/m
Market value: \$9.5 billion				This FY forward P/E
Enterprise value: \$34.4 billion				n/a
Shares out: 332.5 million				Next FY P/E
				n/a
				Next 2 Yrs FY P/E
				n/a
				EV / LTM revenue
				0.3x
				EV / LTM EBITDA
				n/a
				EV / LTM EBIT
				12.0x
				P / tangible book
				0.7x
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria
Insider ownership: 10%				LTM EBIT yield
Insider buys (last six months): 0				8%
Insider sales (last six months): 0				LTM pre-tax ROC
Institutional ownership: 6%				7%
# of institutional owners: 103				

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	3/31/02	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07	3/31/08	12/31/08	12/31/07	12/31/08
Revenue	86,922	89,075	93,867	98,157	102,917	111,433	122,076	117,548	29,436	24,581
Gross profit	19,675	21,217	20,903	22,463	22,585	23,482	26,631	26,227	6,367	5,217
EBIT	(4,911)	1,571	1,415	2,381	2,438	1,833	2,608	2,868	847	(320)
Net income	(5,261)	303	173	560	406	(357)	(632)	(4,371)	136	(4,035)
Diluted EPS	(15.76)	0.89	0.52	1.65	1.18	(1.07)	(1.90)	(13.59)	0.40	(12.14)
Cash from ops	5,251	7,030	6,595	6,148	7,512	6,688	8,610	5,605	266	(1,307)
Capex	9,512	8,513	8,809	10,586	10,559	11,562	10,513	10,979	1,154	2,089
Free cash flow	(4,261)	(1,483)	(2,214)	(4,438)	(3,047)	(4,874)	(1,902)	(5,374)	(888)	(3,396)
Cash & investments	18,874	15,791	15,159	15,028	13,840	8,702	8,246	6,082	6,357	6,082
Total current assets	59,887	56,472	56,760	58,053	59,945	59,089	58,737	57,249	61,003	57,249
Intangible assets	957	4,294	4,297	4,783	4,686	4,730	4,271	5,593	0	5,593
Total assets	107,820	110,688	104,282	105,869	108,968	115,743	114,509	106,937	118,509	106,937
Short-term debt	14,057	15,227	13,604	13,552	11,626	13,950	12,789	18,154	14,213	18,154
Total current liabilities	42,247	43,552	42,528	44,197	44,815	50,754	51,682	52,997	53,134	52,997
Long-term debt	19,554	16,443	14,289	14,343	15,424	16,200	15,458	12,757	16,396	12,757
Total liabilities	82,765	90,536	80,707	80,774	81,699	89,180	90,907	88,335	92,359	88,335
Preferred stock	0	0	0	0	0	0	0	0	0	0
Common equity	25,055	20,151	23,576	25,095	27,269	26,562	23,603	18,603	26,151	18,603
EBIT/capital employed	-12%	4%	4%	6%	6%	4%	6%	7%	n/m	n/m



BUSINESS OVERVIEW

Hitachi is a conglomerate that operates in seven segments:

Information and Telecommunication Systems includes hard disk drives, servers, software, ATMs, and IT services.

Electronic Devices includes LCDs, semi cap equipment, test and measurement equipment, and medical equipment.

Power & Industrial includes nuclear, thermal and hydro-electric power plants, industrial machinery, and auto parts.

Digital Media & Consumer includes optical disk drives, plasma and LCD TVs, mobile phones, and refrigerators.

High Functional Materials & Components includes wires and cables, copper products, chemical products, and resins.

Logistics, Services & Others includes general trading, logistics and property management.

Financial includes leasing, loan guarantees and insurance.

INVESTMENT HIGHLIGHTS

- **One of world's largest providers of electronic and electrical products**, ranging from electricity generation systems to HDDs and medical systems.
- **Intends to grow nuclear power systems business globally** via a strategic partnership with GE.
- **Large real estate holdings** (difficult to value).
- **Shares trade at .7x tangible book value** and .3x EV to trailing revenue.

INVESTMENT RISKS & CONCERNS

- **Guiding for revenue decline of 11% to ¥10,020 billion**, EBIT decline of 88% to ¥40 billion and net loss of ¥700 billion in current fiscal year.
- **Unwieldy conglomerate**, with businesses ranging from disk arrays that compete with EMC to industrial machinery that competes with Caterpillar.
- **Low-margin, low-ROIC business**, with EBIT margins is the low to mid single digits. None of the company's segments posts high returns on capital.
- **Realignment** to include "exiting certain businesses that share fewer synergies with targeted businesses or have poor prospects for higher efficiency."

COMPARABLE PUBLIC COMPANY ANALYSIS

	Market Value (\$mn)	Enterprise Value (\$mn)	EV / Rev.	Price to T. Book	This FY P/E	Next FY P/E
IBM	126,070	147,090	1.4x	9.4x	10x	10x
PC	23,990	19,680	.2x	.8x	10x	11x
FJTSY	7,950	13,820	.1x	1.2x	n/a	n/a
HIT	9,520	34,350	.3x	.7x	n/a	n/a

MAJOR HOLDERS

Insiders <1% | NATS CUMCO 9% | State Street 8% | Master Trust Bank of Japan 6% | Dodge & Cox 4%

SELECTED OPERATING DATA

FYE March 31	2006	2007	2008	YTD 12/31/08
<i>% of revenue by segment:</i>				
Info and telecom systems	25%	24%	25%	25%
Electronic devices	13%	13%	12%	12%
Power and industrial	30%	29%	32%	32%
Digital media, consumer	14%	15%	13%	13%
High functional materials	17%	18%	17%	17%
Logistics and services	13%	12%	11%	11%
Financial services	5%	5%	4%	4%
Eliminations, corporate	-16%	-15%	-13%	-13%
<i>Revenue growth by segment:</i>				
Info and telecom systems	4%	5%	12%	0%
Electronic devices	-9%	7%	0%	-4%
Power and industrial	12%	8%	18%	-1%
Digital media, consumer	2%	15%	0%	-12%
High functional materials	6%	12%	4%	-8%
Logistics and services	-3%	0%	5%	-14%
Financial services	-2%	-3%	-11%	-17%
Total revenue growth	5%	8%	10%	-5%
<i>EBIT margin by segment:</i>				
Info and telecom systems	3.6%	2.4%	4.2%	5.9%
Electronic devices	1.7%	3.6%	4.2%	3.6%
Power and industrial	3.3%	1.2%	3.9%	1.6%
Digital media, consumer	-2.7%	-3.9%	-7.3%	-4.2%
High functional materials	6.9%	7.4%	7.5%	5.3%
Logistics and services	1.6%	1.7%	2.2%	2.0%
Financial services	6.8%	4.7%	5.7%	3.5%
Eliminations, corporate	-0.7%	-0.8%	-0.4%	-0.7%
Total EBIT margin	2.7%	1.8%	3.1%	2.4%
<i>Selected items as % of revenue:</i>				
Special items ¹	-0.4%	-0.4%	-1.0%	0.0%
D&A	4.8%	4.6%	4.8%	4.8%
Capex	10.1%	10.2%	8.6%	6.8%
R&D	4.3%	4.0%	3.8%	4.1%
Net income (reported)	0.4%	-0.3%	-0.5%	-4.7%
<i>EBIT to average assets by segment:</i>				
Info and telecom systems	5%	3%	6%	n/a
Electronic devices	2%	5%	7%	n/a
Power and industrial	4%	1%	5%	n/a
Digital media, consumer	-5%	-6%	-12%	n/a
High functional materials	8%	9%	9%	n/a
Logistics and services	2%	2%	3%	n/a
Financial services	2%	1%	1%	n/a
Total EBIT to avg assets	3%	2%	3%	n/a
<i>% of revenue by geography:</i>				
Japan	71%	68%	66%	57%
Asia	12%	14%	16%	20%
North America	10%	10%	9%	9%
Europe and other	7%	8%	9%	14%
ROE (reported)	2%	-1%	-3%	-18%
Equity to total assets (avg)	24%	24%	22%	19%
Δ diluted share out (avg)	2%	-3%	0%	0%

¹ Includes restructuring charges, impairment losses and losses on disposals.

RATINGS

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

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? ☆☆☆

EXPLOSIVENESS 5%+ probability of 5x upside in one year? ☆☆☆

THE BOTTOM LINE

Hitachi is in need of radical restructuring. The conglomerate operates in competitive, low-margin and low-ROC businesses that are highly exposed to economic weakness. The company's balance sheet is weak, necessitating urgent action to protect shareholder value. We are unsure whether management shares this sense of urgency. As a result, we would avoid the shares.

Kyocera (NYSE: KYO)

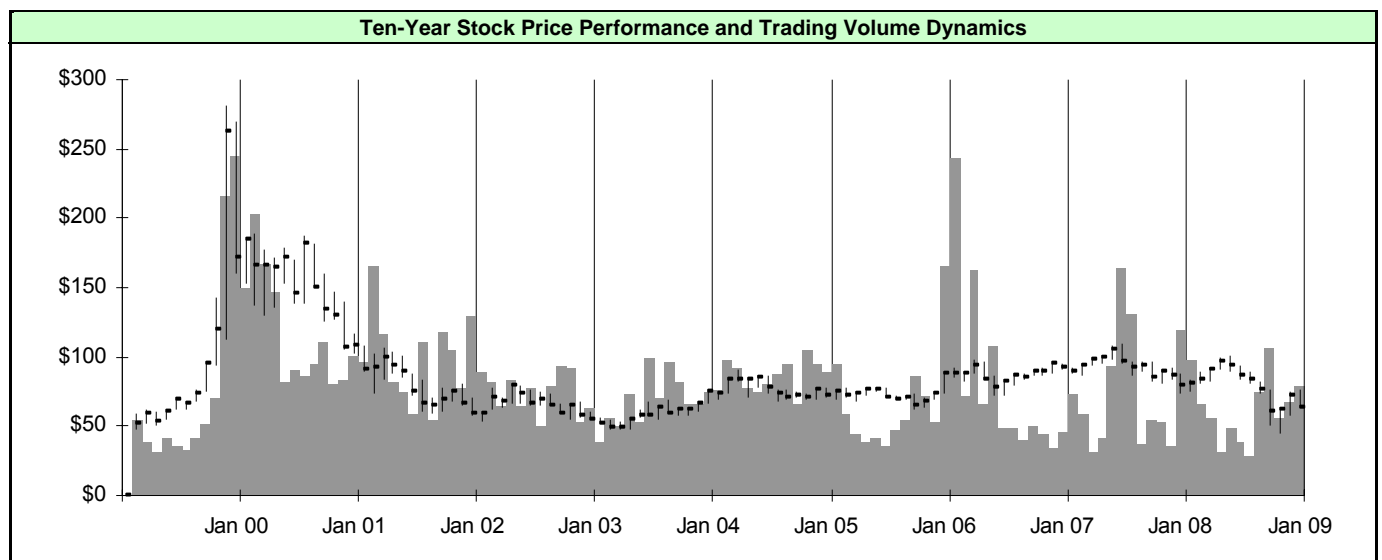
Kyoto-shi, KY, Japan, 858-576-2600

Technology: Semiconductors

<http://www.kyocera.co.jp>

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$64.00 (as of 2/13/09)		Month	# of	P/E FYE 3/31/08	10.3x
52-week range: \$45.41 - \$100.78				P/E FYE 3/31/09	35.6x
Market value: \$11.8 billion				P/E FYE 3/31/10	108.5x
Enterprise value: \$6.9 billion				P/E FYE 3/31/11	n/a
Shares out: 183.6 million				EV / LTM revenue	0.4x
				EV / LTM EBITDA	n/a
				EV / LTM EBIT	4.2x
				P / tangible book	0.8x
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria	
Insider ownership: 10%				LTM EBIT yield	24%
Insider buys (last six months): 0				LTM pre-tax ROC	27%
Insider sales (last six months): 0					
Institutional ownership: 4%					
# of institutional owners: 77					

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	3/31/02	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07	3/31/08	12/31/08	12/31/07	12/31/08
Revenue	11,412	11,801	12,584	13,024	12,945	14,163	14,235	17,169	10,658	2,690
Gross profit	2,641	3,017	3,095	3,592	3,734	4,230	4,486	5,092	3,321	714
EBIT	505	831	1,191	1,112	1,061	1,490	1,681	1,663	1,215	44
Net income	352	454	751	506	769	1,175	1,183	1,251	921	127
Diluted EPS	1.97	2.57	4.02	2.70	3.89	5.93	6.24	6.61	4.86	0.68
Cash from ops	1,555	1,773	690	1,605	1,887	1,651	2,172	1,717	346	25
Capex	769	520	649	708	1,125	805	863	1,057	201	190
Free cash flow	786	1,254	41	897	762	846	1,309	661	145	(165)
Cash & investments	3,219	3,452	4,026	3,812	4,288	5,468	6,564	5,081	5,985	5,081
Total current assets	9,959	9,513	10,299	9,879	10,156	11,544	12,335	10,730	12,174	10,730
Intangible assets	518	450	462	485	690	635	768	1,089	832	1,089
Total assets	18,151	18,036	19,798	19,255	21,306	23,501	21,805	20,586	23,331	20,586
Short-term debt	1,316	1,523	1,427	1,220	1,183	233	118	182	202	182
Total current liabilities	3,961	4,474	4,155	3,799	4,177	3,378	3,328	2,815	3,151	2,815
Long-term debt	1,068	670	779	370	368	80	92	57	100	57
Total liabilities	6,685	6,966	7,071	6,295	7,087	6,794	5,798	5,136	6,284	5,136
Preferred stock	0	0	0	0	0	0	0	0	0	0
Common equity	11,466	11,069	12,727	12,960	14,220	16,707	16,008	15,450	17,047	15,450
EBIT/capital employed	7%	13%	19%	18%	17%	25%	29%	27%	n/m	n/m



BUSINESS OVERVIEW

Kyocera operates in seven technology-driven segments:

Fine Ceramic Parts provides communications components, sapphire substrates, and automotive and other components.

Semiconductor Parts provides various types of ceramic packages and wireless communication device packages.

Applied Ceramic Products provides solar power generating systems, solar cells and modules, and cutting tools.

Electronic Devices provides ceramic/tantalum capacitors, timing devices, RF modules, connectors, and printheads.

Telecommunications Equipment provides CDMA mobile phone handsets and personal handy phone (PHS) products.

Information Equipment provides Ecosys printers, copying machines and multifunctional peripherals.

Other includes telecom engineering, management consulting, chemical materials, electrical insulators, optical components, and hotel, real estate and insurance agent businesses.

INVESTMENT HIGHLIGHTS

- **Growing solar market benefits solar cells and modules business.** Kyocera is investing heavily in this business, as it represents the only major growth driver at this time. The company has ~300 MW of production capacity and expects to boost capacity by roughly 100 MW per year through 2012. Kyocera aims to improve conversion efficiency from 16.5% to 18.5% over the same period.
- **Shares trade at .8x tangible book value,** 10x trailing P/E and .8x tangible book value.

INVESTMENT RISKS & CONCERNS

- **Guidance revised down to a revenue decline of 13% and net income of ¥20 billion in current FY.** Yen appreciation, price competition (e.g., ceramic capacitor prices are down >20% in FY09) and elevated input costs have pressured margins.
- **Recent profit decline** due to demand slowdown, pricing pressure in electronic components and lower sales of digital multifunctional peripherals (MFPs). The company reduced guidance in late October.
- **“Severe” business environment for components** used in high-end mobile phones due to weakening global handset demand. The company has also been hurt by a “protracted upgrade cycle” for handsets resulting from an ineffective go-to-market strategy.
- **Telecom equipment business has struggled** with declining sales and low margins. Management hopes that the April 2008 acquisition of Sanyo’s mobile phone business and restructuring initiatives will improve the outlook for this segment.

SELECTED OPERATING DATA

FYE March 31	2006	2007	2008	YTD 12/31/08
<i>% of revenue by segment:</i>				
Semiconductor parts	11%	12%	12%	13%
Applied ceramic products	10%	10%	12%	14%
Electronic device	22%	22%	23%	21%
Fine ceramic parts and other	6%	6%	6%	6%
Total components	49%	51%	53%	53%
Telecom equipment	19%	20%	17%	19%
Information equipment	21%	21%	21%	19%
Total equipment	42%	41%	39%	38%
Eliminations and other	9%	8%	9%	9%
<i>Revenue growth by selected segment:</i>				
Semiconductor parts	6%	13%	1%	0%
Applied ceramic products	25%	12%	14%	13%
Electronic device	-1%	10%	3%	-16%
Total components growth	4%	12%	4%	-6%
Telecom equipment	-9%	10%	-12%	1%
Information equipment	3%	8%	3%	-15%
Total equipment growth	-7%	8%	-6%	-8%
Total revenue growth	0%	9%	1%	-7%
<i>EBIT margin by selected segment:</i>				
Semiconductor parts	13%	15%	13%	10%
Applied ceramic products	19%	17%	22%	23%
Electronic device	10%	16%	12%	3%
Total components margin	13%	16%	15%	10%
Telecom equipment	-1%	0%	3%	-6%
Information equipment	11%	13%	14%	8%
Total equipment margin	4%	6%	9%	1%
Total EBIT margin	9%	11%	12%	9%
D&A as % of revenue	6%	6%	7%	6%
Capex as % of revenue	8%	5%	7%	6%
R&D as % of revenue	5%	5%	5%	7%
Net income margin	6%	8%	8%	6%
ROE	6%	8%	7%	4%
Equity to total assets (avg)	67%	69%	72%	75%
<i>% of revenue by geography:</i>				
Japan	40%	39%	39%	41%
Rest of world	60%	61%	61%	59%

COMPARABLE PUBLIC COMPANY ANALYSIS

	Market Value (\$mn)	Enterprise Value (\$mn)	EV / Rev.	Price to T. Book	This FY P/E	Next FY P/E
IBM	126,070	147,090	1.4x	9.4x	10x	10x
TDK	5,200	6,080	.7x	.8x	576x	n/m
KYO	11,750	6,910	.4x	.8x	36x	108x

MAJOR HOLDERS

Insiders <1% | State Street 9% | Master Trust Bank of Japan 6% | Japan Trustee Services 5% | Dodge & Cox 3%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
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?	☆☆
EXPLOSIVENESS 5%+ probability of 5x upside in one year?	☆☆

THE BOTTOM LINE

Kyocera’s businesses face a variety of headwinds, including price declines and elevated labor and materials input costs. The only credible growth and profit driver at present is the solar business, which comprises less than 10% of revenue. As a result, we do not expect Kyocera’s results to impress — or its returns on equity — to grow meaningfully in the near future.

Panasonic (NYSE: PC)

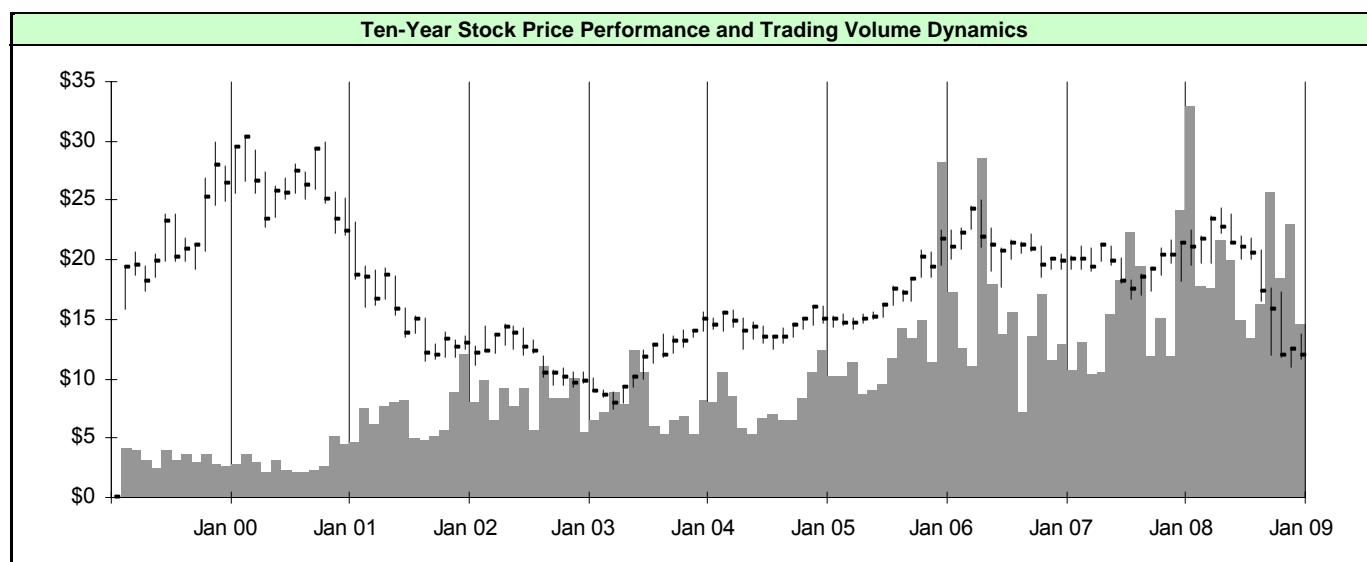
Consumer Cyclical: Audio & Video Equipment

Kadoma, Japan, 81-6-690-1121

<http://www.panasonic.net>

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$11.58 (as of 2/13/09)		Month	# of	P/E FYE 3/31/08	8.0x
52-week range: \$10.91 - \$24.38		<u>Latest</u>	<u>Agg</u>	<u>Ests</u>	P/E FYE 3/31/09
Market value: \$24.0 billion	This quarter	n/a	n/a	n/a	P/E FYE 3/31/10
Enterprise value: \$19.7 billion	Next quarter	n/a	n/a	n/a	P/E FYE 3/31/11
Shares out: 2,071.4 million	FYE 3/31/09	1.19	1.18	1	EV / LTM revenue
	FYE 3/31/10	1.06	1.04	1	EV / LTM EBITDA
	FYE 3/31/11	n/a	n/a	n/a	EV / LTM EBIT
	LT EPS growth	2.5%	2.5%	1	P / tangible book
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria	
Insider ownership: 10%	<u>Date</u>	<u>Actual</u>	<u>Estimate</u>	LTM EBIT yield	21%
Insider buys (last six months): 0	2/4/09	-\$0.32	n/a	LTM pre-tax ROC	20%
Insider sales (last six months): 0					
Institutional ownership: 6%					
# of institutional owners: 135					

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	3/31/02	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07	3/31/08	12/31/08	12/31/07	12/31/08
Revenue	76,919	80,484	81,333	94,750	96,714	99,040	98,613	91,586	25,494	20,442
Gross profit	19,157	22,597	23,560	27,593	29,783	29,509	29,269	26,567	7,659	5,553
EBIT	(2,164)	1,376	2,126	3,355	3,961	4,997	5,649	4,226	1,798	287
Net income	(4,652)	(212)	458	636	1,679	2,362	3,065	1,380	1,252	(686)
Diluted EPS	(2.24)	(0.09)	0.20	0.28	0.76	1.08	1.45	0.65	0.59	(0.33)
Cash from ops	1,228	7,593	5,319	5,202	6,257	5,791	4,052	3,733	707	(134)
Capex	3,720	2,682	2,996	3,830	3,879	4,473	4,553	5,450	1,040	1,363
Free cash flow	(2,492)	4,912	2,323	1,373	2,378	1,318	(501)	(1,717)	(333)	(1,497)
Cash & investments	16,000	17,009	15,742	14,424	18,868	16,912	14,488	8,879	13,985	8,879
Total current assets	43,570	43,345	41,048	43,827	47,916	45,657	41,311	34,677	42,467	34,677
Intangible assets	1,674	5,279	5,350	6,127	5,625	5,382	6,076	5,961	0	5,961
Total assets	84,472	85,192	80,879	87,608	86,605	85,869	80,940	71,668	81,678	71,668
Short-term debt	6,402	4,300	3,998	4,923	4,417	2,988	2,103	1,796	1,424	1,796
Total current liabilities	28,207	27,955	27,943	30,761	31,371	29,814	27,847	23,969	27,485	23,969
Long-term debt	7,701	6,396	5,009	5,188	2,871	2,466	2,527	2,772	1,893	2,772
Total liabilities	49,156	50,631	43,347	49,069	45,420	43,280	40,247	35,640	38,803	35,640
Preferred stock	0	0	0	0	0	0	0	0	0	0
Common equity	35,316	34,561	37,531	38,539	41,186	42,590	40,693	36,028	42,874	36,028
EBIT/capital employed	-10%	7%	14%	19%	19%	25%	28%	20%	n/m	n/m



BUSINESS OVERVIEW

Panasonic, formerly known as Matsushita Electric, makes electronic and electric products for consumer, business and industrial uses. The company operates in five segments:

AVC Networks comprises two businesses: *Video and Audio Equipment* includes plasma and LCD TVs, DVD recorders and players, camcorders, and digital cameras. *Information and Communications Equipment* includes PCs, optical disc drives, copiers, printers, telephones, and mobile phones.

Home Appliances includes refrigerators, air conditioners, washing machines, clothes dryers, and vacuum cleaners.

Components and Devices includes semiconductors, general components, electric motors, and batteries.

MEW and PanaHome includes lighting fixtures, wiring devices, personal-care and health enhancing products.

Other includes electronic-components-mounting machines, industrial robots, welding equipment, and bicycles.

INVESTMENT HIGHLIGHTS

- **Renamed company Panasonic** (from Matsushita Electric) in order to focus strategic efforts around the flagship brand. Panasonic is a global consumer electronics leader, spanning TVs, DVDs and PCs.
- **Improvement initiatives:** (1) dispose of non-core businesses (sold JVC to Kenwood and Sparx, distribution centers to Prologis); (2) speed structural reforms (review manufacturing sites, cut fixed costs); (3) reduce inventories; and (4) curb capex.
- **Valuable real estate.** Panasonic's real estate holdings are difficult to value precisely but are likely worth a large percentage of enterprise value.
- **To pay at ¥400+ billion (\$4 billion) for majority of Sanyo** and spend ¥100 billion in capex to create energy business, including rechargeable batteries and solar products (deal announced in December; to be financed by cash and debt). Various synergies should boost EBIT by ¥80 billion in 2013.
- **Shares trade at 18x trailing P/E**, 11x forward P/E and .8x tangible book value.

INVESTMENT RISKS & CONCERNS

- **Lowered guidance in November and again in February.** Management now expects revenue of ¥7,750 billion, EBIT of ¥60 billion and a net loss of ¥380 billion for the current fiscal year.
- **Price declines in flat-panel TV “very severe.”** The company expected 20% decline for FY09 at the beginning of the FY, but now estimates it at 30%.
- **Exposed to yen appreciation**, raw materials prices.

SELECTED OPERATING DATA

FYE March 31	2006	2007	2008	YTD 12/31/08
<i>% of revenue by product category:</i>				
AVC networks	41%	41%	44%	46%
Home appliances	13%	13%	14%	15%
Components and devices	12%	12%	13%	12%
PEW and PanaHome	18%	19%	19%	20%
Other and JVC	15%	14%	10%	8%
<i>Revenue growth by product category:</i>				
AVC networks	4%	2%	6%	-7%
Home appliances	2%	2%	6%	-4%
Components and devices	-2%	4%	2%	-14%
PEW and PanaHome	1%	8%	2%	-4%
Total revenue growth ¹	20%	2%	3%	-9%
<i>EBIT margin by segment:</i>				
AVC networks	5.2%	5.8%	6.3%	3.4%
Home appliances	6.3%	6.9%	6.7%	7.0%
Components and devices	7.5%	8.9%	9.1%	7.1%
PEW and PanaHome	4.6%	4.6%	5.6%	3.8%
Total EBIT margin	4.7%	5.0%	5.7%	4.1%
<i>Selected items as % of revenue:</i>				
R&D	6.3%	6.3%	6.1%	6.4%
Net income	1.7%	2.4%	3.1%	1.1%
D&A	3.1%	3.1%	3.1%	4.0%
Capex	3.9%	4.6%	5.0%	5.7%
FCF	11.0%	-0.4%	4.5%	-0.6%
ROE	4%	6%	7%	2%
Equity to total assets	48%	50%	50%	50%
Δ diluted shares out (avg)	-3%	-2%	-3%	-2%
<i>% of revenue by geography:</i>				
Japan	52%	51%	50%	50%
Rest of world	48%	49%	50%	50%

¹ Excludes JVC. Panasonic's stake in JVC decreased from 52% to 37% in August 2007, with JVC now accounted for under the equity method.

COMPARABLE PUBLIC COMPANY ANALYSIS

	Market Value (\$mn)	Enterprise Value (\$mn)	EV / Rev.	Price to T. Book	This FY P/E	Next FY P/E
SNE	18,570	17,270	.2x	.7x	n/m	n/m
PHG	17,590	18,280	.5x	3.0x	12x	n/a
SHCAY	8,810	13,220	.4x	.8x	n/m	n/m
FJTSY	7,950	13,820	.1x	1.2x	n/a	n/a
PC	23,990	19,680	.2x	.8x	10x	11x

MAJOR HOLDERS

Insiders <1% | Moxley 8% | Master Trust Bank of Japan 5% | Japan Trustee Services 4% | State Street 3%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆☆
MANAGEMENT Capable and properly incentivized?	☆☆☆
FINANCIAL STRENGTH Solid balance sheet?	☆☆☆☆ ¹
MOAT Able to sustain high returns on invested capital?	☆☆☆
EARNINGS MOMENTUM Fundamentals improving?	☆☆
MACRO Poised to benefit from economic and secular trends?	☆☆
EXPLOSIVENESS 5%+ probability of 5x upside in one year?	☆☆☆

¹ Proposed Sanyo deal would weaken balance sheet by adding debt.

THE BOTTOM LINE

Panasonic is a classic value stock due to tangible asset protection, including large real estate assets. The company has a strong brand in consumer electronics, a competitive, capital-intensive business. While Panasonic trades materially below intrinsic value, investors need to scrutinize the company's likely rate of future compounding of intrinsic value. We would need to see the company's prospective returns on equity increase before considering it a compelling long-term investment.

Sharp (OTC: SHCAY)

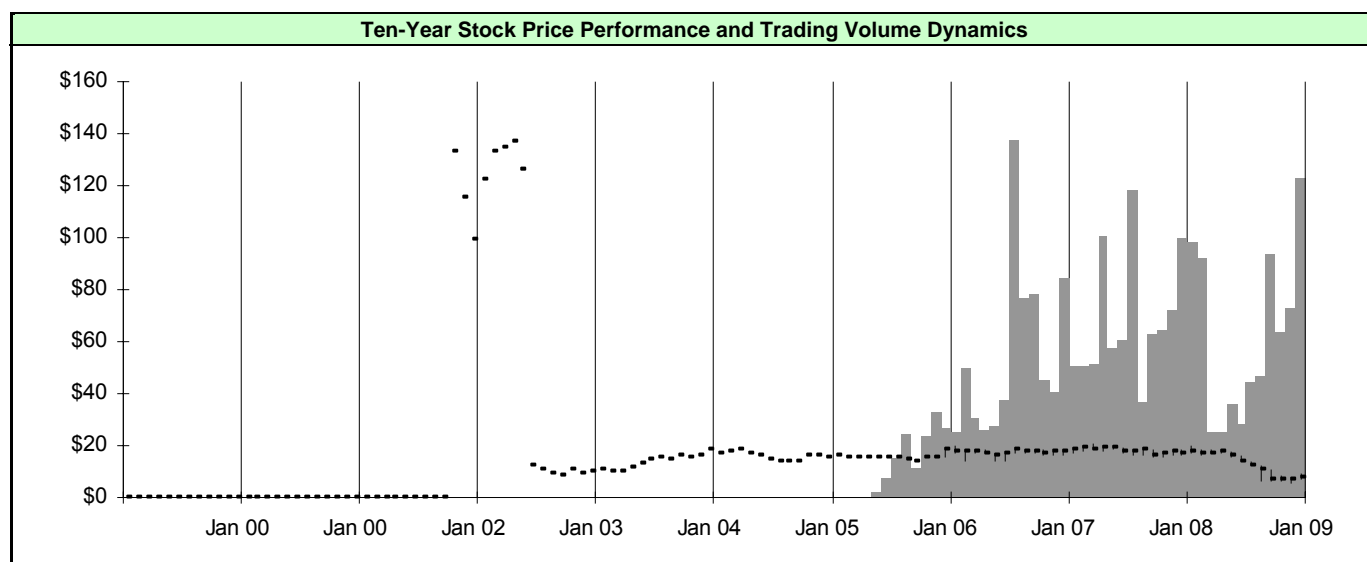
Consumer Cyclical: Audio & Video Equipment

Abeno-ku, OS, Japan, 81-6-662-1221

<http://sharp-world.com>

Trading Data	Consensus EPS Estimates			Valuation	
Price: \$8.00 (as of 2/13/09)		Month	# of	P/E FYE 3/31/08	8.3x
52-week range: \$5.25 - \$19.70				P/E FYE 3/31/09	n/m
Market value: \$8.8 billion				P/E FYE 3/31/10	n/m
Enterprise value: \$13.2 billion				P/E FYE 3/31/11	n/a
Shares out: 1,100.9 million				EV / LTM revenue	0.4x
				EV / LTM EBITDA	n/a
				EV / LTM EBIT	562.6x
				P / tangible book	0.8x
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria	
Insider ownership: 23%				LTM EBIT yield	0%
Insider buys (last six months): 0				LTM pre-tax ROC	0%
Insider sales (last six months): 0					
Institutional ownership: n/a					
# of institutional owners: 6					

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	3/31/02	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07	3/31/08	12/31/08	12/31/07	12/31/08
Revenue	19,897	22,097	24,900	28,017	30,854	34,502	37,701	34,287	10,162	25,344
Gross profit	5,109	5,442	6,003	6,400	6,971	7,867	8,329	6,791	2,173	4,652
EBIT	800	1,091	1,324	1,666	1,780	1,984	2,010	24	570	(561)
Net income	125	357	666	843	973	1,122	1,124	813	327	(417)
Diluted EPS	0.11	0.32	0.60	0.77	0.89	0.99	0.96	(0.11)	0.28	(0.38)
Cash from ops	1,534	2,973	2,754	2,429	2,911	3,497	3,589	2,721	54	(191)
Capex	2,143	1,894	2,020	2,983	2,568	3,249	4,003	3,243	997	936
Free cash flow	(609)	1,079	733	(554)	344	247	(414)	(522)	(942)	(1,127)
Cash & investments	3,937	4,223	4,081	4,325	4,151	4,763	4,316	3,621	4,179	3,621
Total current assets	11,958	12,250	12,665	14,568	15,387	18,524	18,120	16,753	19,529	16,753
Intangible assets	0	427	449	414	529	670	1,038	1,005	842	1,005
Total assets	21,697	22,115	23,719	26,309	28,242	32,748	33,900	31,961	35,636	31,961
Short-term debt	3,531	2,638	2,312	3,905	2,973	2,514	3,402	4,108	1,892	4,108
Total current liabilities	8,973	9,028	10,480	13,011	13,182	15,358	15,789	15,038	17,610	15,038
Long-term debt	2,215	2,710	2,273	1,434	2,400	3,748	3,879	3,928	3,874	3,928
Total liabilities	11,473	12,164	13,311	15,230	16,120	19,698	20,315	19,502	22,066	19,502
Preferred stock	0	0	0	0	0	0	0	0	0	0
Common equity	10,224	9,951	10,408	11,079	12,122	13,051	13,585	12,458	13,570	12,458
EBIT/capital employed	8%	12%	15%	17%	17%	17%	16%	0%	n/m	n/m



BUSINESS OVERVIEW

Sharp is an electronics manufacturer focused on consumer and information products, including LCD TVs and mobile phones, and on electronic components, including LCDs and solar cells. The company was founded in 1912.

SELECTED OPERATING DATA

FYE March 31	2006	2007	2008	YTD 12/31/08
<i>% of revenue by segment:</i>				
AV and comms equipment	39%	44%	47%	46%
Home appliances	8%	8%	7%	7%
Information equipment	15%	14%	13%	12%
Consumer / info products	62%	66%	67%	65%
LSIs	5%	5%	5%	6%
LCDs	23%	20%	20%	21%
Other electronic components	10%	9%	8%	8%
Electronic components	38%	34%	33%	35%
<i>Revenue growth by segment:</i>				
AV and comms equipment	12%	27%	16%	-15%
Home appliances	6%	6%	5%	-10%
Information equipment	1%	4%	0%	-13%
Consumer / info products	8%	19%	11%	-14%
LSIs	3%	8%	12%	31%
LCDs	16%	-1%	9%	2%
Other electronic components	11%	1%	-3%	-22%
Electronic components	13%	1%	6%	-2%
Total revenue growth	10%	12%	9%	-10%
<i>EBIT margin by major segment:</i>				
Consumer / info products	4%	4%	3%	0%
Electronic components	10%	10%	9%	4%
Total EBIT margin	6%	6%	5%	2%
D&A as % of revenue	7%	7%	8%	10%
Capex as % of revenue	8%	9%	9%	9%
R&D as % of revenue	6%	6%	6%	n/a
Net margin	3%	3%	3%	-2%
ROE	8%	9%	8%	-3%
Equity to total assets (avg)	43%	41%	40%	39%
<i>% of revenue by geography:</i>				
Japan	50%	49%	47%	n/a
Americas	16%	19%	18%	n/a
Europe	17%	17%	17%	n/a
China	8%	10%	12%	n/a
Other	9%	6%	6%	n/a
Δ shares out (period end)	0%	0%	1%	0%

INVESTMENT HIGHLIGHTS

- **Consumer/Information Products business (two-thirds of revenue)** — focused on growing LCD color TV sales. Sharp recently introduced premium TV models, streamlined overseas production and launched mobile phones in China.
- Strong recent sales of Blu-ray Disc recorders; weak sales of mobile phones. LCD TVs units are up but sales have declined due to pricing pressure.

- **Electronic Components business (one-third of revenue)** — focused on growing LCD business. The company is also installing a new production line for thin-film solar cells at the Katsuragi Plant and pursuing energy alliances in Japan and Italy.
- Strong recent sales of large-size LCD panels for TVs and solar cells. Sales of other electronic devices, including CCD/CMOS imagers, are down.
- **Strong intellectual property portfolio**, with 17,500 patents in Japan and 21,500 overseas.
- **Shares trade at .4x enterprise value to trailing revenue** and .8x tangible book value.

INVESTMENT RISKS & CONCERNS

- **Guiding for revenue decline of 15% and net loss of ¥100 billion in current fiscal year**, sharply lower than prior company guidance. Management expects margin compression due primarily to “intense” price competition and yen appreciation.
- **Recent results pressured** by sluggish sales of mobile phones and related components, yen appreciation and price declines in LCD panels.
- **Expects global electronics competition to “get more aggressive in the growth areas.”** Sharp is responding by introducing new models, such as LCD TVs with built-in Blu-ray Disc recorders. The company is also increasing solar cell production. Cost reduction seems to be a secondary objective.

COMPARABLE PUBLIC COMPANY ANALYSIS

	Market Value (\$mn)	Enterprise Value (\$mn)	EV / Rev.	Price to T. Book	This FY P/E	Next FY P/E
PC	23,990	19,680	.2x	.8x	10x	11x
SNE	18,570	17,270	.2x	.7x	n/m	n/m
PHG	17,590	18,280	.5x	3.0x	12x	n/a
SHCAY	8,810	13,220	.4x	.8x	n/m	n/m

MAJOR HOLDERS

Insiders <1% | Nippon Life 5% | Meiji Yasuda Life 4% | Mizuho 4% | Bank of Tokyo 4% | State Street 3%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆
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?	☆☆
EXPLOSIVENESS 5%+ probability of 5x upside in one year?	☆☆

THE BOTTOM LINE

While Sharp has posted respectable growth in recent years and while recent results have suffered slightly less than those of some competitors, we find the company’s challenges emblematic of the structural problems plaguing “Japan Inc.” The company existed for almost a century and today has a bloated management structure and entrenched bureaucracy. Given the competitive and global nature of the company’s products, we have little conviction that Sharp can compete effectively over time. As a result, the company may be relegated to earning low rates of return in production-oriented businesses in which the investment of tangible capital into capacity expansion is more important to success than is intellectual property.

TDK (NYSE: TDK)

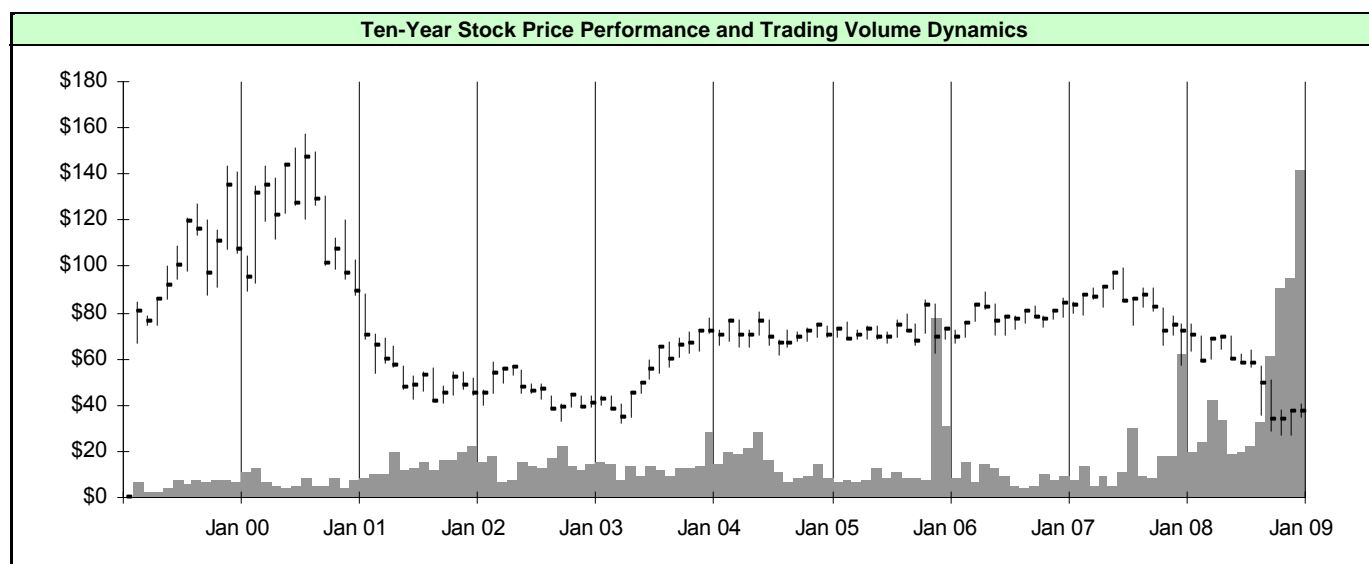
Technology: Electronic Instruments & Controls

Chuo-ku, TK, Japan, 516-535-2600

<http://www.tdk.co.jp>

Trading Data	Consensus EPS Estimates			Valuation		
Price: \$40.30 (as of 2/13/09)		Month	# of	P/E FYE 3/31/08	6.7x	
52-week range: \$26.71 - \$75.26		<u>Latest</u>	<u>Agg</u>	<u>Ests</u>	P/E FYE 3/31/09	575.7x
Market value: \$5.2 billion	This quarter	n/a	n/a	n/a	P/E FYE 3/31/10	n/m
Enterprise value: \$6.1 billion	Next quarter	n/a	n/a	n/a	P/E FYE 3/31/11	n/a
Shares out: 129.0 million	FYE 3/31/09	0.07	0.07	1	EV / LTM revenue	0.7x
	FYE 3/31/10	-0.20	-0.21	1	EV / LTM EBITDA	n/a
	FYE 3/31/11	n/a	n/a	n/a	EV / LTM EBIT	30.0x
	LT EPS growth	-14.8%	-14.8%	1	P / tangible book	0.8x
Ownership Data	Latest Quarterly EPS Surprise			Greenblatt Criteria		
Insider ownership: 8%	<u>Date</u>	<u>Actual</u>	<u>Estimate</u>	LTM EBIT yield	3%	
Insider buys (last six months): 0	4/28/08	n/a	n/a	LTM pre-tax ROC	4%	
Insider sales (last six months): 0						
Institutional ownership: 4%						
# of institutional owners: 64						

Operating Performance and Financial Position										
(\$ millions, except per share data)	Fiscal Years Ended							LTME	FQE	FQE
	3/31/02	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07	3/31/08	12/31/08	12/31/07	12/31/08
Revenue	6,224	6,598	7,154	7,176	8,674	9,404	9,450	8,657	2,458	2,092
Gross profit	1,155	1,585	1,957	1,893	2,284	2,610	2,517	1,952	702	408
EBIT	(477)	224	609	662	721	967	998	202	312	(165)
Net income	(281)	131	459	363	481	765	780	138	237	(156)
Diluted EPS	(2.12)	1.12	3.57	3.05	3.66	5.77	6.01	1.11	1.84	(1.21)
Cash from ops	453	1,134	1,254	1,023	968	1,587	1,303	1,111	294	61
Capex	641	448	485	666	806	768	920	1,225	225	208
Free cash flow	(188)	686	768	358	161	819	383	(114)	69	(147)
Cash & investments	1,372	1,861	2,482	2,761	2,608	3,287	1,868	1,933	2,169	1,933
Total current assets	4,355	4,592	5,190	5,570	6,183	6,713	5,049	5,618	5,900	5,618
Intangible assets	205	333	273	245	534	530	1,018	0	0	0
Total assets	8,181	8,153	8,403	8,814	10,074	10,792	10,205	12,395	10,718	12,395
Short-term debt	599	642	658	679	994	931	934	2,735	26	2,735
Total current liabilities	1,204	1,146	1,257	1,428	1,850	1,806	1,767	4,443	1,924	4,443
Long-term debt	5	1	0	1	4	6	2	78	3	78
Total liabilities	1,811	2,110	2,117	1,843	2,412	2,472	2,389	5,463	2,480	5,463
Preferred stock	0	0	0	0	0	0	0	0	0	0
Common equity	6,370	6,042	6,286	6,971	7,663	8,320	7,817	6,932	8,239	6,932
EBIT/capital employed	-9%	4%	13%	15%	15%	18%	19%	4%	n/m	n/m



BUSINESS OVERVIEW

TDK provides recording media and devices, ferrite products, and various components. It operates in two major segments:

Electronic Materials and Components comprises four product sectors: (i) electronic materials (capacitors and ferrite cores and magnets), (ii) electronic devices (inductive devices and high-frequency components), (iii) recording devices (HDD heads), and (iv) other electronic components.

Recording Media has three product categories: audiotapes and videotapes, optical media, and other products.

SELECTED OPERATING DATA

FYE March 31	2006	2007	2008	YTD 12/31/08
<i>% of revenue by segment:</i>				
Electronic materials	23%	23%	23%	21%
Electronic devices	19%	23%	24%	23%
Recording devices	40%	35%	39%	35%
Other electronic products	5%	7%	9%	n/a
Electronic products	86%	88%	94%	n/a
Recording media	14%	12%	6%	n/a
<i>Revenue growth by segment:</i>				
Electronic materials	3%	10%	0%	-19%
Electronic devices	33%	28%	5%	-13%
Recording devices	35%	-4%	10%	-16%
Other electronic products	87%	55%	31%	n/a
Electronic products	26%	10%	8%	n/a
Recording media	-5%	-4%	-53%	n/a
Total revenue growth	21%	8%	0%	-11%
<i>EBIT margin by segment:</i>				
Electronic products	11%	11%	9%	n/a
Recording media	-13%	-2%	23%	n/a
EBIT margin (reported)	8%	9%	10%	2%
Special items as % of rev. ¹	-1%	0%	2%	-1%
D&A as % of revenue	7%	8%	8%	10%
Capex as % of revenue	9%	8%	10%	15%
R&D as % of revenue	6%	6%	7%	7%
Gross margin	26%	28%	27%	21%
<i>% of revenue by geography:</i>				
Japan	34%	34%	33%	29%
Asia Pacific	50%	49%	54%	54%
Americas	10%	10%	9%	8%
Europe	7%	7%	5%	8%
ROE	7%	10%	10%	-0%
Equity to total assets	76%	77%	77%	56%
Δ shares outstanding (avg)	0%	0%	-2%	n/a

¹ Includes restructuring costs of ¥7 billion and ¥500 million in FY06 and FY07, respectively; and ¥15 billion gain on sale of Imation in FY08.

INVESTMENT HIGHLIGHTS

- **Founded in 1935 to commercialize ferrite**, a magnetic material. TDK's growth has centered on ferrite, which is used in electronic equipment.
- **Sold recording media assets to Imation in 2007**, while retaining related R&D, production and OEM business. Recording media sales had been declining steadily to a shift toward electronic products.
- **50%+ of sales from Asian countries ex. Japan**, giving TDK a stake in Asian economic growth.

- **Improvement initiatives:** (1) consolidate locations, (2) dispose of unprofitable businesses, (3) reduce headcount, (4) pursue synergies from acquisitions of Densai-Lambda, HDD head assets of Alps, and Thai suspension manufacturer Magnecomp.
- **Reducing capex by 17% in current FY** to ¥70 billion, to be used for upgrading and expansion of production facilities aimed at growing revenue.
- **Has 36 factories in Japan and 28 overseas**, 73% of which (based on floor space) are owned by TDK.
- **Repurchased ¥39 billion of stock** in FY ended March 2008 (no material buybacks since then).
- **Shares trade at 36x trailing P/E**, .7x EV to trailing revenue and .8x tangible book value.

INVESTMENT RISKS & CONCERNS

- **Guiding for revenue decline of 15% and negative EBIT of ¥38 billion** in FY09.
- **Weak recent results** due to yen appreciation and lower sales driven by price declines in HDD heads and capacitors, offset partly by cost reductions and a more favorable product mix (energy device sales).
- **Exposed to raw materials price increases.** A key production input is magnetic powder of iron oxide.
- **Global supply chain**, with manufacturing and assembly in various countries, including China. This exposes TDK to potential *force majeure* disruptions.
- **Competes in technology industries** experiencing rapid change. Many competitors are Asian firms, with currency exchange affecting competitiveness.

COMPARABLE PUBLIC COMPANY ANALYSIS

	Market Value (\$mn)	Enterprise Value (\$mn)	EV / Rev.	Price to T. Book	This FY P/E	Next FY P/E
PC	23,990	19,680	.2x	.8x	10x	11x
SNE	18,570	17,270	.2x	.7x	n/m	n/m
PHG	17,590	18,280	.5x	3.0x	12x	n/a
EPCYY	1,720	1,790	1.0x	2.2x	n/a	n/a
TDK	5,200	6,080	.7x	.8x	576x	n/m

MAJOR HOLDERS

Insiders <1% | Master Trust Bank of Japan 9% | Japan Trustee Services 9% | Panasonic 5% | Tradewinds 4%

RATINGS

VALUE Intrinsic value materially higher than market value?	☆☆☆☆
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?	☆☆
EXPLOSIVENESS 5%+ probability of 5x upside in one year?	☆☆

THE BOTTOM LINE

We welcome TDK's improvement initiatives in the face of tough market conditions. With shares trading at .7x tangible book and .5x EV/revenue, TDK deserves a closer look. The company repurchased shares in the year ended March 2008 and may do so again in the foreseeable future. We view buybacks as meaningfully accretive to intrinsic value per share.

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