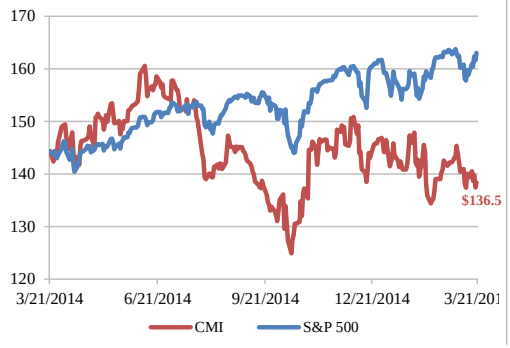
Cummins (CMI)

4 May 2015

Trading Metrics

Trading Metrics	
Price per Share	136.50
Market Cap	24,929
Enterprise Value	23,596
Target Price	217.99
% Premium	59.7%
Trading Multiples	
Price / Earnings	15.1x
EV / EBITDA	8.4x
EV / EBIT	10.0x
2014 Div. Yield	2.1%
ROIC (pre-tax)	36.9%

Price Performance



Financial Summary

($ in millions)	2012	2013	2014
Revenues	$17,334	$17,301	$19,221
% Growth (yoy)	-4.0%	-0.2%	11.1%
EBIT	$2,254	$2,101	$2,365
% Margin	13.0%	12.1%	12.3%
% Incremental Margin	n.m.	n.m.	13.8%
EBITDA	$2,615	$2,508	$2,820
% Margin	15.1%	14.5%	14.7%
Net Income	$1,645	$1,483	$1,651
Adj. EPS	$8.69	$7.93	$9.04

Cummins Investment Summary and Recommendation: Cummins (ticker: CMI) is a recommended buy with a price target of $167 representing a 20% premium to the existing share price of $136.50 (as of 4.24.2015). Cummins design and manufactures engines globally for the heavy-weight trucking industry. Cummins is a high quality company with high barriers to entry, high customer captivity and demonstrated pricing power. Over the past 10 years, with the advent of rigorous EPA requirements, the game has slowly changed and Cummins has positioned itself as the highest quality engine manufacturer, gaining significant market share. Additionally, the Company is transforming its customer relationships to a higher lifetime value and smoothing revenue away from cyclical exposure by buying back its non-captive distributors. The market misunderstands the changes in the industry and the competitive positioning and is pricing CMI at a low valuation for a high quality business.

Company Background: Cummins was established in 1919 and is headquartered in Columbus, Indiana. Cummins supplies engines and parts to Original Equipment Manufacturers ("OEMs") and provides service directly to truck manufacturers. Cummins operates under four main segments including 1) Engine; 2) Distribution; 3) Components; and 4) Power Generation.

Industry Background: Cummins is the only independent manufacturer of engines for the largest heavy duty truck segment in the United States (defined by weight as class 7 & class 8 trucks). CMI has gained this share through providing a superior technology, dedicating its R&D spend to new EPA requirements and benefitting from other players leaving the market. Cumulative market share has steadily grown over the past 10 years, with CMI capturing 34% of the market with the next closest competitor at 23%.

Investment Thesis: Cummins is a premium business that is misunderstood by the market. The core tenants of my thesis are:

1) Scale Advantages Changing: EPA requirements have forced engine manufacturers to invest in new, more fuel efficient technology, in many cases at the expense of performance. Because CMI is the only independent, the Company has focused a significantly higher dollar amount in new technology R&D which has resulted in a far superior product to competitors, snowballing cumulative market share, and its positioning as an irreplaceable provider of EPA compliant component pieces in all engines.
2) Transforming the proposition: CMI is pursuing growth through distributor buy backs which creates a closer connection to the client, increasing lifetime value, builds brand loyalty, provides positive ROIC growth and helps reduce exposure to cyclical revenue.
3) Entrenched Customer: Because of the unique industry dynamic of being the only independent engine provider left in the market, Cummins has an unparalleled network across the United States of mechanics that are literate in Cummin's engines. This provides attractive unit economics for the end purchaser making Cummin's the better buy in the long term.

Valuation: On normalized earnings power for 2017, the target valuation for this company is $167. Revenue is expected to growth by 7-8% and EBIT margin is expected to expand from 12.3% in 2014 to 14.3% in 2017. Additionally, the Company has pledged to return 50% of operating cash back to shareholders. The upside reflects an increase in market share and faster expansion into EM while the downside reflects a trucking cycle downturn, lost market share, and a delay of emission standards in EM. The upside / downside is compelling at 83% / (20%)%.

The main risks for this company include cyclical threats of peak cycle fears, secular trend away from trucking, impact from oil on important end markets, strong dollar on FX, and lack of emissions standards in emerging countries (specifically China).

Company Overview

COMPANY BACKGROUND: Cummins is the leader in engine design, engineering and manufacturing for predominately heavy-duty trucks around the world. Cummins was established in 1919 by Clessie Cummins and William Irwin. The Company is headquartered in Columbus, Indiana and employs 54,600 people worldwide. In addition to manufacturing engines, the Company supplies parts and service to truck manufacturers in over 190 countries through a distribution network of 600 distributors and over 7,200 dealers. Approximately 52% of revenue comes from the United States, with other large countries being China (8%), Canada (4%), Brazil (4%), India (3%), Mexico (3%), and the UK (3%). Cummins operates under four main segments:

- Engine (45% of total revenue; 11.2% margin): develops and produces engines for on-highway trucks and other vehicles
- Distribution (22% of total revenue; 9.5% margin): provides service and sells parts and engines to end users through independent and company owned distributors
- Components (21% of total revenue; 13.4% margin): manufactures parts for sale at distributors
- Power Generation (12% of total revenue; 5.8% margin): develops and produces engines for power generators

Cummins is a high quality business. The Company is protected through highly engineered products, patents on emissions standard products, complex manufacturing, and high capital intensity prohibiting new entrants from entering the market. Approximately 80% of costs are inputs (variable COGS) while the remaining 20% are fixed SG&A and R&D. Due to its singular focus on engine engineering and development, CMI can redeploy its cash flow into engine R&D that its competitors must spread across multiple components to the truck. The ability to redeploy capital into R&D has benefitted the company particularly as EPA standards have become more stringent. R&D is about 4% of revenue, up from an average of about 3% 5 years ago. Although customers are price sensitive, Cummins has a strong following of brand loyal truckers. On a unit economics basis, the premium price paid for a Cummins engine is made up for in better fuel efficiency, less maintenance and service cost and higher resale value.

CAPITAL ALLOCATION: Management is very prudent in capital allocation and has a disciplined approach to growth. In 2011, the Company announced plans to purchase all of its North American distributors (in more detail later). Outside of this capital expenditure, the company spends cash flow on R&D and distributes the rest to shareholders. Management is very shareholder friendly and upfront about its intentions for cash flow.

Financial Summary

	Historical			Estimates			Consensus		
($ in millions)	2012	2013	2014	2015e	2016e	2017e	2015e	2016e	2017e
Engine	10,733	10,013	10,962	11,429	12,109	13,495	11,148	11,501	12,298
Distribution	3,277	3,749	5,174	6,580	7,453	7,751	6,424	7,052	7,428
Power Gen	3,268	3,031	2,896	2,873	3,017	3,167	2,841	2,940	3,188
Component	4,012	4,342	5,118	5,725	6,433	7,261	5,461	5,791	6,391
Revenues	$17,334	$17,301	$19,221	$20,940	$22,700	$24,617	$19,970	$21,081	$22,485
% Growth (yoy)	*-4.0%*	*-0.2%*	*11.1%*	*8.9%*	*8.4%*	*8.4%*			
Engine EBIT Margin	11.6%	10.4%	11.2%	11.4%	11.6%	11.9%			
Distribution EBIT Margin	11.3%	10.3%	9.5%	9.5%	9.6%	10.0%			
Power Gen EBIT Margin	8.7%	7.2%	5.8%	5.8%	5.8%	5.9%			
Component EBIT Margin	10.6%	12.1%	13.4%	14.0%	14.8%	15.6%			
EBIT	$2,254	$2,101	$2,365	$2,844	$3,194	$3,651			
% Margin	*13.0%*	*12.1%*	*12.3%*	*13.6%*	*14.1%*	*14.8%*			
EBITDA	$2,615	$2,508	$2,820	$3,346	$3,738	$4,242	$3,209	$3,538	$3,623
% Margin	*15.1%*	*14.5%*	*14.7%*	*16.0%*	*16.5%*	*17.2%*			
Net Income	$1,645	$1,483	$1,651	$2,028	$2,290	$2,633	$1,799	$2,001	$2,219
Adj. EPS	$8.69	$7.93	$9.04	$11.16	$12.67	$14.65	$10.14	$11.25	$12.80
DPS	$1.80	$2.25	$2.80	$3.35	$4.31	$5.36	$3.08	$3.44	$3.52
Fully Diluted Shares	189	187	183	182	181	180			
Free Cash Flow	978	1,578	1,437	1,858	2,126	2,425	$1,354	$1,467	$1,621
Free Cash Flow Yield	*3.9%*	*6.3%*	*5.8%*	*7.5%*	*8.5%*	*9.7%*			
ROIC	42.2%	37.2%	36.9%	39.3%	40.0%	42.0%			

Industry Background:

SUPPLY CHAIN: CMI is the only independent manufacturer of on-highway heavy duty engines. Trucks are measured from class 1 to class 8 depending by overall weight. The two largest size categories, Class 7 and Class 8, and considered "heavy duty" and represent CMI's core market. New EPA standards were first introduced in 2002, to be phased in over the next 10 years. These strict

EPA standards required that emissions be reduced by c. 90% through the use of certain technologies. These guidelines have upped the R&D ante and changed the shape of the industry. The most popular Cummins engine is the ISX 15 or 13 liter engine. Many EPA compliant engines suffered from poor performance, but the ISX engine is EPA compliant with higher horsepower than competitors for the same level of torque.

Before the EPA guidelines were introduced, Cummins competed heavily with Caterpillar for the most powerful engine (power measured by the interplay of torque and horsepower). Truckers were very loyal to either their red (Cummins) or yellow (Caterpillar) engine. However, in trying to create technology to comply with the new standards, Caterpillar release an engine with significant performance issues and eventually left the market to focus on the off-the-road market. Based on conversations with truckers, the strongest engine on the market is still Caterpillar's pre-EPA emission standards. These engines are nearing the end of their useful life (typically 10 years or 1 million miles) and will soon be replaced. The anecdotal commentary from operators is that the best EPA approved engine is the Cummins ISX. Other captive OEM's have tried to manufacture their own engines, some without success (Navistar) and others with some success using component parts from Cummins, utilizing their EPA approved technology. The EPA standards really changed the game for the engine manufacturing industry placing Cummins in a superior position related to its competitors.

When considering the demand chain for the engine manufacturing industry, there are three main stakeholders to consider: 1) engine manufactures, 2) OEMs that produce trucks and OEM dealers that act as an initial distribution channel and 3) trucking companies. The first two segments of the demand chain are concentrated with a few key players dominating while the truckers are incredibly fragmented.

When a trucker makes a purchasing decision, they have the option to buy a chassis (manufactured by the OEM) and their choice of either the engine created by the OEM (i.e. Paccar, Navistar etc.) or a Cummins engine. When a truck breaks down, the trucker typically will go back to the dealer for maintenance and service while the truck is under warranty (first 5-7 years). After this time period, it is less expensive to go to an independent distributor for service and maintenance. Part of the CMI components division provides parts and services to both the dealers (under warranty) and the distributors. The extensive service network across the United States is deeply entrenched with existing technology and Cummins is a standard engine all mechanics are trained on. This service network creates a feedback loop entrenching the customer even further.

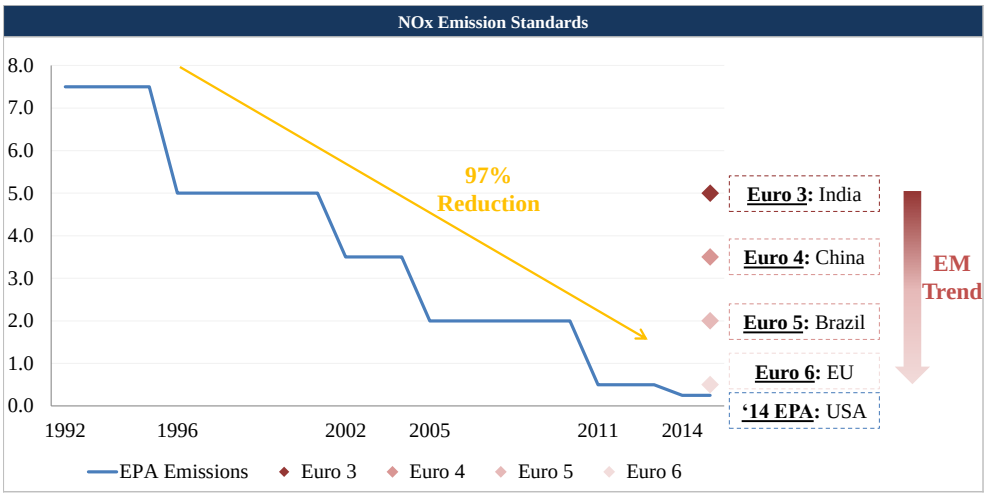
As Cummins does not have direct access to the customer, the purchasing decision through its history has been based on the quality of the product. However, this dynamic is shifting as Cummins is almost done repurchasing all of its North American distributors. Distributors not only have a higher margin than engines, but also they provide a critical link to the client transforming a one off purchase to a higher life time value and greater brand loyalty.

COMPETITORS: CMI competes directly with OEMs that manufacture and produce their own engines. The major manufacturers include Detroit Diesel (Daimler), PACCAR, Volvo, and Navistar.

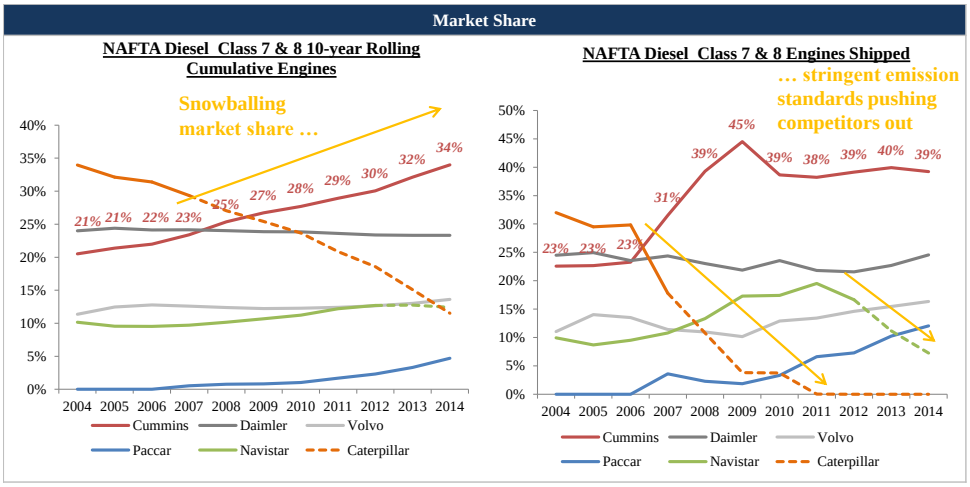
Investment Thesis:

1) ***Scale Advantages Accelerating:*** *Stricter emissions standards have required higher R&D spend which has upped the ante and changed the competitive landscape. CMI has a superior and irreplaceable product*

   STRICTER EMISSIONS STANDARDS: New EPA rules were implemented in the United States starting in 2002 to reduce harmful pollution from heavy weight vehicles by 90%. For engine manufacturers, these standards have been phased in over the past 10 years, creating major disruptions in design and performance. The same trend is happening all over the world. Most other countries follow Euro standards. Euro 6 is largely in line with the current US standard. Other emerging countries are catching up to the Euro 6 level of standards on a slower timeframe.

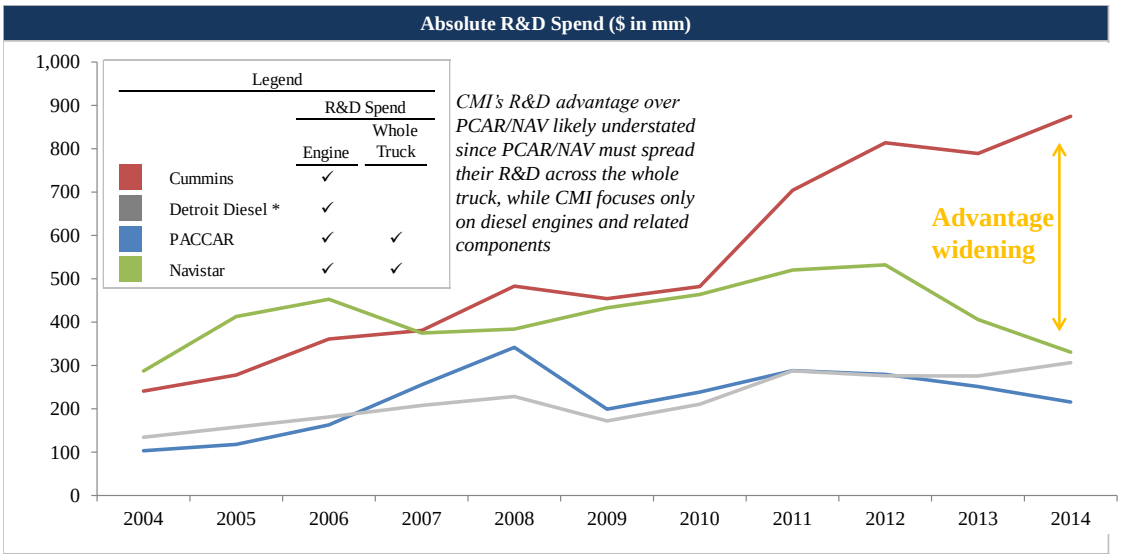


SNOWBALLING MARKET SHARE: I consider market share on two different bases: unit sales per year and cumulative installed base. The pressure of meeting each of these new technology standards has been brutally difficult, and has pushed out competitors from the market that have failed to meet a round of standards, like Cat and Navistar. Because of these competitor failures, Cummins, which is the technological leader, has been increasing its installed base advantage over the competition, and is now the only non-captive engine manufacturer currently producing engines.



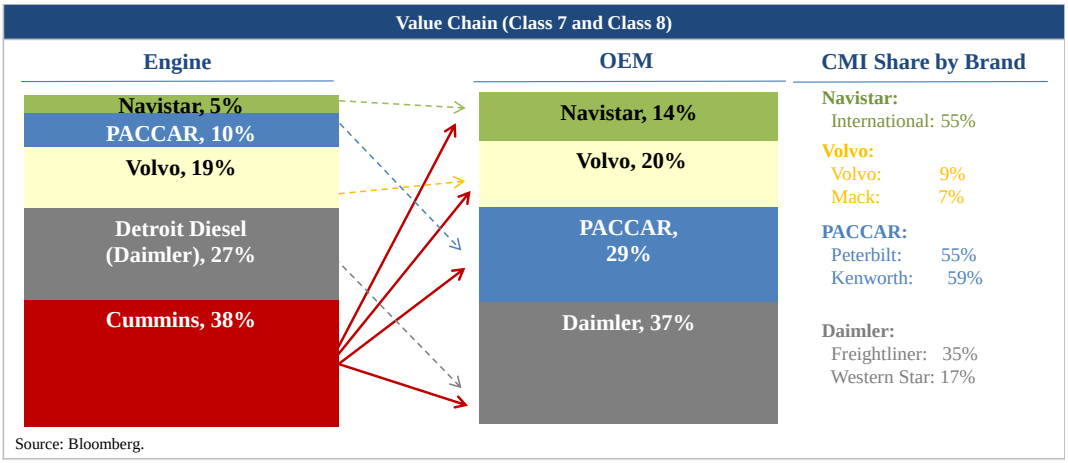
HIGHER R&D SPEND After CAT left the market in 2008, Cummins became the sole independent producer of on-highway heavy weight engines. The focus on engine manufacturing in itself has allowed Cummins to put its full resources behind developing superior technology. On an absolute and a relative to sales basis, Cummins out spends its competitors by a long shot. This trend has only increased over the years as EPS regulations are fully implemented around the world.

Over the past 10 years, Cummins has out spent its competitors developing better products. The corresponding impact has been a snowball effect in market share. The company saw a large bump in share when CAT left the market which has since stabilized. However, I believe the better way to view this market is in cumulative share. Considering that most engines are on the road for about 10 years, I also look at a rolling 10 year market share. From this, it is obvious to see the slow and steady growth in share since the EPA regulations first began to influence the industry. I expect share gains to continue to increase as 2017 EPA compliance is implemented in the United States and Emerging Markets implement Euro IV and V and eventually VI standards. See appendix for full market share details and calculations.



2) *Entrenched customer: existing network is entrenched in Cummins' brand*

NETWORK The chart below shows the market share of the engine manufacturers compared to the OEM market share. One of the key points to highlight is that Cummins engines are installed in every major OEM's trucks. This has a few benefits: First, it creates loyalty and connection to the brand. Second, it creates a scale advantages in manufacturing and distribution. And finally, because every OEM uses Cummins engines, every mechanic knows Cummins engines, and it's possible to get a Cummins engine serviced at any brand of dealer, which creates an advantage in terms of service network that no captive competitor can possibly replicate.



UNIT ECONOMICS The unit economics speak for itself when a trucker is deciding which engine to purchase. Based on multiple conversations with fleet managers of large distribution companies and trucking companies in the United States, the below represents a unit economics of the purchasing decision from the buyers perspective. In both theory and practice, Cummins provides a superior product with key efficiencies in fuel, service cost and resale value representing 7-10% savings over the initial truck cost. For a large fleet, this can make a huge difference over time.

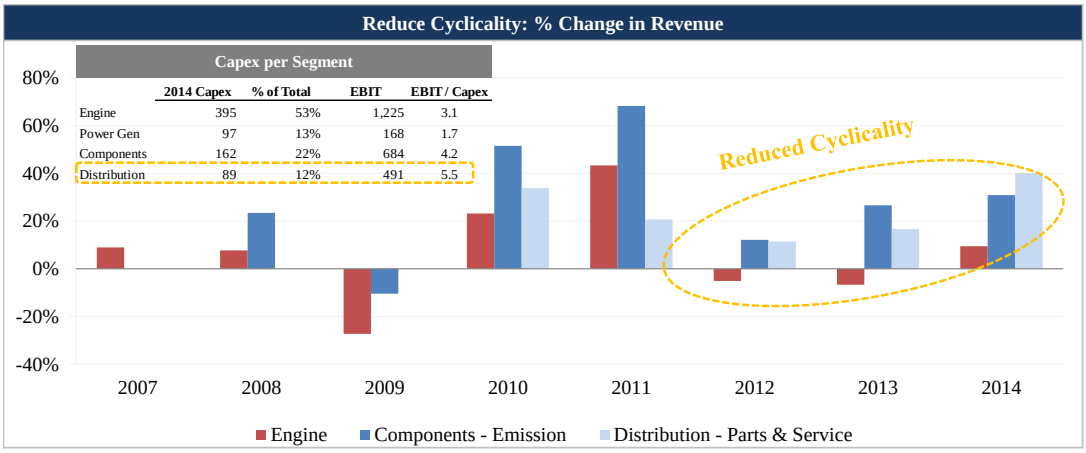
Trucking Unit Economics

Assumptions:	Peterbilt (PACCAR) CMI	Peterbilt (PACCAR) PACCAR	Freightliner (Daimler) CMI	Freightliner (Daimler) Daimler	Notes
Chassis	2015 Peterbilt 567	2015 Peterbilt 567	Freightliner 122SD	Freightliner 122SD	
Engine	Cummins ISX 15	Paccar MX13	Cummins ISX 15	Detroit Diesel DD15	
Cost of Truck	130,000	130,000	130,000	130,000	- Based on truck pricing on online distributors
Mileage per year	120,000	120,000	120,000	120,000	- Based on conversations with truckers
MPG	8.0	7.9	7.6	7.5	- Based on conversation with trucking companies
Fuel Cost per gallon	3.0	3.0	3.0	3.0	- Average Assumption
Resale Value as % of initial cost	20%	18%	20%	18%	- Based on industry research
Service Cost	12,420	13,800	12,420	13,800	- Reflects wider service network and less breakdowns
Annual Truck Operating Cost:					
Financing	26,000	26,000	26,000	26,000	
Fuel Cost	45,000	45,570	47,368	48,000	
Maintenance and Repair	12,420	13,800	12,420	13,800	
Tire Cost	4,500	4,500	4,500	4,500	
Net Annual Operating Cost	87,920	89,870	90,288	92,300	
Lifetime Operating Cost (@ 5 years)	439,600	449,348	451,442	461,500	
Resale Value (@ 5 years)	26,000	23,400	26,000	23,400	
Total Cost of Ownership	413,600	425,948	425,442	438,100	
Net Savings	**12,348**		**10,058**		
% of initial cost	**9.5%**		**7.7%**		

"Cummins has about 1/10 mpg advantage over the competition right now. That doesn't sound like much, but it adds up quickly when you're driving 100,000 plus miles a year" – Head of Purchasing, Large Fleet

3) ***Transforming the value proposition****: pursuing growth through distributors create positive ROIC and buy backs help reduce cyclical exposure*

DISTRIBUTOR VALUE The Company embarked on distributor buy backs in 2011 as a way to control the relationship with the customer. The company can buy back all of its distributors at book value, representing a very low purchase price, creating little to no goodwill. The economics of distribution business are very favorable and can realize increased margins as the company consolidates its operations. Based on figures disclosed in their annual, the estimated pre-tax return on investment is around 20% for the distributors. This is in line with the RoIC of the business and represents an accretive growth strategy. The revenue associated with the distribution and components divisions related to the aftermarket represent a much less volatile revenue stream and counter the cyclical nature of the trucking exposure.



By buying back the distributors, CMI is increasing the lifetime value of each customer. Not only does this give CMI direct access to the purchasing decision marker, which before it had to go through the OEMs its major competitor in the market, it is increasing the share of the aftermarket and overall lifetime value of the customer.

Valuation:

The book value of the business severely underestimates the earning potential of the assets they own. I have attributed SG&A and R&D to account for product portfolio and customer relationships. The earnings power of the company however, assuming todays revenue and normalized EBITDA margins is closer to a normal valuation level at c. $30bn. The target valuation for this company is $217.99 representing an upside of 60% and an annualized IRR of 31%.

In an attempt to better quantify the downside, I identified three key factors which comprise the bear case. The first is a large trucking cycle decline, which could potentially have a 9% headwind to revenue growth. Secondly, if the captive engine manufacturers like PACCAR take share from Cummins, that could contribute another 5% headwind. Finally, if the EM emissions standards are delayed in implementation, that would add another half a percent headwind to revenue growth. In sum, that implies a 6% decline in revenue compared to the base case assumption of 7-8% growth. Assuming all of these factors together and applying a trough multiple implies a valuation of $109, representing 20% downside from current.

The bull case is comprised of an increase from market share due to the replacement of a large number of CAT engines rolling off the market. CAT exited the market in 2008. Given that the useful like of an engine is typically 10 years, many of these engines are nearing the end of their life. I estimate that c. 11% of the engines on the road are still CAT engines and as they roll off, Cummins' is the most likely replacement. Assuming Cummins' gets 60% of the CAT roll off, market share could easily increase to 42% by 2017. The bull case also assumes that EM emissions standards pick up the pace and Cummins; receives a tailwind from this trend.

On the upside, I believe that there is an additional opportunity for Cummins by optimizing its capital structure. CMI is currently generating cash at an extremely high rate, and has negative net debt. If it were to simply lever up to the same amount as PACCAR, that would allow for a $4.5bn buyback, creating another $25 in upside to the current share price, assuming a constant EV. Combined with the bull case, Cummins' could be a double over three years.

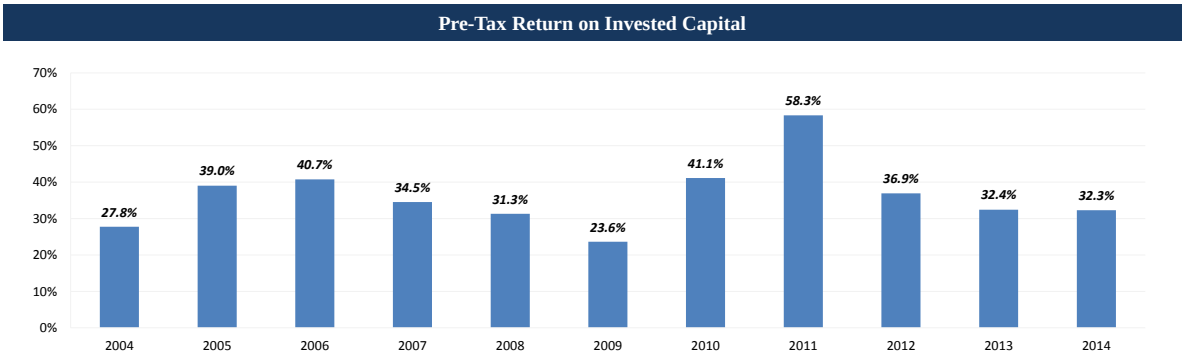
MULTIPLE WAYS TO WIN: To reach the base case, you have to believe that CMI market share remans the stable, that global emissions regulations continue on the current trajectory and that CMI is able to develop engines which are comparable to competitors in quality and will allow Cummins to maintain its competitive position. But there are a lot of other ways to win here—if another OEM gets pushed out, or CMI's R&D scale creates a far superior product, this company could become another Allison Transmission.

Catalysts:

The industry still values Cummins like a cyclical stock without giving it credit for the transformed business profile. As compared to the last normal trucking cycle downturn in 2002/2003, CMI is 39% market share compared to 18%, market share can be gained through CAT leaving the market rather than direct competition, CMI is the only independent manufacturer left in the market, EPA regulations have changed the game, and CMI has exposure to the more steady aftermarket which it didn't have before. All of these things have contributed to the 32% ROIC in 2014 as compared to 14% in 2013. The dynamics around CMI have changed.

Management:

Cummins is run by Tom Linebarger (CEO & Chairman) and Rich Freeland (President & COO). Both have spent the majority of their careers at Cummins and run a disciplined capital allocation policy. The Board is functional and management have proven flexibility to pivot with changing industry trends.



Risks:

The main risks for this company include

1) Risk: Cyclical threats of 'peak cycle' demand (see appendix for further detail)

Mitigant: CMI is moving its business away from cyclical exposure into a stronger base of recurring revenue. Trucking cycle fundamentals are anyway ambiguous

2) Risk: Secular trend away from trucking
   Mitigant: lower oil prices make trucking an even more viable mode of transportations vs. alternatives such as rail
3) Risk: Impact from oil on important end markets (see appendix for further detail)
   Mitigant: a lower oil price is a net positive due to increased consumer spend from higher discretionary income
4) Risk: Strong dollar on FX (see appendix for further detail)
   Mitigant: a risk, but mitigated by strong exposure to the US
5) Risk: Lack of emissions standards in emerging countries (specifically China)
   Mitigant: Emerging Market economies are facing the real impacts from pollution. It is a question of when rather than if.

Appendix

CAT Roll Off

Installed Base

	2014	2015	2016	2017
Total Engine Units (10-year cumulative)	2,862,930	2,948,818	3,037,282	3,128,401
Assumed Global GDP Growth		3.0%	3.0%	3.0%
Status Quo:				
Current Market Share	34.0%	34.0%	34.0%	34.0%
Implied Installed Base	973,001	1,002,191	1,032,257	1,063,224
Pick up CAT Roll Off Engines:				
Market Share (w/ 60% of CAT roll off)	34.0%	36.0%	38.5%	41.2%
Implied Installed Base	973,001	1,062,309	1,168,483	1,289,858

Caterpillar Run Off to CMI

Roll off to CMI 60%

	Cumulative CAT Units in the market	10-Year Roll Off	New Units to CMI	Cumulative New Units to CMI	CMI Implied Cumulative Share
2015	330,118	97,279	58,367	58,367	36.0%
2016	213,386	116,732	70,039	128,407	38.5%
2017	**81,727**	**131,659**	**78,995**	**207,402**	**41.2%**
2018	37,457	44,270	26,562	233,964	42.2%
2019	12,273	25,184	15,110	249,074	42.7%
2020	6,845	5,428	3,257	252,331	42.8%
2021	119	6,726	4,036	256,367	42.9%
2022	25	94	56	256,423	42.9%
2023	6	19	11	256,435	42.9%
2024	-	6	4	256,438	42.9%

Source: Bloomberg

Asset Value

	2014	Book Value Adj.	Adjusted Book Value	Notes
Cash and Cash Equivalents	2,394	100%	2,394	- Book value
Receivables	2,744	90%	2,470	- Book value + allowance
Inventories	2,866	90%	2,579	- Book value + LIFO reserve
Deferred Income Taxes	-	0%	-	- Book value + adj.
Prepaid Expenses and Other Current Assets	849	90%	764	- Book value + adj.
Other	202	90%	182	- Book value + adj.
Current Assets	**9,055**		**8,389**	
Property, Plant and Equipment, Net	3,686	90%	3,317	- Original cost +/- Adj.
Goodwill	479	0%	-	- no value
Other Intangible Assets	343	0%	-	- no value
Other	2,213	90%	1,992	
LT Assets	**6,721**		**5,309**	
Product Portfolio	754	80%	603	- Year of R&D; adj: discounted
Customer Relationship	2,095	80%	1,676	- Year of SG&A; adj: discounted
License, Franchise	-		-	- Private Market Value
Other Off Balance Sheet Assets	**2,849**		**2,279**	
Total Assets	**18,625**		**15,977**	
Accounts Payable	1,881	100%	1,881	- Book value
Accrued Expenses and Other	1,197	100%	1,197	- Book value
Current Portion of Long-term Debt	109	100%	109	- Fair market value
Other	834	100%	834	- Book value
Current Liabilities	**4,021**		**4,021**	
Long-term Debt	1,589	100%	1,589	- Fair market value
Deferred Income Taxes	-	0%	-	- DCF
Other	2,417	100%	2,417	- Book value
Long-term Liabilities	**4,006**		**4,006**	
Total Liabilities	**8,027**		**8,027**	
Net Assets	**10,598**		**7,950**	
Price / Book Value	**2.4**		**3.2**	

Cummins (CMI)

4 May 2015

Earnings Power Value

	2014	Notes
	Full Company	
Revenue	19,221.0	- this years revenue
EBIT Margin	14.8%	- average margins
EBIT	2,850.5	- normalized EBIT
Average Tax Rate	25%	
NOPAT	2,137.9	
add: Depreciation	590.8	- add back after tax
Normalized Earnings	2,728.7	
WACC	10%	
Earnings Power Value (Enterprise Value)	28,505.1	
Net Debt	(2,106.8)	
Equity Value	30,611.9	

Historic EPV Sensitivity

WACC	EPV
	30,612
2.0%	144,632
4.0%	73,370
6.0%	49,615
8.0%	37,738
10.0%	30,612
12.0%	25,861
14.0%	22,468

Pro Forma EPV Sensitivity

		30,611.9	WACC 2.0%	4.0%	6.0%	8.0%	10.0%	12.0%	14.0%
	EBIT	12.0%	117,433	59,770	40,549	30,938	25,172	21,328	18,582
	Margin	13.0%	127,043	64,575	43,752	33,341	27,094	22,930	19,955
		14.0%	136,654	69,380	46,956	35,744	29,016	24,531	21,328
		15.0%	146,264	74,186	50,159	38,146	30,938	26,133	22,701
		16.0%	155,875	78,991	53,363	40,549	32,860	27,735	24,074
		17.0%	165,485	83,796	56,566	42,951	34,782	29,337	25,447
		18.0%	175,096	88,601	59,770	45,354	36,705	30,938	26,820
		19.0%	184,706	93,407	62,973	47,757	38,627	32,540	28,192

Discounted Cash Flow

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EBIT	781	1,602	2,681	2,254	2,101	2,365	2,844	3,194	3,651	4,124	4,599
Tax	(190)	(473)	(728)	(529)	(526)	(678)	(711)	(798)	(913)	(1,031)	(1,150)
add: D&A	326	320	325	361	407	455	503	545	591	641	692
less: Mtx Capex	(310)	(218)	(373)	(414)	(406)	(446)	(503)	(545)	(591)	(641)	(692)
less: Change in Working Capital	0	(261)	(49)	(694)	2	(259)	(275)	(269)	(313)	(333)	(340)
Free Cash Flow	607	970	1,856	978	1,578	1,437	1,858	2,126	2,425	2,760	3,110
FCF Yield						5.6%	7.2%	8.3%	9.4%	10.7%	12.1%

Discounted Cash Flow Valuation

Risk free rate	3%										
Risk premium	5%										
Beta	1.0										
CAPM	8%										
WACC	8%										
Growth Rate	3%										
Discount Factor							0.93	0.86	0.79	0.74	0.68
PV of FCF ('15 - '19)		9,614					1,721	1,823	1,925	2,029	2,116
Terminal FCF		43,596									43,596
PV of Terminal FCF		29,670									29,670
Enterpruse Value		39,284									
Less: Net Debt		-2,744									
Equity Value		42,028									
Equity Value / Share		233.78									
% Premium		66%									