

# ***BITS & PIECES***

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Continuous Coverage of Selected Arbitrageable Opportunities

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## **September 2009**

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**All prices as of September 8, 2009 unless otherwise noted**

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# HIGHLIGHTED COMPANY

## Retail Ventures, Inc. (RVI); DSW Inc. (DSW)

**Retail Ventures, Inc. is an Ohio-based holding company. The company's primary asset is a 62.9% equity ownership stake in DSW Inc.'s common shares, which, because they are Class B common shares, represent 93.1% of the voting power of the outstanding shares. RVI shares are currently trading at a discount to the company's net asset value, which is based on the value of its DSW stake less net liabilities. Given this circumstance, we recommend that investors initiate a pair trade involving a long position in RVI shares and a short position in DSW shares.**

Historically, RVI had ownership interests in various other retail operations. In January 2008, however, RVI sold its 81% ownership interest in Value City Department Stores. In April 2009, the company then sold its Filene's Basement, Inc. business. Both Value City and Filene's Basement filed for bankruptcy protection following their sale by RVI, and RVI is still listed as guarantor of certain of Value City's and Filene's liabilities. RVI generates no revenues outside of its equity ownership stake in DSW, the operations of which are consolidated in RVI's financial statements.

It could be argued that, now that RVI has divested Value City and Filene's, RVI's equity value is equal to the value of its stake in DSW, less its net liabilities. One would also expect the company to trade at a slight discount to this valuation to account for the possibility that certain contingent liabilities come to pass. An examination of RVI's valuation, however, shows that the company is trading at a significant discount to the current market value of its equity stake in DSW, less its net liabilities and its contingent liabilities. Lastly, although one may question whether this discount represents the tax liability associated with a potential sale of RVI's shares of DSW, it should be noted that these shares are currently trading below the initial public offering price and, possibly, RVI's cost basis. One should also consider that these DSW shares may be distributed to RVI shareholders via a tax-free distribution. Therefore, one could argue that a tax burden is unlikely to arise from RVI's divesting its stake in DSW.

At present, we estimate that RVI is trading at a 10.4% discount to net asset value, which we estimate using RVI's pro forma balance sheet under the assumption that certain obligations will be fulfilled via an exchange of DSW shares. This discount could be as wide as 26.6% should RVI not be held responsible for liabilities of Value City and Filene's that the company has guaranteed. The elimination of this discount would imply a fair value for RVI shares of between \$5.30 and \$6.47 based on the current DSW share price of \$14.12. This represents 12%-36% upside from RVI's current share price of \$4.75.

The relationship between shares of RVI and DSW presents an arbitrage opportunity, whereby investors could profit from a long position in RVI and a short position in DSW should the valuation gap between these shares close. Further, those investors who have a positive outlook with respect to DSW may capture higher returns by alternatively taking a long position in RVI.

Please refer to our published Spin-Off Report on Retail Ventures, Inc., dated August 25, 2009, for additional information.

RVI: Discount to NAV Assuming DSW Shares Exchanged for PIES (figures in 000's, except per-share amounts)			
Total Assets	\$41,883	27,703	DSW Shares
		(5,245)	Shares Exchanged for PIES
Total Current Liabilities	\$50,940	22,458	Net DSW Position
Long-Term Guarantees of Disc. Ops.	\$19,486	\$14.12	DSW Share Price (9/8/09)
Other NonCurrent Liabilities	\$1,720	<b>\$317,108</b>	<b>Value of DSW Stake</b>
Deferred Income Taxes	\$28,726	(\$58,989)	Book Value of RVI
		<b>\$258,119</b>	<b>Implied Equity Value of RVI</b>
Shareholders' Equity	(\$58,989)	48,684	RVI Shares
Total Liabilities and SE	\$41,883	\$4.75	RVI Share Price (9/8/09)
		<b>\$231,248</b>	Current Market Cap. of RVI

RVI's Discount to NAV	10.4%
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Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Aruze Corp. (6425 JP); Wynn Resorts (WYNN)

**Aruze Corp. is a Japanese company that manufactures quasi-gaming machines. These machines, called pachinko and pachislot, are similar to slot machines found in Western casinos, allowing the Japanese to partake in games of chance even though gambling is illegal in Japan. The pertinent variable for Aruze as a *Bits & Pieces* subject is its 23.6% ownership interest in Wynn Resorts. When this holding in Wynn is subtracted from Aruze's market capitalization, the Aruze stub totals (\$677) million, despite the fact that Aruze's book value minus the book value of the Wynn investment is about \$872 million (see exhibit below). Consequently, a buyer of Aruze is essentially receiving its quasi-gaming business at a steep discount to book value. Alternatively, Aruze represents a cheaper alternative to purchasing Wynn Resorts outright.**

The Aruze stub clearly does not reflect the value of the company's assets. For example, on March 31, 2009, Aruze reported shareholders' equity of \$1.4 billion. Even if the company's investment securities, which represent the book value of the Wynn Resorts investment, were deducted, the adjusted book value would amount to \$872 million. Moreover, a substantial majority of assets consists of tangible assets, as goodwill represents only \$4.4 million of the total. A plausible explanation for the valuation discrepancy might be that Wynn Resorts is overvalued, or it may be that Aruze's earnings have yet to be fully realized.

On December 22, 2008, Wynn opened Encore, a 2,034-room hotel resort in Las Vegas. Encore features five signature restaurants, seven bars, a nightclub, and a spa and salon, among other opulent amenities. Apart from its Las Vegas operations, Wynn also operates a casino in Macau, the Chinese enclave where revenue from casino operations has surpassed that of Las Vegas, reaching \$13.7 billion in 2008. In less than two years of operation, Wynn's casino in Macau has managed to account for over 50% of Wynn's net casino revenues, a clear sign of its growth potential.

As of March 31, 2009, Wynn had \$4.8 billion in long-term debt outstanding on its balance sheet. It must be noted, however, that Wynn's long-term schedule of debt maturities indicates that only \$2.7 million and \$379 million is due in 2009 and 2010, respectively. These payments are currently covered by \$1.7 billion in cash on hand.

During the last eleven months, shares of Wynn have moved from the 2008 summertime high of \$114.67 to their current value of \$57.74 – a decline of 50%. This decline would have had a beneficial impact on the value of the Aruze stub if Aruze's own share price had not also fallen from its summertime high of ¥3440 to its current price of ¥978 – a decline of 72%. With that said, shares of Wynn have risen approximately 88% since July, while Aruze's share price has risen only 28%.

Investors are referred to our initial report in the January 2007 edition of *Bits & Pieces* for a comprehensive analysis.

<i>(US\$ in millions, except per-share data)</i>	<u>Per Share</u>	
Aruze Corp. share price (9/8/09)	\$10.60	
Shares outstanding (millions)	80	
<b>Market capitalization</b>	<b>\$850</b>	
Wynn share price (9/8/09)	\$57.74	
Shares held by Aruze (23.6%)	26	
Less: value held by Aruze	(\$1,527)	(\$19.04)
<b>Adjusted market value</b>	<b>(\$677)</b>	<b>(\$8.44)</b>
Vs. Aruze stated book value	\$1,382	\$17.23
Less: book value of Wynn investment	(\$511)	(\$6.37)
<b>Adjusted book value</b>	<b>\$872</b>	<b>\$10.87</b>
Aruze share price in home currency	¥978	
WSJ exchange rate (per US\$)	¥92.26	
Aruze share price in US\$	\$10.60	

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Bank of America Corp. (BAC); BlackRock Inc. (BLK); China Construction Bank Corp. (939 HK)

On January 1, 2009, Bank of America completed the acquisition of Merrill Lynch, one of the world's leading capital markets, advisory, and wealth management companies. With the completion of the transaction, Bank of America gained what is now a 46.3% capital stake in publicly traded investment management firm BlackRock, which currently holds \$1.3 trillion in assets under management (AUM). Bank of America currently holds over 61 million of BlackRock preferred series B shares.

Bank of America also owns a 10.7% stake in China Construction Bank Corporation (CCB), a Chinese commercial bank with over 13,000 branches. CCB specializes in delivering banking solutions in three areas: corporate banking, personal banking, and treasury operations. In May 2009, Bank of America sold 13.5 billion shares of CCB that had become transferable in October 2008, raising \$7.3 billion as part of its government stress-test mandated efforts. Bank of America currently holds 25.6 billion shares of CCB, which will remain non-transferable until August 2011.

BlackRock is a valuable asset, currently worth \$1.66 per Bank of America share and 10% of Bank of America's market capitalization. Given the low valuation and potential for top-line growth, we believe that BlackRock's \$12.0 billion of value to Bank of America could easily become much higher. For example, on June 16, 2009, BlackRock announced that it had entered into an agreement to acquire Barclays Global Investors (BGI), including its iShares exchange-traded funds (ETF) platform, for \$6.6 billion in cash and a 19.9% economic ownership in BlackRock. Owing to the terms of the transaction, Bank of America's stake in BlackRock will be diluted to a certain extent, but if the transaction is approved by shareholders, BlackRock's assets under management will increase to \$2.7 trillion. It should be noted that the ETF industry is growing exponentially, increasing the potential for BlackRock to dramatically expand its AUM.

Additionally, on July 8, 2009, Bloomberg reported that BlackRock had been selected to become one of the US Treasury's designated investment managers under the government's public-private investment program (PPIP). The PPIP will utilize \$20 billion to purchase mortgage-backed securities from several banks. Participation in the PPIP should provide an additional source of revenue growth for the company. Three of the ten selected PPIP companies have already announced plans to launch REIT IPO's for the subsidiaries that will be engaged in this activity, and it is possible that BlackRock will consider doing so as well. In any case, any REIT IPO's that are launched could serve as valuation benchmarks for this business within BlackRock.

Without giving consideration to the BGI acquisition, as of June 30, 2009, BlackRock maintained a highly liquid balance sheet, with cash and investments well in excess of debt. Adjusted for net cash and investments of \$395 million, BlackRock trades at only 1.86% of its assets under management without giving consideration to the BGI acquisition, of which 60% was composed of liquidity and fixed income products.

Bank of America currently trades at 26.3x consensus 2009 earnings estimates (as consensus estimates have yet to be updated), compared with a historical P/E ratio closer to 11.4x. When its holding in BlackRock is subtracted from its market capitalization (and from earnings), the adjusted market value represents a multiple of 25.8x earnings estimates. When further adjusted for its holding in CCB, the Bank of America stub trades at 21.0x earnings estimates (see exhibit below). On a P/BV basis, the Bank of America stub is currently trading at 0.61x the 2009 consensus book value estimate, compared to 0.75x before adjusting for its holdings in BlackRock and China Construction Bank. Both valuations are well below its historical average P/BV multiple of 1.80x. Comparable company book value estimate multiples range between 0.76x and 1.83x.

<i>(US\$ in millions, except ratios and per-share data)</i>		Per Share	Fwd P/E	Price/Book
Bank of America share price (9/8/09)	\$17.11			
Shares outstanding (millions)	7,270			
<b>Market capitalization</b>	<b>\$124,381</b>		26.3	0.75
BlackRock share price (9/8/09)	\$199.10			
Preferred B Shares held by Bank of America (46.3% of BlackRock capital stock)	61			
Less: value held by Bank of America	(\$12,089)	(\$1.66)		
<b>Adjusted market value</b>	<b>\$112,293</b>	<b>\$15.45</b>	25.8	0.70
China Construction Bank share price (9/8/09)	\$0.81			
Shares held by Bank of America (10.7%)	25,600			
Less: value held by Bank of America	(\$20,810)	(\$2.86)		
<b>Adjusted market value</b>	<b>\$91,483</b>	<b>\$12.58</b>	21.0	0.61
China Construction Bank in home currency	HKD 6.30			
WSJ exchange rate (per US\$)	HKD 7.75			
China Construction Bank in US\$	\$0.81			

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## EMC Corp. (EMC); VMware Inc. (VMW)

**With revenues of \$14.9 billion in 2008, EMC Corp. is the world's largest supplier of data-storage hardware and software. In August 2007, EMC sold stock representing a 15% interest in its subsidiary, VMware Inc., by means of an initial public offering (IPO). EMC currently retains an 83% stake in VMware, including 98% of the combined voting power of Class A and Class B shares of the outstanding common stock.**

EMC provides RAID (redundant array of independent disks) storage systems, a product with rapidly increasing usage over the past decade. EMC customers are from diverse industries, which mitigates the risk associated with a downturn in any one sector. EMC also sells network attached storage (NAS) file servers, along with a variety of software designed to manage, protect, and share data. Its biggest resale partner, Dell, sells co-branded EMC systems. In addition, EMC has a joint venture with Samsung Electronics (005930 KS), which has increased EMC's exposure to the rapidly growing Asian market.

VMware specializes in a process known as "virtualization," which essentially enables a single computer to function like multiple computers. The process results in significantly lower costs for its customers. The company's President and CEO is Paul Maritz, who helped build the Windows franchise at Microsoft in the mid- to late 1990's.

On July 8, 2009, EMC announced that it had entered into a definitive agreement to acquire Data Domain, Inc. (NASDAQ: DDUP) for a total enterprise value of \$2.1 billion. Data Domain, which specializes in duplication storage systems, will accelerate EMC's expansion into the disk-based backup and archive market.

The stub is priced at 12.5x forward consensus earnings estimates. Competitors, such as Hewlett-Packard (NYSE: HPQ), IBM (NYSE: IBM), Dell (NASDAQ: DELL), and NCR (NYSE: NCR), trade at an average of 14.6x consensus earnings estimates. Financial metrics appear to support an industry-sector valuation multiple, as EMC has achieved double-digit annual revenue growth for six consecutive years, although revenue in the first quarter of fiscal 2009 declined 9.2% compared with the same period in 2008.

Since January 2008, the value of the EMC stub has ranged between a low of \$3.73 per share in January 2008 and its recent high of \$10.25. The share price of VMW has recently increased a great deal, moving from a low of \$17.88 in early December 2008 to its current value of \$37.32 – an improvement of about 109%. EMC's share price posted a significantly smaller increase of about 61% during the same period. Because of this, the market value of VMW currently represents a higher percentage of EMC Corp.'s equity value than it did in December 2008.

Investors are referred to our initial report in the September 2007 edition of *Bits & Pieces* for a comprehensive analysis.

<i>(US\$ in millions, except ratios and per-share data)</i>		Per EMC Share	% of EMC's Market Value	Fwd. P/E
EMC Corp. share price (9/8/09)	\$16.31			
Shares outstanding (millions)	2,013			
<b>Market capitalization</b>	<b>\$32,832</b>			19.9
VMware Inc. share price (9/8/09)	\$37.32			
Shares held by EMC (83%)	327			
Less: value held by EMC	(\$12,204)	(\$6.06)	37.17%	
<b>Adjusted market value</b>	<b>\$20,628</b>	<b>\$10.25</b>		<b>12.5</b>

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Guardian Capital Group (GCG/A CN); Bank of Montreal (BMO CN)

(In Canadian dollars, unless otherwise stated)

On July 19, 2001, Guardian Capital Group announced the completion of the sale of its mutual fund subsidiary to Bank of Montreal for 4.9 million BMO common shares. Net of this holding of BMO shares, combined with other liquid investments and net debt, the Guardian stub is currently priced at C\$0.70 per share, which is a historically low value (see table and exhibit below). Since March 2007, the Guardian stub price has declined from C\$5.37 to its current price, while the share price of Bank of Montreal is down 25%. During the same period, Guardian Capital's assets under management have declined from C\$17 billion to C\$11.8 billion.

	Mar-07	Nov-07	Apr-08	Oct-08	Dec-08	Mar-09	Aug-09
Guardian Cap. Stub	\$5.37	\$4.19	\$4.65	\$2.26	\$0.55	\$0.11	\$0.28

Guardian operates an asset management business and a financial advisory business. Net of the Bank of Montreal holding and its other liquid investments, the adjusted enterprise value, as a percentage of assets under management (AUM), yields 0.24%. Other asset management companies are currently valued at higher EV/AUM multiples. Using the actual enterprise value, a valuation on an EV/AUM basis would yield a share price of \$2.22, \$5.41, and \$8.60, based off EV/AUM multiples of 1%, 2%, and 3%, respectively, before attributing the value of \$6.95 per share from Guardian's stake in Bank of Montreal.

Guardian Capital's valuation could easily be buoyed by a spin-off of its substantial shareholdings in Bank of Montreal. That said, there is no basis for expecting such a transaction in the near term. However, it appears that the remaining Guardian operations, particularly the asset management division with C\$11.8 billion in AUM, are approaching a scale such that their earnings will become more representative of the company's potential. Consequently, they could garner a more reasonable valuation in the public markets. The Bank of Montreal shares currently mask that pending value realization. It is merely supposition, though it is logical and consistent with Guardian's historical approach to exploiting value disparities, to assume that these shares will ultimately be disposed of.

Investors are referred to our initial report in the November 2004 edition of *Bits & Pieces* for a comprehensive analysis.

<i>(C\$ in millions, except ratios and per-share data)</i>	Per Share	Fwd. P/E	Net Enterprise Value/AUM*
Guardian share price (9/8/09)	\$6.69		
Shares outstanding (millions)	37		
<b>Market capitalization</b>	<b>\$248</b>	27.9	
Bank of Montreal share price (9/8/09)	\$51.88		
Shares held by Guardian	5		
Less: value held by Guardian	(\$257)	(\$6.95)	
<b>Adjusted market value</b>	<b>(\$10)</b>	<b>(\$0.26)</b>	N/M
Add: parent-level net debt	\$36		
<b>Adjusted enterprise value</b>	<b>\$26</b>	<b>\$0.70</b>	<b>0.22%</b>
*AUM on June 30, 2009	\$11,800		

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## ICICI Bank (IBN); Financial Services Subsidiaries

**ICICI Bank Ltd. is India's largest private-sector bank. In January 2008, ICICI announced that it planned to sell shares in its investment banking and securities unit, ICICI Securities Ltd., and to divest a newly formed unit, ICICI Financial Services. This transaction is now anticipated to take place following the sale of shares in ICICI Securities. This situation does not qualify as a traditional *Bits & Pieces* subject because the parent does not yet own holdings in publicly traded subsidiaries. However, ICICI Bank is brought to the reader's attention because its stub core banking operations, a venture funds management company, and a home finance company appear undervalued.**

ICICI Securities has the largest client base of any brokerage company in India. It is worth considering that turnover at the National Stock Exchange of India has increased at a compound annual rate of 60% over the last five years. Moreover, average daily volume on the exchange increased from US\$1.5 billion in 2003 to US\$34 billion in 2008. ICICI Financial Services is a holding company that includes ICICI Bank's 74% stake in its life and general insurance companies and its 51% stake in its asset management and trust company. Each of these three businesses has a roughly 11% market share. Its joint venture with Prudential plc (PRU LN), ICICI Prudential Life Insurance, is the largest life insurance company in India. Since incomes are rapidly rising in India and life insurance is a relatively new financial product, this company has enormous growth potential that is probably not dissimilar to the growth experienced by China Life Insurance (NYSE: LFC) in the last several years.

ICICI Bank earned an 11% return on equity for fiscal year 2008, although ROE slipped to 8% in fiscal 2009. In FY09 it expanded its branch network by 12% and its ATM network by 21%, growth metrics not possible in developed nations. If one were to assume that 11% ROE reflects ICICI Bank's normalized earnings potential, and that it is achievable going forward, the company could produce fiscal year 2010 earnings of \$2.04 per ADR based on the current book value of \$18.41 per ADR.

Further, the company's return on equity for fiscal year 2008 included no earnings from its life insurance segment owing to the large initial expenses related to establishing the business and the up-front reserving of actuarial liabilities. Moreover, regulations in India do not allow for the amortization of policy acquisition costs, which further depressed earnings. One could argue, therefore, that the earnings power of this segment should be based on a comparable company's ROE. As a comparable we have chosen China Life, which posted a 15% return on equity for fiscal year 2008. Based on the current book value of \$989 million for ICICI's life insurance segment, a 15% ROE would imply incremental earnings of \$0.20 per ADR to ICICI Bank (based on its 74% stake), for combined earnings of \$2.24 per ADR. On this basis, shares of ICICI Bank are trading at 14.6x projected fiscal year 2010 earnings, a valuation that appears compelling given the company's growth potential.

As an alternative perspective, it should be noted that in June 2007 a group of investors, including Goldman Sachs, Swiss Re, and Temasek Holdings, offered \$650 million for a 5.9% stake in ICICI Financial Services, implying a firm value of \$11 billion versus ICICI Bank's current market capitalization of \$18.2 billion. Although it can be argued that this is no longer a valid benchmark as it represents a significant premium to current market multiples, one could also argue that current operating results understate the earnings potential of the two firms. Further, one could also argue that ICICI's Financial Services business is in a secular growth industry of considerable size, for which a premium is legitimately due.

Investors are referred to our initial report in the January 2008 edition of *Bits & Pieces* for a comprehensive analysis.

<i>(US\$)</i>	
ICICI Bank ADR (9/8/09)	\$32.76
ADR shares outstanding (millions)	557
ICICI Bank 2008 ROE	11.1%
ICICI Bank book value per ADR	\$18.41
ICICI Bank FY2010 estimated earnings per ADR	\$2.04
China Life 2008 ROE	15.0%
ICICI Life Insurance book value	\$989
ICICI Life Insurance FY2010 earnings per ADR	\$0.20
Combined FY2010 estimated earnings per ADR	\$2.24
Implied P/E	14.6
ICICI Securities Ltd. earnings in home currency (mn)	INR 1,498
ICICI Bank book value in home currency (mn)	INR 495,325
ICICI Life Insurance book value in home currency (mn)	INR 47,811
Calculated WSJ exchange rate (per \$)	INR 48.34
ICICI Securities Ltd. earnings in US\$ (mn)	\$31
ICICI Bank book value in US\$ (mn)	\$10,247
ICICI Life Insurance book value in US\$ (mn)	\$989

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## LaBranche & Company (LAB); NYSE Euronext (NYX)

In 2006, LaBranche received 3.1 million New York Stock Exchange shares as part of NYSE's merger with Archipelago Holdings. Today, LaBranche's NYX stake has a market value of \$88 million, representing approximately 41% of LaBranche's own market capitalization. The exercise of stripping the market value of LaBranche's NYX stake from its own equity valuation has led to significant changes in the implied value of the stub company, as seen in the table below. Adjusted to exclude the market value of its NYX shares, LaBranche's specialist business, which handles 731 securities on the NYSE, is valued at just \$111 million, a 48% discount to the company's adjusted tangible book value of \$211 million.

	Jun-05	Dec-05	May-06	Sep-06	Jan-07	Dec-07	Feb-08	Sep-08	Aug-09
LaBranche	\$6.30	\$10.11	\$12.94	\$10.37	\$9.38	\$5.04	\$4.64	\$6.64	\$4.11
Stub	\$4.18	\$7.39	\$9.71	\$6.65	\$3.94	\$0.51	\$1.55	\$4.54	\$2.43

The specialist business has been under pressure for some time, as decimalization and increased program trading have hurt the profitability of specialists and caused declines in the percentage of total volume executed on the NYSE floor. With that said, LaBranche was once a highly profitable enterprise engaged in facilitating securities trades. Recently, record volatility in the financial markets and a focus on non-traditional products led to significant growth in the company's 2008 results. However, pro forma net income for the quarter ended June 30, 2009, which excluded unrealized losses in its NYX holdings, was (\$4.9) million, compared with \$1.7 million for the same period in 2008.

Over the long term, there is potential for the market-maker business to become more profitable due to the SEC's approval of rules that change the role of specialists to "designated market makers" or "DMM's." These rule changes allow DMM's to provide liquidity without some of the obligations that may have adversely affected specialists' profitability in the past. LaBranche's profitability could benefit tremendously now that the firm is allowed to trade with more freedom and without the informational disadvantage resulting from the trading restrictions imposed upon it as a specialist, which have, presumably, been removed. The performance of this segment is also strongly correlated with volatility in the financial markets, which hit record highs in 2008. This volatility has played a significant role in driving trading volumes in equities, as evidenced by the significant increase in the trading volume of NYSE-listed securities in the second half of 2008.

On March 1, 2009, transaction pricing changes came into effect on certain NYSE transactions. The fee change, which included customer rebates for adding liquidity, came in conjunction with improvements in NYSE execution speed. These pricing changes should also enhance LaBranche's future profitability.

Finally, and perhaps most significantly, LaBranche has adopted a strategy of focusing on non-traditional products, such as options, exchange-traded funds (ETF's), and futures, both domestically and globally. These instruments are increasingly being used by institutional investors as hedging tools and as a means of controlling volatility, and LaBranche's balance sheet assets have been sharply reallocated to support these rather than common stock trading. As a result, these markets' strong growth potential could have a tremendous positive impact on LaBranche's growth in coming years. Recent evidence of this is seen in the 123% growth in ETF trading volumes in 2008 compared with 2007, and in the 37% increase in options contracts in 2008 compared with 2007.

The ability to reallocate capital away from common stock trading has also allowed LaBranche to begin repurchasing a significant portion of its outstanding shares. As of August 7, 2009, the number of shares outstanding stood at 53.6 million, implying that the company had purchased over 4.8 million shares, or 8.3% of its outstanding shares, since it disclosed its first quarter 2009 filing.

As the exhibit below shows, LaBranche trades at 0.5x book value. After subtracting its holding in NYX from LaBranche's tangible book value, the LaBranche stub trades at just 0.5x book value. For the sake of argument, one could presume that LaBranche's specialist business is actually worthless. This would mean the company could use its shareholders' equity of \$408 million as capital for another endeavor. If nothing else, LaBranche could focus exclusively on its role as a market maker in securities.

<i>(US\$ in millions, except ratios and per-share data)</i>		Per Share	Price/Book
LaBranche share price (9/8/09)	\$3.70		
Shares outstanding (millions)	54		
Market capitalization	\$198		0.5
NYSE Euronext share price (9/8/09)	\$28.08		
Shares held by LAB	3		
Less: value held by LAB	\$88	\$1.64	
<b>Adjusted market value</b>	<b>\$111</b>	<b>\$2.06</b>	
Book value of LAB	\$408		
Less: intangible assets	\$109		
Tangible book value	\$299		
Less: Value of NYSE Euronext stake	\$88		
<b>LAB tangible book value, ex. NYSE Euronext</b>	<b>\$211</b>	<b>\$3.93</b>	<b>0.5</b>

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Liberty Entertainment (LMDIA, LMDIB) / Liberty Starz (LSTZA, LSTZB)

On December 12, 2008, Liberty Media Corp. (NASDAQ: LCAPA/LCAPB) announced that its Board of Directors had approved a plan to exchange shares of Liberty Entertainment group tracking stock (NASDAQ: LMDIA/LMDIB) for shares of Liberty Entertainment, Inc. ("LEI"), a newly formed entity that will hold the majority of the assets currently assigned to the Liberty Entertainment group, and for shares of Liberty Starz (NASDAQ: LSTZA/LSTZB), which will be allocated the remaining assets of the Liberty Entertainment group. The exchange and distribution of shares (split-off) is expected to be tax-free to shareholders. Further, on May 4, 2009, Liberty Media Corp. announced a definitive agreement to combine the assets of Liberty Entertainment, Inc., which include approximately 54% of the common stock of The DIRECTV Group, Inc. (NASDAQ: DTV), with The DIRECTV Group, Inc.

The LEI split-off, which was set in motion with the hope of unlocking the latent value of that entity's media assets, represents a potential arbitrage scenario for investors, in that the sum of the value of LEI and the surviving entity, Liberty Starz, appears greater than the value of Liberty Entertainment group today. Further, given the agreement for LEI to merge with DIRECTV, a publicly traded company, investors have both a high degree of visibility into the value of LEI and, by hedging their exposure to these assets, the ability to create a position in Liberty Starz at a discount prior to the split-off.

The assets that will be allocated to LEI represent the majority of Liberty Entertainment group's net asset value and, for shareholders that will own LEI via their ownership in Liberty Entertainment group, will effectively be exchanged for shares in DIRECTV at an exchange ratio of 1:1. However, shareholders of Liberty Entertainment group will also receive a stake in Liberty Starz, the value of which appears to be underappreciated in Liberty Entertainment group's share price. Please refer to our published *Spin-Off Report* on Liberty Starz, dated May 19, 2009, for additional information.

We believe the opportunity exists for investors to create a position in Liberty Starz at a significant discount to fair value. At current prices, if investors were to purchase shares of LMDIA/LMDIB prior to the split-off transaction, while simultaneously shorting shares of DTV, we estimate that they would be purchasing Liberty Starz at a negative enterprise value, as opposed to the 5x-6x EV/OIBDA valuation the shares could receive as a separate entity.

We have established a fair value estimate of \$40 per share for Liberty Starz based on a target EV/OIBDA multiple of 4.5x, a significant discount to its peers due to the limited disclosure surrounding the entity. We would recommend shares of Liberty Starz for purchase should they trade at a meaningful discount to fair value at the onset of regular-way trading.

The \$40 per share target price also implies a valuation of \$4 per LMDIA/LMDIB share and, given the terms of the definitive agreement for LEI's merger with DIRECTV, a \$4 per share price differential between shares of LMDIA/LMDIB and DTV, assuming completion of both the proposed split-off and merger with DIRECTV. We would also recommend creating a position in Liberty Starz via a long position in LMDIA/LMDIB and a short position in DTV, should the spread be significantly below \$4 leading into the split-off and merger transactions. Investors can create a position in Liberty Starz today in this manner for approximately \$3.05 per share. Given our target spread of \$4 and the total capital at work of over \$53 per share (long LMDIA at \$28.08 and short DTV at \$25.03), the potential for this spread to widen by \$0.95 would imply a yield of approximately 1.8% over a four-month time period, for an annualized return of 5.4%.

The spread between LMDIA and DTV is volatile, and opportunities may arise to establish this trade at a more attractive price and/or at a point in time nearer to the close of this transaction, for an annualized yield of above 20%.

Current Shareholders of..	..Will Own Shares of	
	Upon Split-Off	Upon Merger with DIRECTV
100 shares of LMDIA	90 shares of LEI Series A common stock 10 shares of LSTZA tracking stock	100 shares of DIRECTV Class A common stock 10 shares of LSTZA tracking stock
100 shares of LMDIB	90 shares of LEI Series B common stock 10 shares of LSTZB tracking stock	100 shares of DIRECTV Class A common stock 10 shares of LSTZB tracking stock
		Shr. Price      x10
	LMDIA share price (9/8/09)	\$28.08      \$280.80
	DIRECTV share price (9/8/09)	\$25.03      \$250.30
	<b>Implied value of 1 Liberty Starz share</b>	<b>\$30.50</b>

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Loews Corp. (L); CNA Financial Corp. (CNA); Diamond Offshore Drilling, Inc. (DO); Boardwalk Pipeline Partners, LP (BWP)

NYSE-listed Loews Corp. is a New York-based holding company with a broad range of business interests. Loews Corp. is unusual for a holding company because a large portion of the value of its holdings is in publicly listed companies. This circumstance offers investors an easily identifiable market valuation for a large portion of the company, which can then be assessed in a sum-of-the-parts context. On this basis, one finds that the current market value of Loews Corp. is less than its net cash plus the current ownership-weighted market capitalizations of the publicly listed companies it owns, with no consideration being given to its other businesses.

Loews Corp.'s current holdings include the following publicly listed companies: a 90% interest in CNA Financial Corp. (NYSE: CNA), a commercial property and casualty insurance company; a 50% interest in Diamond Offshore Drilling, Inc. (NYSE: DO), an offshore oil and gas drilling rig operator; and a 74% interest in Boardwalk Pipeline Partners, LP (NYSE: BWP), an interstate natural gas pipeline operator. Loews Corp. also wholly owns two private businesses: HighMount Exploration & Production LLC, which is involved in the exploration, production, and marketing of natural gas; and Loews Hotels Holding Corp., a luxury hotel chain. The parent company currently has \$2.7 billion in cash and investments on its balance sheet and \$866 million of indebtedness, for a net cash position of \$1.8 billion.

Loews's current market capitalization is \$14.5 billion. However, as seen in the exhibit below, the value of Loews's ownership stakes in its publicly traded companies, plus its \$1.8 billion in net cash, is currently \$18.6 billion. Based on this discrepancy, the shares of Loews are trading at a 12.6% discount to the value of the company's equity stakes in CNA, DO, and BWP plus net cash. Stated differently, an investment in Loews represents the opportunity to buy, at a discount, a stake in its publicly traded entities and its cash, while obtaining a stake in the company's private businesses for free. Furthermore, shares of CNA are currently trading at a 27% discount to book value. If one were to acquire exposure to CNA through an investment in Loews, one would effectively be purchasing a stake in a discounted company through the acquisition of shares of another discounted company.

If one were to assign an earnings multiple to Loews's private businesses, the parent company discount to the sum-of-its-parts is even greater. Using comparable company multiples for Loews Hotels and HighMount, one could argue that Loews's private businesses are valued at \$1.9 billion, bringing the total discount for Loews Corp. to 21.7% (see exhibit below).

The case against a conglomerate discount, such as is seen here, is a difficult one. If one believes that the only means of closing this discount is the eventual disposition of these assets in a tax-efficient manner, the case for a tighter spread becomes significantly more challenging in light of the current financial markets. However, over the long term, Loews Corp. does have a history of monetizing assets, as witnessed by its distribution of Lorillard (NYSE: LO) shares to its shareholders. At such a significant discount to its core holdings, shares of Loews Corp. appear to be an attractive long-term opportunity.

	Loews's Ownership	Shares Outstanding (mn)	Share Price	Total Equity (mn) Valuation	Value to Loews (mn)
Publicly Traded Assets + Cash					
CNA Financial	90.0%	269	\$23.56	\$6,338	\$5,704
Diamond Offshore	50.4%	139	\$91.81	\$12,769	\$6,436
Boardwalk Pipeline	74.0%	156	\$23.44	\$3,645	\$2,697
Net Cash and Investments at Parent					\$1,811
<b>Value of Publicly Traded Holdings + Net Cash</b>					<b>\$16,648</b>
			2008 Net Income	Comp. P/E Multiples	Value to Loews (mn)
Other Assets	Loews's Ownership	2008 Revenues (mn)	(mn)		
Loews Hotels Holding Co.	100.0%	\$380	\$40	12.8x	\$512
HighMount Exploration and Production	100.0%	\$770	\$179	7.9x	\$1,415
<b>Total Other Assets</b>					<b>\$1,926</b>
<b>Sum-of-the Parts Valuation of Loews</b>					<b>\$18,574</b>
<b>Loews Corp. - Equity Value</b>					<b>\$14,543</b>
Discount to Publicly Traded Holdings + Net Cash					12.6%
Discount to Sum-of-Parts Valuation					21.7%

Source: Company reports, Thomson One, and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Macquarie Airports (MAP AU); Copenhagen Airports (KBHL DC)

**Macquarie Airports (MAP) is one of the largest owners and operators of airports worldwide, with airport properties located in major hubs of travel throughout Europe, Australia, Mexico, and the UK. Specifically, MAP owns an economic interest in the following airports: 74.0% in Sydney Airport; 36.0% in Brussels Airport; 26.9% in publicly-traded Copenhagen Airports; 35.5% in Bristol Airport; and, 16.0% in publicly-traded Grupo Aeroportuario del Sureste (ASURB MM). As illustrated in the exhibit below, MAP trades at a 10.1% dividend yield when subtracting the market value of its stake in Copenhagen Airports and its investment in publicly-traded ASURB.**

MAP divested its entire interest in Japan Airport Terminal (JAT) on August 3, 2009, for A\$260 million through a buyback tender offer. Macquarie Airports had held approximately a 15% interest in JAT, which accounted for 4% of Macquarie Airport's 2008 EBITDA.

On September 7, 2009, MAP announced a definitive proposal to internalize the company's management. Historically, MAP had paid its majority shareholder, Macquarie Group (MQG AU), a base management fee for providing management and advisory services. Since its listing in 2002, MAP has paid Macquarie Group base management fees and performance fees of approximately A\$550 million. Under the terms of the proposal, MAP would acquire the management rights from Macquarie Group for A\$345 million and would employ the management team directly. In order to finance the acquisition of the management rights, MAP would raise A\$356 million via an entitlement offer. The internalization proposal, along with the entitlement offer, is scheduled to be voted upon at a shareholders meeting on September 30, 2009.

Under the terms of the entitlement offer, MAP would issue a maximum of 155.1 million new shares. Shareholders as of October 12, 2009 would be entitled to subscribe for 1 new MAP share at A\$2.30 (a 10% discount to current prices) for every 11 MAP shares held. The entitlement offer would provide existing shareholders the opportunity to avoid any dilutive effects. If one were to assume, however, a pro forma share count of 1,861.2 million shares outstanding, MAP would trade at a 9.9% dividend yield based on the current share price. Although one could argue that the dilutive impact of this offer may cause MAP's share price to decline, MAP is expected to achieve cost savings of A\$31 million per annum, which should be beneficial to MAP's share price over the long term. Further, the internalization of management would allow MAP to plan and implement its future strategy independently.

Along with its quarterly financial statement disclosures, MAP management discloses an estimated net asset backing. The details of this calculation are vague, but it is based on MAP management's discounted cash flow analysis of each operating segment, with discount rates ranging from 12%-15% by airport. As of June 30, 2009, the management of MAP estimated net asset backing to be A\$3.95 per share, adjusted for its upcoming entitlement offer, implying a discount to its current share price of 36%. Despite the fact that the net asset backing is calculated on a measure other than the publicly-traded price of Copenhagen Airport, one may argue that the figure could serve as a proxy to valuing MAP. It should be noted that the sales of the Rome airport and Birmingham airport occurred above net asset backing valuations in 2007, although more recent sales have occurred at par or at slight discounts to net asset backing valuations.

<i>(A\$ in millions, except ratios and per-share data)</i>		Per Share	Div. Yield	Fwd P/E
Macquarie Airports share price (9/8/09)	\$2.53			
Shares outstanding (millions)	1,706			
<b>Market capitalization</b>	<b>\$4,316</b>		<b>8.3%</b>	<b>22.6</b>
Copenhagen Airports share price (9/8/09)	\$259.81			
Shares held by Macquarie Airports (26.9%)	2			
Less: value held by Macquarie Airports	(\$548)	(\$0.32)		
Grupo Aeroportuario del Sureste share price (9/8/09)	\$4.89			
Beneficial interest held by Macquarie Airports (16.0%)	44			
Less: value held by Macquarie Airports	(\$217)	(\$0.13)		
<b>Macquarie Airports Stub Value</b>	<b>\$3,551</b>	<b>\$2.08</b>	<b>10.1%</b>	<b>18.6</b>
Copenhagen Airports share price in home currency	DKK 1,149			
Calculated WSI exchange rate (per AUD)	DKK 4.42			
Copenhagen Airports share price in AUD	AUD 259.81			
Grupo Aeroportuario del Sureste share price in home currency	MXN 56			
Calculated WSI exchange rate (per AUD)	MXN 11.51			
Grupo Aeroportuario del Sureste share price in AUD	AUD 4.89			

Source: Thomson One and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Melco International Development Ltd. (200 HK); Melco Crown Entertainment Ltd. (MPEL); Value Convergence Holdings Ltd. (821 HK)

Melco International retains a 37.8% equity interest in Melco Crown Entertainment (“Crown”), a gaming company that has secured one of six concessions to operate casinos in Macau. In December 2006, Crown completed an initial public offering in the US, and at Crown’s current price, Melco International’s interest in its subsidiary is valued at \$1,145 million. Meanwhile, Melco International’s own equity market capitalization is just \$872 million at current exchange rates. Melco International also owns a 43.4% interest in Value Convergence Holdings Ltd., an investment banking and financial services firm. The Melco International stub, which represents interests in businesses such as restaurants and technology development for financial institutions and gaming operators, trades at a negative market value, after giving effect to the market value of Crown and Value Convergence Holdings (see exhibit below).

Crown has approximately 603,000 square feet of gambling space in its Macau casinos. If it were to achieve revenues (based on a metric of sales per square foot of gambling space) comparable to those of Las Vegas Sands’ first quarter 2009 Macau operations, and if it were to achieve a comparable EBITDAR margin of 22%, then EBITDAR would be approximately \$484 million for Crown’s Macau operations alone. This compares with 2008 EBITDA of \$189 million for Crown’s global operations, which currently do not include the City of Dreams casino, opened in early June 2009. This valuation exercise does not take into account Crown’s plans for a mixed-use development comprising a casino, hotel, and apartments, or its agreement to run the 400-table casino at eSun’s (571 HK) Macau Studio City, beginning in late 2009.

The Chinese government has indicated that no additional casino concessions will be issued in the foreseeable future, eliminating the threat of further competition in the short run. In 2008, revenues at the enclave of Macau grew about 31% despite the global economic downturn and a government-imposed restriction on Chinese mainlanders’ visits.

Investors are referred to our initial report in the December 2006 edition of *Bits & Pieces* for a comprehensive analysis.

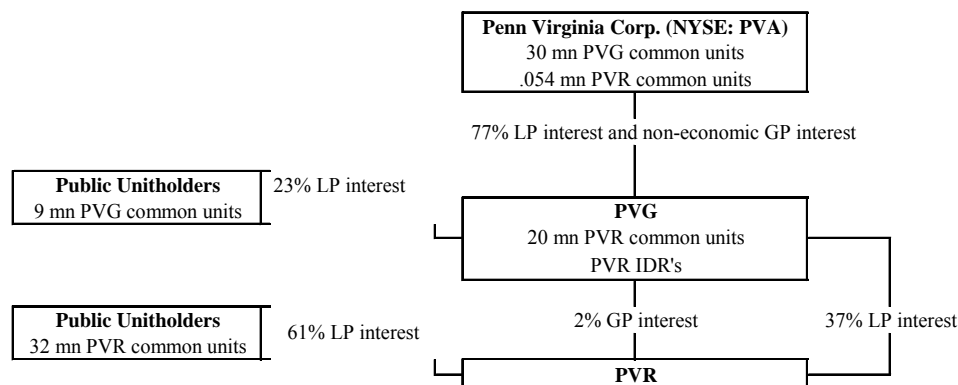
<i>(US\$ in millions, except per-share data)</i>	Per Share	
Melco International Development share price (9/8/09)	\$0.71	
Shares outstanding (millions)	1,229	
<b>Market capitalization</b>	<b>\$872</b>	
Melco Crown Entertainment share price (9/8/09)	\$6.25	
Shares held by Melco International (37.8%)	183	
Less: value held by Melco International	(\$1,145)	(\$0.93)
<b>Adjusted market value</b>	<b>(\$273) (\$0.22)</b>	
Value Convergence Holdings share price (9/8/09)	\$0.13	
Shares held by Melco International (43.36%)	161	
Less: value held by Melco International	(\$20)	(\$0.02)
<b>Adjusted market value</b>	<b>(\$293) (\$0.24)</b>	
Net debt	\$179	
<b>Net enterprise value</b>	<b>(\$115) (\$0.09)</b>	
Melco International in home currency	HKD 5.50	
VC Holdings in home currency	HKD 0.98	
WSJ exchange rate (per US\$)	HKD 7.75	
Melco International in US\$	\$0.71	
VC Holdings in US\$	\$0.13	

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Penn Virginia GP Holdings (PVG); Penn Virginia Resource Partners (PVR)

**Penn Virginia GP Holdings is a limited partnership that owns an equity interest in Penn Virginia Resource Partners, a limited partnership that primarily manages coal and natural resource properties and gathers and processes natural gas. PVG's equity interest in PVR takes three forms: a 2% general partner interest; all of PVR's incentive distribution rights (IDR's), which represent the right to receive an increasing percentage of quarterly distributions from PVR's available cash from operations; and a 37% interest through common shares. The PVG stub, after subtracting the market value of its interest in PVR, is valued by the market at \$238 million.**



PVR does not specifically mine coal; it merely owns coal mines in various parts of the country, which it leases to other mine operators. PVR owns 827 million tons of proven and probable coal reserves located in various areas of the US, including Appalachia and Illinois, as well as in the San Juan Basin of Mexico. PVR also operates 4,069 miles of natural gas pipeline and a very large gas processing facility in the Oklahoma and Texas Panhandle region. In 2008, it acquired a 25% interest in a gas gathering company in the Powder River Basin in Wyoming, an area where there exists a fairly robust amount of exploration activity at the moment. In 2008, PVR achieved net income of \$105 million, compared to \$57 million in 2007. However, it must be noted that the results in 2008 reflect historically high coal prices.

The value of PVG, when adjusted for its equity stake in PVR, is \$238 million at current prices. This implies that in order to consider PVG as undervalued, the value of its 2% general partner interest and the IDR's must be worth more than \$238 million. The general partner interest and the IDR's are essentially a 2% common stake with an escalating claim on PVR's cash distributions. These claims start with the right to an equitable distribution of the first \$0.275 per unit between the 98% common interest and the 2% general partner interest, and escalate to a right to receive 50% of all distributions above \$0.375 per unit. All rights are defined on a quarterly basis. From May 2002 through November 2004, the quarterly dividend ranged between \$0.25 and \$0.27. The dividend rose to a level of \$0.375 for the August 2006 payment, increasing to \$0.40 and above from November 2006 onward. For all three dividends paid and declared in 2009, the amount was \$0.47. In 2008, PVG's general partner interest and IDR cash distribution together was \$21.9 million, implying a yield for the PVG stub of 9.2%.

<i>(US\$ in millions, except ratios and per-share data)</i>	Per PVG Share	Implied Yield
Penn Virginia GP Holdings share price (9/8/09)	\$13.82	
Shares outstanding (millions)	39	
<b>Market capitalization</b>	<b>\$540</b>	<b>4.0%</b>
Penn Virginia Resource Partners share price (9/8/09)	\$15.40	
Shares held by PVG (37%)	20	
Less: value held by PVG	(\$302)	(\$7.72)
<b>Adjusted market value</b>	<b>\$238</b>	<b>\$6.10</b>
<b>GP Interest and IDR Cash Distribution to PVG in 2008</b>	<b>\$21.87</b>	<b>9.2%</b>

Source: Thomson Reuters and Institutional Research Group

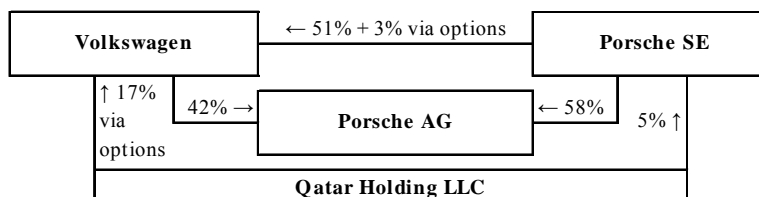
# BITS & PIECES SNAPSHOTS

## Porsche Automobil Holding SE (PAH3 GR); Volkswagen AG (VOW GR)

**Porsche Automobil Holding SE (Porsche SE) is a holding company based in Stuttgart, Germany. Historically, Porsche SE held a 100% stake in Porsche AG, the manufacturer of Porsche-brand automobiles, along with ancillary businesses related to the sale of Porsche-brand automobiles. In 2005, Porsche SE announced that it planned to acquire a 20% stake in Volkswagen AG (VOW), one of the largest automobile manufacturers in the world, with the intention of further increasing its stake in VOW in the future. During the period 2005-2009, Porsche SE acquired 50.8% of VOW's shares, giving Porsche SE a majority of VOW's voting rights, and cash-settled options representing an additional stake in VOW of approximately 20%.**

Porsche SE raised substantial debt capital in order to acquire its stake in VOW, however, and the company found itself over-leveraged in light of the recent economic recession and deterioration in the credit markets. This caused Porsche SE to reevaluate its strategy in regards to VOW, and, on August 13, 2009, Porsche SE and VOW announced a comprehensive merger agreement that is expected to be completed sometime during 2011.

On August 14, 2009, it was announced that, as part of the merger agreement, Qatar Holding LLC acquired from Porsche SE a 17% stake in VOW via cash-settled options, as well as 10% of the ordinary shares (equal to a 5% equity stake) in Porsche SE. Qatar Holding, which will become the merged company's third largest shareholder, has stated that its total commitment in the transaction amounts to more than €7.0 billion. The merger agreement further states that VOW will acquire a 42% equity stake in Porsche AG for €3.3 billion (based on the determined enterprise value for Porsche AG of €12.4 billion, less existing debt) in 2009. In 2011, VOW will also acquire, from the Porsche family shareholders, 100% of the separately owned Porsche Holding Salzburg for the determined enterprise value of €3.55 billion. The family shareholders are required to distribute to Porsche SE the bulk of the proceeds from the sale of Porsche Holding Salzburg. Following the sale of Porsche Holding Salzburg in 2011, Porsche SE will raise further capital through an issuance of preferred shares. The merger agreement is expected to be completed soon thereafter.



If one adjusts for the various equity stake transactions, Porsche SE represents a 58% ownership stake in Porsche AG, 100% ownership in Porsche Holding Finance plc, a 50.8% equity stake in VOW, an additional 3% VOW stake controlled via cash-settled options, and the right to receive a cash distribution from the sale of Porsche Holding Salzburg. One can further adjust Porsche SE's capital structure for the €3.3 billion to be received in exchange for the 42% stake in Porsche AG and an estimated €6.4 billion from Qatar Holding for the VOW options (assuming the remainder of the +€7 billion remains with the family shareholders). This implies a valuation for the Porsche SE stub, excluding the market value of its VOW holdings, of €11.2 billion for its 58% stake in Porsche AG (valued at €4.6 billion in the current transaction), the rights to receive as much as €3.55 billion from the sale of Porsche Holding Salzburg, and 100% of Porsche Holding Finance plc.

On November 25, 2009, Porsche is scheduled to publish its July 2009 year-end financial statements which will provide insight into the company's debt capitalization.

<i>(Euros in millions, except per-share data)</i>	Total
Porsche share price (9/8/09)	€ 51.49
Shares outstanding (millions)	175
<b>Market capitalization</b>	<b>€9,011</b>
Net debt	€ 20,306
<b>Enterprise Value</b>	<b>€29,317</b>
Volkswagen share price (9/8/09)	€ 120.76
Shares held by Porsche (50.8% of ordinary shares)	150
Value of VOW held	€ 18,078
<b>Porsche Stub Enterprise Value</b>	<b>€11,239</b>

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Siem Industries Inc. (SEMUF); Subsea 7 (SUB NO); Siem Offshore (SIOFF NO); STAR Reefers Inc. (SRI NO)

**Siem Industries' share price currently stands at a discount to the market value of the shares it owns in three publicly traded subsidiaries: Subsea 7, Siem Offshore, and STAR Reefers. Although these are the three most significant holdings, another large portion of the company's operations consists of investments in a variety of public and private companies. Currently, Siem Industries is trading at a higher discount to its NAV than it has historically (see table below). The market value of its holding in Subsea 7 alone, valued at \$721 million, is greater than Siem Industries' current market capitalization of \$574 million.**

Siem Industries is the holding company of Kristian Siem, who has made significant investments in many companies in the maritime industry. The company often provides debt and equity financing to cyclically distressed businesses, frequently as part of a group of other large investors. These initial positions are often increased through private placements and rights offerings, and the companies in question are then used as vehicles to acquire other companies in the same industry.

	Sep-05	Dec-05	Feb-06	Dec-06	May-07	Dec-07	May-08	Apr-09	Jun-09
Siem Industries	\$31.00	\$32.00	\$39.00	\$55.00	\$65.00	\$70.00	\$81.00	\$22.75	\$40.00
Discount to NAV	47.4%	39.3%	25.4%	48.0%	43.8%	56.4%	52.1%	69.4%	57.5%

Siem Industries holds 45% of Subsea 7, 34% of Siem Offshore, and 72% of STAR Reefers. Aside from the three publicly traded subsidiaries, Siem Industries owns 100% of Siem Car Carriers Inc., a private company that owns vessels that transport cars; 64% of Siem Capital AB, a privately held investment fund that owns significant positions in a variety of Scandinavian companies; 100% of Siem Investments; 49% of Deusa International, a German company primarily engaged in the mining of potash, which is used for fertilizer production; and 51% of Deep Seas Insurance, an insurance affiliate that participates as co-insurer on marine insurances, alongside which Subsea 7 owns the remaining 49% interest.

The significant discount in the price of the Siem stub may be explained by the fact that the Siem stock is rather illiquid. In the current market environment, where investors are seeking to maintain the nominal value of their portfolios by undertaking transactions to either raise or lower the volatility of the portfolio, Siem can have only limited utility. As a practical matter, Siem is not tradable in large quantities. Thus, many of the discounts that are apparent in holding companies such as Siem are discounts arising from issues of liquidity, and not from the notion of inherent value.

Investors are referred to our initial report in the March 2005 edition of *Bits & Pieces* for a comprehensive analysis.

<i>(US\$ in millions, except per-share data)</i>	Shares Held			
	(mn)	Share Price	Value	Per Share
Subsea 7 (44.5%) (9/8/09)	65.4	\$11.02	\$721	
Siem Offshore (33.7%) (9/8/09)	85.5	\$1.25	\$107	
STAR Reefers (71.6%) (8/27/09)	6.3	\$19.20	\$120	
<b>Market value of public holdings</b>			<b>\$949</b>	
Investments in associates			\$585	
Parent level net debt			(\$80)	
<b>Net Asset Value</b>			<b>\$1,453</b>	<b>\$93.73</b>
Siem Industries (9/4/09)	15.5	\$37.00	\$574	
Discount to market value of public holdings				39.52%
Discount to NAV				60.52%
Subsea 7 share price in home currency	NOK 68.60			
Siem Offshore share price in home currency	NOK 7.80			
STAR Reefers share price in home currency	NOK 119.50			
WSJ exchange rate (per US\$)	NOK 6.23			
Subsea 7 share price in US\$	\$11.02			
Siem Offshore share price in US\$	\$1.25			
STAR Reefers share price in US\$	\$19.20			

Source: Thomson Reuters and Institutional Research Group

# BITS & PIECES SNAPSHOTS

## Toyota Industries Corp. (6201 JP); Toyota Motor Corp. (7203 JP)

**Toyota Industries owns a number of publicly traded equity investments, the value of which currently exceeds its entire market capitalization by 33%. Its two largest holdings, Toyota Motor Corp. and Denso Corp., together exceed Toyota Industries' capitalization. On a sum-of-the-parts basis, the resulting discount of Toyota Industries' market value to its NAV is 39% (see exhibit below).**

Toyota Motor's competitive position appears solid, especially relative to such competitors as Ford (NYSE: F) and General Motors. However, this does not mean that Toyota Motor is immune to the strains currently being felt by the global auto industry. Indeed, for the fiscal year ended March 31, 2009, Toyota Motor reported a 21.9% decrease in net revenues and a net loss of ¥437 billion (US\$4.4 billion). That said, given the problems witnessed at Ford and General Motors, a purchase of Toyota Industries is an opportunity to purchase at a significant discount a company with a relatively strong competitive position.

One can also view this situation as a way to purchase Toyota Motor Corp. at a steep discount to its prevailing price. By isolating the embedded value of Toyota Motor within Toyota Industries, it becomes clear that one can effectively purchase Toyota Motor for a fraction of its embedded value.

Investors are referred to our initial report in the May 2005 edition of *Bits & Pieces* for a comprehensive analysis.

(¥ in millions, except per-share data)	Ticker	Shs. Held (mn)	Share Price	Market Value	Per Share
<b>Toyota Industries Corp.</b>	<b>6201</b>	<b>325.8</b>	<b>¥2,570</b>	<b>¥837,411</b>	
Toyota Motor Corp.	7203	201.195	¥3,800	¥764,541	
Denso Corp.	6902	69.4	¥2,680	¥185,992	
Toyota Tsusho Corp.	8015	39.4	¥1,428	¥56,263	
Aisin Seiki Corp.	7259	19.7	¥2,305	¥45,409	
Aichi Corp.	6345	40.5	¥478	¥19,359	
Toyota Boshoku	3116	7.8	¥1,761	¥13,736	
Jtekt Corp.	6473	7.5	¥1,156	¥8,670	
Toyota Auto Body	7221	6.4	¥1,778	¥11,379	
Aisan Industry	7283	4.8	¥731	¥3,509	
Aichi Steel Corp.	5482	13.6	¥405	¥5,508	
Taiho Kogyo	6470	1.4	¥692	¥969	
Fuji Logistics	9061	6.5	¥212	¥1,378	
Saibo Co. Ltd.	3123	0.5	¥490	¥245	
Trinity Industrial	6382	0.2	¥487	¥97	
<b>Less: total public value of holdings</b>				<b>(¥1,117,055)</b>	
<b>Adjusted market value</b>				<b>(¥279,643)</b>	<b>(¥858)</b>
Cash (6/30/09)				¥249,833	
<b>NAV of cash and public value of holdings</b>				<b>¥1,366,888</b>	<b>¥4,195</b>
Public value of holdings as percentage of market value of Toyota Industries					133%
Discount to NAV of cash and public value of holdings					39%

Source: Thomson Reuters and Institutional Research Group

# DISCONTINUED POSITIONS

Name	Ticker	Inclusion Date	Inclusion Price	Discontinue Date	Discontinue Price	Share Price
Groupe Bruxelles Lambert	GBLB BT	Oct-04	€ 58.05	Oct-06	€ 85.95	€ 63.02
Total SA	FP FR	Oct-04	€ 20.76	Oct-06	€ 52.35	€ 40.82
Suez SA	SZE FR	Oct-04	€ 18.00	Oct-06	€ 34.77	€ 30.35
Imerys SA	NK FR	Oct-04	€ 55.70	Oct-06	€ 66.35	€ 38.87
Medallion Financial	TAXI	Dec-04	\$9.30	Feb-06	\$12.14	\$8.12
Clear Channel Communications	CCU	Dec-04	\$34.26	Feb-06	\$28.58	\$36.00*
NTT	9432 JP	Mar-02	¥5,040	Jun-04	¥5,830	¥4,210
NTT Do Como	9437 JP	Mar-02	¥320,000	Jun-04	¥199,000	¥140,900
NTT Data	9613 JP	Mar-02	¥551,000	Jun-04	¥320,000	¥308,000
Pargesa Holding SA	PARG SW	Oct-04	€ 2,463.80	Oct-06	SFr. 75.73	SFr. 83.00
Groupe Bruxelles Lambert	GBL BB	Oct-04	€ 58.05	Oct-06	€ 85.95	€ 63.02
Imerys SA	NK FP	Oct-04	€ 55.70	Oct-06	€ 66.35	€ 38.87
Power Financial Corp.	PWF CN	Jun-01	CAD 32.45	Jun-06	CAD 30.68	CAD 29.58
Great-West Life Co.	GWO CN	Jun-01	CAD 35.25	Jun-06	CAD 27.41	CAD 25.42
Investors Group	IGM CN	Jun-01	CAD 23.15	Jun-06	CAD 42.95	CAD 42.23
Pargesa Holdings SA	PARG SW	Jun-01	€ 2,463.80	Jun-06	€ 75.73	€83.00
First American Corp.	FAF	Mar-03	\$22.45	Aug-07	\$43.96	\$31.94
First Advantage Corp.	FADV	Mar-03	-	Aug-07	\$17.98	\$17.85
Retail Ventures, Inc.	RVI	Jul-05	\$12.91	Sep-07	\$10.16	\$4.75
DSW, Inc.	DSW	Jul-05	\$26.63	Sep-07	\$26.42	\$14.12
Fairfax Financial Holdings	FFH	Sep-01	\$112.34	Oct-07	\$233.13	\$341.47
Northbridge Financial	NB CN	Sep-01	-	Oct-07	CAD 35.99	CAD39.00*
Odyssey Re	ORH	Sep-01	\$11.65	Oct-07	\$36.14	\$62.98
Pico Holdings	PICO	Oct-06	\$33.13	May-08	\$36.88	\$32.21
Jungfraubahn Holdings	JFN SW	Oct-06	\$35.46	May-08	\$57.70	SFr. 40.50
Anheuser-Busch	BUD	Sep-05	\$45.09	Jun-08	\$61.12	\$70.00*
Tsingtao Brewery	168 HK	Sep-05	\$1.08	Jun-08	\$2.95	HKD 30.00
Merrill Lynch	-	Dec-07	\$55.54	Aug-08	\$24.88	-
Bloomberg LP	-	Dec-07	-	Aug-08	-	-
Compagnie Financiere Richemont	CFR VX	Jun-08	SFr. 63.15	Oct-08	SFr. 40.70	SFr. 30.02
British American Tobacco	BATS LN	Jun-08	£16.60	Oct-08	£16.10	£19.10
Vostok Gas Ltd.	-	Sep-07	\$55.59	Jan-09	\$0.13	-
Gazprom	GAZP RU	Sep-07	\$42.06	Jan-09	\$14.84	\$21.20
Time Warner Inc.	TWX	Jul-08	\$41.58 **	Apr-09	\$22.23	\$27.87
Time Warner Cable	TWC	Jul-08	\$77.13 **	Apr-09	\$28.80	\$37.93
Cairn Energy	CNE LN	Jun-07	\$35.62	May-09	\$34.84	£25.25
Cairn India	CAIR IN	Jun-07	\$3.41	May-09	\$4.40	INR 266.35
Hutchison Telecom	2332 HK	Nov-08	\$18.95	Aug-09	HKD 2.01	HKD 1.71
Partner Communications	PTNR	Nov-08	\$17.02	Aug-09	\$17.29	\$19.60

\*Selling price

\*\* Split-adjusted price

Source: Thomson Reuters and Institutional Research Group