Applied Investment Management (AIM) Program

AIM Class of 2012 Equity Fund Reports
Spring 2011

Date: Friday, April 15th
Location: Timpani Capital Management

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Thank you for taking the time today and participating in the AIM 'road show' at Timpani Capital Management. These student presentations are an important element of the applied learning experience in the AIM program. The students conduct fundamental equity research and present their recommendations in written and oral format – with the goal of adding their stock to the AIM Equity Fund. Your comments and advice add considerably to their educational experience and is greatly appreciated. Today, each student will spend about 4-6 minutes presenting their formal recommendation, which is then followed by about 6-9 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Timpani.

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Rio Tinto PLC (RIO)
April 15, 2011

Jacob Brull | International Industrial Material

The dual-listed Rio Tinto PLC/Rio Tinto Limited (NYSE:RIO) is a top-tier global mining group, headquartered in London, U.K and Melbourne, Australia. RIO has business operations on all six continents and is one of the world's largest extractors of a diversified range of metals and minerals including: iron ore, thermal coal, coking coal, aluminum, copper, and uranium. Additionally, RIO mines a diverse number of other minerals that contribute minimally to total operations. The largest of RIO's business segments is iron ore, which contributed 68% of operating cash flows and 73% of earnings in 2010, followed by energy (10% of operating cash flows and 8% of earnings). RIO's position in iron ore makes it the second largest supplier of seaborne iron ore. The group employs a strategy of seeking organic growth in long-life, tier 1 mining opportunities, supplemented by small to medium sized acquisitions. In 2010, RIO had a net income of $14 billion and a year-over-year operating cash flow growth of 70%. RIO was founded in 1873.

Market Price (04/08/2011)	$73.93	Beta:	1.41
Price Target ($):	$88.48	WACC	13.82%
52WK H-L ($):	39.3-76.67	L-Term Rev. Gr Rate Est:	2.6%
Market Cap (mil):	$ 148,485	L-Term EPS Gr Rate Est:	4.2%
Float (mil):	1,400	Debt/Equity:	24.8%
Short Interest (%):	N/A	ROA:	11.51%
Avg. Daily Vol (mil):	3.304	ROE:	27.48%
Dividend ($):	$1.08		
Yield (%):	1.75%		

FY: Dec	2010A	2011E	2012E
Revenue (Mil)	$56,750	$58,839	$61,193
% Growth	35.27%	4.00%	4.00%
Operating Margin	34.03%	28.00%	27.00%
EPS (Cal)	$7.13	$8.77	$9.38
FCF/Share	18,157.0	11,093.7	13,529.3
P/E (Cal)	10.4	10.1	9.4
EV/EBITDA	6.4	6.9	6.5

Recommendation

Fuelled by urbanization and industrialization, demand in China is expected to lead world metals demand growth at or even slightly above the Chinese GDP growth rate of 9%. With 24% of sales attributed to China and 32% to Australia and the rest of Asia (i.e. India, Indonesia, Malaysia, Taiwan, and Japan), RIO is well suited to supply the fastest growing region of the world market. RIO's expanding global operations, especially those in Australia, are set to increase to 330 tonnes (~50%) of Pilbara Australian iron ore per annum by 2015. RIO's share in increasing reserves in Australia also helps position it well to remain as a key provider of iron ore for building, coal for energy, and other metals and minerals demanded by the proximal growing Asian markets. It is recommended that RIO be added to the AIM International Equity portfolio with a target price of $91.88 representing a potential upside of 24%.

Investment Thesis

- **Growth in developing Asian economies - especially China.** In 2010, 28% of Rio Tinto's sales were destined for China compared to 24% in 2009 and 19% in 2008. This shift is due to the urbanization and industrialization seen in China over the past decade. Chinese GDP is expected to grow at 9% over the next few years with estimates of the demand for metals growing at or slightly above this rate. In 2009 China consumed 400 kilograms of steel per capita, roughly half the levels seen during Japan's peak growth years. RIO is well suited to fill the demand to this growing market as it has large and growing iron ore and coal reserves in Australia (total Australian iron ore reserves of 1.98 billion tones and coal reserves of 667 million tonnes). In addition to these reserves, the undeveloped Mount Pleasant, Australian mine will add 245 million tonnes of coal. RIO's total current iron ore reserves are estimated to be 2.527 billion tonnes. In addition, RIO's 1,400 km of rail and 3 ports located in Perth facilitate efficient transportation of metals to the rapidly growing Asian economies that lie in relative close proximity to Australia.
- **Projects in the pipeline for sustained organic growth.** While RIO does participate in small to medium size M&A, as evident by the recent acquisition of Riversdale Mining Limited, it is

focused on a pipeline of projects facilitating sustained organic growth opportunities. These growth projects range from exploration and development of new mines to modernizing and expanding current mining operations. RIO has planned for $13 billion of capital expenditures for 2011 focused primarily on organic growth opportunities. One of the largest planned projects is to expand iron ore mines in the Pilbara region of Australia. RIO has committed $5.6 billion towards increasing annual capacity to 333 million tonnes, effectively doubling capacity by 2015. The tier 1 Pilbara mines are some of the largest in the world and are ideally located in proximity to the world's largest growing markets. In addition to this capital expenditure, RIO is allocating $2.5 billion towards modernization of the aluminum smelters in Canada. These and other long-term organic growth projects make up the $13 billion of expected capital expenditure budget in 2011 and the coming few years.

- **Increased commodity prices.** Current commodity prices are at the highest levels seen since the 2008/2009 recession. Gross sales revenue increased by 91% in 2010 driven by strong prices and a 9% increase in production. The March average price of iron ore was $173 per tonne compared to a 5-year average price of $113. Commodity prices play a pivotal role in RIO's profit and with commodity inflation; RIO will experience benefits in their future cash flows.

Valuation

To find the intrinsic value of RIO a five-year DCF was conducted. A sensitivity analysis yielded a share price range of $77.73 to $96.97, which accounts for variation in WACC as well as free cash flows. A conservative WACC of 13.82% was used, which included a 2% premium for commodity volatility risk. A terminal growth rate of 3% was utilized in the DCF which produced a base case target price of $88.48. In addition to the 2% commodity risk premium, a bull/bear DCF scenario was performed to account for fluctuations in commodity prices (+/-10%). This approach produced an intrinsic value range of $75.53 to $101.42. Both P/E and EV/EBITDA multiples for RIO are lower than the average of industry peers at 10.0x and 6.4x compared to 13.3x and 7.9x, respectively. Applying a 7.5x EV/EBITDA multiple to the 2011 EBITDA estimates yielded a price target of $102.09. The final price target of $91.88 was obtained by weighting the base case DCF analysis (75%) and the EV/EBITDA multiple approach (25%). This approach produced a potential upside of 24%. RIO paid a 1.75% dividend in 2010.

Risks

- **Commodity volatility.** While being a key driver, commodity prices also represent a potential risk for the company. In 2010, earnings were driven higher primarily due to the rebound in commodity prices. With expected interest rate increases and uncertainty surrounding near term macro-economic trends, there is the potential for commodity price volatility. A substantial drop in commodity prices could lead to reduced cash flows and a delay or suspension of the $13 billion capital expenditure projects, as well as the two year $5 billion share buyback program. Calculations in the -10% commodity price bear scenario led to an 18.5% decrease in cash flows.
- **Political and legal.** RIO is exposed to political and legal risk in a variety of areas. Due to RIO's globally diverse operations, some businesses are located in areas of political instability. While 80% of Rio Tinto's assets are in OECD countries, there is some inherent risk with operations in non-OECD countries. In addition to this risk, RIO faces risks in the developed world from increased tax pressures arising from environmental concerns. The proposed Mineral Resource Rent Tax (MRRT) would set a 30% tax of the "super profits" on the Australian coal and iron ore projects – potentially negatively impacting RIO's margins.

Management

Tom Albanese is an executive director and CEO of RIO, a position he has held since 2007. He is a veteran of the mining industry, having earned a BS in mineral economics and MS in mining engineering. Mr. Albanese joined Rio Tinto in 1993 during RIO's acquisition of Nerco. Guy Elliot, CFO, joined the company in 1980 after working as an investment banker. He has served as CFO since 2002.

Source: Yahoo! Finance

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	5.2%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
State Farm Mutual Automobile Insurance	13,462,820	0.89
Wentworth Hauser and Violich	8,101,624	0.54
Wellington Management Co LLP	6,860,691	0.45
Fisher Investments	6,430,529	0.43
Fidelity Management & Research LLC	5,066,440	0.33

Source: Bloomberg

Sotheby's (BID)
April 15, 2011

Christopher Gwinn Consumer Services

Founded in 1744, Sotheby's (BID), together with its subsidiaries, operates as an auctioneer of fine and decorative art, jewelry, and collectibles primarily in the United States, United Kingdom, China, and France. The company operates in three segments: Auction (94% of revenue), Finance (2%), and Dealer (4%). The Auction segment functions as an agent offering authenticated works of art for sale at auction. The Finance segment provides collectors and dealers with financing, which is secured by works of art that the company has in its possession or permits the borrower to possess. The Dealer segment invests in and resells artwork. It also operates as an art dealer for Dutch and Flemish Old Master paintings, as well as French impressionist and post-impressionist paintings. In addition, this segment sells art directly to private collectors and museums and acts as a broker in private purchases and sales of art. Sotheby's is headquartered in New York, NY.

Price ($) (4/08/11):	$ 49.80	Beta:	1.68	FY: December	**2010A**	**2011E**	**2012E**
Price Target ($):	$ 62.00	WACC	13.01%	Revenue ($Mil)	774.31	929.17	1,161.46
52WK H-L ($):	55.67 - 22.06	LT Rev. Gr Rate Est (3-5 yr):	21.80%	% Growth	59.67%	20.0%	25.0%
Market Cap (mil):	$3.43B	LT EPS Gr Rate Est (3-5 yr):	17.85%	Gross Margin	88.92%	88.00%	87.00%
Float (mil):	65.37M	Debt/Equity:	182.4%	Operating Margin	35.38%	29.00%	26.00%
Short Interest (%):	8.1%	ROA:	7.4%	EPS ($Cal)	$2.39	$2.32	$2.65
Avg. Vol (10 day)	1.3M	ROE:	20.9%	FCF/Share	4.81	2.08	2.16
Dividend (2011E):	$ 0.16			P/E (Cal)	20.82	21.42	18.78
Div. Yield (2011E):	0.2%			EV/EBITDA	9.77	9.71	8.52

Recommendation

As the world's fourth oldest auction house, Sotheby's has been offering clients worldwide the ability to bid on precious items, such as Jackson Pollock's *No. 5, 1948* worth $150 Million. Despite the improving economic situation, BID gives strong reasons for its auction house to continue to see estimated growth of 20-25%. Sotheby's main clients are largely shielded from the threat of unemployment or loss of income - and includes 68 of the 100 wealthiest individuals according to Forbes. Inflation is regarded as one of the key risks in consumer recovery; however this will likely stimulate demand for art as investors seek hard assets that maintain value when prices rise. Sotheby's strong brand name provides clients added trust to continue to utilize their services and management views these client relationships as one of its strongest drivers. BID also has continued its efforts in expanding into emerging markets such as China, Russia, and Dubai. While BID does not have any true publicly traded competitors, their closest peers include Tiffany's & Co. and Ebay. BID has strong operating and profit margins of 48.9% and 30.3% compared to the industrial average at 25.5% and 17.3%, respectively. Management's effectiveness can be seen in the TTM ROA of 8.52% and ROE of 23.31%, both of which outperform their peers (average ROA of 6.66% and ROE of 12.83% in 2010). Because of these reasons as well as a favorable valuation, it is recommended that BID be added to the AIM Equity Fund with a target price of $62, offering a potential upside of 25% as well as a dividend yield of 0.39%.

Investment Thesis

- **Strong Brand Name and Economic Moat.** Sotheby's has been in the high end auction market for over two centuries. Over this time BID has developed customer loyalty and a niche in the global market of auctioning. It is this niche that has given BID a competitive advantage and an economic moat that has continued to allow it to hold strong market share of 60%. BID is currently the largest auctioneer in the world and still expanding globally with 2010 revenues of $775M. BID's main customers consist of affluent individuals interested in buying one of a kind artworks and other fine jewelry, such as works from Pablo Picasso, of which BID had recently sold a portrait for $40 Million. Clients consistently expect a high level of service, and current clients have developed a strong loyalty to BID because of its historical outstanding performance.

- **International Growth** Sotheby's is continuing to focus on developing its presence in China, as well as many other affluent international cities such as Dubai, Moscow, and Doha. BID has witnessed astounding growth in these emerging markets - from 2009 to 2010, BID experienced 123% growth in China as it increased its revenue to $111,651,000. Recently, China overtook the U.S. as the world's biggest auction market for fine art in 2010.
- **Favorable Luxury Good Market.** As the economy begins to recover from the recession, expected demand for luxury goods is anticipated to rise between 7% to 11% this year alone. This trend is projected to continue growing during the next decade on the back of Chinese demand. With economists' optimistic projections for these goods, management expects to receive strong growth through the next five years as they continue their developing presence in China as well as other emerging markets.

Valuation

To find the intrinsic value of BID, a five-year DCF was conducted. Sales growth rates were forecasted through management's expectations in 2011. Sales growth is anticipated to peak in 2012 through its expansion into new emerging markets and is then seen to receive stable growth for the following years. A conservative WACC of 13.01% was used and yielded an intrinsic value of $66.70. An EV/EBITDA multiple approach was also used. With a current EV/EBITDA multiple of 11.51, this method gives an intrinsic value of $49.85. Taking these into account and weighting the intrinsic values appropriately, a price target of $62 was established offering an upside of 25%.

Risks

- **Heavy Dependence on Relatively Small Amount of Clients.** Sotheby's relies on a small number of clients who make a significant contribution to its revenues, profitability and operating cash flows. Accordingly, BID's revenues, profitability and operating cash flows are highly dependent upon its ability to develop and maintain relationships with this small group of clients, as well as the financial strength of these clients. In efforts to strengthen these relationships, BID has made substantial investments in information technology designed to improve client service. Such improvements include introducing BIDnow, an online bidding feature for the iPhone/iPad allowing clients to online bidding capabilities.
- **Fluctuations of Art Prices.** The art market is not a highly liquid trading market. As a result, the valuation of art is inherently subjective, and the realizable value of art often fluctuates over time. Accordingly, Sotheby's is at risk both as to the realizable value of art held in inventory and as to the realizable value of art pledged as collateral for Finance segment loans.

Management

William F. Ruprecht is the CEO and President of Sotheby's and its subsidiary Sotheby's Inc. After graduating from University of Vermont, Ruprecht worked in a furniture shop until 1981. In 1981, Ruprecht began working for Sotheby's as a low level employee. Ruprecht was continually promoted throughout the years, and was eventually named CEO in February 2000 as former President Brookes resigned. William S. Sheridan has been the CFO and Executive Vice President of Sotheby's since February 2001. Mr. Sheridan was previously employed as a partner at Deloitte & Touche LLP.

Ownership

% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	97%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
VANGUARD GROUP, INC. (THE)	3,367,074	5.00
ROYCE & ASSOCIATES, LLC	3,331,094	4.94
BlackRock Fund Advisors	2,423,425	3.60
JP MORGAN CHASE & COMPANY	2,280,415	3.39
PLATINUM INVESTMENT MANAGEMENT LTD	2,268,337	3.37

Source: Yahoo! Finance

Sumitomo Mitsui Financial Group, Inc.
April 15, 2011

Leonard Hartanto Int'l Financial Services

Sumitomo Mitsui Financial Group, Inc. (NYSE: SMFG) is a holding company that provides commercial banking and other financial services through its various subsidiaries (Sumitomo Mitsui Banking Corp;, SMBC Nikko; SMBC Friend Securities Co.; The Japan Research Institute, Limited; Sumitomo Mitsui Finance and Leasing; and SMFG Card & Credit). SMFG is the second largest lender in Japan with 85.5% of their revenue from Japan, 6.5% from the U.S., and 8.0% from other countries. 72.1% of the revenue is derived from banking, 10.2% from leasing, and 17.8% from other segments which includes credit cards and securities. SMFG has 57,888 employees worldwide. In Japan SMBC has 493 branches; with only one branch directly affected by the recent disaster. The firm has 34 non-Japanese branches worldwide. As of December 31, 2010, the firm has a long-term credit rating of Aa2 (Moody's), A+ (S&P), and A (Fitch). SMFG was listed on the NYSE in November 1, 2010 and has a 5 ADR to 1 ORD share ratio. SMFG is headquartered in Tokyo, Japan.

Price ($): (04/08/11)	$6.00	Beta:	1.154	FY: March	2009 A	2010 E	2011E
Price Target ($):	$8.11	WACC:	3.00%	Revenue (mil)	$21,378.33	$29,122.18	$30,578.29
52WK H-L ($):	$7.77-$5.50	L-Term Rev Gr. Rate Est:	3%	% Growth	8.27%	26.59%	4.76%
Market Cap (mil):	49760	L-Term EPS Gr. Rate Est:	3%	Net Interest Margin	1.36%	1.28%	1.29%
Float (mil):	13,890	Financial Leverage:	35.18x	Pretax Margin	1.38%	30.22%	25.63%
Short Interest (%):	N/A	ROA:	0.22%	EPS (cal)	-$0.99	$1.04	$0.97
Avg. Daily Vol. (mil):	749,744	ROE:	11.12%	P/E (cal)	Neg.	6.21	33.46
Dividend ($) semi-annual:	$0.12	Tier 1 Capital Ratio:	11.15%	BVPS	11.22	11.99	13.16
Yield (%):	2.00%	Credit Provisions/Loans:	0.31%	P/B	0.58	0.68	0.62

Recommendation

SMFG emerged from the global recession in relatively good shape with YoY Net Interest Income and Net Revenue grows of 20.53% and 8.27%, respectively. One of SMFG key strength is their deposits which totaled $835 billion for FY 2009 – which has grown by a CAGR of 7.41% over the last 7 years. Management is directing SMFG to grow outside Japan and to concentrate their new business in emerging markets. The company obtained approval to incorporate in Malaysia and they have been approved to open two additional branches in China. SMFG also has a stake of 4.50% in Kotak Mahindra Bank in India and a 14.90% stake in PetroVietnam Securities Inc. Despite some challenges in expanding abroad, the overseas' growth has been successful; evidenced by the growth in pre-provision profit in the international banking operations from $1.28 billion to $1.43 billion in FY 2009. Through its Nikko subsidiary, SMFG has been able to become a major player in the securities business and in the first half of FY 2010, Nikko posted ordinary profit of JPY 22.7 billion, while Nomura posted profits of JPY 28.1 billion. Nikko has been growing with client assets of $388.8 billion as of September 2010, an increase of 10.07% YoY. Currently Nikko holds 17.1% of the bond underwriting business market share with total proceeds of $10.4 billion (they are the primary dealer for Japanese Government bonds). SMFG is well positioned with regards to new banking regulations and has maintained a Tier 1 capital ratio of 11.15% (their highest since March 2002). SMFG has also been voted by financial institutions as the top cash management services provider in Asia Pacific for five consecutive years. Because of SMFG's strong financials and growth potential, it is recommended that SMFG be added to the AIM International Equity Fund with a target price of $8.11, which offers a potential upside of 35.12%.

Investment Thesis

- **Blessing in Disguise.** SMFG had received loan requests for 1 trillion yen since the disaster hit Japan in March. The BOJ is also providing 1 trillion yen one-year loan program to the banks to help with funding in reconstruction and assisting companies with cash flow shortages. The interest rate for this loan will remain unchanged at 0.1%, allowing SMFG to lend the government-provided capital at an attractive spread given the negligible interest rate. The other opportunity is the future issuance of Japanese bonds to fund reconstruction efforts with Nikko being the primary broker of Japanese Government bonds.

- **Overseas Market Concentration.** SMFG is concentrating in obtaining growth overseas. They are increasing their banking presence in emerging markets, especially China and India. The Japanese market is not one that looks to be suitable for long-term growth due to decreasing population. As of March 30, 2010, about 1.1% of SMBC outstanding loan are outside of Japan, which is around $90 billion. They debuted on the NYSE in November 2011 giving the firm increased potential for acquisitions in the U.S. and to diversify their capital market base. SMFG also has been buying emerging market, high-yield Asian bonds and Brazilian bonds.
- **Domestic Growth Potential.** As of June 30, 2010, the financial assets held by Japanese households totaled JPY 1,445 trillion; with more than 50% currently held as currency and deposits. SMFG, along with private banking partner Barclays PLC, believes that this offers good potential for their private banking segment to grow.

Valuation

To find the intrinsic value of SMFG, a multiple of 0.6x P/TBV was applied to forecasted book value, resulting in a relative value of $7.40. This multiple was found using the trend in SMFG's past P/TBV ratio. Using a 5-year excess equity return model with a cost of equity of 20.95% and perpetuity growth rate of 3%, yielded an intrinsic value of $8.81. The valuations were weighted equally and an $8.11 price target was determined which provides a 35% upside. The stock currently has a dividend yield of 2.00%.

Risks

- **Currency Rate Risk.** 14.5% of SMFG's revenue is not denominated in JPY. This makes the fluctuation of currencies an issue; especially because of SMFG's ambitions to grow overseas. The weakening of the JPY could make acquisitions abroad for SMFG to be more expensive than anticipated.
- **"Japanese" Risk.** The current short-term problem that SMFG is facing is how quickly Japan can recover. Rolling blackouts and the risk of radiation contamination could negatively impact SMFG's daily operations. SMFG mentions that most of their offices are running on privately owned electrical power facilities; however, offices that do not have a private power supply must temporarily close during the blackouts. This could delay their ability to approve loans, or provide any forms of service.
- **Default Risk.** Because of the unfortunate disaster that crippled Japan, there are bigger chances for SMFG customers to default on their loan. 69.6% of the domestic loan portfolio comes from small and medium enterprises (SME), while 30.4% comes from large corporations. Most of the large corporations should have enough cash flow to pay off their debt, while the SMEs might be in trouble because of their inability to work efficiently due to the current environment such as rolling blackouts.

Management

Koichi Miyata, 57, took over as the President of SMFG as of April 1, 2011, replacing Teisuke Kitayama. Koichi Miyata graduated from University of Tokyo. He served as the Senior Managing Exec Officer for SMBC before taking his current role. Takeshi Kunibe, 57, replaced Masayuki Oku as the President of SMBC. Before moving to his current position, he serves as a Director for SMFG. Takeshi Kunibe also graduated from University of Tokyo.

Source: Yahoo! Finance

Source: Yahoo! Finance

Ownership

% of Shares Held by All Insider and 5% Owners:	N/A%
% of Shares Held by Institutional & Mutual Fund Owners:	N/A%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
Brandes Investment Partners LP	16,051,947	0.23
Lazard Asset Management	14,495,522	0.21
Managed Account Advisers LLC	7,469,837	0.11
Bank of New York Mellon Corp	2,992,962	0.04
Alliancebernstein LP	2,443,535	0.03

Source: Bloomberg

NTT DoCoMo, Inc. (DCM)
April 15, 2011

Jonathan Nolan — International Telecommunications

NTT DoCoMo, Inc. (NYSE: DCM) is a domestic provider of both 3G (FOMA) and 2G (MOVA) mobile telecommunications service in Japan. Split off from Nippon Telegraph and Telephone Corporation (NTT) in 1992, DCM is still under 66.43% ownership of its parent company. DoCoMo's revenues are derived from both contracted wireless voice and data services (87.2%) and wireless equipment sales (11.8%). NTT DoCoMo is headquartered in Tokyo and currently is the country's leading wireless service provider in terms of both revenue and subscriber base at 49% of market share.

Price 4/6/2011 ($):	17.26	Beta:	0.71	FY: March	2010A	2011E	2012E
Price Target ($):	22.63	WACC:	9.72%	Revenue (Mil):	46400.1	49656.3	50525.3
52 WK H-L ($):	14.47-19.23	M-Term Rev. Gr Rate Est:	2.25%	% Growth:	4.6%	7.0%	1.8%
Market Cap:	71.77B	M-Term EPS Gr Rate Est:	3.22%	Gross Margin:	62.68%	64.00%	65.00%
Float (Bil):	1.39	Debt to Equity:	12.58%	Profit Margin:	11.55%	13.59%	14.25%
Short Interest (%):	0.01%	ROA:	7.80%	EPS (Cal):	$1.28	$1.62	$1.73
Avg. 3 Month Vol (Thou):	209	ROE:	11.10%	FCF/Share:	$1.31	$1.09	$1.25
Semi- Annual Dividend ($):	0.31	Dividend Payout:	43.81%	P/E (Cal):	13.44x	10.63x	9.96x
Yield (%):	3.23%						

Recommendation

Although the earthquake and tsunami on March 11, 2011 were devastating to the country and people of Japan, their effect on NTT DoCoMo was relatively minimal. The downswing of the Japanese stock market in response to this disaster provided a 7% price correction to DCM – it also led the Japanese government to increase its quantitative easing program by almost $120 billion. DCM has been growing its customer base at an annual rate of 3.2%, and is the leader in mobile data transmission innovations in Japan. DCM has a debt-to-equity ratio less than 13% and possesses a strong cash position with over $9 billion on their balance sheet. The favorable financial position allows NTT DoCoMo to bolster future growth through hard-nosed pricing policies and strategic foreign acquisitions. The company has used its financial strength to cut costs and boost profit margins by an average of 2.34% over the first three quarters of 2011. DCM has shown the ability to continue expanding margins going forward, to about 15%. It is recommended that NTT DoCoMo, Inc. be added to the AIM International Equity Portfolio with a target price of $22.63, presenting a potential upside of 31.12% and a dividend yield of 3.23%.

Investment Thesis

- **Superior Data Strategy. –** The wireless industry in Japan is presently in a state of transition – moving away from voice usage and towards greater data usage. DCM is handling the change more successfully than either Softbank or KDDI, the firm's two main competitors. DoCoMo's Freedom of Mobile Multimedia Access (FOMA) 3G network has 100% coverage in Japan and carries 97.2% of the company's wireless subscribers. As of December 2010, the company had already launched its Xi Long Term Evolution (LTE) 4G network, which is the first of its kind in Japan and boasts the fastest mobile data processing speeds in the country. Along with having the best-suited network for data coverage, DCM also has the highest data average revenue per user (ARPU) of the three main service providers; garnering an average of $2.75 more data revenue per customer on a monthly basis.
- **Strong Financial Position.** – NTT DoCoMo has a debt-to-equity ratio of 12.6%, which is significantly lower than KDDI (46.9%) and Softbank (252.3%). Low interest payments give DoCoMo the ability to focus their capital on growth through both strategic acquisitions and pricing power. They have done just that with a combined investment of $3.36 billion in Oak Lawn Marketing (51% equity share), Bangladesh's Robi Axiata Limited (30%), and India's Tata Teleservices (27%). They have also put strong pricing pressure on the industry by offering

discounts for both families and students. Nevertheless, they have still managed to grow profit margins by 2.34% to 13.88% over the first three quarters of 2011, compared to KDDI at 5.91% and Softbank at 3.71%.

- **Subscriber Growth and Loyalty.** – DCM's history of being a global leader in wireless innovation has given the firm considerable success in maintaining its subscribers, as well as attracting new ones. As of March 31, 2011, YoY subscriber growth for DCM was 3.2% (49% of entire Japanese wireless subscriber growth). On top of that, the company's average quarterly churn rate is .46%, less than half of the 1.04% average of its peers.

Valuation

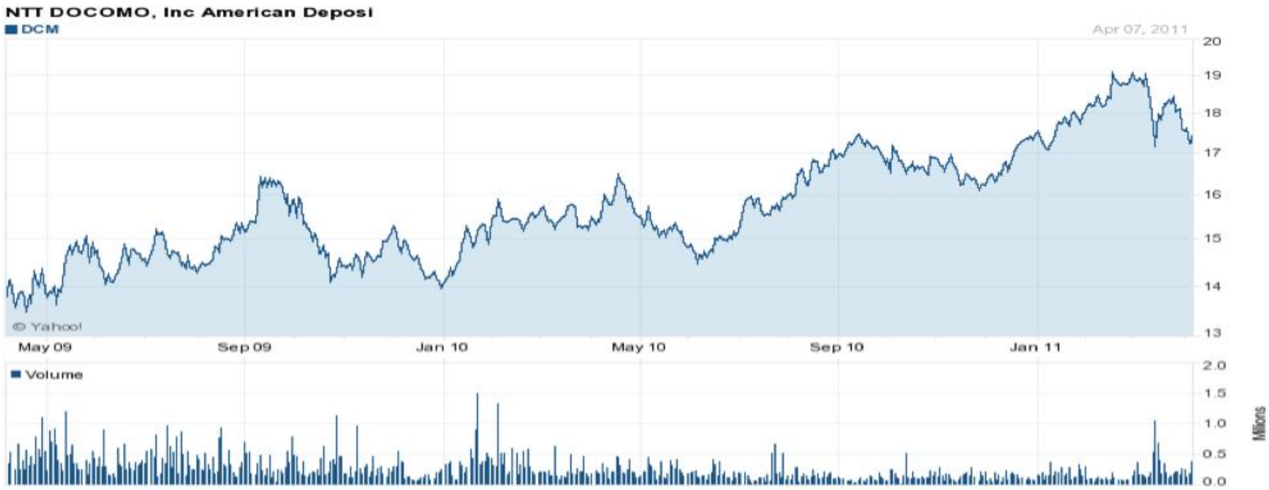
To value NTT DoCoMo, both a five-year DCF and P/E multiple model were used and weighted 75% and 25%, respectively. The DCF used a WACC of 9.72% and a terminal growth rate of 2.00%, to establish an intrinsic value of $21.26. A weighted average historical and peer P/E multiple of 15.94x was applied to estimated 2011-2012 earnings to yield intrinsic value of $26.74. DCM currently trades at 11.69x earnings, well below the industry average of 19.93x. At a price of $17.26 per share, DCM's common stock is 31.12% below the final target price of $22.64 per common share. To account for changes in both WACC and terminal growth rate, a sensitivity analysis was performed yielding a price range of $20.56 to $25.48. DCM also pays a semi-annual dividend of $.31, which yields 3.23%.

Risks

- **High Level of Competition. –** Although DoCoMo's market share remains at 49.0%, it has seen its share drop from 54.4% in 2007, falling .8% in the past fiscal year. Both Softbank and KDDI currently offer 3G service at comparable rates to DCM. Softbank has made significant market share gains, leveraging its exclusive rights to sell the Apple iPhone, which alone holds over 70% of the rapidly growing smartphone market in Japan.
- **Changes in Regulatory Policy.** – Japanese regulators may continue to enact policies that increase the competitiveness of the industry. In 2007 they mandated all wireless providers grant customers mobile number portability (MNP), giving them less of an incentive to remain with their current service provider. Currently they are actively discussing the removal of SIM-Card locks on all mobile telephones, which would allow customers to buy phones from one provider, and use them on a competitor's network.

Management

CEO Ryuji Yamada leads DCM's management team since assuming that role in 2008 after being with either DCM or NTT for 35 years. Yamada also serves on the board of directors, which is made up of thirteen members. Twelve of these members also serve in management roles for the company. Management holds no significant position in the company's stock.



Source: Yahoo! Finance

Source: Yahoo! Finance

% of Shares Held by All Insider and 5% Owners	62.94
% of Shares Held by Institutional & Mutual Fund Owners	0.30

Source: MSN Money

Holder	Shares	% Out
Scout Investments Inc.	2,616,091	0.06
Renaissance Technologies, LLC.	1,528,500	0.04
UBS AG	838,197	0.02
World Asset Management, Inc.	709,647	0.02
Invesco Ltd.	683,406	0.02

Source: Yahoo! Finance