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New Rec: Pitney Bowes	(PBI: \$25.06)	Jan. 19, 2009
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Position: Sell **Target: \$17.70**

\$MM	Q408E	Q109E	Q209E	Q309E	Q409E	FY08E	FY09E
Revs	1,681	1,549	1,562	1,524	1,653	6,391	6,288
EPS (\$)	0.73	0.54	0.54	0.53	0.60	2.74	2.21
YoY Gro	1.2%	-18.2%	-20.8%	-20.0%	-17.9%	0.3%	-19.2%
PE	na	Na	Na	na	na	9.2	11.4
Cons EPS	0.74	0.64	0.67	0.70	0.77	2.75	2.82
Free CF	166.8	131.8	134.3	130.6	152.3	738.5*	549.0*
YoY Gro	-30.1%	-31.1%	-12.9%	-42.3%	-8.6%	-7.4%	-25.7%

* Standard definition of FCF, not company pro-forma definition discussed below.

Shares Out: 209.5M **Market Cap: \$5.3B** **FYE: Dec.**

Concept:

1. Core PBI business in structural decline. Problem temporarily masked by now ending recent

- regulatory upgrades.
2. Cyclical downturn will lead to difficulty in important re-leasing cycle as customers trade down or turn in machines.
 3. PBI losing share in the US to its main competitor Neopost.
 4. PBI's levered balance sheet limits ability to make acquisitions to offset structural, cyclical and competition issues.

Summary: Based in Stamford, CT, Pitney Bowes Inc. is the largest provider of mail processing equipment and integrated mail solutions in the world, with operations in over 130 countries. The company's main product offerings include mail meters, equipments, sorters, folders, inserters and mail-related software. PBI also offers services to its customers that manage the flow of information, mail, documents and packages, such as facilities management and reprographics.

PBI operates two business groups: Mailstream Solutions (which include the sale, rental and financing of PBI equipment, and the sale and support for software solutions) and Mailstream Services (which include facilities management service, pre-sort mail services, and direct marketing services). Just under 30% of PBI revenues are sourced internationally, with corresponding EBIT contribution under 20% of consolidated EBIT.

Mailstream Solutions accounts for 70% of PBI revenues and about 90% of EBIT. Within Mailstream Solutions, US Mailing accounts for about 50% of segment revenues, and just over 75% of segment profits. Despite increasing contributions from software and services sales, the sale, rental and financing of PBI mail equipment (both US and International) continues to contribute the bulk of PBI's EBIT (more than 80%) while only accounting for slightly more than half of the company's revenues.

Globally, PBI is the largest company in the mail equipment market. Mail equipment and metering is a highly regulated industry, as meter upgrades and postage rates are mandated, which has created essentially a duopolistic structure. In the US, PBI is the clear market leader with just under 80% share, with Neopost (with Ascom Hasler) a distant second at about 17% market share. The other minor competitor in the US and Europe is Francotyp-Postalia. In the PC Postage market, the chief competitor to PBI comes from stamps.com and endicia.com. While PBI services companies of all sizes, the typical user of PC postages are SOHOs (Small Offices Home Offices).

Investors think that PBI is well placed to weather this economic downturn. They point to the high percentage of recurring revenue that PBI as an indication of good revenue visibility. For these investors, PBI's ability to allocate cash flow generation (though tuck-in and accretive acquisitions and a consistent shareholder

return policy using dividends and share buybacks) is also very attractive. Bulls in the name point to the \$150m to \$175m restructuring program initiated at the end of 2007 that they hope will mitigate the cyclical issues and enable PBI to grow earnings through this cycle. Lastly, investors in PBI believe that PBI is entering into a lease up cycle over the next 12 months that will enable PBI to enter into contracts for more expensive and higher margin products, and thereby expand equipment sales.

We think there are structural, cyclical and competitive reasons to sell PBI shares.

PBI's main business of selling mail equipment and collecting rent on its postal meters is in structural decline. These structural factors include first, the end of a major regulatory-driven meter upgrade cycle from electrical to digital meters in the US that has buffeted PBI in the past few years. Second, in May 2007, the USPS changed from a "weight based pricing system" to a "shape based pricing system" whereby "the new rate design recognizes that each shape and thickness has substantially different processing costs and should have separate prices." The "gauging and sizing" aspect change of the USPS to a "shaped based pricing" system, resulted in a significant benefit to PBI from increased upgrades to "Weigh, Gauge & Size-on-the-Way" equipment that will not be recurring unless another major USPS change occurs. We discuss this in further detail in this report. Based on our conversation with customers and company representatives, we think that it is likely this upgrade cycle is close to, if not, done, and the market for those higher end "Weigh, Gauge & Size-on-the-Way" machines is close to saturation, if not saturated already. Third, the continuous adoption of the internet (emails, migration of advertising dollars, and online bill payment) has led to the longer term trend of declining mail volumes (2000 to 2008 mail volume CAGR is -0.3%), which directly and indirectly impacts the businesses of metering companies. Fourth, to offset these structural pressures on volume trends, the USPS has and will continue to raise prices. The latest round of price increase will take hold from January 2009, with another round of increases for first class mailing in May 2009. This should have an incremental net negative impact on mailing volumes, and subsequently supplies revenue for PBI.

Unlike "street" analysts who argue that PBI operates a cyclically resistant business, we think that PBI is actually meaningfully geared to the business cycle. First, given recent capex cuts at companies globally, our sources tell us that PBI currently faces meaningful headwinds in getting its customers to upgrade to newer and more expensive equipment. Our conversations lead us to believe that it is likely that an increasing number of mid-to-smaller machine customers will move to cheaper and lower-end machines, or switch from existing lease to a month-to-

month rental solution. Second, the company has significant exposure to volume based supply business, as well as to IT capex in the company's software business. Third, PBI has significant exposure to the SME market, which is the main customer base for PBI's rental business, and has significantly higher margins. The company's exposure is also very significant to the financial services industry (as a vertical, financials represent over 20% of sales). Fourth, given that office vacancies are creeping up, not only do we think existing customers taking longer to buy or lease equipment, we expect customer churn will start to pick up as well. Thus, we think the bullish contention that PBI's business is cyclically resistant due to the high level of recurring revenues, is overly optimistic as to the level of exposure to economically sensitive businesses, and the company will face significant challenges in the near to mid term.

In addition to these structural and cyclical factors, PBI is also losing market share in the US (its main market), where it is the dominant player with around 80% market share. (It's theirs to lose.) Our research confirms that Neopost, the company's largest competitor, is gaining market share primarily because it provides similar quality equipment at a substantial 20% - 30% discount for comparable machines. Customers we interviewed that recently switched from PBI to Neopost also cited a stronger competitive offering from Neopost (the IS Series that was launched in Q2 FY08). We think that this share loss is making it more difficult for PBI to mitigate the structural and cyclical pressures that it is facing. To compete with Neopost, PBI will probably have to invest more in R&D to come up with products that are price-competitive with Neopost, or lower prices altogether. Neopost already spends more on R&D as a percentage of sales than PBI.

Management seems aware of these structural and cyclical issues. To counteract them, the company has utilized its existing cash flows to acquire companies. Indeed, PBI is a very acquisitive company. In 2005, 2006, and 2007, PBI spent \$300m, \$230m and \$600m of cash on acquisitions, the most significant of which was the Q2 FY07 \$400m cash acquisition of MapInfo. Management has emphasized growing business outside its core business. However, despite spending \$1.2bn between 2005 and 2008, the traditional PBI businesses still accounts for about 50% of revenues and just under 70% of EBIT (which compares to 56% and 75% in 2005). PBI operates with a levered balance sheet, with net debt to EBITDA of just under 3x, and a debt to equity ratio of about 80%. We think it is probable that the pace of acquisitions will slow in the near term, and also that deterioration in the core business will outpace the ability of the company to acquire enough businesses to dilute the impact of the structural issues. Also, we are of the opinion that PBI has destroyed shareholder value by paying dilutive multiples to enter businesses that have inherently lower margins and are more cyclical in nature.

To counteract the cyclical issues, PBI announced a big restructuring plan in November 2007. We think that the company is in permanent restructuring mode. The company has booked restructuring charges in 13 of the 15 quarters beginning in 2005, totaling more than \$300m. There is an expectation that the company will announce yet another restructuring plan sometime in 2009. Investors might question why the company is taking so many restructurings when management thinks the business is so economically resilient. Our view is that recurring structural charges are just that, recurring, and are not one time in nature. These are signs that all is not well with PBI. Partly as a result of these restructuring costs (but due also to share buybacks and dividends paid out), PBI's shareholder's equity has declined from \$1.364bn at the end of FY05, to only \$376m at the end of Q3 FY08. Given the large number of acquisitions that PBI has done historically, goodwill stands at \$2.33bn, giving PBI negative shareholder's equity of \$1.94bn, or negative TBV per share of \$9.21 at Q3 FY08.

“Street” coverage of PBI is relatively thin for a company that has equity value of \$5bn. Among the four analysts covering the stock, consensus forecasts for revenue growth is 1.4% for PBI in FY09, driven by flat Equipment Sales growth in FY09 versus FY08, and better growth in Software and Business Services. The “street” is also forecasting 17.8% margins, which implies flat EBIT growth, and which results in 2.5% EPS growth for FY09 to \$2.82. The “street” is also assuming PBI's share count goes down from 209m shares to 205m as the analysts assume PBI will continue to buy back shares, and for Dividend Per Share (DPS) to grow from \$1.40 in FY08 to \$1.46 in FY09.

We project a revenue decline of 1.6% in FY09 versus FY08. This decline is driven largely by our negative view of the Equipment Sales business, where we forecast a 7.5% decline YoY, somewhat offset by flat to slightly positive revenue growth in PBI's lower margin businesses. Our differing view on Equipment Sales translates into EBIT margins of 15.7% in FY09 due to adverse impact on gross margins from mix shift. Our bottom line forecast is for \$2.21, which is a 19.2% decline in EPS YoY. We assume that PBI discontinues its share buyback and uses the cash flow for debt pay down, but we are in line with consensus on DPS.

Our price target of \$17.70 is 8x our FY09 EPS forecasts of \$2.21, which is a slight multiple de-rating to where PBI currently trades. This seems reasonable, given our expectations of earnings decline in the coming fiscal year, and it seems appropriate for a company in an industry that is in structural decline, and that is facing cyclical headwinds and increasing competitive pressures. At \$17.70, PBI will be trading at 14.8% FCF yield, based on free cash flow of \$2.59 a share in FY09. We forecast that FCF per share will decline further in FY10 to \$2.29 a

share, as revenue weakness and adverse gross margin mix continue to pressure PBI's cash flows.

For relative valuation, we compare PBI to other companies outside the mail equipment industry also facing structural decline / cyclical headwinds. These companies generate significant but declining cash flows, and the amount of financial leverage in the capital structure can be heavy. Complacency about the sustainability of cash flows has led to aggressive capital structures that investors come to fear might not be supportable, given their projections of cash flow declines. These companies include Xerox, American Greetings, Deluxe, and RR Donnelley. These companies trade at EBITDA multiples of between 4x and 6x, PE ratios of between 4x and 7x, and FCF yields of more than 25%.

Table 1
"Street" versus OWS estimates

\$m	2007A	Street 2008E	Street 2009E	OWS 2008E	OWS 2009E
Total Revenue	6,130	6,301	6,387	6,391	6,288
EBITDA	1,569	1,522	1,538	1,531	1,374
EBIT	1,186	1,138	1,139	1,140	990
Net Income	601	576	579	576	468
EPS	2.72	2.75	2.82	2.74	2.21
DPS	1.31	1.40	1.46	1.40	1.46
FD Shares	221	209	205	210	212
YoY Change	2007A	Street 2008E	Street 2009E	OWS 2008E	OWS 2009E
Total Revenue	7.0%	2.8%	1.4%	4.3%	-1.6%
EBITDA	3.0%	-3.0%	1.0%	-2.4%	-10.3%
EBIT	2.2%	-4.1%	0.1%	-3.9%	-13.2%
Net Income	-1.0%	-4.2%	0.5%	-4.3%	-18.7%
EPS	0.9%	1.2%	2.5%	0.7%	-19.2%
DPS	3.2%	7.3%	4.3%	7.3%	4.3%
FD Shares	-1.9%	-5.3%	-2.0%	-5.0%	0.6%
% Sales	2007A	Street 2008E	Street 2009E	OWS 2008E	OWS 2009E
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA	25.6%	24.2%	24.1%	24.0%	21.8%
EBIT	19.3%	18.1%	17.8%	17.8%	15.7%
Net Income	9.8%	9.1%	9.1%	9.0%	7.4%

Source: Company Info and OWS Estimates

Background:

Founded in 1920, PBI is the world's largest provider in the mail metering market, which is essentially a duopoly between PBI and Neopost. The company rents meters and also provides document creation equipment and supplies, facilities management services and software for production mail. The company also sells mail sorting and folding equipment to its customers. To support its equipment and supplies business, PBI operates an internal leasing business that helps its customers finance their purchases.

Equipment sales are recognized upon the transfer of title when PBI equipment is bought. PBI provides lease financing of its products through sales-type leases, and records the sales price of leased equipment as equipment sales, when a lease is consummated. PBI then records the gross finance receivable, unearned income and estimated residual value of the equipment on the balance sheet. Lastly, PBI recognizes rental revenue when equipment is rented to customers. PBI invoices in advance for rentals, and defers the billed revenue and includes it in advance billings on the balance sheet, and then recognizes rental revenue on a straight-line basis over the term of the rental agreement.

Depending on the postal regulation in each country, PBI will either sell or rent the meter as well as the base mailing equipment. For example, in the US, France, and Canada, the postal regulator forbids the sale of the postage meter, so these are rented. However, France also forbids the sale of the base equipment, while the US and Canada allow for customers to buy the base equipment. In the UK and Germany, there are no regulations against the sale of both the meters and the base equipment.

In the US, PBI operates around 1.3m digital meters. The regulatory driven upgrade from electrical meters to digital meters is essentially complete, given the USPS imposed deadline of 31-Dec-08. This is up from about 93% complete at the end of 2006, and 84% in 2005. In terms of market share of meters in the US, PBI has just under 80% market share, Neopost is at 15%, and FP a distant third. PBI has significant operations outside the US as well. In terms of total installed base of meters, France, Germany and UK have about 250K meters installed each, and Canada has about 130K. In these markets (with the exception of Germany), PBI is either number one or number two in terms of share. Germany is dominated by Francotyp-Postalia, for which Germany is home country.

Table 2

Estimates of market share by market and company

	Installed base	PBI US	NEO FP	Franco-Postalia
US	1,700,000	79%	17%	4%
France	250,000	35%	65%	0%
Germany	250,000	20%	20%	50%
UK	240,000	52%	38%	6%
Canada	135,000	75%	20%	6%

Source: Companies Info

The company reports its revenue and operating profit by both segment and source, but gross profit only by source.

Table 3

PBI Segment Reporting by Source

	Revenue	% of total	Reported Gross Profit	Gross Margin
Equipment sales	1,337.4	21.8%	640.2	47.9%
Supplies	393.5	6.4%	286.8	72.9%
Software	341.5	5.6%	264.1	77.3%
Rentals	739.1	12.1%	567.9	76.8%
Financing	790.1	12.9%	na	nm
Support Services	763.6	12.5%	329.1	43.1%
Business Services	1,764.6	28.8%	384.1	21.8%
Financing add back	na	na	790.1	nm
Total	6,129.8	100.0%	3,262.2	53.2%

Note: PBI does not report source gross profit for its Financing revenue, but incorporates it into the gross profit for the various segments businesses. In our model, we have consolidated Equipment Sales and Financing (given that the bulk of Financing revenue comes from leasing of PBI equipment, and significantly less so for the Supplies business) to drive the estimates in our model.

Source: Company Info

Table 4

PBI Segment Reporting by Segment

	Revenue	% of total	EBIT	% of total	EBIT Margin
U.S. Mailing	2,364.1	38.6%	964.7	81.9%	40.8%
International Mailing	1,069.7	17.5%	162.3	13.8%	15.2%
Production Mail	622.7	10.2%	74.4	6.3%	11.9%
Software	326.4	5.3%	46.1	3.9%	14.1%
Mailstream Solutions	4,382.8	71.5%	1,247.3	105.9%	28.5%
Management Services	1,134.8	18.5%	76.1	6.5%	6.7%
Mail Services	441.4	7.2%	56.4	4.8%	12.8%
Marketing Services	170.8	2.8%	8.9	0.8%	5.2%
Mailstream Services	1,747.0	28.5%	141.4	12.0%	8.1%
Corporate			-210.5	-17.9%	3.4%
Total PBI	6,129.8	100.0%	1,178.2	100.0%	19.2%

Source: Company Info

We estimate just under 30% of PBI revenues comes from outside the US (this includes equipment, meters, supplies and software). However, margins for the US business are significantly higher than the other businesses, given higher

relative market shares and economies of scale in the US vis-à-vis its international operations.

In its communications to the “street” on 12-September-2006, PBI offered long-term growth rate expectations of 3% to 5% for revenue, 6% to 8% for net income, and 8% to 10% for EPS. Given the issues identified here, these long-term goals seem unrealistic. Even in the best of times, with the two tailwinds of economic expansion and regulatory-driven upgrades behind the company, PBI barely achieved this in 2006. PBI failed to achieve these targets in 2007 and 2008. In a credit constrained world with structural decline issues, and an already levered balance sheet that limits PBI’s acquisition ability, we think the company will be unable to achieve these goals.

Discussion

1. Secular decline

Prior to 2000, mailing volumes worldwide had seen a multi-decade CAGR of between 2% to 3%. In the decade after 2000, the internet (emails, migration of advertising dollars, and online bill payment) has brought about a significant muting of that growth. CAGR since 2000 has actually been marginally negative. Note that the USPS has a September year end. Q1 FY09 data will probably show greater decline as the secular trends are exacerbated by the cyclical downturn. One of our sources, a PBI veteran, tells us that the industry as a whole is “blind to the effect of digital billing.”

Table 5
USPS Mailing Volumes

Sep YE	Pieces of Mail (m)				Growth in Pieces of Mail			
	Total	First Class	Standard	Others	Total	First Class	Standard	Others
2000	206.8	103.5	90.1	13.2				
2001	206.4	103.7	89.9	12.8	-0.2%	0.1%	-0.1%	-3.1%
2002	201.9	102.4	87.2	12.3	-2.2%	-1.2%	-3.0%	-3.7%
2003	201.4	99.1	90.5	11.8	-0.3%	-3.2%	3.7%	-3.9%
2004	205.3	97.9	95.6	11.8	1.9%	-1.1%	5.6%	-0.5%
2005	210.9	98.1	100.9	11.9	2.7%	0.1%	5.6%	0.9%
2006	212.2	97.5	102.5	12.3	0.6%	-0.6%	1.5%	3.3%
2007	211.4	95.9	103.5	12.0	-0.4%	-1.6%	1.0%	-2.3%
2008	201.7	91.4	99.1	11.2	-4.6%	-4.7%	-4.3%	-6.2%
			2000 - 2008 CAGR		-0.3%	-1.5%	1.2%	-2.0%
Q1 FY08	55.1	24.4	27.6	3.1	-3.1%	-3.9%	-2.7%	0.8%
Q2 FY08	51.1	23.7	24.5	2.9	-3.3%	-3.1%	-3.0%	-6.2%
Q3 FY08	48.3	22.3	23.2	2.8	-5.6%	-5.5%	-5.6%	-6.7%
Q4 FY08	47.2	21.1	23.7	2.4	-6.3%	-6.9%	-6.1%	-4.1%

Source: USPS Accounts

Since 2000, PBI has seen a wave of decertification in most of its markets. In the US, Dec-01 was the decertification deadline for “counter-set” meters that needed to be brought back to the post office for re-crediting. Dec-06 was the decertification of non-lock-out meters (blocks system after a period of disuse), and Dec-08 was the decertification deadline for electric meters. In another important PBI market, Canada saw its own decertification deadline for electric meters in Dec-06.

During this decade long decertification cycle and economic expansion, PBI’s revenue growth was unspectacular at best. In the last 4 years, equipment sales growth was 4.7% in 2005, 8.4% in 2006, -5.6% in 2007. We expect another 4.9% decline in FY08.

Table 6
Analysis of PBI Equipment Sales and Rental

	2005	2006	2007	2008
<u>Reported PBI sales growth</u>				
Equipment Sales	8.7%	9.7%	-2.6%	-4.9%
Rental	-0.4%	-2.0%	-5.9%	0.4%
Equipment Sales + Rental	5.0%	5.1%	-3.8%	-3.0%
Acquisition impact on equipment sales growth	3.0%	1.3%		
Currency impact on equipment sales growth	1.0%		3.0%	
Derived equipment sales growth	4.7%	8.4%	-5.6%	-4.9%
Growth in digital meters for PBI	12.0%	10.7%	4.1%	3.3%

Note: Disclosure of impact of acquisitions and currency from PBI. We estimate the impact of the Danka Canada acquisition completed on 1-Jul-05 provided a 1.3% boost to topline in 2006 from a full year's worth of consolidation

Source: Company Info

Another concern is the trend in rental revenues. There have been revenue declines in 2005 through 2008. The company blames this on “continued downsizing by customers to smaller machines.” Based on the conversations that we have had with a number of office managers and sales representative from both PBI and Neopost, we think that it is likely that the trend of switching to smaller and cheaper machines will continue. This is due to increased functionality of lower-end machines, lower mailing volumes and the need to cut office equipment budgets.

In May 2007, the USPS changed from a pure “weight based pricing system,” to a “shape based pricing system.” The “gauging, sizing and weighing” aspect of this change had the impact of moving those customers who were previously using “non shape base pricing” equipment to convert to equipment that had this functionality. Positively for PBI, customers who could afford the upgrade from

older so called “Non Weigh-on-the-Way” to new “Weigh-on-the-Way” traded up to more expensive machines that had this new functionality as it was more cost prohibitive to have someone on staff full-time to physically weigh, gauge and size and then put mail through the equipment. At the same time, negatively for PBI, customers who were using the most high-end mailing equipment traded down to the cheaper newer technology PBI DM 800-1000 series that had the same functionality

Based on our conversation with customers and company representatives, we think that from 2006-2007/8 for PBI, the benefits of upgrading from non “Weigh-on-the-Way” to “Weight, Gauge and Size-on-the-Way”, which resulted from the new USPS changes, more than offset the decline in revenues from trading down from older generation, and more expensive larger systems to new technology, less expensive and smaller systems that do the same thing. We think this positive offsetting benefit will now reverse and negatively impact sales going forward as near full penetration and/or replacement of the “Weigh, Gauge & Size-on-the-Way” systems is largely complete. Our sources tell us that this upgrade cycle is essentially over and the market for those higher end machines is close to saturation, if not saturated already. We think that customers who did not make the conversion from “Non Weigh-on-the-Way” to “Weigh, Gauge & Size-on-the-Way” in 2007 are unlikely to make the switch today (most likely users of medium to low volume machines). It is more likely that these customers will trade down from medium to low end machines (less mailing volume and lower costs) and from low end machines to month-to-month, or, to not using machines at all.

In this connection, we visited three small business customers, who, prior to their lease expirations (all within the last year) had small, older generation machines. Each customer was paying in excess of \$150 per month on leases that expired within the last twelve months. One customer did not lease a new machine and, instead, sends his secretary to the post office once a week to do all his mailing. The second and third customers both substituted for their old machines with the new PBI “Mail Station 2” model, and each pays on a month-to-month rental of just over \$30 a month. While this sample size is small, and might not be fully representative of the whole country, we think that these findings parallel the conclusion of the NFIB survey which we discuss, below.

Despite efforts by management to acquire companies outside its core sales and rental business, we estimate that 30% of PBI’s revenue and 60% of PBI’s gross profits are still derived from a business that is in secular decline.

2. Cyclical downturn

Bulls point to the resilience of PBI's business over the economic cycle. Indeed, management continuously touts the fact that 75% of the company's revenue is recurring in nature (equipment sales, leases, financing and rentals). Bulls are also encouraged by statements that PBI is entering a lease renewal cycle and that the lease renewals will spark growth in equipment sales in 2009.

We think not. The NFIB Small Business Economic Trends sales survey suggests the percentage of businesses making capital outlays in the last 6 months has continued to trend downward, while the percentage of businesses purchasing or leasing office equipment during the last 6 months is down by roughly a third. Most importantly, the percentage of businesses planning capital outlay in the next 6 months is down 43% in December 2008. The NFIB survey says that "*owners defer any project not essential to the survival of the firm.*" We think the upgrade of PBI mailing equipment (we were told by users of these machines that they could last for up to 10 years without problems) fits the description of equipment which does not need upgrading for a company's survival.

Table 7

NFIB data on small business capital outlay trends

	% making capital outlay in last 6 months		% planning capital outlay in next 6 months		% purchasing / leasing office equipment during last 6 months	
	2007	2008	2007	2008	2007	2008
Jan	62%	58%	30%	25%	46%	42%
Feb	61%	58%	30%	26%	49%	40%
Mar	61%	57%	33%	25%	44%	41%
Apr	60%	56%	29%	26%	43%	38%
May	60%	54%	29%	25%	45%	40%
Jun	55%	52%	28%	26%	42%	39%
Jul	58%	52%	27%	21%	43%	38%
Aug	58%	54%	27%	23%	42%	39%
Sep	60%	52%	29%	21%	45%	36%
Oct	61%	54%	27%	19%	43%	36%
Nov	56%	56%	27%	21%	49%	40%
Dec	62%	51%	30%	17%	47%	36%

Source: NFIB Info

We think an owner has four options when faced with a lease expiry: one, he could choose to upgrade a lease to a new and more expensive machine; two, he could choose to stay with the same machine and take up a rental; three, he may choose to buy, rent or lease a new but cheaper machine, or simply decide to stop his lease altogether; and four, he may choose to leave PBI and go to a competitor such as Neopost. The best case scenario for PBI is obviously option 1, where the company will be able to book equipment sales revenue, and derive the ongoing

financing revenue on the lease for the term of the lease. For option 2, PBI will not be able to book equipment sales, but books rental revenues. For option 3, downgrading to a cheaper machine seems to be what has been happening for the past 6/7 quarters since 2007, when equipment sales and rentals both had declining top lines. On option 4, we think that Neopost is indeed taking market share away from PBI.

We think that the likelihood of option 1 materializing is low, but that is what “street” forecasts are currently factoring in. Based on our meetings with both customers and sales representatives, we think that customers facing lease expiration are (at best) maintaining their rentals (option 2), but we see an increasing number of customers spinning down to cheaper machines or altogether turning in their machines, with the cyclical downturn making them consider the necessity of depending on postal mails altogether. A company representative told us that at the very low end of the market occupied by SOHOs, there are customers who are going back to “stamp-licking” and moving to PC Postage suppliers such as stamps.com and endicia.com. Given our views on competitive dynamics, we think that the scenario that will most likely play out is a combination of options 3 and 4.

With regards to the lease renewal process, one of our sources tells us that PBI representative have been trained to visit office managers one year before the end of any given lease term to convince them to roll-over their existing 5 year leases (with one year left to run) into new 5 year leases. We were also told that this is simply not happening today. First, customers are refusing to consider new leases so far ahead of time given the economic outlook, and they are delaying their rollovers discussions to as late as possible; second, we have also learned that PBI has started granting lease durations of one or two years at the customer’s insistence. This is a major departure from the three to five year leases that PBI used to sign. Lastly, a company representative opined that, increasingly, the decision to commit to any new financial commitment is in the hands of office controllers, or even the CFO. These “more financially savvy” managers are questioning the logic of preferring leasing versus buying – see table below in “Competition” section comparing the costs of leasing versus buying.

3. Competition

PBI’s main competitor globally is Neopost, a French company that competes with PBI across all geographies, while Francotyp-Postalia is a distant third in the industry, but is the dominant supplier in Germany. With the exception of Germany, PBI and Neopost have combined market shares in excess of 90% in most markets. In the US, Neopost has a market share of 17%, FP has a market of 4%, and PBI has 79%.

We think that Neopost is emerging as a solid market share gainer vis-à-vis PBI in both the US and in Europe. The office managers with whom we have spoken to pointed to the cheaper prices for Neopost as the main reason for switching. Neopost launched the IS range of equipment in Q2 of FY08, which we understand has obtained good traction in the market place. In Q3 FY08, the first full quarter in which Neopost was selling the IS range, revenue growth accelerated to 15%, while PBI reported 4.6% revenue decline in US Mailing.

We looked, tested, and priced comparable PBI and Neopost machines. Below, we illustrate representative costs of buying (including the monthly service fee) and leasing a Neopost IS 480 versus a PBI 800 Series, which are comparable in quality and range of services provided. Assuming these costs, we find that the PBI 800 Series is 22% more expensive to buy and 62% more expensive to lease versus the IS 480. Also, we find that the 800 Series is 29% more expensive to lease than to buy. Similarly the IS 480 is 70% more expensive to lease than to buy. In other words, for essentially the same functionality, it is more cost efficient to go with the IS 480 than with the 800 Series, and it is also more cost efficient to buy rather lease for both series.

Table 8
Comparing similar offerings from Neopost and PBI, and buy versus lease

	Equipment		Monthly Service		All in Costs ***	
	IS 480	800 Series	IS 480	800 Series	IS 480	800 Series
Cost to buy	9,337	12,000	195	240	21,622	26,400
Cost to lease	441*	750**			27,783	45,000
					To Buy	To Lease
800 Series more expensive than IS 480					22.1%	62.0%
					800 Series	IS 480
Leasing more expensive than buying					28.5%	70.5%

* IS 480 full service package except insurance is \$441 a month, for 63 months

** 800 Series costs \$700 to \$800 a month, depending on exact configuration and options, for 60 months

*** All in costs assume a 60 month lease for 800 Series and a 63 month lease for IS 480

Source: Company Info and OWS analysis

At the same time, Neopost is moving to compete much more aggressively in the US versus PBI. It is doing this via buying up distributors as well as by hiring people away from PBI. Of the 8 Neopost salespeople that we interviewed in Houston and in the south, most joined Neopost from PBI. PBI is also losing salespeople due to attrition. We visited various PBI offices in the south and our observations and discussions suggest that the number of PBI sales staff declined in the fourth quarter of 2008 as compared to the same period last year. Likewise, in a

SoCal district, the number of sales people (in one of the most productive markets for PBI historically) has gone from 30 at the beginning of 2008 to only 20 at the end of the year.

In summary, we think Neopost is a formidable competitor, and getting more so. We find little distinction between PBI machines and Neopost machines. They appear to do the same thing, but Neopost's machines are cheaper than PBI machines, both to buy and to lease. However, Neopost is simply less well-known, and the long history and name brand recognition of PBI very often results in office managers not price comparing; they just order PBI. This is changing however, and Neopost is gaining market share.

4. Acquisition track record

PBI has done a large number of acquisitions in the last few years, and has spent a total of \$2.6bn in the history of the company (\$1.2bn between 2005 and 2008). Given potential anti-trust issues, acquisitions that PBI has done have been outside its mailing equipment business: 32% of its acquisitions in this decade have been in software, 18% in its PBMS business, and 13% on marketing services

Table 9
Analysis of past PBI acquisition impact and proforma organic EPS growth

	2005	2006	2007	PBI FY08 margins and multiples
No. of cumulative transactions	56	64	84	
Investments (\$bn)	1.8	1.9	2.6	
Revenue of acquired companies (\$bn)	1.3	1.6	1.9	
EBITDA of acquired companies (\$m)	178	210	267	
EBIT of acquired companies (\$m)	139	160	200	
Accretion to EPS from acquisitions	0.18	0.22	0.24	
EBITDA margin of acquisitions	13.7%	13.1%	14.1%	24.0%
EBIT margin of acquisitions	10.7%	10.0%	10.5%	17.8%
Acquisition EV / EBITDA	10.1x	9.0x	9.7x	6.3x
Acquisition EV / EBIT	12.9x	11.9x	13.0x	8.4x
Reported EPS	2.46	2.69	2.72	
Accretion to EPS from acquisitions	0.18	0.22	0.24	
PBI EPS ex impact from acquisitions	2.28	2.47	2.48	
FD Shares	232.1	225.4	221.2	
Implied Net Income	529.8	557.5	548.2	
Net Debt : EBITDA	2.4x	2.6x	2.7x	2.8x
Proforma growth of PBI ex impact of acquisitions				
Growth in EPS		8.3%	0.2%	
Growth in FD shares		-2.9%	-1.9%	
Growth in Net Income		5.2%	-1.7%	

Source: Company Info

There are a few points to note here. First, PBI has paid much higher acquisition multiples than its current trading valuation, which implies significant value destruction. Second, PBI is acquiring companies with margins that are almost half of its current margin even with the benefits of synergies. We think that PBI will need to continue to make these margin dilutive acquisitions to counteract the secular and cyclical issues we identified earlier. Third, excluding the impact of the acquisitions, PBI only grew proforma EPS from \$2.28 to \$2.48 between 2005 and 2007 (or a 4.3% CAGR). This marginal EPS growth was due mostly to the impact of share buybacks, which reduced FD shares by almost 5%, meaning that Net Income CAGR was only 1.7% during a time period in which the company benefited from the tailwind of a growing economy and the regulatory driven electric to digital meter upgrade in the US. Lastly, PBI's leverage ratio is currently 2.8x, which compares to 2.4x at the end of FY05. Thus, the company's ability to make accretive acquisitions is lower and its leverage is higher than at any point in time in the last 5 years.

5. Finance Receivables

When PBI enters into arrangements with customers in sales-type leasing, PBI will record the NPV of the lease as equipment sales. PBI also records the gross finance receivable, unearned income and estimated residual value of the equipment on the balance sheet. As a result of the completion of the electric / digital media upgrade cycle, finance receivables have started to decline. We think financing revenues will start to decline in FY09.

It is worth mentioning that Equipment Sales revenue recognition as part of a sales-type lease transaction is not a cash transaction. The amount of Equipment Sales to be recognized is based on management's estimates of the NPV of the future lease payments at a discount rate, and the estimated residual value. However, PBI's disclosure leaves much to be desired as little clarity is offered on the assumptions used in the discounting. Also, the residual value of any given equipment is based primarily on PBI's "historical experience," which is highly subjective and could be subject to forecasting errors. For example, PBI took a \$46m charge related to the transition of its product lines in 2007.

Another noteworthy point is that PBI is reducing the allowances on finance receivables. As the US has gone into an economic downturn, PBI is (counter-intuitively) forecasting that the credit quality of its lease customer base will improve and, so, is comfortable to reduce its provisions for non-payments. If customers' ability to pay deteriorates, PBI might have to increase allowances, which will be another source of headwind for PBI's earnings profile.

Table 10
PBI Financing Revenues and Finance Receivables

	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Financing revenue	194.8	201.2	203.5	198.9	197.3	195.6
Growth	11.7%	8.5%	8.8%	4.4%	1.2%	-2.8%
Finance Receivables						
Short Term	1,453.4	1,492.1	1,498.5	1,484.3	1,481.2	1,451.0
Long Term	1,557.0	1,574.1	1,533.8	1,522.1	1,506.6	1,460.0
Total	3,010.4	3,066.2	3,032.3	3,006.4	2,987.8	2,910.9
Growth in Finance Receivables						
Short Term	13.0%	12.6%	6.7%	6.6%	1.9%	-2.8%
Long Term	3.0%	3.4%	0.2%	0.2%	-3.2%	-7.2%
Total	7.6%	7.7%	3.3%	3.3%	-0.8%	-5.1%
Allowances						
Short Term	40.9	44.2	45.9	44.0	44.0	42.2
Long Term	33.1	33.5	32.5	30.9	28.8	26.2
Total	74.1	77.7	78.4	74.9	72.8	68.4
Allowance as % Of Receivables						
Short Term	2.9%	3.0%	3.1%	3.0%	3.0%	2.9%
Long Term	2.2%	2.1%	2.1%	2.0%	1.9%	1.8%
Total	2.5%	2.6%	2.6%	2.5%	2.4%	2.3%
YoY change in Allowance as % of Receivables (bps)						
Short Term	-54.9	-42.0	-27.7	-3.4	9.1	-12.2
Long Term	-9.1	-44.2	-32.3	-26.0	-25.3	-37.3
Total	-27.2	-41.3	-28.3	-13.8	-7.3	-23.8

Source: Company Info

6. PBI Pension Status

While the percentage of PBI's pension allocation to equities has come down somewhat from the middle of the decade, PBI had 66% of its pension assets in equities, and another 6% in real estate. Historically, PBI had to make cash contributions of \$339m in 2002, \$50m in 2003, and another \$77m in 2005 to its pension fund.

Table 11
PBI Pension Assumptions and Estimates

Assumptions and Estimates	2002	2003	2004	2005	2006	2007
Discount Rate	6.75%	6.00%	5.75%	5.60%	5.85%	6.15%
Rate of Compensation Increase	4.75%	4.75%	4.75%	4.50%	4.50%	4.50%
Expected Return on Plan	9.55%	8.50%	8.50%	8.50%	8.50%	8.50%
Pension Allocation by Asset Class						
Equity	57%	69%	71%	70%	72%	66%
Fixed Income	26%	23%	24%	25%	23%	28%
Real Estate	6%	4%	5%	5%	5%	6%
Cash	11%	4%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Cash contribution to pension (\$m)	339	50	0	77	0	0

Source: Company Info

We are not in a position to predict the impact on PBI of the Pension Protection Act accounting changes that go into effect for years after 2007. We only note that, given the high exposure to equity in the plan, the balance sheet could be negatively affected, pension costs could rise, and the company may have to use some of its cash flow to fund its pension plan.

7. Recent Results

PBI reported Q3 FY08 revenue of \$1.55bn, missing “street” estimates of \$1.6bn. PBI achieved 2.6% YoY revenue growth in Q3 FY08. This was based on an organic revenue decline of 1%, offset by acquisition impact of 3% and currency of 1%. By segments:

Table 12
Breakdown of PBI Revenue Growth by Source for Q3 FY08

	Reported	Acquisitions	Currency	Organic
Equipment sales	-4%	0%	1%	-5%
Supplies	1%	0%	1%	0%
Software	8%	7%	0%	1%
Rentals	0%	0%	0%	0%
Financing	-3%	0%	0%	-3%
Support Services	4%	0%	2%	2%
Business Services	9%	7%	0%	2%
Total Revenues	3%	3%	1%	-1%

Source: Company Info

Acquisitions and currency impact have had quite a significant impact on PBI results for FY08. The last deal that PBI did was the (relatively small) \$39m acquisition of Zipsort on 21-Apr-08. Going forward, there should be very little contribution to top line growth from deal-making. Similarly, if exchange rates stay

where they are (the GBP, EUR and CAD have moved between 10% and 30% against the USD in the last 12 months on a trailing 90 day basis), the currency tailwind that aided comparables in FY08 could turn into a significant headwind. Given that 30% of PBI's revenues come from its international operations, and taking average forex movements of 15% (heavier weighting to EUR), currency alone could represent a 4.5% drag on the top line. This is in line with management guidance of a 0.3% impact on revenue from every 1% change in average foreign currency.

Q3 gross profits came in at \$812m, or below "street" estimates of \$835m. Gross margins came in 52.5%, down from 53.0% the year before. The deterioration in gross margin was attributed to a change in business mix (software margins continue to trend down, while low margin Support Services and Business Services grew top line faster than the rest of the business). PBI's reported EBIT of \$280m, which compares with "street" estimates of \$283m due to the benefit of a restructuring program announced in November 2007. EPS came in at \$0.67 versus consensus estimates of \$0.69. Management downgraded its FY08 guidance from a range of \$2.80 to \$2.90 to between \$2.75 to \$2.82, due to a negative 7 cents impact from currency, and the weaker environment.

At the same time, PBI did manage to upgrade its FCF guidance from \$675m to \$750m to more than \$800m, by management's own definition of free cash flow. Indeed, this is what bulls in the stock are counting on for PBI at this point, as they think, accepting the company's free cash flow definition, that free cash flow remains strong and that the stock looks cheap on FCF multiples.

However, we caution that investors should focus on the quality of PBI's so called cash flow generation for two reasons. First, we disagree with PBI's definition of FCF, which is GAAP CFO excluding cash restructuring charges (\$67m in the 9M to Sep-08), and which includes an increase in customer deposit (\$17m, which represent customers' prepayment of postage and does not belong to PBI). In addition, PBI benefited by \$93.5m in the 9M to Sep-08 from the timing of tax payments. We estimate that the "true" free cash flows, even including the benefit of this tax timing difference, should be actually \$739m in 2008, and should show YoY decline of 7.4% in FY08 versus FY07. We forecast that PBI's true FCF (Cash flow from Operations less Capex) will decline again, from \$739m in FY08 to \$549m in FY09, or a 26% decline YoY.

Table 13
Analysis of PBI Cash flow

	Q1 FY08	Q2 FY08	Q3 FY08	Q4 FY08	FY08E	FY09E
GAAP Net Income	119.1	128.5	98.2	137.4	483.2	428.2
Restructuring-related	-2.0	-12.1	10.1	-15.0	-19.0	-30.0
D&A	97.5	96.5	94.6	102.6	391.1	383.6
Working Capital	-21.4	-6.8	26.4	0.0	-1.8	0.0
Stock-based compensation	6.0	6.8	6.8	6.8	26.4	27.2
CFO ex-impact of timing for tax	199.1	212.9	236.2	231.8	880.0	809.0
Growth YoY	20.6%	20.3%	-12.1%	-29.3%	-6.2%	-8.1%
CFO ex-impact of timing for tax	199.1	212.9	236.2	231.8	880.0	809.0
Tax Impact	49.2	-0.4	44.6	0.0	93.5	0.0
GAAP CFO	248.3	212.5	280.8	231.8	973.5	809.0
Growth YoY	12.8%	13.8%	-3.1%	-36.6%	-8.3%	-16.9%
GAAP CFO - Capex	248.3	212.5	280.8	231.8	973.5	809.0
Less: Capex	-56.9	-58.4	-54.6	-65.0	-235.0	-260.0
Free cashflow	191.4	154.1	226.2	166.8	738.5	549.0
Growth YoY	125.0%	136.9%	58.6%	-30.1%	-7.4%	-25.7%
PBI Definition of FCF						
GAAP CFO	248.3	212.5	280.8	231.8	973.5	809.0
Capex	-56.9	-58.4	-54.6	-65.0	-235.0	-260.0
Restructuring payments	12.7	24.8	28.9	30.0	96.5	70.0
Loss on redemption of prefs	0.0	0.0	-1.8	0.0	-1.8	0.0
Reserve account deposits	-7.2	25.7	-1.8	0.0	16.6	0.0
Company defined FCF	196.9	204.6	251.5	196.8	849.8	619.0
Growth YoY	26.9%	31.7%	5.1%	-47.4%	-8.0%	-27.2%

Source: Company Info

Given our forecast for free cash flow declines, we are not modeling for any share buyback in 2009. We think that company should be able to increase its Dividend Per Share but the company would probably use excess cash flows after dividend payments for paying down debt, and to reduce its reliance on the commercial paper market. Another interesting disclosure on the Q3 FY08 conference call was that PBI had rolled over \$350m of bond debt that matured in Aug-08 into commercial paper. At the end of Q3 FY08, PBI had \$829m in commercial paper outstanding with rates of between 1% and 2%. If PBI's fundamentals deteriorate over FY09 to the extent that we forecast based on our research, PBI will need to be more conservative about how it thinks about the company's capital structure, and should reduce its reliance on the commercial paper market, albeit at higher interest costs.

8. Valuation and Target Price

Given our view that PBI's existing business is in the midst of a multi-year, long term structural decline, coupled with declining market share and a levered

balance sheet, we think that the stock could continue to get derated from its current 9.4x FY08 PE. We initiate on PBI with a target price of 8x our FY09 EPS estimate of \$2.21, or \$17.70 per share for a downside of 30% from the current share price of \$25.06. At our target price, PBI will be trading at 5.8x FY09 EBITDA, or 14.8% FCF yield, based on FCF per share of \$2.59 a share in FY09. This compares with the current valuation of 6.2x FY08 EBITDA, or 14.0% FCF yield, based on FCF per share of \$3.51 in FY08. We forecast that FCF per share will decline further from \$2.59 a share in FY09 to \$2.29 in FY10, as revenue weakness and adverse gross margin mix continue to exert pressure on PBI's cash flows.

For relative valuation, we compare PBI to other companies outside the mail equipment industry also facing structural decline / cyclical headwinds. These companies include: Xerox (sales, leasing and rentals of office equipment), American Greetings (sales of greeting cards), Deluxe (check printers) and RR Donnelley (largest commercial printer in the world). These companies trade at EBITDA multiples of between 4x and 6x, PE ratios of between 4x and 7x, and FCF yields of more than 25%,

These companies generate significant but declining cash flows, and the amount of financial leverage in the capital structure tends to be heavy. Complacency about the sustainability of cash flows has led to aggressive capital structures that investors come to fear might not be supportable, given their projections of cash flow declines. Incidentally, most of these companies are in perennial restructuring mode, with their financial statements full of recurring restructuring charges, not unlike PBI.

Table 14
Comparables Analysis

	Equity Value	Net Debt	EV	Debt : Equity	Net Debt : EBITDA	EV / EBITDA FY08	EV / EBITDA FY09	PER FY08	PER FY09	FCF Yield FY08	FCF Yield FY09
PBI	5,269	4,285	9,554	81%	2.8x	6.2x	7.0x	9.2x	11.3x	14.0%	10.4%
XRX	6,656	7,367	14,023	111%	3.6x	6.9x	6.4x	6.8x	6.7x	23.3%	23.7%
AM	225	393	618	175%	3.4x	5.3x	4.8x	7.0x	7.2x	28.6%	34.8%
DLX	669	867	1,536	130%	3.2x	5.6x	5.1x	5.3x	5.4x	26.3%	28.9%
RRD	2,288	3,954	6,242	173%	2.2x	3.5x	3.7x	3.8x	4.8x	29.9%	32.8%
Mean (excluding PBI)				147%	3.1x	5.3x	5.0x	5.7x	6.0x	27.0%	30.0%
PBI at target price of \$17.70				115%	2.8x	5.2x	5.8x	6.5x	8.0x	19.8%	14.8%

Source: OWS Analysis

9. Financial Projections

a. Quarterly projections.

\$m, except per share	Q1 08	Q2 08	Q3 08	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
Net sales	1,574	1,588	1,548	1,681	1,549	1,562	1,524	1,653
COGS	748	758	736	821	766	774	756	838
Gross profit	826	830	812	861	783	789	767	815
SG&A	496	498	479	508	487	488	470	497
R&D	50	53	53	52	53	56	56	55
Operating income	280	279	280	301	242	244	241	262
Net interest expense	-59	-54	-55	-56	-59	-58	-57	-56
Income before taxes	221	225	226	245	184	186	184	206
Income taxes	76	77	80	86	64	65	65	72
Minorities	5	5	7	7	7	7	7	7
Net income	140	144	139	152	113	115	113	127
Diluted shares	213	210	209	209	210	211	212	213
Diluted EPS	0.66	0.69	0.67	0.73	0.54	0.54	0.53	0.60
Y/Y change	Q1 08	Q2 08	Q3 08	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
Net sales	11%	3%	3%	1%	-2%	-2%	-2%	-2%
COGS	14%	7%	4%	3%	2%	2%	3%	2%
Gross profit	9%	-1%	2%	-1%	-5%	-5%	-5%	-5%
SG&A	17%	4%	1%	-1%	-2%	-2%	-2%	-2%
Operating income	-3%	-10%	1%	-3%	-13%	-13%	-14%	-13%
Net interest expense	4%	-13%	-10%	-10%	0%	7%	4%	0%
Income before taxes	-4%	-9%	4%	-1%	-17%	-17%	-18%	-16%
Income taxes	-5%	-6%	8%	-1%	-15%	-15%	-19%	-16%
Minorities	1%	0%	35%	35%	36%	36%	0%	0%
Net income	-4%	-11%	0%	-3%	-19%	-20%	-19%	-17%
Diluted shares	-5%	-6%	-6%	-4%	-1%	1%	2%	2%
Diluted EPS	0%	-6%	6%	1%	-18%	-21%	-20%	-18%
As % of net sales	Q1 08	Q2 08	Q3 08	Q4 08e	Q1 09e	Q2 09e	Q3 09e	Q4 09e
COGS	48%	48%	48%	49%	49%	50%	50%	51%
Gross profit	52%	52%	52%	51%	51%	50%	50%	49%
SG&A	32%	31%	31%	30%	31%	31%	31%	30%
R&D	3%	3%	3%	3%	3%	4%	4%	3%
Operating income	18%	18%	18%	18%	16%	16%	16%	16%
Net interest expense	-4%	-3%	-4%	-3%	-4%	-4%	-4%	-3%
Income before taxes	14%	14%	15%	15%	12%	12%	12%	12%
Income taxes	5%	5%	5%	5%	4%	4%	4%	4%
Minorities	0%	0%	0%	0%	0%	0%	0%	0%
Net income	9%	9%	9%	9%	7%	7%	7%	8%

b. Annual projections

\$m, except per share	2006	2007	2008E	2009E
Net sales	5,730	6,130	6,391	6,288
COGS	2,640	2,868	3,062	3,135
Gross profit	3,090	3,262	3,329	3,153
SG&A	1,764	1,890	1,981	1,943
R&D	165	186	208	221
Operating income	1,160	1,186	1,140	990
Net interest expense	-213	-242	-224	-229
Income before taxes	947	944	916	761
Income taxes	327	321	318	266
Minorities	14	19	23	26
Net income	607	604	576	468
Diluted shares	225	221	210	212
Diluted EPS	2.69	2.73	2.74	2.21
Y/Y change	2006	2007	2008E	2009E
Net sales		7%	4%	-2%
COGS		9%	7%	2%
Gross profit		6%	2%	-5%
SG&A		7%	5%	-2%
Operating income		2%	-4%	-13%
Net interest expense		14%	-7%	3%
Income before taxes		0%	-3%	-17%
Income taxes		-2%	-1%	-16%
Minorities		39%	18%	15%
Net income		-1%	-5%	-19%
Diluted shares		-2%	-5%	1%
Diluted EPS		1%	0%	-19%
As % of net sales	2006	2007	2008E	2009E
COGS	46%	47%	48%	50%
Gross profit	54%	53%	52%	50%
SG&A	31%	31%	31%	31%
R&D	3%	3%	3%	4%
Operating income	20%	19%	18%	16%
Net interest expense	-4%	-4%	-4%	-4%
Income before taxes	17%	15%	14%	12%
Income taxes	6%	5%	5%	4%
Minorities	0%	0%	0%	0%
Net income	11%	10%	9%	7%

Additional Info

(Amount in \$m, except ratios) - latest reported

Debt	4,858
Equity	376
Tangible BVPS	-9.21
Market Value	5,269
Cash	481
DSO	48
DIO	25

	2007	2008e	2009e
EBIT	1,186	1,140	990
EBITDA	1,569	1,531	1,374
Free cash flow	334	705	549
Surplus cash flow (NI+DA-capex)	485	639	552
Capex	265	235	260
EV / EBITDA	6.1x	6.3x	7.0x
EV / (EBITDA - Capex)	7.4x	7.4x	8.7x