EUROPEAN VALUE REPORT

Edited by the Research Team of THE MANUAL OF Ideas

"Europe has a large number of companies that are the type that we'd love to be associated with." — Warren Buffett

October 8, 2009

Edited by the ***Manual of Ideas* Research Team**

"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."

This Month's Top Picks

About European Value Report

Our mission is to uncover European stocks trading at a large discount to our appraisal of intrinsic value and bring them to you once a month.

European Value Report is part of the Manual of Ideas series of idea-driven publications for serious investors. Our European research team, primarily based in London, draws on extensive experience of analyzing and investing in local European companies.

Dear European Value Investor,

"Cash is king, not necessarily for the investor but for corporations," noted Jean-Marie Eveillard, one of the world's leading value managers. As investors pile back into the stock market, often parting with their cash all too willingly, we wonder how much discipline cash-rich companies will demonstrate, as they deploy their excess cash.

The answer is important as companies can create or destroy significant shareholder value when allocating incremental capital. While some cash-rich firms have taken advantage of stock market volatility to return capital via share buybacks or special dividends, others have not made a move yet. To reinvest in the business or return capital is a key question company boards should be evaluating on an ongoing basis. Sitting on excess cash only lends urgency to the matter.

As investors, we are well-advised to be skeptical when managements opt for deploying excess cash into acquisitions, as these, on average, tend to destroy value over time. On the other hand, as long-term investors, we should be excited if a company has value-accretive reinvestment opportunities available. Whether reinvestment or capital return proves to be the right decision in a particular case is unfortunately only known for certain after the fact.

In this issue, we present two companies with strong balance sheets: **Austrian Post (POST AV)** and **Bloomsbury Publishing (BMY LN)**. In both cases, management has the opportunity to significantly enhance future shareholder returns by prudent use of excess cash. So far, the market seems unimpressed: shares of Austrian Post and Bloomsbury are down 17% and 22% year-to-date, respectively.

In the case of Austrian Post, investors are offered the opportunity to own the national postal service incumbent at a mid-teens, normalized free cash flow yield. With a defensible core mail delivery franchise throwing off steady cash, the company has interesting future growth prospects in parcels and logistics, especially in Eastern Europe. So far, management has opted to return large amounts of cash to shareholders as is evident in the recent special dividend payment. As the balance sheet remains a source of potentially increasing returns for shareholders, the "regular" dividend yield of 8% should not only entice income-oriented investors.

Bloomsbury Publishing is in the process of reinventing itself following an end to windfalls related to Harry Potter releases. The company has several positives in its favor including: 1) a strong franchise; 2) sound business model; 3) various growth opportunities and 4) cash on the balance sheet. With the shares trading near tangible book and enterprise value to revenue of just over 70%, the market seems to have given up on the company. We think this creates an opportunity, as not much needs to happen for investors to make an attractive return from here.

Respectfully,

The Manual of Ideas Research Team

MONTHLY PICK: AUSTRIAN POST (POST AV)

COMPANY OVERVIEW

Austrian Post provides mail shipping services in Austria. The company went public in 2006 in a partial privatization. The Austrian government remains the largest shareholder via a 53% stake held by the Austrian state holding company Österreichische Industrieholding. Austrian Post's main business activities are divided into four segments:

1) *Mail:* The segment's core business consists of the acceptance, sorting and delivery of: letters and postcards (Letter Mail; 54% of 1H09 Mail segment revenue), addressed and unaddressed direct mail (Infomail; 36% of 1H09 Mail segment revenue) and newspapers/regional media (Infopost; 10% of 1H09 Mail segment revenue).
2) *Parcel & Logistics:* More than 80% of revenue is represented by premium parcel service (delivery within 24 hours) of which roughly 75% is accounted for by *Trans-o-flex*, a German subsidiary acquired in 2006. *Trans-o-flex* is one of the leading B2B logistics providers in Germany focused on the pharmaceuticals industry. The rest of the segment's revenue is primarily represented by standard parcel delivery.
3) *Branch Network*: Operates a distribution network throughout Austria, consisting of over 1,500 postal service points, complemented by 400 postal pick-up points. Offerings encompass postal services, banking services and a broad spectrum of retail products. Banking partner is BAWAG PSK and telco partner is Telekom Austria.
4) *Other*: Includes non-allocated central costs, expenses related to unused properties and for the employee social plan as well change in provision for employee under-utilization, income from rents/leases and gains on PP&E disposals.

REVENUE BREAKDOWN

Figure 1 - 1H09 Revenue by Segment

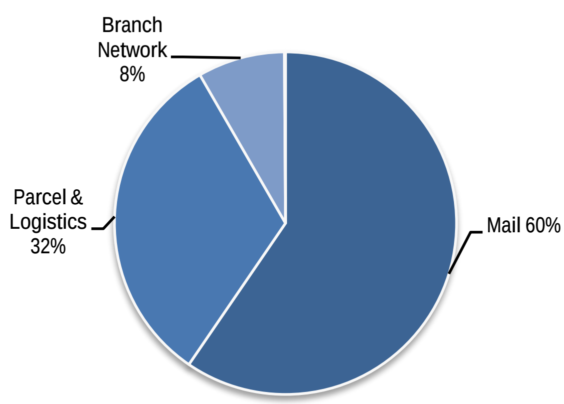
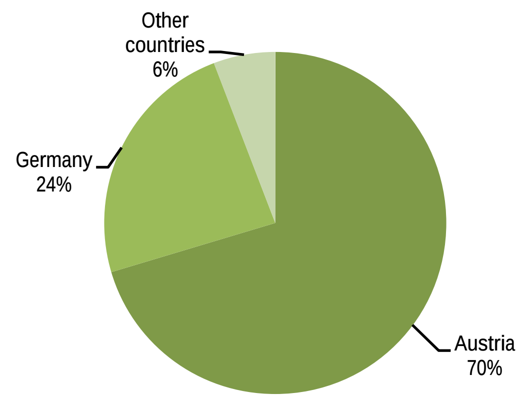


Figure 2 - 1H09 Revenue by Geography



Source: Company filings, *Manual of Ideas* analysis.

KEY OPERATING DATA

Fiscal YE December	2004	2005	2006	2007	2008	1H09
Revenue (€ millions)	1,597	1,702	1,737	2,316	2,441	1,156
Y-Y Change	4%	7%	2%	33%	5%	-4%
Δ Employees (average)	-6%	-1%	-3%	5%	5%	-3%
Selected items as % of revenue:						
Staff costs	62%	63%	61%	48%	46%	49%
EBIT	5%	8%	8%	8%	9%	6%
Net income	3%	6%	6%	5%	5%	5%
D&A	7%	5%	5%	4%	4%	4%
Capex	6%	4%	4%	4%	4%	3%
Tangible equity to assets (avg)	40%	43%	40%	33%	30%	26%
Return on tangible equity	7%	14%	16%	22%	23%	27%

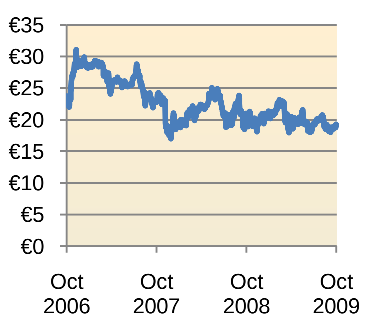
Source: Company filings, *Manual of Ideas* analysis.

Austrian Post (POST AV)

Transport-Services
Austria, +43 57 7673 0400
http://www.post.at/en

Fair Value Range	
MOI estimate: €26-38 per share (p. 4)	
Trading Data	
Recent price:	€19.90
52-week range:	€17.43-26.69
Market value:	€1,344 million
Enterprise value:	€1,754 million [1]
Shares outstanding:	68 million
Trading Multiples	
EV / LTM revenue:	73%
LTM FCF yield:	8%
Normalized FCF yield:	13% [2]
2008 dividend yield:	8% [3]
Major Shareholders	
Austrian government:	53%
Capital Research & Management:	6%
Greenlight Capital:	4%[4]
Austrian Post employees	3%
Insiders	<1%

Three-Year Stock Price Performance [5]



[1] Includes total provisions of €540 million.
[2] Based on average annual free cash flow of €174 million during 2004 to 2008 period.
[3] Based on regular dividend of €1.50 per share paid in May 2009.
[4] Based on Manual of Ideas estimate.
[5] Stock price adjusted for dividends and splits.

POST AV Links:
Website
Latest presentation
1H09 press release
1H09 report
2008 annual report
All announcements
Ecorys study

INVESTMENT CASE

Austrian Post: "Cash Cow" on Sale

Austrian Post shares offer a compelling investment opportunity based on: 1) strong cash generation; 2) a solid balance sheet; and 3) attractive valuation. We estimate the shares are worth up to double the current market price, with minimal risk of permanent impairment of capital.

Strong Cash Generation

The company has generated €868 million of free cash flow from 2004 through 2008, representing two thirds of current market capitalization. While the trading environment is more difficult this year, with revenue down 4% in the first half, we expect the business to remain highly cash-generative in the future.

In fact, management has several levers at disposal to increase cash generation over time. On the revenue side, a key driver is the core mail delivery business which accounts for 60% of the company's top-line. Stamp prices were last raised in 2003 leaving room for another increase. In parcel delivery, the company is well-positioned to take advantage of growth trends, especially in Eastern Europe.

Austrian Post — Historical Cash Generation and Return of Capital

€ millions	2004	2005	2006	2007	2008	2004-08 cumulative	2004-08 average	LTM
Cash flow from operations	210	301	248	304	249	1,312	262	205
Capex	(91)	(75)	(69)	(103)	(107)	(444)	(89)	(104)
FCF pre corporate transactions	119	226	179	201	142	868	174	101
(Acquisitions)/disposals	0	10	(156)	(72)	(31)	(248)	(50)	(27)
Sale of non-current assets [1]	29	37	50	35	40	191	38	38
FCF post corporate transactions	148	274	73	164	152	811	162	113
Dividends paid [2]	36	40	40	70	168	354	n/m	n/m
Share repurchases	0	0	0	0	57	57	n/m	n/m

[1] Relates mainly to sale of surplus PP&E and investment property.
[2] Dividends paid in 2009 total €169 million, including the special dividend of €1.00 per share paid in August.
Source: Company filings, *Manual of Ideas* analysis.

On the cost side, the main challenge is managing staff costs, which represent roughly 50% of revenue. As just over half of the 25,900 employees are civil servants, who cannot be laid off according to law, management's options are limited. Nonetheless, the company has been aggressive with cost-cutting initiatives, targeting €30 million of non-staff cost savings in 2009 and pledging ongoing workforce reductions in the next years based on normal staff fluctuation. New CEO Georg Polzl, who started on October 1, brings restructuring experience from his prior role at Deutsche Telekom and is set to continue taking costs out.

Solid Balance Sheet

For a stable, utility-type business model, it is surprising that Austrian Post has a net cash position (€130 million as of June 30). The one liability of note is a provision for "under-utilization" of civil servants. Essentially, this is the present value of salary obligations toward civil servants who are not needed in the business, but remain a responsibility of the company until they retire. The liability, which is currently €286 million based on a 5.5% discount rate, covers about 500 civil servants. We think the company can effectively manage this liability by having civil servants retire early or leave the company for another job over time.

Attractive Valuation

At €20 per share, Austrian Post offers an 8% FCF yield based on last twelve months' free cash flow of €101 million (down €73 million from its 2004-08 average). The current dividend yield, based on the regular €1.50 per share dividend, is also 8%. The dividend is well-covered by long-term cash generation prospects of the business and the healthy balance sheet.

In addition to the above-mentioned levers to increase cash-flow over time, a significant opportunity is also presented by the Parcel & Logistics and Branch segments. While the two segments accounted for 40% of revenue, they contributed only €1 million to LTM EBIT. We think both segments can achieve mid-single digit EBIT margins in future, consistent with their 2004-08 average margins.

Austrian Post — What Are The Shares Worth? [1]

€ millions	LTM	"Normalized"
Mail revenue	1,428	1,428
EBIT margin [2]	17%	19%
Mail EBIT	238	276
assumed EBIT multiple	10x	10x
Mail - Enterprise Value	2,382	2,760
Parcel & Logistics revenue	775	775
EBIT margin [2]	0%	4%
Parcel & Logistics EBIT	-3	32
assumed EBIT multiple	0x	10x
Parcel & Logistics - Enterprise Value	0	322
Branch Network revenue	193	193
EBIT margin [2]	2%	6%
Branch Network EBIT	4	12
assumed EBIT multiple	10x	10x
Branch Network - Enterprise Value	38	116
Estimated central overhead [3]	-48	-48
assumed multiple	10x	10x
Negative Value of Central Overhead	-479	-479
Total Enterprise Value	1,941	2,719
Interest-bearing provisions [4]	-466	-466
Net cash	130	130
Non-core assets [5]	156	156
Fair Value of Austrian Post Equity	€ 1,761	€ 2,539
per share	€ 26	€ 38

[1] LTM refers to last twelve months' actual results, while "normalized" is based on last five year average EBIT margins applied to last twelve months' revenue.
[2] Excluding impairment losses. "Normalized" margins are based on average margins since 2005.
[3] Based on 2% of revenue. Central costs are reported in the "Other " segment and were €69 million in 2008. As the segment also includes other items such as change in provision for employee under-utilization, income from rents and gains on disposal of PP&E, we try to treat the individual items separately in our valuation.
[4] Includes €286 million of provisions for under-utilization of employees.
[5] Includes fair value of investment property and book value of 5% stake in Bawag PSK, as reported.

Source: Company filings, *Manual of Ideas* analysis.

Austrian Post is a "cash cow" with a near-monopoly position in its core domestic mail delivery business. Trading at a mid-teens normalized FCF yield, the shares offer an exceptional risk-reward, especially after taking into account the unlevered balance sheet. With prospects of not only maintaining, but also growing free cash flow over time, the current 8% dividend yield is compelling.

Q&A on Austrian Post

Q: How can you be so confident about future cash generation given weak business trends?

A: While 2009 revenue is likely to decline in the mid-single digits, we view this as manageable, especially as the company further reduces its cost base. The company's core business provides a must-have service which will remain in demand in future.

Q: What is the likely impact of looming postal liberalization?

A: It is true that the Austrian postal market is slated for full liberalization on 1/1/2011. The risk is that new competition enters the protected segments of the market and Austrian Post remains burdened with an inflexible cost structure and the obligation to provide and finance universal postal services.

On balance, we have a neutral view regarding any impact on Austrian Post. Factors including low degree of urbanization and peculiarities of the postal market, such as key-only access to a part of the letterboxes, pose entry barriers for potential competitors. Additionally, third parties won't have downstream access to operating facilities of Austrian Post. On the other hand, liberalization might lead to more flexibility in the company's collective wage agreements and sharing of certain costs related to universal service obligations.

Lastly, we note that the Austrian government still owns 53% of the company following the IPO in 2006. It is therefore unlikely Austrian Post will emerge a "loser" from the liberalization, which to some extent is shaped by the government itself.

Q: Why was there a CEO change?

A: Former CEO Wais, 60, resigned in March 2009 for "health reasons". CFO Jettmar assumed the CEO post on an interim basis until Georg Polzl was hired effective October 1.

MONTHLY PICK: BLOOMSBURY PUBLISHING (BMY LN)

COMPANY OVERVIEW

Bloomsbury Publishing, founded in 1986, is one of Europe's leading independent publishing houses. While the company is best known for publishing Harry Potter books, it has significant other franchises both in trade and reference publishing. Bloomsbury has a presence in the U.K., Continental Europe and North America. The business operates in two segments by publishing category:

1) *Trade Publishing:* Includes adult and children's book publishing. The adult list, which comprises both fiction and non-fiction, includes, among others, Khaled Hosseini, William Boyd, Margaret Atwood, Michael Ondaatje, Anthony Bourdain, Ben Schott, David Guterson, and Heston Blumenthal. Children's publishing includes the acclaimed author J.K. Rowling and other successful writers such as Debi Gliori and Benjamin Zephaniah.
2) *Specialist Publishing:* Includes the company's reference and academic titles. A significant portion of reference revenue derives from the A&C Black imprint, which was acquired in 2000, and subsequent acquisitions which were integrated into A&C Black. Notable reference titles include, among others, *Who's Who, Arden Shakespeare, Wisden Cricketers' Almanack and Black's Medical Dictionary*. The company has also launched Bloomsbury Academic in 2008 to focus on humanities and social science publications.

REVENUE BREAKDOWN [1]

Figure 2 - 1H09 Revenue by Publishing Category

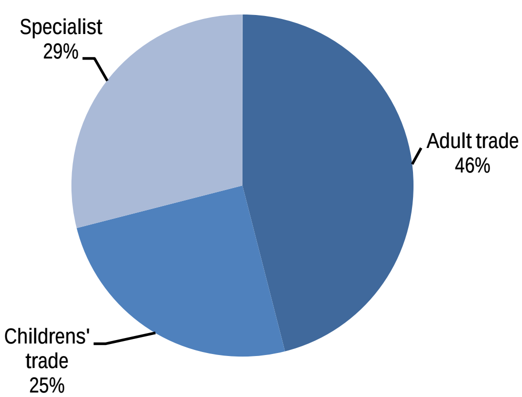
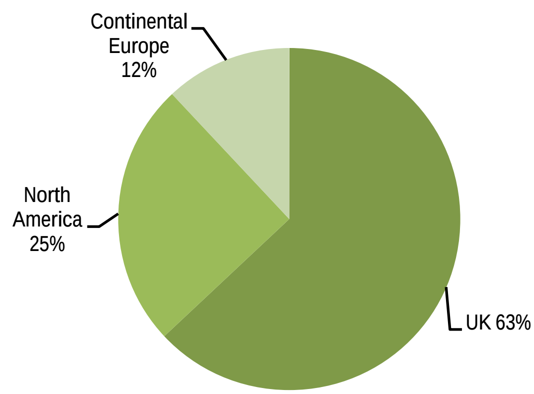


Figure 2 - 1H09 Revenue by Geography



[1]Run-rate proportion of specialist and UK revenue has increased as a result of acquisitions of two U.K.-based specialist publishers in July 2009.

Source: Company filings, *Manual of Ideas* analysis.

KEY OPERATING DATA

Fiscal YE December 31	2004	2005 *	2006	2007 *	2008	1H09
Revenue (€ millions)	84	109	75	150	100	35
Y-Y Change	2%	29%	-31%	101%	-33%	-16%
Δ Employees (average)	-8%	16%	4%	3%	-6%	n/a
Selected items as % of revenue:						
Gross profit	50%	51%	48%	39%	43%	51%
EBIT	17%	17%	5%	11%	8%	3%
Net income	14%	13%	5%	8%	8%	4%
D&A	1%	0%	1%	0%	1%	1%
Capex	0%	1%	2%	0%	0%	0%
Δ Shares outstanding (average)	3%	2%	1%	1%	0%	0%

* Denotes year of original release of Harry Potter book.

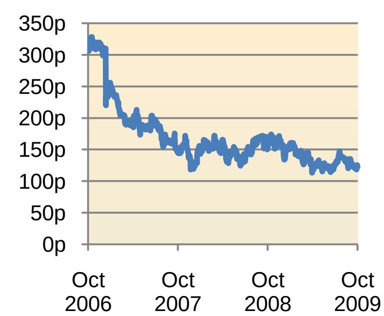
Source: Company filings, *Manual of Ideas* analysis.

Bloomsbury Publishing (BMY LN)

Publishing-Books
UK, +44 20 7494 2111
http://www.bloomsbury.com

Fair Value Range	
MOI estimate: £1.66-2.38 / share (p. 7)	
Trading Data	
Recent price:	£1.25
52-week range:	£1.13-1.82
Market value:	£92 million
Enterprise value:	£57 million [1]
Shares outstanding:	74 million
Trading Multiples	
EV / revenue:	73% [2]
Tangible book / MV:	75% [3]
Major Shareholders	
Aberdeen	12%
Capital Group International	8%
Schroders	7%
JPM	6%
CEO Nigel Newton:	3%

Three-Year Stock Price Performance [4]



[1] Adjusted for dividend payment and acquisitions in July 2009.
[2] Based on 1H09 annualized revenue plus contribution from acquisitions in July 2009.
[3] Based on tangible book of £69 million, which is adjusted for dividend payment and acquisitions in July 2009.
[4] Stock price adjusted for dividends and splits.

BMY LN Links:
Website
Latest presentation
1H09 report
2008 annual report
Corporate timeline

INVESTMENT CASE

Bloomsbury Publishing: Harry Potter Publisher Trading Near Tangible Book

Bloomsbury can claim the fame of "discovering" the potential of Harry Potter. Unfortunately, it can no longer derive much revenue from its rights to publish J.K. Rowling's creation as the seventh, and last, book of the series was published in 2007. Revenue in 2008 collapsed by one third to £100 million year-on-year.*

A "One–Trick Pony"? We Think Not…

The company has two publishing segments: *Trade* and *Specialist*. The former represents the majority of company revenue and includes adult and children's book publishing, while the latter includes the reference and academic portfolio.

We think the market is taking an overly pessimistic view of the post-Harry Potter world as it ignores the value of the company's other franchises, especially in reference publishing. As the table below shows, the company's specialist publishing portfolio has a revenue run-rate of £27 million and is highly profitable. The portfolio includes timeless intellectual properties such as *Who's Who*, *Arden Shakespeare*, *Wisden Cricketers' Almanack* and *Black's Medical Dictionary*. Bloomsbury has developed electronic databases for relevant properties and continues to adapt its business model to monetize the extensive library of reference material in the online world.

Bloomsbury Publishing — Specialist Publishing Segment

£ millions	2005	2006	2007	2008	1H09	Run-rate [1]
Revenue	13	15	16	20	10	27
Contribution [2]	3	3	3	7	3	9
Contribution margin	20%	23%	17%	35%	32%	32%

[1] Run-rate revenue is based on 1H09 revenue annualized plus contribution from two acquisitions in July 2009. Run-rate contribution is based on 1H09 actual contribution margin applied to run-rate revenue.
[2] Based on EBIT before administrative expenses.

Selected Intellectual Property	Description	First Published	Year Acquired
Tottel Publishing	Specialist publisher in U.K. law and tax	n/a	2009
Arden Shakespeare	Publisher of scholarly Shakespeare editions	1899	2008
Wisden Cricketers' Almanack	The "Bible" of cricket	1864	2008
Berg Publishers	Fashion publishing pioneer	n/a	2008
Methuen Drama	Playwright publisher (Wilde, Shaw, Miller)	n/a	2006
Whitaker's Almanack	Single volume reference source	1868	2002
Thomas Reed/Adlard Coles	Publisher of nautical lists	1768/1947	2002/2000
T&AD Poyser/Christopher Helm	Publisher of ornithology lists	1973/1983	2002/2000
Who's Who	Biographies of noteworthy individuals	1849	2000
Black's Medical Dictionary	Definitions of medical terms and conditions	1906	2000

Source: Company filings, *Manual of Ideas* analysis.

The larger *Trade* segment, which generated £25 million of revenue in 1H09, continues to have decent prospects even without Harry Potter. Bloomsbury has more than 1,100 titles under contract, an existing presence in the major book markets of the U.K., U.S., and Germany, and valuable distribution relationships.

* The 2008 figure still includes an undisclosed contribution from the publication of Harry Potter 7 in paperback form.

Q&A on Bloomsbury Publishing

Q: How do you assess the impact of the current weak economy on Bloomsbury's business?

A: As a publisher, Bloomsbury derives a large part of revenue from retailers who sell to the end-consumer. Industry volume has declined recently and there is pressure on margins. However, we think the low price point of the company's product should mitigate any prolonged impact if consumer spending deteriorates further.

We see more risk in specific exposure to struggling book retailers both in terms of distribution channel disruption and potential bad debts. The company has so far avoided material damage from this risk and uses credit insurance where appropriate.

Q: Is the Internet changing the publishing business model? Does this pose a threat to Bloomsbury?

A: It is true that the online channel has empowered nascent authors in ways not available to them before. The electronic production, distribution and consumption of content are also reshaping the industry more generally.

We see the above trends more as an opportunity for Bloomsbury, especially in its reference segment. The company can take advantage of its strong brands to penetrate new channels and create new revenue streams. Even for its traditional book publishing segment, the threat of obsolescence seems exaggerated as the Internet has been around for a long time and there remains a need for traditional publishers. Finally, Bloomsbury's gross margin remains largely stable and healthy at 51% in 1H09.

Q: Is the windfall from Harry Potter definitely over?

A: As we understand it, the seventh book in the series was the last one. If there is an eighth book, Bloomsbury could benefit again as it owns the license for the full term of copyright to the world English language rights, to all Harry Potter titles (excluding the U.S.*).

** The U.S. rights are owned by Scholastic Corporation.*

Growth Opportunities

Based on its established franchise in fiction and nonfiction publishing as well as the unique reference portfolio, Bloomsbury is well-positioned for organic growth. Importantly, the company has an experienced leadership team in place to execute on the growth opportunity. CEO Nigel Newton founded the company in 1986 and owns 3% of the shares. CFO Colin Adams has been in his current role since 1994.

In addition, management has been more acquisitive recently, having acquired six companies in 2008/09 for a total of £18 million. The rationale for the acquisitions was to "maintain our expansion in academic and specialist publishing which is less susceptible to the vicissitudes of the consumer market". Management also reported in August that it is "seeing more company acquisition opportunities".

Acquisition-led growth is a key opportunity and risk to our investment case. Purchasing assets which provide revenue and cost synergies with the existing business could be an important driver of future value creation. On the other hand, acquisitions turn hard cash into an intangible asset on the company's balance sheet with uncertain future returns. The estimated £35 million of existing cash is a key element of our downside protection, which could erode if the cash is spent. While we would have liked management to repurchase shares at current levels, there is no indication so far that the acquisitions made in July were not a better use of capital. The fact that CEO Newton owns £3 million worth of stock gives us some comfort that he approaches capital allocation with an owner-mindset.

Our Estimate of Fair Value

We estimate Bloomsbury's equity value at £122-175 million, or £1.66-2.38 per share. Our valuation approach is summarized below.

Bloomsbury Publishing — Estimating Fair Value

We apply several valuation methodologies shown in the table below. We consider the revenue and gross profit-based methodologies to be especially relevant in an M&A scenario where a potential acquirer could derive cost synergies in the areas of marketing, distribution and overhead expenses.

		Current	Fair Value of Enterprise				Fair Value of Equity [5]			
		Trading	Multiple Range		Value Range		Total		Per Share [6]	
£ millions		Multiple	Low	High	Low	High	Low	High	Low	High
Revenue [1]	£77	0.7x	1.0x	2.0x	£77	£154	£113	£190	£1.53	£2.58
Gross profit [2]	39	1.4x	2.0x	4.0x	79	157	114	193	1.55	2.62
EBIT [3]	7	7.8x	12.0x	15.0x	87	109	123	145	1.67	1.96
Tangible book [4]	69	1.3x	2.0x	2.5x	-	-	139	174	1.89	2.36
Fair Value of Bloomsbury (average of equity fair values above):							£122	£175	£1.66	£2.38

[1] 1H09 revenue of £35 million multiplied by two (conservative as second half of year is seasonally stronger due to holiday sales). An additional £7 million of revenue is added from two acquisitions made in July 2009.
[2] 1H09 actual gross margin of 51% applied to above revenue.
[3] 2010 pre-tax income consensus estimate of £8 million reduced by our estimate of 2010 net investment income. Consensus is based on average of six brokers as shown on company's website on October 2, 2009.
[4] Reported tangible equity of £82 million per June 30, 2009, reduced by dividend payment of £3 million and cash paid for July acquisitions of £10 million.
[5] For revenue, gross profit and EBIT- derived methodologies based on corresponding enterprise value estimate plus net cash of £35 million (reduced by payments for dividend and acquisitions in July).
[6] Based on 74 million shares outstanding.
Source: Company filings, *Manual of Ideas* analysis.

Bloomsbury is a unique publishing franchise, which would be exceedingly difficult to re-create at the current market price. We think the existing reference portfolio alone is worth more than enterprise value. Trading at 1.3x tangible book and just over 70% of revenue, we think the shares are too cheap to ignore.

FREQUENTLY ASKED QUESTIONS

What companies are eligible for inclusion in the *European Value Report*? How do you define "European" stocks?

While we do not have an absolute definition which we adhere to, our aim is to scour European stock exchanges for companies offering a superior investment risk-reward trade-off regardless of market capitalization or industry sector. In terms of geography, our focus is on companies trading on European stock exchanges (typically having their headquarters in a European country). In terms of geography, we define "Europe" quite broadly and do not limit ourselves to an absolute definition.

What criteria do you use to select ideas for the *European Value Report*?

First and foremost, we want the stock to trade at a large discount to our appraisal of fair value. Such appraisal can be based either on the value of the company's assets, including cash and real estate, or on the present value of estimated future cash flows, or both. Each situation is different—how we arrive at an estimate of fair value will reflect the peculiarities of each situation. Once we estimate fair value, we ask a number of questions that help us build conviction that current value will be safeguarded and, in fact, increased over time. For example, we want management that is capable, properly incentivized and likely to treat fellow shareholders fairly. We also favor companies that have authorized a plan to repurchase their own shares when they are available at a discount to fair value. Repurchases not only provide short-term support for the stock price but, more importantly, boost per-share intrinsic value and signal management's willingness to return cash to shareholders. We want companies with strong and liquid balance sheets, enabling their executives to steer through—and take advantage of—difficult economic conditions. Finally, our focus is on companies trading on European stock exchanges (typically having their headquarters in a European country).

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