



# Business Valuation of Subject Company

As of July 20th, 2011

This is a business valuation analysis  
for Subject Company, which is  
publicly traded on the NASDAQ  
exchange.

## Valuation Summary

**Valuation Conclusion:** Subject Company has an investment potential of positive 4%, which dictates a “Hold” rating for the company based on a 50% safety margin.

- The Cash Flow Analysis produced an investment potential of positive 13%; and it comprises of 70% of the conclusion;
- The Comparative Company Analysis produced a valuation result of negative 40% and it comprises of 20% of the conclusion; and
- The Buffett Calculation produced a valuation result of positive 24% and it comprises of 10% of the conclusion.

Analysis (rating, weight, potential)			
<a href="#">Cash Flow</a>	HOLD	70%	13%
<a href="#">Comparative</a>	-HOLD	20%	(40%)
<a href="#">Buffett Calc</a>	HOLD	10%	24%
Conclusion	HOLD	100%	4%

The valuation conclusion is based on a weighted average of the above mentioned analysis. Valuation professionals utilize these methods in order to determine the fair value of an asset or enterprise.

### Valuation Notes

A **valuation** shows what something is worth, which is different from price – what someone will actually pay in a commercial transaction.

**Fair Value** is the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.<sup>1</sup>

**Cash Flow Analysis:** The discounted cash flow (DCF) analysis is the balance of the amounts of cash being received and paid by a business during a defined period of time and discounted by business risk. The result of these calculations determines the value of a company or project.

**Comparative Company Analysis** is a method of determining the current value of a company by examining and comparing the financial ratios of relevant peer groups.

**Buffett Analysis** is a cash flow analysis that uses a risk free rate of interest to measure the risk of an investment. It is best used for low risk businesses.

**Investment Potential** (margin of safety or safety margin), is a term produced by Benjamin Graham and used by Warren Buffett to measure the degree of potential for a stock of fund. If the potential for a stock of fund is 20%, then the stock or fund is expected to increase by 20% over time.

Valuation-specific notes can be found in the note section on the actual analysis found in this report.

<sup>1</sup> Statement of Financial Accounting Standard No. 142, Appendix F.

## Discounted Cash Flow Analysis for Subject Company

July 20th, 2011	Millions USD	Historical Year Ended					Projected Year Ending									
		2008	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Stable >
HOLD	<u>Total Revenue</u>	19,315	24,008	32,479	38,537	65,225	97,838	122,297	140,841	151,893	181,008	187,447	174,144	181,110	188,355	194,005
	<u>% growth rate</u>	n/a	24.3%	35.3%	12.5%	78.5%	50.0%	25.0%	15.0%	8.0%	6.0%	4.0%	4.0%	4.0%	4.0%	3.0%
Cash Flow Potential	<u>-COGS</u>	13,898	15,852	21,334	23,397	39,541	64,042	80,052	92,060	99,425	105,390	109,605	113,990	118,550	123,292	128,991
	<u>% of revenue</u>	70.9%	66.0%	65.7%	64.0%	60.6%	65.5%	65.5%	65.5%	65.5%	65.5%	65.5%	65.5%	65.5%	65.5%	65.5%
14%	<u>Gross Profit</u>	5,619	8,154	11,145	13,140	25,684	33,796	42,245	48,581	52,468	55,618	57,841	60,154	62,560	65,063	67,015
	<u>% of revenue</u>	29.1%	34.0%	34.3%	36.0%	39.4%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%	34.5%
Potential Price	<u>-Operating Exp</u>	3,188	3,188	4,870	5,482	7,299	13,848	17,310	19,908	21,498	22,788	23,700	24,648	25,634	26,859	27,459
	<u>% of revenue</u>	16.4%	13.2%	15.0%	15.0%	11.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%
\$387	<u>-SG&amp;A (Op Ex)</u>	2,941	2,849	4,397	4,779	6,272	12,115	14,903	16,981	17,911	18,699	19,087	19,507	19,931	20,358	20,999
	<u>% of revenue</u>	15.2%	11.9%	13.5%	13.1%	9.6%	12.4%	12.2%	12.0%	11.8%	11.6%	11.4%	11.2%	11.0%	10.8%	10.8%
Last Stock Price	<u>EBITDA</u>	2,678	5,305	6,748	8,361	19,412	21,881	27,342	31,720	34,568	36,947	38,754	40,647	42,829	44,705	46,048
	<u>% of revenue</u>	13.9%	22.1%	20.8%	22.9%	29.8%	22.2%	22.4%	22.6%	22.8%	22.9%	23.1%	23.3%	23.5%	23.7%	23.7%
	<u>-D &amp; A (Op Ex)</u>	225	317	473	703	1,027	1,733	2,407	3,045	3,587	4,119	4,613	5,140	5,702	6,301	6,490
	<u>% of revenue</u>	1.2%	1.3%	1.5%	1.9%	1.6%	1.8%	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%	3.1%	3.3%	3.3%
	<u>EBIT (oper profits)</u>	2,453	4,988	6,275	7,658	18,385	19,948	24,935	28,675	30,989	32,828	34,141	35,506	36,927	38,404	39,556
	<u>% of revenue</u>	12.7%	20.8%	19.3%	21.0%	28.2%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%
	<u>-Taxes</u>	829	1,512	2,081	2,280	4,527	6,038	7,548	8,680	9,374	9,937	10,334	10,748	11,178	11,825	11,973
	<u>% of EBIT</u>	33.8%	30.3%	32.8%	29.8%	24.6%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%
	<u>NOPAT</u>	1,624	3,476	4,214	5,378	13,858	13,910	17,387	19,995	21,595	22,891	23,808	24,759	25,749	26,779	27,582
	<u>% of revenue</u>	8.4%	14.5%	13.0%	14.7%	21.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%	14.2%
<u>Free Cash Flow to the Firm Analysis</u>																
	<u>+ D &amp; A</u>	225	317	473	703	1,027	1,733	2,407	3,045	3,587	4,119	4,613	5,140	5,702	6,301	6,490
	<u>% of revenue</u>	1.2%	1.3%	1.5%	1.9%	1.6%	1.8%	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%	3.1%	3.3%	3.3%
	<u>- CapEx</u>	657	735	1,199	1,213	2,121	3,273	4,091	4,705	5,081	5,388	5,602	5,828	6,059	6,301	6,490
	<u>% of revenue</u>	3.4%	3.1%	3.7%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
	<u>Working Capital</u>	(2,072)	(2,729)	(3,892)	(6,481)	(4,664)	(11,538)	(14,423)	(16,587)	(17,913)	(18,988)	(19,748)	(20,538)	(21,359)	(22,214)	
	<u>% of revenue</u>	-10.7%	-11.4%	-12.0%	-17.7%	-7.2%	-11.8%	-11.8%	-11.8%	-11.8%	-11.8%	-11.8%	-11.8%	-11.8%	-11.8%	
	<u>- WC Investment</u>	n/a	(657)	(1,183)	(2,589)	1,817	(8,874)	(2,885)	(2,163)	(1,327)	(1,075)	(780)	(790)	(822)	(854)	(880)
	<u>% of revenue</u>	n/a	-2.7%	-3.6%	-7.1%	2.8%	-7.0%	-2.4%	-1.5%	-0.9%	-0.7%	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%
	<u>Free Cash Flow</u>	n/a	3,715	4,851	7,457	10,947	19,244	18,588	20,499	21,428	22,698	23,578	24,893	26,214	27,833	28,482
	<u>% of revenue</u>	n/a	15.5%	14.3%	20.4%	16.8%	19.7%	15.2%	14.6%	14.1%	14.1%	14.3%	14.5%	14.7%	14.7%	
	<u>Present Value Factor</u>		<u>Industry WACC</u>	9%			0.915	0.837	0.765	0.700	0.640	0.585	0.535	0.490	0.448	0.448
	<u>Present Value of Free Cash Flows</u>		<u>Lt Grth</u>	3%			17,801	15,550	15,884	14,998	14,529	13,803	13,313	12,839	12,378	201,341
<u>Conclusion: Per Share Value</u>																
	<u>Invested Capital (Equity and Debt) Value</u>															332,005
	<u>+ Excess Cash</u>															25,820
	<u>- Interest Bearing Debt, Preferred and Minority Interest</u>															0
	<u>Equity Value (Net Present Value)</u>															357,825
	<u>Divide: Shares Outstanding</u>															925
	<u>Fair Value per Share</u>															\$387
<u>Working Capital Inputs</u>																
	<u>Current Assets</u>	14,509	21,956	34,990	38,285	41,678										
	<u>- Excess Cash</u>	10,110	15,388	24,490	23,484	25,820										
	<u>- Current Liabilities</u>	6,471	9,299	14,092	19,282	20,722										
	<u>+ Short Term Debt</u>	0	0	0	0	0										
	<u>Working Capital</u>	(2,072)	(2,729)	(3,892)	(6,481)	(4,664)										
	<u>% of revenue</u>	-10.7%	-11.4%	-12.0%	-17.7%	-7.2%										
	<u>Interest Exp (net)</u>	394	647	0	0	(311)										
	<u>Total Debt</u>	0	0	0	0	0										

## Comparative Market Analysis for Subject Company

July 20th, 2011	Ent Value		Revenue Growth			EBITDA Margin			EBIT Margin			Cash Flow Margin			Enterprise Value Multiples			
	Current	-1yr	-5yr	+5yr	-1yr	-5yr	+5yr	-1yr	-5yr	+5yr	-1yr	-5yr	+5yr	Rev	EBITDA	EBIT	FCF	
-HOLD	Apple	289,277	79%	38%	21%	22%	22%	23%	20%	20%	20%	20%	20%	16%	4.4 x	14.9 x	15.7 x	28.4 x
	Hewlett-Packard	89,777	10%	6%	4%	13%	12%	13%	9%	9%	9%	8%	9%	8%	0.7 x	5.1 x	7.0 x	10.5 x
	Microsoft	171,985	7%	9%	4%	41%	41%	41%	37%	37%	37%	28%	28%	28%	2.8 x	6.4 x	7.1 x	9.8 x
	Palm	0	0%			0%			0%									
	Dell	22,083	16%	2%	3%	7%	6%	6%	5%	5%	5%	5%	5%	n/m	5.0 x	6.4 x	10.2 x	
	Google	138,254	24%	30%	15%	37%	38%	39%	32%	32%	32%	16%	16%	n/m	11.6 x	13.1 x	18.5 x	
	Sun Microsystems	0	0%			0%			0%									
	Sony	23,513	-8%	-5%	3%	10%	8%	9%	1%	1%	1%	4%	4%	n/m	3.5 x	n/m	n/m	
	Intel	102,558	24%	6%	9%	35%	37%	35%	24%	24%	24%	14%	14%	2.4 x	5.1 x	6.6 x	10.9 x	
	Adobe	15,747	29%	12%	6%	35%	36%	34%	28%	28%	28%	24%	23%	n/m	12.0 x	15.5 x	15.6 x	
	IBM	217,957	4%	2%	4%	22%	21%	22%	17%	18%	17%	12%	12%	2.2 x	9.5 x	12.0 x	15.8 x	
	Low Value	0	-8%	-5%	3%	0%	6%	6%	0%	1%	1%	0%	1%	4%	0.7 x	3.5 x	6.4 x	9.8 x
	High Value	217,957	29%	30%	15%	41%	41%	41%	37%	37%	37%	28%	28%	4.4 x	14.9 x	15.7 x	28.4 x	
	Average Value	77,987	11%	8%	6%	20%	25%	25%	15%	19%	19%	11%	14%	2.5 x	8.1 x	10.4 x	14.7 x	
	Median Value	58,645	8%	7%	4%	17%	28%	28%	13%	20%	20%	10%	14%	2.4 x	6.4 x	9.6 x	13.3 x	

-HOLD

Multiples Potential  
(40%)

Potential Price  
\$205

Last Stock Price  
\$341

Apple vs. their Competitors (+ means target company ratios better than competitor ratios)													Concluded Range				
	Ent Value	Revenue Growth			EBITDA Margin			EBIT Margin			Cash Flow Margin			High	Ave	High	High
Low Value	+	+	+	+	+	+	+	+	+	+	+	+	2.5 x	7.3 x	10.4 x	14.7 x	
High Value	+	+	+	+	+	+	+	+	+	+	+	+	Concluded Multiple				
Average Value	+	+	+	+	+	+	+	+	+	+	+	+	Potential per Multiple				
Median Value	+	+	+	+	+	+	+	+	+	+	+	+	-40%	-47%	-31%	-41%	
Advantages v. Competitors	100%	100%	=	High	56%	=	Ave	81%	=	High	81%	=	High	Conclusion (40%)			

- Notes on Analysis:
- WikiWealth uses quantitative measures to determine the multiple range.
  - Free cash flow to the firm (FCF) multiple is free cash flow to equity holders plus interest owed to debt holders.
  - Multiples incorporate benefits due to economies of scale; WikiWealth compares absolute EV to competitors.
  - We exclude outliers in the individual company multiples.

Additional Calculations																
Stock Research	Financial Analysis				Enterprise Value Calculation				Enterprise Value							
	Revenue	EBITDA	EBIT	FCFF	Rev	EBITDA	EBIT	FCF	Rev	EBITDA	EBIT	FCF				
Apple	65,225	19,412	18,385	10,943	65,225	19,412	18,385	10,947								
Hewlett-Packard	126,083	17,738	12,918	6,649	2.5 x	7.3 x	10.4 x	14.7 x	0	0	0	0				
Microsoft	62,484	20,771	24,096	17,599	182,192	141,182	191,804	181,280	25,620	25,620	25,620	25,620				
Palm					Enterprise Value											
Dell	81,494	4,403	3,433	2,160	Less: Total Debt				0	0	0	0				
Google	29,321	11,777	10,387	3,474	Plus: Excess Cash				25,620	25,620	25,620	25,620				
Sun Microsystems					= Stock Holder's Equity Capital				187,812	166,802	217,424	185,900				
Sony	72,140	6,647	161	8,487	Divide: Shares Outstanding				925	925	925	925				
Intel	43,623	20,226	15,586	9,374	= Fair Value per Share				203	180	235	202				
Adobe	3,800	1,309	1,016	1,007	Current Stock Price				341	341	341	341				
IBM	99,871	22,982	18,151	13,784	Potential Stock Increase				-40%	-47%	-31%	-41%				
Average Value	62,866	14,565	11,570	8,805												

## Buffett Analysis for Subject Company

July 20th, 2011	Historical Financials (% of revenue)							Buffett Results	Criteria / Questions / Score	Buffett Intrinsic Value Calc	
	Financial Results	2007	2008	2009	2010	2011	Ave				
<b>HOLD</b>	Revenue Growth	n/a	24%	35%	12%	79%	38%	9%	Consistency		<b>Buffett Formula (FCF/RFr)</b>
	Gross Profit	29%	34%	34%	38%	39%	35%	75%	Consistency	Pass 5%	Free Cash Flow (fcf) 14,468
	EBITDA Margin	14%	22%	21%	23%	30%	22%	15%	Consistency		Risk-Free Rate (rfr) 3.8%
Buffett Potential	EBIT Margin	13%	21%	19%	21%	28%	20%	13%	Consistency		Buffett Fair Value (EV) 383,536
<b>24%</b>	Tax Rates	34%	30%	33%	30%	25%	30%	30%	Consistency	Pass 5%	<b>Enterprise Value (EV) Calc</b>
	NOPAT	8%	14%	13%	15%	21%	14%	9%	Consistency	Pass 5%	+ Cash 25,620
	D & A	1%	1%	1%	2%	2%	1%	2%	Consistency	Pass 5%	- Debt 0
Potential Price	Capital Expenditure	3%	3%	4%	3%	3%	3%	5%	Low	Pass 5%	Equity Capital 400,156
<b>\$422</b>	Working Capital Inv	-11%	-11%	-12%	-18%	-7%	-12%	0%	Consistency		Shares 925
	Free Cash Flow	n/a	15%	14%	20%	17%	17%	6%	< Buffett Portfolio	Pass 10%	Potential Stock Price \$442
Last Stock Price									< Rev Growth	Pass 5%	Current Stock Price \$341
<b>\$341</b>									> Buffett Portfolio	Pass 20%	Potential Return 30%
Investment Score									Investment Score	80%	Investment Score 80%
<b>80%</b>											Adjusted Potential 24%

## Weight Average Cost of Capital for Subject Company

WACC	9%	Calculation to Find the Industry Average Estimates for the WACC Calculation (Millions USD)										
WACC Inputs		Name (click for report)	Price	Beta levered	Debt	Shares	Equity	Capital	Debt Equity	Debt Capital	Tax %	Beta unlever
Risk Free Rate	3.8%											
Cost of Debt	6.7%	Apple	\$241	1.38	0	925	314,397	314,397	0.0%	0.0%	30.3%	1.36
Equity Risk Prem	5.0%	Hewlett-Packard	\$36	1.01	22,636	2,164	78,075	100,711	26.0%	22.5%	17.5%	0.82
Alpha	0.0%	Microsoft	\$24	1.05	5,939	8,402	202,834	208,773	2.9%	2.8%	28.8%	1.03
Country Risk Premium	0.0%	Palm	\$-	0.47	0	169					0.0%	
		Dell	\$16	1.42	5,997	1,907	30,451	36,448	19.7%	16.5%	24.9%	1.24
Industry WACC Calculation		Google	\$521	1.17	3,485	322	167,764	171,229	2.1%	2.0%	26.0%	1.15
Beta (unlevered)	1.12	Sun Microsystems	\$-	1.78	0						0.0%	
Industry D/E	9.1%	Sony	\$26	1.42	15,285	1,005	25,940	41,224	58.9%	37.1%	35.0%	1.03
Tax Rate (5 yrs)	26.0%	Intel	\$22	1.13	2,115	5,385	117,235	119,350	1.8%	1.8%	26.8%	1.12
Beta (relevered)	1.19	Adobe	\$33	1.59	1,522	504	16,693	18,215	9.1%	8.4%	25.4%	1.49
		IBM	\$165	0.73	28,750	1,220	200,858	229,608	14.3%	12.5%	29.0%	0.86
Cost of Debt (after-tax)	5.0%	Median (middle #)		1.17	3,485	1,112	117,235	119,350	9.1%	8.4%	26.0%	1.12
Debt / Capital	8.4%											
WACC (debt)	0.4%											
Cost of Equity (capm)	9.7%											
Equity / Capital	91.6%											
WACC (equity)	8.9%											
WACC Conclusion	9.3%											

**Notes on Analysis:**

1. The WACC (discount rate) calculation uses comparable companies to produce a single WACC (discount rate). An industry average WACC (discount rate) is the most accurate for a company over the long term. If there are any short-term differences between the industry WACC and an individual company's WACC (discount rate), then the company's WACC (discount rate) is more likely to revert to the industry WACC (discount rate) over the long term.

2. The WACC calculation uses the higher of the WACC or the risk free rate, because no investment can have a cost of capital that is better than risk free. This situation may occur if the beta is negative and the company uses a significant proportion of equity capital.

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