Basic Structure of Investment Process and Valuation

Professor Bruce Greenwald

Columbia Business School
Value Investing Principles

• Identify enterprises whose value as a business is reliably calculable by you (circle of competence)

• Among those enterprises, invest in those whose market price (equity plus debt) is below your calculated value by an appropriate margin of safety (1/3 to 1/2)
Value Investing Process

SEARCH
- Cheap
- Ugly
- Obscure
- Otherwise Ignored

VALUATION
- Assets
- Earnings Power
- Franchise

REVIEW
- Key Issues
- Collateral Evidence
- Personal Biases

RISK MANAGEMENT
- Margin of Safety
- Some Diversification
- Patience – Default Strategy
controlling for size, book-to-market equity captures strong variation in average returns, and controlling for book-to-market equity leaves a size effect in average returns.

B. The Interaction between Size and Book-to-Market Equity

The average of the monthly correlations between the cross-sections of ln(ME) and ln(BE/ME) for individual stocks is -0.26. The negative correlation is also apparent in the average values of ln(ME) and ln(BE/ME) for the portfolios sorted on ME or BE/ME in Tables II and IV. Thus, firms with low market equity are more likely to have poor prospects, resulting in low stock prices and high book-to-market equity. Conversely, large stocks are more likely to be firms with stronger prospects, higher stock prices, lower book-to-market equity, and lower average stock returns.

The correlation between size and book-to-market equity affects the regressions in Table III. Including ln(BE/ME) moves the average slope on ln(ME) from -0.15 (t = -2.58) in the univariate regressions to -0.11 (t = -1.99) in the bivariate regressions. Similarly, including ln(ME) in the regressions
1. Institutional
   - Herding – Minimize Deviations
   - Window Dressing (January Effect)
   - Blockbusters

2. Individual
   - Loss Aversion
   - Hindsight Bias
   - Lotteries
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Valuation Approaches – Ratio Analysis

Cash Flow Measure \( \times \) Multiple

- **Earnings**
  
  \((\text{Maint. Inv.} = \text{Depr} + A)\)

- **EBIT**
  
  \((\text{Maint. Inv.} = \text{Depr} + A; \text{Tax} = 0)\)

- **EBIT - A**
  
  \((\text{Maint. Inv.} = \text{Depr} \text{ only})\)

- **EBIT-DA**
  
  \((\text{Maint. Inv.} = 0)\)

- **Multiple**
  
  Depends on:
  
  - Economic position
  - Cyclical situation
  - Leverage
  - Mgmt. Quality
  - Cost of Capital (Risk)
  - Growth

Range of Error (100%+)
Valuation Approaches

Net Present Value of Cash Flow

\[
\text{Value} = \sum_{t=0}^{\infty} CF_t \left( \frac{1}{1 + R} \right)^t = CF_0 * \frac{1}{R - g}
\]

Note: NPV Analysis encompasses ratio analysis (NPV diseases are ratio analysis diseases)

Note: NPV is theoretically correct

In Practice:

- Parameters:
  - Market Size
  - Market Share
  - Market Growth
  - Price/Cost
  - Tech
  - Management Performance

- Forces:
  - Consumer Behavior
  - Competitor Behavior
  - Cost Pressures
  - Technology
  - Tech
  - Management Performance

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Shortcomings of NPV Approach in Practice

(1) Method of Combining Information

\[ NPV = CF_0 + CF_1 \left( \frac{1}{1 + R} \right) + \ldots + CF_{20} \left( \frac{1}{1 + R} \right)^{20} + \ldots \]

Good Information (Precise)  
Bad Information (Imprecise)

= Bad/Imprecise Information

(2) Sensitivity Analysis is Based on Difficult-to-Forecast Parameters which co-vary in fairly complicated ways
## Valuation Assumptions

<table>
<thead>
<tr>
<th>Traditional:</th>
<th>Strategic:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Profit rate 6%</td>
<td>• Industry is economically viable</td>
</tr>
<tr>
<td>• Cost of capital 10%</td>
<td>• Entry is “Free” (no incumbent competitive advantage)</td>
</tr>
<tr>
<td>• Investment/sales 60%</td>
<td>• Firm enjoys sustainable competitive advantage</td>
</tr>
<tr>
<td>• Profit rate +3% (i.e. 9%)</td>
<td>• Competitive advantage is stable, firm grows with industry</td>
</tr>
<tr>
<td>• Growth rate 7% of sales, profits</td>
<td></td>
</tr>
</tbody>
</table>
Value Investing
Basic Approach to Valuation

“Know what you know”; Circle of competence

1. Organize valuation components by reliability

   Most Reliable → Least Reliable

2. Organize valuation components by underlying strategic assumption

   No Competitive Advantage → Growing Competitive Advantage
Basic Elements of Value

Strategic Dimension

Growth in Franchise Only

Franchise Value
Current Competitive Advantage

Free Entry
No Competitive Advantage

Reliability Dimension

Asset Value
Earnings Power Value
Total Value

- Tangible
- Balance Sheet Based
- No Extrapolation

- Current Earnings
- Extrapolation
- No Forecast

- Includes Growth
- Extrapolation
- Forecast
### Industry Entry - Exit

<table>
<thead>
<tr>
<th>Industry</th>
<th>Market Value</th>
<th>Net Asset Value</th>
<th>Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>$2B</td>
<td>$1B</td>
<td>Yes (P ↓ MV ↓)</td>
</tr>
<tr>
<td><em>(Allied)</em></td>
<td>$1.5B</td>
<td>$1B</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>$1.0B</td>
<td>$1B</td>
<td>Stop</td>
</tr>
<tr>
<td>Automobiles</td>
<td>$40B</td>
<td>$25B</td>
<td>Yes (Sales ↓ MV ↓)</td>
</tr>
<tr>
<td><em>(Ford)</em></td>
<td>$30B</td>
<td>$25B</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>$25B</td>
<td>$25B</td>
<td>Stop</td>
</tr>
<tr>
<td>Internet</td>
<td>$10B</td>
<td>$0.010B</td>
<td>?</td>
</tr>
</tbody>
</table>

Remember, Exit is Slower than Entry.
## Asset Value

<table>
<thead>
<tr>
<th>Assets</th>
<th>Basic Graham-Dodd Value</th>
<th>Reproduction Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Book</td>
<td>Book</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>Book</td>
<td>Book + Allowance</td>
</tr>
<tr>
<td>Inventories</td>
<td>Book</td>
<td>Book + LIFO</td>
</tr>
<tr>
<td>PPE</td>
<td>0</td>
<td>Orig Cost ± Adj</td>
</tr>
<tr>
<td>Product Portfolio</td>
<td>0</td>
<td>Years R &amp; D</td>
</tr>
<tr>
<td>Customer Relationships</td>
<td>0</td>
<td>Years SGA</td>
</tr>
<tr>
<td>Organization</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Licenses, Franchises</td>
<td>0</td>
<td>Private Mkt. Value</td>
</tr>
<tr>
<td>Subsidiaries</td>
<td>0</td>
<td>Private Mkt. Value</td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Basic Graham-Dodd Value</th>
<th>Reproduction Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>A/P, AT, AL</td>
<td>Book</td>
<td>Book</td>
</tr>
<tr>
<td>Debt</td>
<td>Book</td>
<td>Fair Market</td>
</tr>
<tr>
<td>Def Tax, Reserves</td>
<td>Book</td>
<td>DCF</td>
</tr>
</tbody>
</table>

### Bottom Line

<table>
<thead>
<tr>
<th>Bottom Line</th>
<th>Net Net Wk Cap</th>
<th>Net Repro Value</th>
</tr>
</thead>
</table>
Earning Power Value

- Basic Concept – Enterprise value based on this years “Earnings”
- Measurement
  - Earnings Power Value = “Earnings” * \( \frac{1}{\text{Cost of capital}} \)
- Second most reliable information earnings today
- Calculation
  - “Earnings” – Accounting Income + Adjustments
  - Cost of Capital = WACC (Enterprise Value)
  - Equity Value = Earnings Power Value – Debt.
- Assumption:
  - Current profitability is sustainable
“Earning Power” Calculation

(1) Start with “Earnings” not including accounting adjustments (one-time charges not excluded unless policy has changed)

(2) “Earnings” are “Operating earnings” (EBIT)

(3) Look at average margins over a business/Industry cycle (at least 5 – years)

(4) Multiply average margins by sustainable (usually current) revenues
   - This yields “normalized” EBIT

(5) Multiply by one minus Average tax rate (no pat)

(6) Add back excess depreciation (after tax at 1/2 average tax rate)
   - This yields “normalized” Earnings

(7) Add adjustments for unconsolidated subs, problem being fixed, pricing power, etc
Earnings Power Value

EPV Business Operations = Earnings Power \times \frac{1}{WACC}

EPV Company = EPV Business Operations + Excess Net Assets (+cash, +real estate, - legacy costs)

EPV Equity = EPV Company – Value Debt

\textbf{EPV EQUITY} equivalent to \textbf{AV EQUITY}

\textbf{EPV COMPANY} equivalent to \textbf{AV COMPANY}
Earning Power and Entry - Exit

Case A:

Value Lost to Poor Management and/or Industry Decline

Asset Value  |  EP Value

Case B:

Free Entry Industry Balance

Asset Value  |  EP Value

Case C:

Consequence of Comp. Advantage and/or Superior Management

Asset Value  |  EP Value

“Sustainability” depends on Continuing Barriers-to-Entry

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Total Value Including Growth

- Least reliable - Forecast change not just stability (Earnings Power)
- Highly sensitive to assumptions
- Data indicates that investors systematically overpay for growth
- Strict value investors want growth for “Free” (Market Value < Earnings Power Value)
Value of Growth - Basic Forces At Work

- Growing Stream of Cash Flows is more Valuable than a Constant Stream (relative to current Cash Flow)

\[ I.E. \quad CF_0 \times \left( \frac{1}{R - G} \right) \quad \text{vs.} \quad CF_0 \times \frac{1}{R} \]

\[ \text{Growth Rate} \]
\[ \text{WACC} \]

- Growth Requires Investment which reduces current (distributable) Cash Flow

\[ CF_0 = \text{“Earnings”} \cdot \text{Investment Needed to Support Growth} \]

\[ \text{No Growth} \quad CF_0 \]

(N.B. Do Not Discount Growing “Earnings” Streams)
**Value of Growth**

**Quantitative Effects**

**Investment:**
- $100 million

**Cost of Funds:**
- 10% (R) = $10M

<table>
<thead>
<tr>
<th>Return on Investment (%)</th>
<th>5%</th>
<th>10%</th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Investment ($)</td>
<td>$5M</td>
<td>$10M</td>
<td>$20M</td>
</tr>
<tr>
<td>Cost of Investment</td>
<td>$10M</td>
<td>$10M</td>
<td>$10M</td>
</tr>
<tr>
<td>Net Income Created</td>
<td>($5M)</td>
<td>0</td>
<td>$10M</td>
</tr>
<tr>
<td>Net Value Created</td>
<td>($50M)</td>
<td>0</td>
<td>$100M</td>
</tr>
</tbody>
</table>

**Qualitative Impact:**

<table>
<thead>
<tr>
<th>Situation:</th>
<th>Value Destroyed</th>
<th>No Value Level Playing Field</th>
<th>Value Created Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Created</td>
<td>No Value Level Playing Field</td>
<td>Value Created Competitive Advantage</td>
<td></td>
</tr>
<tr>
<td>Competitive Disadvantage</td>
<td>No Value Level Playing Field</td>
<td>Value Created Competitive Advantage</td>
<td></td>
</tr>
<tr>
<td>No Value Level Playing Field</td>
<td>Value Created Competitive Advantage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note: The table values are hypothetical and for demonstration purposes.*
Earning Power and Entry - Exit

Case A:

Value Lost to Poor Management and/or Industry Decline

Asset Value EP Value

Case B:

Free Entry Industry Balance

Asset Value EP Value

Case C:

Consequence of Comp. Advantage and/or Superior Management

Asset Value EP Value

“Sustainability” depends on Continuing Barriers-to-Entry
Valuing Growth Basics

- Growth at a competitive disadvantage destroys value (AT&T in info processing)

- Growth on a level playing field neither creates nor destroys value (Wal-Mart in NE)

- Only franchise growth (at industry rate) creates value
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- Franchise

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- Key Issues
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RISK MANAGEMENT
- Margin of Safety
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Consequences of Free Entry Commodity Markets (Steel)

- **“Economic Profit”**
  - ROE (20%) > Cost of Capital
  - Entry/Expansion
  - Supply Up, Price Down

For efficient producers:
- ROE = 12%
- No Entry
- No Profit

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# Product Differentiation

**Branding**

*(Profitability & Stability)*

<table>
<thead>
<tr>
<th>Coca Cola</th>
<th>Cadillac</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colgate Toothpaste</td>
<td>Mercedes-Benz</td>
</tr>
<tr>
<td>Tide</td>
<td>Sony (RCA)</td>
</tr>
<tr>
<td>Marlboros</td>
<td>Maytag (Hoover)</td>
</tr>
<tr>
<td>Budweiser</td>
<td></td>
</tr>
<tr>
<td>Harley-Davidson</td>
<td></td>
</tr>
<tr>
<td>Intel</td>
<td>Motorola</td>
</tr>
<tr>
<td>Target, Walmart</td>
<td>Dell, HP</td>
</tr>
<tr>
<td>Verizon, Cingular</td>
<td>Gap, Liz Claiborne</td>
</tr>
<tr>
<td>Wells Fargo, NCNB</td>
<td>ATT, Sprint</td>
</tr>
<tr>
<td>Insurance</td>
<td>JP Morgan, Chase, Citibank</td>
</tr>
<tr>
<td>Gannett, Buffalo Evening News</td>
<td>Cosmetics</td>
</tr>
<tr>
<td></td>
<td>NY Times, WSJ</td>
</tr>
</tbody>
</table>
Consequences of Free Entry
Differentiated Markets (Luxury Cars)

$/Q

AC

Demand Curve

Firm Position

Q

“Economic Profit”
ROE (20%) > Cost of Capital
Entry/Expansion
Demand for Firm shifts left (Fewer sales at each Price)

$/Q

AC

Demand Curve

Firm Position

Q

ROE = 12%
No Entry
No Profit
Barriers to Entry
Incumbent Cost Advantage

<table>
<thead>
<tr>
<th>Entrant</th>
<th>Incumbent</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE = 12%</td>
<td>ROE = 20%</td>
<td>Learning Curve</td>
</tr>
<tr>
<td>No Entry</td>
<td></td>
<td>Special Resources</td>
</tr>
</tbody>
</table>

- Not Access to Capital
- Not Just Smarter
Barriers to Entry

Incumbent Demand Advantage

Entrant | Incumbent | Sources
No “Economic” Profit | Higher Profit, Sales | Habit (Coca-Cola)
ROE = 12% | ROE = 20% | • High Frequency Purchase
No Entry | | Search Cost (MD’s)
| | • High Complex Quality
| | Switching Cost (Banks, Computer Systems)
| | • Broad Embedded Applications

Entrant Demand
Incumbent Demand

$/Q vs. Firm Position
AC (Entrant, Incumbent)
Demand\textsubscript{Incumbent}
Demand\textsubscript{Entrant}
Barriers to Entry

Economies of Scale

- Require Significant Fixed Cost (Internet)
- Require “Temporary” Demand Advantage
- Not the Same as Large Size (Auto + Health Care Co)
Barriers to Entry

Economies of Scale

- Advantages are Dynamic and Must be Defended

- Fixed Costs By:
  - Geographic Region (Coors, Nebraska Furniture Mart, Wal-Mart)
  - Product Line (Eye Surgery, HMO’s)
  - National (Oreos, Coke, Nike, Autos)
  - Global (Boeing, Intel, Microsoft)
Varieties of Competitive Advantage

Producer (Cost) Supply – Proprietary Technology or Resources

Consumer (Revenue) Demand – Customer Captivity

Economies-of-Scale (plus Customer Captivity)

Key to Sustainability

Sustainable Competitive Advantage implies market dominance.
Competitive Advantage Strategy Implications

• Analysis on a market-by-market basis

• Large global markets are difficult to dominate

• Local markets (Physical, product geography) are ones susceptible to domination
  - Microsoft (Apple, IBM)
  - Wal-Mart (K-Mart, Circuit City)
  - Intel (Texas Instruments, et al)
  - Verizon (ATT, Sprint)
  - Pharmaceuticals
Assessing Competitive Advantages/B-to-E Strategy Formulation

• New Market Entry
  - No Barrier $\Rightarrow$ No Profit
  - Outside Barriers $\Rightarrow$ Losses
  - Need Potential Barriers, not yet in place.

• Maintaining Established Position
  - No Barriers $\Rightarrow$ No Position
    (Hard to Create from Nothing).

  - Enhancement
    · Product Line Extension
    · Increase Purchase Frequency
    · Increase Complexity
    · Accelerate Progress
    · Emphasize Fixed vs. Variable Cost Technology.
Procedure in Practice

(1) Verify existence of franchise
   i. History – Returns – Share Stability
   ii. Sustainable competitive advantages

(2) Calculate earnings return – i.e. 1/PE

(3) Identify cash distribution portion of earnings return

   (Dividend + Repurchase)

(4) Identify organic (low investment) growth

   (GDP±)

(5) Identify reinvestment return

   (Multiple of Pct retained Earnings)

(6) Compare to market return (D/P & growth)

(7) Identify options positive/negative
Prospective Returns
US & India Markets

U.S. Market

(1) 6% (1/PE) + 2% (inflation) = 8%
(2) 2.5% (D/P) + 4.7% (growth) = 7.2%

Expected Return = 7.5%

India Market

(1) 4% (1/PE) + 5% (inflation) = 9%
(2) 2% (D/P) + 7% (growth) = 9%

Expected Return = 9%
Hindustan Unilever: Market Dominance

<table>
<thead>
<tr>
<th>Market Leader</th>
<th>Strong No. 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fabric Wash</strong></td>
<td>37.7</td>
</tr>
<tr>
<td><strong>Personal Wash</strong></td>
<td>53.2</td>
</tr>
<tr>
<td><strong>Dishwash</strong></td>
<td>57.1</td>
</tr>
<tr>
<td><strong>Skin</strong></td>
<td>55.0</td>
</tr>
<tr>
<td><strong>Shampoo</strong></td>
<td>47.7</td>
</tr>
<tr>
<td><strong>Talcum Powder</strong></td>
<td>24.3</td>
</tr>
<tr>
<td><strong>Packet Tea</strong></td>
<td>24.6</td>
</tr>
<tr>
<td><strong>Coffee</strong></td>
<td>24.6</td>
</tr>
<tr>
<td><strong>Jams</strong></td>
<td>63.6</td>
</tr>
</tbody>
</table>

Source: Company website showing AC Nielsen – Quarter Ended Sept 2007 value shares
### Hindustan Unilever: Financial returns

<table>
<thead>
<tr>
<th>(Indian Rupees)</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues crores</td>
<td>10951,61</td>
<td>11096,02</td>
<td>10888,38</td>
<td>11975,53</td>
<td>13035,06</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>16%</td>
<td>16%</td>
<td>11%</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>Return on capital</td>
<td>46.8%</td>
<td>48.7%</td>
<td>37.3%</td>
<td>58.1%</td>
<td>55.4%</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>23%</td>
<td>23%</td>
<td>16%</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Stock information

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market cap (crores)</td>
<td>40,008</td>
<td>45,059</td>
<td>31,587</td>
<td>43,419</td>
<td>47,788</td>
</tr>
<tr>
<td>P/E Ratio</td>
<td>23</td>
<td>25</td>
<td>26</td>
<td>31</td>
<td>26</td>
</tr>
<tr>
<td>Share Price</td>
<td>181.75</td>
<td>204.70</td>
<td>143.50</td>
<td>197.25</td>
<td>216.55</td>
</tr>
</tbody>
</table>
Infosys: Performance

Return on Total Capital Declined….

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>42.3%</td>
<td>37.2%</td>
<td>30.6%</td>
<td>27.7%</td>
<td>33.4%</td>
<td>30.2%</td>
<td>31.3%</td>
<td>32%*</td>
</tr>
</tbody>
</table>

As Earnings Per Share* grew …

<table>
<thead>
<tr>
<th>Year</th>
<th>.25</th>
<th>.31</th>
<th>.37</th>
<th>.51</th>
<th>.76</th>
<th>1.00</th>
<th>1.5</th>
<th>2.00</th>
</tr>
</thead>
</table>

The Stock Price ($US ADR) shows extremely high multiples / growth expectation, especially in 2000 …
<table>
<thead>
<tr>
<th>Company</th>
<th>Business</th>
<th>Adjusted ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>Discount Retail</td>
<td>22.5%</td>
</tr>
<tr>
<td>American Express</td>
<td>High-end Credit Cards &amp; Services</td>
<td>45.50%</td>
</tr>
<tr>
<td>Gannett</td>
<td>Local Newspapers &amp; Broadcasting</td>
<td>15.6%</td>
</tr>
<tr>
<td>Dell</td>
<td>Direct PC Supply to Large organizations</td>
<td>100.0% +</td>
</tr>
</tbody>
</table>
## Simple Examples

### Franchise Verification

## Sources of Competitive Advantage

<table>
<thead>
<tr>
<th>Company</th>
<th>Customer Captivity?</th>
<th>Economies-of-Scale?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>Slight Customer Captivity</td>
<td>Local Economies-of-Scale</td>
</tr>
<tr>
<td>American Express</td>
<td>Customer Captivity</td>
<td>Some Economies-of-Scale</td>
</tr>
<tr>
<td>Gannett</td>
<td>Customer Captivity</td>
<td>Local Economies-of-Scale</td>
</tr>
<tr>
<td>Dell</td>
<td>Slight Customer Captivity</td>
<td>Economies-of-Scale</td>
</tr>
</tbody>
</table>
# Calculated Growth Stock Returns

<table>
<thead>
<tr>
<th></th>
<th>CASH</th>
<th>RE</th>
<th>GROWTH</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wal-Mart</strong></td>
<td>1.5%</td>
<td>4.5%</td>
<td>3.5%</td>
<td>9.5% + Option</td>
</tr>
<tr>
<td>(P/E – 17, Growth – 11½%)</td>
<td>(x1 Capital Allocation)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>American Express</strong></td>
<td>4%</td>
<td>4%</td>
<td>7.5%</td>
<td>15.5% + Option</td>
</tr>
<tr>
<td>(P/E – 17 ½, Growth – 13%)</td>
<td>(2% x 2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gannett</strong></td>
<td>10%</td>
<td>-1%</td>
<td>2.0%</td>
<td>7.0% + Option</td>
</tr>
<tr>
<td>(P/E – 11, Growth –3%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dell</strong></td>
<td>0%</td>
<td>5%</td>
<td>?</td>
<td>5.0% + Growth + Option</td>
</tr>
<tr>
<td>(P/E – 20, Growth –15%)</td>
<td>(?)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>