HollAnd Advisors

Holland Views – Swatch Group – CHF423, MCap: CHF21.5bn

Like Father, Like Son?

Whilst we endeavour to make as much of our research actionable on the date of publication as possible, occasionally we may publish research on a company where the conclusion is still open, as we'd rather the valuation were lower or that we knew a little more.

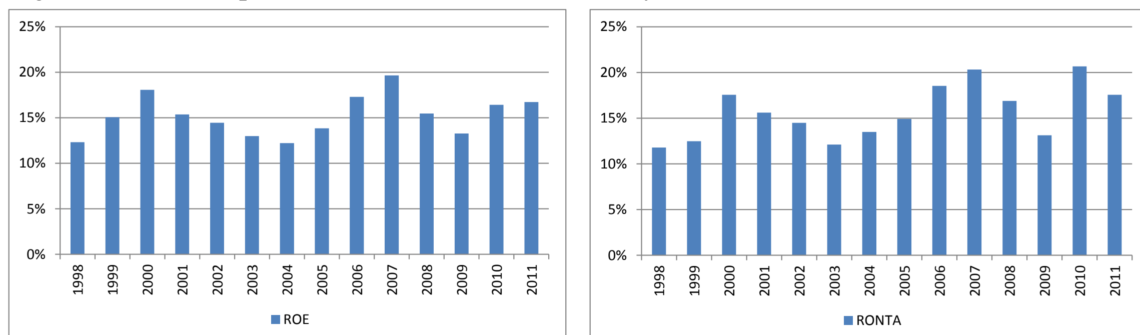
Swiss watch industry bellwether, Swatch Group, has many of the attributes that we seek-out in franchises and we think the business is worthy of your attention. The group's highly unusual combination of scale, engineering excellence and high-end brands was what initially piqued our interest. However, the business does not get our full seal of approval just yet as we wait for further convincing on some areas such as management succession (perhaps our biggest concern), potential downside risk from peak margins and – despite its strong historical returns performance - a possible low emphasis by current management on return on capital.

On close inspection, Swatch looks a very attractive business as it combines a vertically-integrated business model with high barriers to entry, innovation, and boasts a diverse portfolio of high-value global luxury brands. Above all, it has shown in its almost 30 year history that it is a resilient growth business, built largely organically. Such compounding characteristics are always attractive and currently on offer at an EV/EBIT of 11.6x. A reasonable, but not give away price.

Swatch's compelling investment attributes

- Long history of decent (and largely organic) sales growth (+6% compounded since 1990) and returns (15% average ROE since 2002)
- Book value has compounded 11% since 2002
- Has a prudent capital structure with a net cash position of CHF2bn (10% of MCap)
- Thirty-year history of growth, technological and industrial innovation and increasingly, high-end retailing prowess
- In particular, the revitalisation of the Omega brand in the late 1990s – detailed later - epitomises Swatch's culture of innovation leadership
- An "ok" starting-valuation: 15.2x trailing P/E

Fig.1: Swatch Group - a resilient business in the luxury sector



Source: Capital IQ, Holland Advisors

Group background

- Swatch Group is the dominant Swiss watch manufacturer
- The group today is a result of a concerted attempt to revive the Swiss watch industry back in 1983 and was created via the merger of two longstanding (but at the time, declining) Swiss watch businesses (ASUAG and SSIH) brought together by visionary manager Nicolas Hayek. His son Nick now runs the business, post his father's death in 2010
- The group successfully overcame the threat posed by Japanese quartz watches through low-cost manufacturing and a revival of high-end mechanical brands (esp. Omega)
- The group today remains closely-held (41%) by the original 'Hayek pool' of investors
- The business has been largely organically developed with an emphasis on brand redevelopment (Omega is the flagship brand accounting for over 40% of sales) and innovation
- Notably, and somewhat unusually, Swatch group also supplies the broader global watch industry (i.e. its competitors) with parts and fully-assembled watch modules ('movements') and has a quasi-monopoly in this area. However, in a bid to force competitors to share more of the industry's R&D costs, the company is seeking to restructure this arrangement (to allow more discretion in who it supplies) subject to imminent rulings from the Swiss competition authorities

Company financial targets

- **Sales:** Targeting CHF10bn in gross sales within 3-4 years (implying 10% compounded growth)
- **Investment:** Increase own-store sales from 18% currently to 30% in the medium term

Strengths/Operational Excellence

- **Internal Culture:** Swatch enjoys something of a unique business model and company culture, both of which were instilled by founder Nicolas G. Hayek.
  - While the business is typically viewed externally as a luxury-goods business, more notably, it sees itself first-and-foremost as an industrial company
  - Unusually, the business is vertically integrated. For example, the company sources from its in-house electronic production facilities, is a leading innovator in the industry (as shown by its near monopoly in so-called 'balance springs'), owns an array of high-profile brands and has an extensive network of retail outlets
  - It realises the importance (and synergies) of volume and scale to technological innovation and that barriers to entry are (perhaps counter-intuitively) just as high in high-volume engineering as they are in high-end brands. It remains one of the only luxury goods brands to combine both a high and low-end product range (Omega and 'Flik Flak')
- **Brands:** The group has a very strong brand portfolio (Omega, Breguet, Tissot, Longines, Swatch etc.) – a broad mixture of luxury and high-volume brands. These brands represent over 75 % of sales and profits
- **Scale:** The breadth of Swatch Group's intellectual capital is perhaps represented by its 28,000 workforce which is in stark contrast to LVMH's Watch & Jewellery division which is 1/10th the size at 2,800 (including approx. 500 from the Bulgari watch division recently acquired). This is not to imply that Swatch Group is inefficient – rather that its key competitors are much more asset-light, and in effect more like marketing and design businesses than true watch manufacturers
  - The group understands the benefits of scale – It is suggested that some of Swatch's mid-range brands such as Tissot make as much profit as LVMH's entire Watch and Jewellery division

So, it sounds like a 'no-brainer' Franchise. What's holding us back?

Swatch's founder Nicolas G. Hayek personified the Swatch Group and was instrumental to its strategy, culture and success. Hayek died in his office (aged 82) in 2010 after almost 30 years at the helm of the business. The man truly epitomised his own management ethos:

> *"The rarest resources are entrepreneurial types in top management."*

A point we agree with as we search for the highest quality business franchises across the globe. Whilst we are quoting luminaries we will let Charlie Munger chip in:

> "*it is better (within organisations) to concentrate decisions and process in one person*".

Management succession

Sam Walton, Sol Price, Warren Buffett, Bill Gates, Jack Welch, Tim Martin, Michael O Leary et al[1] show that the impact single-minded, contrarian and some might say 'dictatorial' leaders can be extraordinary. The unfortunate problem that often arises however is the vacuum left when these visionaries are succeeded by the next generation of management. In the case of Swatch Group, Hayek's offspring are now in charge: son (Nick, CEO since 2003), daughter (Nayla, Chair since 2010) and grandson (Marc, who took over as head of flagship prestige brand Bregeut from his grandfather also in 2010). All have been involved in Swatch Group to varying degrees over the last 15 years or so. To our mind, it remains to be seen whether they also possess the nose for innovation and brand development.

The problem that we investors face in evaluating this dilemma is that the Swatch Group's transparency to investors is currently poor, not allowing us to determine the new management's true attitude to say, *organic* brand building (vs. acquiring brands), innovation or indeed whether the new management can ever really hope to command the immense employee respect afforded to the founder.

We will not labour this point other than to say that transition processes after a forceful, dominant leader leaves are potentially disruptive and uncertain times for companies. It is also unclear at this stage whether the next generation of Hayeks see the group and its culture in the same way as the founder or whether they have conviction about a different way to evolve the group. To be clear: in our mind, different is this context is most likely to mean 'wrong'.

Capital Allocation (and margin development)

From what we can gather (bearing in mind that the company does not meet with shareholders, nor publish presentations, nor call transcripts!), capital allocation seems to get little external mention. Any of the few historical conference call discussions that we have managed to get our hands on (three since 2009!) have centred on the unarguably impressive margin progression made by the group in recent years. The greatest insight on capital allocation in a 2008 conference call does not inspire confidence as it was at best ambiguous and at worst a contradiction of the previous year's intention of no new acquisitions.

> *"…and if I look at our portfolio, I think we have no need to invest the money in buying another brand. But what we are doing is pushing Tiffany forward, pushing the other brands, pushing the industrial base…"* – Nick Hayek, CEO **Q208** conference call[2]

And then just over a year later:

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[1] Munger also uses the example of Lee Kuan Yew, the Singaporean leader as an example of the success of concentrated decision making.

[2] The'Tiffany'joint venture has since been disbanded.

"….and you never know, if there is an opportunity coming up to make an acquisition, we will have the cash to act without asking a bank somewhere and this gives us an advantage. It has nothing that we have now identified that we would buy, but you never can exclude anything. So, that's why, for the moment, we think keeping that cash in hand is better than to do a share buyback program." – Nick Hayek, CEO **Q409** conference call

When analysing the return on capital, what is particularly obvious to us is that the asset-turns of the business have noticeably declined in recent years largely due to the heavy stock investment associated with the own-store expansion. For now, Mr. Market is understandably more impressed by the excellent operating margin performance (23.9% in 2011 - an all-time high).

We find it hard to ascertain whether the current higher margin levels, up from a 10 year average level of 19%, is due to a changed revenue mix or whether it shows a slightly greater desire to maximise profitability under the second generation of Hayek managers. This second scenario causes us a little concern in our minds in the absence of clarity from the company on this issue.

"we are not trying at all cost to have the highest operating income margin that you can see, because we invest money. We invest money in the brands, in the distribution network, but I bet with you that of course this company – if there is any company out there that's able to increase the margin, it's The Swatch Group" – Nick Hayek, CEO ***Q410*** *conference call*

Corporate Governance:

We have some niggling concerns around corporate governance, management capability and capital allocation at Swatch (although we do concede that some of these could be mistaken for the often-seen disdain from closely-held businesses to the short-term nature of today's stockmarkets). Often, we actually see this as a 'good' sign as it shows that management are not swayed by short-termism rightly focusing on the longer term threats and opportunities. Nevertheless, we do note the following:

- Swatch is moving from IFRS accounting to Swiss-GAAP with the CEO citing "over-regulation" as a key driver of the move
- The company loaned the Chairman of a Hong-Kong based associate company (publically-listed Hengdeli) $100m for a personal loan collateralised by Hengdeli stock. Whilst the business is a strategic partner of Swatch's, this is a small red-flag for us
- The company sued Bloomberg over publication of investor conference call transcripts. Again, this may not be as big a deal as it seems but it does suggest that the company might not always think in the best interests of public disclosure to the benefit of outside shareholders. We observe that interviews only with the news media is not the best way for a CEO to communicate with shareholders

Lack of transparency in brand contribution:

The business is a highly varied mix of vastly different product portfolios (from $40 Swatch to over $1m Bregeuts) with very different profit drivers associated with each. The business discloses neither group gross margins nor profit contribution by brand. Thus, we have yet to determine whether the group's overall profit is over-reliant on some of the niche, ultra high-margin prestige brands. For example, 10% of demand for the Bregeut brand comes from Russia. This lack of disclosure also makes understanding the recent higher margins we highlighted almost impossible.

For example:

Q*: "I know, you do not publish the number, but I was just wondering if you – in terms of gross margin for the Group, is it fair to assume that you're close to or around about the 60% level?"*

A: "*I have no idea. I have no idea, we are not publicizing these numbers. Because if we do it once, I have to do it all the time. You have to be satisfied with the numbers you see"* – Q410 conference call Board Member Dr Thierry Kenel"

Primer: A Unique Business Model

Few other luxury brands enjoy the support and synergies of an industrials business and this results in an unparalleled depth of experience and innovation vs. watch industry peers. The business employs *centralised* production and *decentralised* brand operating businesses (as shown in the appendix). Nivaros-FAR components are the 'engine' of the mechanical watch and a core part of Swatch Group's unique know-how within the industry.

A proven innovator – Omega's revival is a great example of this

From its inception, the Swatch group's success was predicated on innovation: SMH (the name of the original business) was setup in 1983 to "*re-establish technical superiority over the Japanese*" who in the 1970's had stolen a march on the Swiss watch industry with quartz-based watches. The original Swatch brand had itself a highly innovative design which reduced the component count from circa 150 components to 50.

A more recent example of innovation is found within the Omega business which in the 1990s acquired the commercialisation rights to the longstanding 'co-axial' patent – A revolutionary design replacing the traditional 'lever encasement' typically used in mechanical Swiss watches for hundreds of years. Most importantly, Swatch Group did not acquire a commercial-ready technology here, rather it effectively acquired a design and invested heavily (reportedly CHF100m) in order to commercialise the technology which was no mean feat given its complexity. Crucially, it was Swatch's vision and not least its scale that allowed this to be achieved. This proprietary co-axial technology (which is not sold to third-parties) launched in 1999 and is today the key differentiator of the Omega brand – A brand which is now generating close to CHF3bn in revenues for the group and now a much-revived competitor of Rolex, its longstanding peer in the market. Such a rare commitment to innovation is what has really caught our attention in this group.

It is perhaps too tempting to look for analogies of Swatch in adjacent industries that also have great internal intellectual property and innovation. Apple and Nokia obviously come to mind, with positive and negative connotations in both cases. Another possible example is Synthes, the Swiss specialist medical device maker finally taken over last year by Johnson and Johnson.

The Brands (and is the CHF10bn sales target realistic?)

CEO Nick Hayek has pointed out in the past that if "everything went wrong", the business could rebuild itself based on four key brands: Swatch, Tissot, Omega and Breguet. Fig.3 below shows our estimates of the contribution from the top-five brands (including Longines) based on comments by the CEO in recent years (rather than hard numbers).

Fig.2: Swatch Group – key brands estimated sales and their contribution

Top 5 Brands (CHFm)	Gross Sales est	Op Profit est	% total profits	Implied Margin
Omega	2500 ish			
Brequet	900 ish			
Longines	900 ish	318	20%	35%
Tissot	900 ish	318	20%	35%
Swatch	800 ish			
Top-5 gross sales	**6000 ish**			
as % of 2011 total	84%			

figures based on Swatch CEO comments that these brands each generate comparable profits to LVMH's Watch and Jewellery division.

Source: Swatch, Holland Advisors

Balance Sheet/Capital Intensity

From the (admittedly minimal) exposure that we have had to the company management via a few conference call transcripts and media interviews, we have gleaned that most of the 'return' discussions centre on profit margin objectives rather than on overall return on capital. The use of the balance sheet gets scant mention. The strength of the Swatch Group balance sheet is undeniable (net cash = 11% of market capitalisation today and averaged 10% in last 10 years). As, to be fair, is the long-term track record of return on equity shown in Fig.1 and in our appendix but it is also very clear that asset turns are deteriorating of late due to increased stocking. Inventory has been growing at twice (10%) the level of sales (5%) over the last decade as the company expands its store network. As we have observed earlier rising margins have thus far compensated. Group Investor relations makes the point that business has excellent balance sheet and is therefore effectively self-funding which – in their mind - means that capital allocation ought to be less of a concern to shareholders. That doesn't really help us much!

As long as overall returns can be maintained, it is of course perfectly sensible to encourage reinvestment, the particular issues we are questioning are whether:

1. Future returns might drop with the current rate of increased investment. In the short-term this would centre on a risk of excess inventory (stock) leading to discounting. In the long-run, the issue is whether asset turns decrease permanently, or margins could fade

2. Will management make decisions cognisant of the impact on overall returns and alternative use of capital (i.e. possible return of capital to shareholders vs. an overpriced acquisition)

For context, the following are the key areas of reinvestment:

- **Internal production expansion**
  The Swatch group has experienced material constraints throughout its supply-chain in recent years and thus we expect that investment in production capacity will continue to grow.
- **Own-Store/retail distribution investment**
  Many of the best retailers typically 'own' the Point Of Sale and this has been particularly apparent to Swatch Group in the US - probably the group's weakest region - where they are more dependent on independent retailers such as Tourneau. The consequences of this have been made clear by group management who have been publically scathing of the performance of independent US watch chains and fell out very publicly with Tiffany. Swatch group's own stores are typically higher margin (though stock levels are much higher).

The company has commented that in the US, Omega's own-store average selling prices released are twice the independent retailer's and the margin uplift in recent years has been at least partly attributed to the increased mix of own stores which allows more control over such discounting. One can thus see why they keen to invest in own-store network.

Associate company (and Hong-Kong listed) Hengdeli is an example of the compromise solution for Swatch. Swatch group has an almost 10% equity stake in the Chinese distributor (the stake is worth about CHF1.2bn) which purportedly controls 50% of the Chinese luxury watch market via its chain of stores. This is arguably an efficient way for Swatch and other brands (LVMH is also a shareholder) to gain more control over a market for reduced investment and crucially receive feedback on market demand activity. In 2008, Swatch also acquired a stake in middle-eastern retail chain Rivoli for an undisclosed amount.

- **M&A/Brand investment**

A broadening of the portfolio is maybe inevitable at some point for Swatch group. Swatch's history is one of brand revival (most notably Omega and Tissot) or organic brand creation (Swatch and Flik Flak). Bregeut is arguably also a revival although it was an acquired brand in 1999. It is not clear what appetite Swatch has for further brand acquisitions although outright ownership might be more likely post the acrimonious collapse of the Tiffany joint venture (which is now disbanded and mired in legal suits). LVMH's acquisition of Bulgari for €3.7bn or 28x EBITDA - not a use of shareholder capital we would be happy seeing Swatch Group replicate.

- **Share buybacks**

Swatch bought-back CHF1.5bn in stock (15% of its then market cap) between 2004 and 2008 although such use of capital seems to now have been de-emphasised.

Valuation

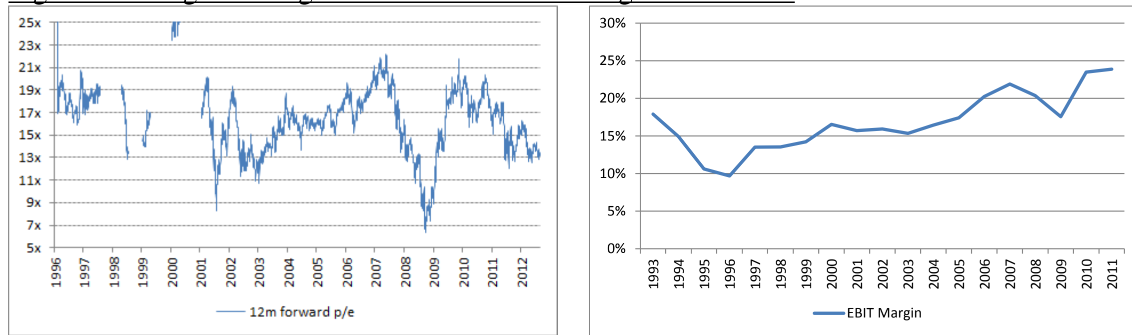
Growth investors who feel that Swatch's future annual growth rates in sales, earnings and book value per share are likely to match the levels realised in the past will likely be more than happy to buy the shares at today's multiples of 11.6x EV/EBIT and 15.2x P/E. If future growth and careful capital allocation match the past they will be right.

Nevertheless, two issues stop us from also asserting this view.

- Firstly, as readers well know we are self-confessed value-investors who love to own shares that will predictably grow but we are far keener to buy them when this growth is almost offered for free, thereby improving our margin of safety. Recent market re-ratings has meant that many 'quality' growth companies are now priced more expensively. A few notable exceptions remain across (American Express or Wells Fargo, whose growth we think is relatively assured, and yet still trade only on 8-10% earnings yields i.e. PEs of 10-12x). In this context, Swatch Group is no bargain, but like our other luxury goods sector pick, Coach, cheaper than many of its peers

- Secondly, we have raised a few question marks around Swatch's returns sustainability and capital allocation which suggest more, not less, caution should be applied to the current valuation. Greater transparency from the company (or indeed a 'wobble' in the share price) might afford a wider margin of safety and give us increased confidence to encourage investors to buy

Fig.3: De-rating reflects growth concerns while margins have risen



Source: Capital IQ, Holland Advisors

Conclusion

The group's historic financials discussed in this note and shown in the appendix speak for themselves: they are the result of a resilient, high-return business that has identifiable barriers to entry and great historic record of innovation and investment.

On looking at Swatch more closely, we conclude that the business ought to be able to maintain its dominance within the global watch industry due to innovation, internally developed intellectual property and a resilient business model. Nevertheless, at the current valuation we need to be more certain on a few key points. The first is the sustainability of more recent higher margins as we have discussed. These could now be at a permanently higher level or vulnerable to a coming investment period, but current disclosure sadly does not give us the ability to distinguish between the two.

The closely-held and family controlled nature of such a company is something we often find highly attractive as it ensures a truly long-term focus in the business. But in Swatch's case this could be a double-edge sword. We are very open-minded that the current generation of Hayeks could be just as adept at running this group as was their father and founder. However we feel that can only be concluded with greater openness about future strategy and attitude towards use of shareholder capital. A very long standing and elderly founder maybe needed not make such communication with his other shareholders' as the proof of his ability and future intentions was clear to see in the company's long history. That is not yet the case for next generation. A point we speculate may be missed by them.

In short whether Swatch will be a wonderful investment, merely a good one or even poor depends largely on how those that now control it see its future and are able to execute against that vision. The less they are prepared to share this with outside investors the greater margin of safety in buying the share we need to be given. We conclude Swatch was and likely is a great company, but we do not conclude it as a great investment – yet.

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Appendices

App.1: The Swatch Group Corporate Structure (note financial disclosure is less granular)

WATCHES

Prestige and Luxury Range
Breguet
Blancpain
Glashütte Original
Jaquet Droz
Tiffany & Co.
Léon Hatot
Omega

High Range
Longines
Rado
Union Glashütte

Middle Range
Tissot
Balmain
Certina
Mido
Hamilton
ck watch & jewelry

Basic Range
Swatch
Flik Flak

RETAILING

Tourbillon
Tech-Airport

PRODUCTION

Watches
ETA
François Golay
Nivarox-FAR
Comadur
Rubattel et Weyermann
MOM Le Prélet
Deutsche Zifferblatt Manufaktur
Universo
Favre et Perret
Manufacture Ruedin
Lascor
Novi
Swatch Group Assembly

Jewelry
Dress Your Body (DYB)

ELECTRONIC SYSTEMS

EM Microelectronic
Micro Crystal
Renata
Oscilloquartz
Swiss Timing and ST-Sportservice

CORPORATE

Swatch Group Research and Development (Asulab, Moebius, CDNP)
ICB Ingénieurs Conseils en Brevets
Swatch Group Quality Management
Swatch Group Services (Logistics, IT Services, Corporate Customer Service)
Swatch Group Immeubles

Source: Swatch

App.2: Financials

SWATCH GROUP AG (SWX:UHR)

Year End 31 December 2011	10 year Avg / CAGR	FY2011	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
Key Metrics												
ROE	**15.4%**	17.0%	17.7%	13.3%	16.3%	19.4%	17.0%	13.8%	12.3%	12.5%	14.6%	15.8%
RONTA	**15.7%**	16.0%	18.7%	12.0%	15.7%	19.7%	18.3%	15.1%	13.7%	12.5%	15.4%	16.6%
Goodwill as % Total Assets		2.1%	2.4%	2.7%	2.8%	3.1%	3.3%	3.1%	3.4%	4.0%	0.0%	0.0%
EBIT Margin	**19.2%**	23.9%	23.5%	17.6%	20.4%	21.9%	20.2%	17.4%	16.4%	15.3%	15.9%	15.7%
Net Debt / Equity		-0.26	-0.32	-0.19	-0.13	-0.27	-0.33	-0.32	-0.28	-0.25	-0.18	-0.16
Holland Calculated Working Capital		3,582	2,434	2,056	1,993	1,539	1,320	1,243	1,183	1,232	1,057	957
BVPS	**13.3%**	122.95	104.61	76.66	69.78	59.72	56.02	52.21	45.27	42.14	40.07	35.34
Shares Outstanding	**-1.4%**	54	54	52	52	54	55	56	61	61	61	62
Operate		FY2011	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
Sales	**7.2%**	5,570	4,875	3,466	3,819	3,411	2,995	2,756	2,577	2,482	2,736	2,775
Sales Growth		*14.3%*	*40.7%*	*-9.2%*	*12.0%*	*13.9%*	*8.7%*	*7.0%*	*3.8%*	*-9.3%*	*-1.4%*	*2.2%*
Sales Per Share	**6.7%**	125.4	113.0	98.0	108.3	105.1	87.6	76.2	65.4	63.6	65.2	65.7
Gross profit		4,399	3,858	2,728	3,110	2,757	2,393	2,163	2,094	2,008	2,213	2,198
Gross margin		79.0%	79.1%	78.7%	81.4%	80.8%	79.9%	78.5%	81.3%	80.9%	80.9%	79.2%
R&D as % Sales		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Depreciation Years (Gross assets / Dep	**17.86**	*20.64*	*19.71*	*20.47*	*20.11*	*21.31*	*20.29*	*19.92*	*18.47*	*17.68*	-	-
EBIT		1,329	1,145	609	778	747	606	480	423	381	436	436
EBIT Margin	**19.2%**	23.9%	23.5%	17.6%	20.4%	21.9%	20.2%	17.4%	16.4%	15.3%	15.9%	15.7%
Net Income	**11.9%**	1,045	857	512	561	611	514	394	327	315	341	341
EPS (diluted Incl. Extra.)	**11.3%**	23.52	19.86	14.47	15.91	18.82	15.04	10.90	8.31	8.08	8.11	8.07
WC % Sales		64.3%	49.9%	59.3%	52.2%	45.1%	44.1%	45.1%	45.9%	49.6%	38.6%	34.5%
WC % Net Income		342.7%	284.0%	401.8%	355.3%	252.0%	257.0%	315.3%	361.3%	390.7%	310.5%	280.6%
Unlevered Assets - Total LT Assets+WC-GW	**12.3%**	5,580	4,111	3,409	3,316	2,539	2,224	2,129	2,066	2,035	1,889	1,755
Total LT Assets	**8.6%**	2,231	1,899	1,545	1,512	1,189	1,088	1,047	1,043	972	1,028	980
Gwth rate in Lterm assets	**11.3%**	17.5%	22.9%	2.2%	27.2%	9.3%	3.9%	0.4%	7.3%	-5.5%	4.8%	5.7%
Generate		FY2011	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
Taxed EBIT/Unlevered NTA	**15.7%**	**16.0%**	**18.7%**	**12.0%**	**15.7%**	**19.7%**	**18.3%**	**15.1%**	**13.7%**	**12.5%**	**15.4%**	**16.6%**
Taxed EBIT/Total LT assets	**33.3%**	**39.9%**	**40.4%**	**26.4%**	**34.5%**	**42.1%**	**37.3%**	**30.7%**	**27.2%**	**26.3%**	**28.4%**	**29.8%**
ROE	**15.4%**	**17.0%**	**17.7%**	**13.3%**	**16.3%**	**19.4%**	**17.0%**	**13.8%**	**12.3%**	**12.5%**	**14.6%**	**15.8%**
Allocate		FY2011	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
Dividends including Specials	**39.9%**	(222.35)	(167.62)	(150.31)	(151.35)	(115.99)	(86.99)	(64.85)	(55.01)	(41.02)	(39.98)	(116.37)
Buybacks		(44)	-	-	(243)	(279)	(188)	(159)	(96)	-	-	(154)
Total Payout Ratio [(divs+buyback)/net inc]	**39%**	**26%**	**20%**	**29%**	**70%**	**65%**	**53%**	**57%**	**46%**	**13%**	**12%**	**79%**
Balance Sheet	0.0	FY2011	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
BVPS	**13.3%**	123.0	104.6	76.7	69.8	59.7	56.0	52.2	45.3	42.1	40.1	35.3
TBVPS	**13.9%**	118.6	100.5	73.0	66.2	56.2	52.7	49.3	42.6	39.4	36.9	32.4
Gwill as % of Total assets		2.1%	2.4%	2.7%	2.8%	3.1%	3.3%	3.1%	3.4%	4.0%	0.0%	0.0%
Gwill + intang as % Total assets		2.9%	3.2%	3.7%	3.9%	4.2%	4.3%	3.8%	4.1%	4.7%	5.9%	5.8%
Net Debt		-1714.6	-1804.7	-759.6	-468.8	-858.5	-1003.5	-932.9	-765.0	-651.8	-446.7	-349.1
Net Debt to Equity		-0.3	-0.3	-0.2	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
EBIT/Interest		-403.5	1434.0	64.5	-1156.0	-49.4	-9.5	-29.9	-72.7	-47.5	28.7	49.5
Pension Liab as % of Mcap	**0.1%**	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
PBO as % Of Mkt Cap	**14.2%**	16%	17%	22%	17%	11%	14%	18%	17%	0%	0%	0%
Capex		FY2011	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
Capex as % of sales	**5.3%**	5.4%	4.3%	4.3%	5.4%	6.2%	4.9%	4.4%	7.3%	5.3%	5.8%	5.5%
Capex as a percentage of Depreciation	**127.4%**	165.2%	122.7%	100.0%	139.9%	177.7%	122.9%	100.0%	137.7%	98.6%	109.0%	115.8%
Valuation	Today	FY2011	FY2010	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
EV/EBIT	**15.4**	13.5	13.4	15.3	15.8	23.5	20.8	20.3	22.0	18.5	18.6	23.7
Average Annual PE ratio	**20.6**	20.6	22.1	10.8	14.3	22.6	20.4	20.1	20.6	14.9	17.1	18.5
P/B	**3.2**	3.0	3.0	2.5	3.5	5.7	4.4	3.6	3.6	3.0	3.5	4.8
Dividend Yield	**1.4%**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Capital IQ Holland Advisors

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