Applied Investment Management (AIM) Program

AIM Class of 2011 Equity Fund Reports
Fall 2010

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Thank you for taking the time today and participating in the AIM 'road show' at Mason Street Advisors. 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 5-7 minutes presenting their formal recommendation, which is then followed by about 8-10 minutes of Q & A. Again, thank you for allowing us the opportunity to present at Mason Street.

For more information about AIM please contact:

David S. Krause, PhD
Director, Applied Investment Management Program
Marquette University
College of Business Administration, Department of Finance
436 Straz Hall, PO Box 1881
Milwaukee, WI 53201-1881
mailto:AIM@marquette.edu
or visit www.busadm.mu.edu/aim

The Pep Boys – Manny, Moe & Jack (PBY)
October 8, 2010

Tom Molosky Consumer Services

Pep Boys - Manny Moe & Jack (NYSE: PBY) is a full-service automotive aftermarket chain. Along with its vehicle repair and maintenance capabilities, the company also serves three other markets: the commercial auto parts delivery market; the do-it-yourself and do-it-for-me customers; and replacement tires. PBY also sells various lines of automotive accessories under private labels. Pep Boys' revenues are divided into two main sources: retail sale (53%) and service (47%). PBY has 11,881 full time and 5,837 part time employees and operates 587 store locations in 35 states and Puerto Rico. PBY was started in 1921 and is headquartered in Philadelphia, Pennsylvania.

Price ($): (10/1/10)	10.82	Beta:	1.69	FY: Aug	2009A	2010E	2011E
Price Target ($):	15.14	WACC	12.46%	Revenue (Mil)	1,910.94	2,044.70	2,187.83
52WK H-L ($):	7.76-13.42	3-5yr Rev. Gr Rate Est:	5.00%	% Growth	-0.87%	7.00%	7.00%
Market Cap (mil):	558.46	3-5yr EPS Gr Rate Est:	8.60%	Gross Margin	25.44%	26.58%	26.57%
Float (mil):	48.80	Debt/Equity:	70.23%	Operating Margin	2.92%	4.81%	4.81%
Short Interest (%):	5.00%	ROA:	2.83%	EPS (Cal)	0.43	0.60	0.75
Avg. Daily Vol (T):	469,289	ROE:	6.22%	FCF/Share	$1.09	$1.32	$1.54
Dividend ($):	0.12			P/E (Cal)	24.65	18.03	14.43
Yield (%):	1.10%			EV/EBITDA	5.58x	5.45x	4.48x

Recommendation

PBY has kept active in the current economic environment by refocusing on core strategies and consumer service. The new management team has set in place four strategies to push PBY to become the dominant player in the automotive aftermarket space. These include: leading with the service division and growing through their Service & Tire centers, leveraging their superstores to maximize cost effective inventory, and refocusing on the customer experience. They have increased gross margins from 22.7% in 2007 to 25.4% in 2009, a 2.7% increase. PBY has done this while at the same time lowering SG&A costs from 24.2% in 2007 to 22.5% in 2009, a decrease of 1.7% over the same time frame, from 77.3% in 2007 to 74.6% in 2009. PBY has also been improving its liquidity. It has paid down 13% of its' LT Debt, redeeming $45.9M in 2009. This combined with an unused revolving line of credit of $128.3M will allow PBY to more actively pursue their growth strategy. PBY's low price to book ratio of 1.20 as compared to the market median of 1.41 also helps strengthen the case that PBY is undervalued because of the market's hesitancy to embrace Pep Boys turn around. Because a favorable valuation, on both a DCF and P/E Multiples Approach basis, strategic growth initiatives, and favorable management, it is recommended that PBY be added to the AIM Equity Fund with a target price of $15.00. This price along with a small dividend yield of 1.1% will produce an upside of 39%.

Investment Thesis

- **Hub and Spoke Growth Plan.** PBY is set to open 35 new stores during the balance of this year and 80 more stores in 2011. The mix of new stores includes 7 new prototype supercenters with the other 28 being traditional service/tire centers. The supercenters will be streamlined versions of previous hub stores which did not have the inventory controls or margins PBY wants to realize. Initial costs will be $1.2M per store, and projections are for the supercenters to reach $3M in annual revenue within 3 years. The service/tire centers are designed to more efficiently leverage PBY's infrastructure while positioning stores closer to customers to increase revenue. They are projected to have$1M in sales one year after opening.
- **Company Turnaround.** Management has refocused its efforts on improving customer satisfaction and returning the core businesses to profitability. After struggling through the last three years, PBY has continued its' turn around by reporting its first profitable year since fiscal 2004. Net income increased by $53.47M from -$30M in 2008 to $23M in 2009. Diluted EPS increased from -$0.58 in 2008 to $0.44 in 2009, an increase of $1.02 per share. This return to

profitability has been powered by Pep Boys' ability to steadily increase margins, gross margin increased by 2.7% from 2007 to 2009, and SG&A expenses decreased 1.7% from 2007 to 2009.

- **U.S. Economic Future.** The economic situation may continue to be a help to PBY. With consensus being no to slow growth in consumer consumption for the next 2-4 quarters, PBY is positioned well to benefit from consumers' unwillingness to spend. A car's average age of 10+ years means increased maintenance is needed to keep the U.S. fleet on the road, and consumers will continue to spend on quick fixes instead of new vehicles which will benefit the entire automotive aftermarket industry. Pep Boys will be able to capture an increasing share of this market with their continued focus on store development near residential areas.

Valuation

To find the intrinsic value of PBY, a five-year DCF was conducted. Sales growth rates were kept at 7% for years 1&2 and 5% in years 3-5. Using a WACC of 12.46% and a terminal growth rate of 3.00% yielded an intrinsic value of $14.58. A P/E Multiples approach using a 2011 P/E of 14 yielded a value of $17.36. Implementing a sensitivity analysis accounting for variations in the WACC (11.46-13.46%) and long-term growth rate (2.25-3.75%) yielded a price target range of $16.57 to $14.92. Given the valuations generated by a sensitivity analysis, P/E Multiples approach, and DCF approach combined with a minimal dividend yield of 1.1%, a price target of $15.00 was determined.

Risks

- **Weak Financial Performance.** PBY has experienced a decline in sales of 9.8% from 2008 to 2009; this was offset by increased margins in both the service and retail divisions. If PBY were to see continued stagnation at this level, without an offsetting increase in margins, it may need to revise estimates for future growth downward; this would seriously jeopardizing expansion plans.
- **Dependence on Third Party Vendors.** Pep Boys is dependent on third party vendors for its supplies. During fiscal 2009, Pep Boys' ten largest suppliers accounted for approximately 52% of the merchandise purchased by the Company. While no single supplier accounted for more than 18% of the purchases, any disruption to the relationships with or operations of these suppliers may adversely affect the company's business. Some of possible influences on these relationships are out of PBY's control, and thus cannot be allocated away.
- **Market Competitiveness.** PBY faces stiff competition to its existing market share. Various players in the automotive service industry have more established companies in local and regional locales. This leads to PBY having to work harder to obtain a foothold in these markets than would otherwise be needed. Additionally, the company contends with wholesalers, distributors, catalog businesses, and internet-based retailers for customer attention. Any increase in the ability of competitors to increase exposure would be a detriment to Pep Boys.

Management

Michael R. Odell has been the CEO of Pep Boys since 2008 and previously held the position of Executive VP – COO. He also worked for the Sears Automotive Group as their VP – Stores from 1998 - 2007. Raymond L. Arthur has served as an Executive VP and CFO since 2008 after serving as Executive VP and CFO of Toys-R-Us Inc., from 2004 to 2006, where he oversaw its strategic review and restructuring of company-wide operations, as well as managed the leveraged buy-out of the company. William E. Shull III joined Pep Boys in 2008 as Senior VP of Stores. His past work experience includes 13 years at AutoZone.

Ownership

% of Shares Held by All Insider and 5% Owners:	6%
% of Shares Held by Institutional & Mutual Fund Owners:	76%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Dimensional Fund Advisors LP	4,056,735	7.73
FMR LLC	3,092,447	5.89
Glenhill Advisors LLC	2,848,400	5.43
North Run Capital LP	2,420,000	4.61
Vanguard Group Inc.	2,293,380	4.37

Source: Yahoo! Finance

Encore Capital Group (ECPG)
October 8, 2010

Timothy O'Donnell — Financial Services

Encore Capital Group (NYSE: ECPG) is a systems-driven purchaser and manager of charged-off consumer portfolios, and through a wholly owned subsidiary, Ascension, is a provider of bankruptcy services to the financial industry. Purchased portfolios primarily consist of unsecured, charged-off domestic consumer credit card debt. There are four primary methods in which ECPG collects from its receivable portfolios. The collection methods include: legal collections (48% of collections), collection sites (28%), collection agencies (13%), and sales (1%). ECPG has been in the collection business for 56 years, having invested approximately $1.4 billion to acquire accounts with a face value of about $43.8 billion. Accounts are typically purchased at a steep discount to face value within the relative range of 8-12% to face value. Teams of statisticians, business analysts, and software programmers develop and continually enhance proprietary valuation models, software, and other business systems to screen for new receivable portfolios and to evaluate current portfolios. The corporate headquarters is located in San Diego, California.

Price ($): (10/4/10)	17.46	Beta:	1.28
Price Target ($):	25	WACC	9.00%
52WK H-L ($):	24-12	L-Term Rev. Gr Rate Est:	8.00%
Market Cap (mil):	420.65	L-Term EPS Gr Rate Est:	4.50%
Float (mil):	19.65	Financial Leverage	2.56x
Short Interest (%):	2.5%	ROA:	5.78%
Avg. Daily Vol (mil):	0.103	ROE:	14.80%
Dividend ($):	0.00		
Yield (%):	0.0%		

FY: Aug	2009A	2010E	2011E
Revenue (Mil)	316.42	376.02	431.53
% Growth	24.00%	19.00%	15.00%
Pretax Margin	16.98%	20.05%	18.57%
EPS (Cal)	1.37	2.03	2.12
P/E (Cal)	13.59	10.76	11.79
BVPS	$10	$11	$13
P/B	$1.80	$2.19	$2.34

Recommendation

ECPG should continue to capitalize on the illiquid charged-off credit card market in the wake of the most recent recession. With an increased availability of funds via the extension of its revolver capacity, ECPG is poised to continue its strategic investments in a market with unusually low purchasing competition. ECPG's track record of high growth has carried into the first half of 2010 with revenue and net income increasing on a year over year basis by 19% and 44%, respectively. Taking into consideration the few competitors, strong expected revenue growth, and the relative undervaluation of the firm's assets when compared to its primary competitor, it is proposed that ECPG be added to the AIM Equity Fund with a target price of $25.00, resulting in an upside potential of over 50%.

Investment Thesis

- **Limited Competition.** ECPG has witnessed an exodus of competing debt purchasing firms during the last few years. There remains only one primary competitor in Portfolio Recovery Associates (PRAA). Although PRAA is a close competitor, credit card debt purchases account for only 60.5% of their total portfolio due to PRAA's diversification strategy. With PRAA continuing to focus on diversifying its assets, ECPG stands to gain even more market share in the charged-off credit card market. Decreasing levels of competition have led to a large reduction in purchasing prices. Prior to the credit crisis, purchase prices were typically between 8-12% of face value; however, the range has now dropped to a level of 4-8%. In the first six months of 2010, ECPG realized an average purchase price at 3.8% of face value. Although there are few barriers to entry in this market, it is highly improbable that a new major competitor will appear in the next few years because databases, statisticians, and management experience are needed to analyze and capitalize in the current market environment.

- **Increased Purchasing Power Capacity.** In July 2010, ECPG's revolving facility was expanded from $327.5 million to 360.5 million with the addition of three syndicates in the revolving loan facility. The increased availability of funds allows management to continue its focus on the acquisition of portfolios, rather than its liquidity needs. In September 2010, ECPG issued $50 million in senior secured notes to Prudential Capital Group through a private placement transaction. The proceeds were primarily used to repay the remaining $42.9 million of convertible notes which were due in the same month.
- **Expansion in India.** ECPG is a high growth company focusing on India as a source of inexpensive collection labor for its growth plans. Since 2007, ECPG has decreased its headcount in the United States by 7%, while increasing its headcount in India by 187%. During that same period, ECPG increased its total headcount by 54%, while decreasing its total salary and employee benefit expense by 10%.

Valuation

To value ECPG, a five-year DCF model and an analysis of ECPG's top competitor were used. ECPG currently trades at a significant discount to its primary competitor, PRAA. ECPG trades at a 63% discount to PRAA based on their comparable P/B valuations and at a 59% discount based on P/E multiples. Based on a five-year DCF model with a computed WACC of 9.00% and a terminal growth rate of 3%, an intrinsic value of $26.52 was obtained for ECPG. Taking into account the future growth opportunities and economic uncertainties, a price target of $25.00 was established. With EPSG currently trading around $17.50, the $25.00 price target would yield over a 50% return. The company does not pay a dividend.

Risks

- **Drastic Change in the Macro-Economic Environment.** Since 2003, ECPG has maintained a relatively constant total estimated collections to purchase price multiple that has been within a range of 2.3x-2.5x. Although the expected return based on purchase price has not changed, the price paid has dropped significantly from the normal range of 8-12% of face value to the current level of 3.8% of face value. If the market faces another severe downturn, the decline in collections may not be offset by the decline in purchase prices. On the other hand, a rapid expansion in the economic environment would increase the purchase price paid for the discounted portfolios and possibly entice competitors to enter. The optimal economic environment for ECPG is a continuation of the current environment, which is one of uncertainty. Uncertainty leads to purchasing price discounts, while slow growth enables ECPG to collect from its debtors.
- **Increase in Interest Rates.** ECPG's total debt of $282 million is based on a floating rate, which resulted in decreased interest expenses during the recession; however, risk aversion in the market cannot continue indefinitely. Eventually, an appetite for risk taking will return to the market and lead to higher interest rates. Currently, only $25 million of the $282 million outstanding on the revolver is hedged with interest rate swaps, leaving $257 million exposed to interest rate fluctuations

Management

J. Brandon Black is currently the CEO and President of Encore Capital Group. From 1998 until he joined the Company, Mr. Black was the Senior Vice President of Operations for West Capital Financial Services Corp. Before working at West Capital, Mr. Black worked for First Data Corporation and Capital One Financial Corporation.

Ownership

% of Shares Held by All Insider and 5% Owners:	2%
% of Shares Held by Institutional & Mutual Fund Owners:	>90%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Flowers Christopher J.	5,737,032	24.10
Red Mountain Capital	3,435,062	14.43
Dimensional Fund Administrators LP	1,270,532	5.34
Heartland Advisors Inc.	1,133,400	4.76
Aldar Partners Inc.	800,000	3.36

Source: Yahoo! Finance

Quinstreet, Inc. (QNST)
September 30, 2010

Tim Hildebrand Media Sector

Quinstreet (NYSE: QNST) operates as an online media and marketing company primarily in the United States (international revenue is 1% of total revenue). QNST provides direct marketing services, including the delivery of leads (paid clicks), and hosted solution and related services for clients in the direct selling industry. QNST generates revenue by delivering measurable online marketing results to their clients in the form of qualified leads or clicks. Clients pay QNST for leads that can be converted into customers. QNST focuses on serving clients in information-intensive industries where targeted media and offerings help visitors make informed choices and find products to match their specific needs. As a result, these visitors are more likely to become qualified customers for QNST's clients. In 2010, their Direct Marketing Services accounted for 99% of net revenues. QNST's two largest client verticals are in education and financial services. In 2010, the education client vertical represented 45% of net revenue and the financial services client vertical represented 43%. Quinstreet was founded in 1999 and is headquartered in Foster City, CA. QNST launched their IPO on February 17, 2010 at a price of $15.

Price ($): (3/30/10)	15.2	Beta:	1.00	FY: Aug	2009A	2010E	2011E
Price Target ($):	21	WACC	10%	Revenue (Mil)	334.84	401.80	466.09
52WK H-L ($):	9.79-18.25	3-5 y Rev. Gr Rate Est:	15%	% Growth	28.52%	20.00%	16.00%
Market Cap (mil):	685.26	3-5 y EPS Gr Rate Est:	20%	Gross Margin	33.72%	34.38%	35.04%
Float (mil):	23.77	Debt/Equity:	32.3%	Operating Margin	17.32%	18.32%	19.13%
Short Interest (%):	22.9%	ROA:	7.6%	EPS (Cal)	.42A	.58E	.76E
Avg. Daily Vol (mil):	0.24	ROE:	10.1%	FCF/Share	$0.48	$0.55	$0.73
Dividend ($):	0.00			P/E (Cal)	36.2	26.2	20.1
Yield (%):	0.0%			EV/EBITDA	11.1x	8.7	7.2

Recommendation

Quinstreet's revenue increased 29% YoY which was driven primarily by continued strong growth in financial services (81% YoY) and other verticals (31% YoY), which offset a decline in the education vertical (-5% YoY). EBITDA margins improved in the Q4'10 to 22.5%, above management's target level of 20%. QNST was able to obtain this margin through increased profitability in the financial services vertical, as well as an increase in the mix of owned-and-operated properties. QNST is focusing on clients who are moving their marketing spending to measurable online formats and on client verticals with large underlying market opportunities and high product or customer lifetime values. QNST has a strong 3.4x current ratio as well as total cash per share of $3.46, allowing it to take advantage of profitable acquisitions. On July 26, 2010, Quinstreet acquired Insurance.com for a purchase price of $35.6 million. On October 9, 2009, QNST acquired Insure.com for a purchase price of $16 million. They have been able to do this while decreasing their debt-to-equity ratio from 71.4% in 2009 to 32.3% in 2010. QNST has grown their revenues at a 26% CAGR over the past three years. CAGR. QNST will look to continue this strong revenue growth through a recovering economy with more companies likely to spend on advertising – in addition to companies shifting more of their marketing focus to the Internet. Because of Quinstreet's promising growth prospects and strong management team, it is recommended that QNST be added to the AIM domestic portfolio with a target price of $21, offering a potential upside of 34%.

Investment Thesis

- **Shift to Internet Marketing.** According to a July 2009 research report "*Consumer Behavior Online: A 2009 Deep Dive*," by Forrester Research, Americans spend 33% of their time with media on the Internet. Online direct marketing, however, was estimated to represent only 16% of the $149B in total annual U.S. direct marketing spending in 2009, as reported by the Direct Marketing Association. QNST will benefit from a shift proportionate to American's share of time

spent with the media on the Internet. This could represent an increased marketing opportunity potentially worth up to $25B for the industry with a possible increase of nearly 20% in QNST's revenues. The Internet is an effective direct marketing medium due to its targeting and measurability characteristics which can allow QNST to expand internationally.

- **Result-Based Client Relationships.** Marketers are becoming more focused on strategies that deliver specific, measurable results. For example, marketers are attempting to better understand how their marketing spending produces measurable objectives, such as meeting their target marketing cost per new customer. The basis of client relationships with their marketing service providers is shifting from being more account management-based to being more results-oriented. QNST will leverage this with their strategy of finding potential customers for their clients, determined by the customer's search history. This strong client relationship should continue to attract additional clients (a predicted 10% growth over the next year) and increase revenue. This increase in customers should help QNST maintain their target 20% EBITDA margin.
- **Strong M&A Activity.** QNST saw their revenue in the financial services vertical increase 81% YoY. They will look to continue to benefit from strong growth in this vertical by the expansion of their customer base, healthy demand, a shift in spending to online marketing, and additional acquisitions. QNST currently owns 30% of the websites they use for advertising and is looking to continue to buy companies that possess strong domain names that attract high internet traffic, such as insurance.com.

Valuation

With a TTM P/S of 2.02x, QNST currently trades at a discount to the industry average of 2.5x. Applying a conservative 2.5x multiple to the estimate 2011 revenue per share of $0.58, as well as a 15x multiple to the estimate EV/EBITDA value produces a relative valuation of $21.50. A 6-year DDM model with a cost of equity of 11.22% and terminal growth rate of 3% yielded an intrinsic value of $20.50. Using an equal weighting of each valuation technique, and taking into consideration management growth assumptions and the firm's competitive position in differentiated marketing products, a stock price of $21 was established for QNST, offering upside potential of 34%.

Risks

- **Limited Client Based.** A substantial portion of QNST revenue is generated from a limited number of clients. The top three clients accounted for 23% and 32% of net revenue for the fiscal years 2010 and 2009, respectively. A client may terminate their contracts with QNST at any time, with limited prior notice or penalty. DeVry Inc. retained an advertising agency and reduced its purchases of leads from us beginning November 2009. A decrease in any client's marketing spending could decrease revenue and harm their business. The majority of revenue from clients comes from the education and financial services client verticals. Negative changes in the economic condition or regulatory environment in either vertical could cause revenue to decline and business and growth to suffer.
- **Third-Party Reliance.** A significant portion of revenue is attributable to visitors originating from advertising placements that they purchase on third-party websites. At any point in time, websites can change the advertising inventory made available. They may also choose to raise the revenue share related to their advertising costs at any time. Also, QNST may also not be able to acquire specific advertising inventory that meets their client's needs.

Management

Douglas Valenti has served as Chief Executive Officer and board member since July 1999 and as our Chairman and Chief Executive Officer since 2004. Prior to QuinStreet, Mr. Valenti served as a partner at Rosewood Capital, a venture capital firm, for five years.

Ownership

% of Shares Held by All Insider and 5% Owners:	17.4%
% of Shares Held by Institutional & Mutual Fund Owners:	61.3%

Source: Bloomberg

Top 5 Shareholders

Holder	Shares	% Out
WELLS FARGO & COMPANY	2,204,240	4.89
LONE PINE CAPITAL, LLC	1,496,336	3.32
STEADFAST CAPITAL MANAGEMENT	1,446,851	3.21
FRONTIER CAPITAL MANAGEMENT COMPANY INC	1,197,623	2.66
KINGDON CAPITAL MANAGEMENT, LLC	952,072	2.11

Source: Bloomberg

Sony Corporation (SNE)
October 8, 2010

Shannon Lawton International Consumer Goods

Sony Corporation (SNE) is a world leader in developing and delivering innovative electronic equipment to a broad consumer base. The Company ranked as the 69th largest company in the world, according to Fortune, slightly trailing its major competitors Panasonic and LG. SNE operates in six segments: consumer products & devices, networked products & devices, financial services, pictures, music, and B2B & disc manufacturing. The consumer products and devices segment, which includes television, digital imaging, audio & video, semiconductors and components, constituted 40.5% of the Company's FY10 revenue. The networked products and services division, encompassing game and PC related business, comprised 21.0% revenue. Sony's scale and product diversity afford them the ability to effectively compete against other companies that specialize in only one or a few of Sony's product lines. These competitors include Panasonic, LG, Phillips Electronics, and Sanyo. The firm was founded in 1946 and is headquartered in Tokyo, Japan. Sony is a multinational conglomerate that sells products across the globe, with revenue primarily generated in Japan (29%), Europe (22%), and the United States (22%).

Price ($) (10/5/10)	31.47	Beta:	1.56
Price Taget ($):	38.00	WACC	10.8%
52WK Range ($):	25.85 - 40.45	L-Term Rev. Gr Rate Est:	3.0%
Market Cap:	31.56B	L-Term EPS Gr Rate Est:	3.0%
Float	N/A	Debt/Equity	44.0%
Short Interest (%):	8.8%	ROA:	1.4%
Avg. Daily Vol:	1.021M	ROE:	0.8%
Dividend ($):	N/A		
Yield (%):	N/A		

FY: Mar	2010A	2011E	2012E
Revenue (Mil)	77,205	83,381	90,051
% Growth	-1.35%	8.00%	8.00%
Gross Margin	32.18%	32.50%	32.50%
Operating Margin	10.76%	11.50%	11.50%
EPS (Cal)	-$0.44A	$1.75E	$1.89E
FCF/Share	1.79	3.00	3.24
P/E (Cal)	N/A	17.96	17.69
EV/EBITDA	2.4x	2.2x	2.2x

Recommendation

SNE's extensive, innovative product lines have significant growth opportunities driven by LCD and LED televisions, 3D products, and the PlayStation Move controller. These products have helped increase revenue by 6% YTD and management expects this number to continue increase through year end. This increased revenue, combined with outsourcing, specifically with LCD televisions, through their recent divestiture of a manufacturing unit, is expected to assist in management's target of 10% ROE by FY2011. Despite a decline in sales of 1.4% in FY10, the Company improved its operating margin by 5% largely as a result of cost savings at the gross margin level, which improved from 26.8% to 32.2%. This improvement was driven significantly by LCD televisions, whose shipments grew by 38% during FY 2010. Product innovation will drive Sony's success through the expected continuing growth in LCD televisions and 3D televisions. Therefore it is recommended that SNE be added to the AIM International Equity Fund with a target price of $38, an upside of 20%.

Investment Thesis

- **3D Technology.** Innovation in the 3D technology space will be instrumental to the Company's growth going forward. Sony is one of the market leaders in 3D television and one of two firms expected to launch glasses-free 3D technology. This relatively new technology resulted in 2009 sales of 200,000 3D televisions worldwide for all companies and the market forecasts it to grow to 64M units by 2016. Sony has contracted with Discovery Communication and IMAX Corporation to create a 3D network. Sony is also involved in creating 3D compatible Play Station 3's along with producing games and movies that will be able to played and watched respectively. EPSN's move towards 3D sports, due to the success of the FIFA World Cup, allows for Sony to provide fans with televisions with 3D technology. Sony has created four digital camera projectors that have 3D conversion; additionally, the two largest movie theaters in the United States have signed agreements to deploy 11,000 3D screens.

- **Increased Market Share.** Sony targets Brazil, Russia, India, and China as areas for new growth opportunities. Establishing a presence in these emerging markets is crucial to Sony's revenue growth. Expectations are an increase of 6 million television units in these countries, an 18% increase year over year. Products have been altered to target the demographics of these countries to continue to drive sales growth. Sales in these countries increased by 40% over the previous year and Sony looks to continue this trend by offering products that target the middle class of these countries. Due to outsourcing, decreasing operating costs of LCD televisions are expected to drive the success for growth in these countries as Sony takes market share with aggressive pricing from LG, whose growth has remained flat.
- **Cost Cutting Measures.** SNE closed eleven manufacturing sites in FY2010 in an attempt to reduce costs and streamline their manufacturing processes. During FY2010, firm wide costs were reduced by $4B, including a 7% decrease in the cost of goods sold. The Company's cost cutting commitment continued as management met goals of reducing procurement operating costs by $6B (20%). This restructuring by new the management team is expected to provide higher operating margins and an increased return on equity.

Valuation

Using a 10 year DCF with a computed WACC of 10.8% and a LT growth rate of 3%, an intrinsic value of $39.55 was determined for SNE. The DCF model grew revenue in the near term at 8% and maintained operating margins constant at 11.5% during that time. From a multiples standpoint, analysts have been predicting a 15-20x forward P/E. Applying an 18x P/E to 2011E EPS forecast of $1.75, yields an intrinsic value of $31.50. Blending these two approaches a price target of $38.00 was obtained, which represents an approximate 20% return. The firm did not pay a dividend in FY10.

Risks

- **Exchange Rate.** SNE generates sales in many different currencies and has to convert these revenues into yen. Changes in foreign exchange rates impact Sony especially when the yen strengthens as it did last year, which caused a 6.7% decrease in Sony's revenue.
- **Seasonality.** PlayStations comprise 11% of Sony's revenue. Gaming systems tend to be bought and sold near calendar year end therefore if a new update to these products is not released in time Sony can face major losses.
- **Competition.** Intense competition exists in consumer products. Sony continually needs to be reinventing themselves. Thinking of ways to create new products and ways to improve current products is crucial. Companies like Apple are constantly reinventing and Sony needs to keep up otherwise sales will decrease.

Management

Sir Howard Stringer Chairman, Chief Executive Officer and President. Stinger has been CEO sine June of 2005. During 2009 Stringer got the added title of President. Stinger has been with Sony since May of 1997 prior he worked as journalist and eventually became executive at CBS Inc. after working there for 30 years. Ryoji Chubachi, Ph. D serves as Representative Corporate Executive Officer of Sony. Chubachi has held this position since June of 2005.

Ownership

% of Shares Held by All Insider and 5% Owners:	1.00%
% of Shares Held by Institutional & Mutual Fund Owners:	8.68%

Source: Yahoo! Finance

Top 5 Shareholders

Holder	Shares	% Out
Dodge & Cox Inc.	34,801,787	3.46
Primecap Management Company	17,395,252	1.73
Invesco Ltd.	6,629,906	0.66
Fisher Investments, Inc.	5,117,619	0.51
Brandes Investment Partners L.P.	5,019,654	0.50

Source: Yahoo! Finance