

Company Description:

Vevey, Switzerland - based Nestlé is the world's largest food company. Its four core businesses are beverages (global leader in instant coffee and mineral water with brands like Nescafe and Poland Spring); milk and dairy products (global leader in infant nutrition, No. 2 in ice-cream with brands like Gerber and Dreyer's); prepared dishes (Stouffer's), cooking aids and petcare (Purina); and chocolate and confectionery (global leader). NSRGY received 29 billion CHF for the sale of controlling interest in Alcon. Also included in associates is the group's 26% stake in L'Oreal. In 2001, Nestlé's petcare combined with Ralston Purina. Over 25% of rev are from US. 339,000 employees. There is one ADR per ORD. Has 333,000 employees. Chairman: Peter Brabeck-Letmathe, CEO: Paul Bulcke www.nestle.com
Advertising: ?% of rev.

Basic Description:

NSRGY has a consistent rate of growth of net profits that has flattened out. The strength of the Swiss Franc has made growth challenging as currency translation effects are strong. NSRGY's profits are marked with charge-offs, like so many in the food processing space. P/E ratios have been pretty close to market multiples and stable due to a large collection of brands and distribution channels. The dividend yield has increased slightly as a result of the payout ratio moving from a payout ratio of 35% to 65%. As growth has slowed, NSRGY has also begun a more aggressive share buyback program over the past few years. Operating margins have expanded significantly, sustaining superior ROEs and ROCs. Note: VL report has significant share count errors; I have adjusted on co.desc. Operating margins as presented here are EBIT, not VL's presentation of EBITDA.

Profitability Description:

NSRGY has improved operating margins significantly and is continuing to exploit opportunities in the health, wellness and nutrition space. Coffee, skin care and petcare all have superior margins and make up 70% of profits. Real organic growth and acquisitions which fit existing footprints and distribution systems are critical to continue to drive margins. The three key segments continue to have 5% "real" organic growth rates. For analysis here, segments were reshuffled in 2007. Coffee is challenged in the U.S. market by "supersize" issue, but globally is strong. In fact, NSRGY serves up 6,000 of the 30,000 cups of coffee consumed per second. The balance sheet shows careful debt management and a buildup in intangibles and goodwill - a sign of a brand company. The majority of the earnings are going towards dividends and are increasing at an unsustainable rate. In addition, NSRGY has made significant share repurchases - at an unsustainable level as well.

Core Advantage Description:

NSRGY is the largest company in the food and beverage space. The number of brands and the global scope is unparalleled in the industry. NSRGY has used its range of view to pursue the best categories and the best geographies. NSRGY's challenge has been to further capitalize on these advantages. NSRGY's financial strength is high which allows for sizeable acquisitions. The company has been innovating in the coffee space and Nespresso appears to be prospering as does Nescafe. Skincare and Petcare are highly profitable and growth areas in which NSRGY has some technology and marketing advantages. NSRGY does appear to be moving in a radical way - to a science-based health and nutrition emphasis.

Investment Thesis:

NSRGY should be able to continue to expand operating margins slowly by emphasizing more attractive segments (petcare, skincare and coffee) while driving top line "organically" of 5% with add-ons and innovation. This revenue growth combined with expanded margin for 2% and share repurchasing for an additional 2% should drive earnings growth of 9% while deserving a premium P/E of 20.

Purchase Description:

We would recommend patient, value-oriented investors purchase shares of NSRGY at CHF 57.50 per share as a Tier I up to 4.5% (based on an ave of hist. ratios and three models time the organic growth rate of 5%). At "normal" exchange rates with CHF, the buy price would be \$63 per ADR as a Tier I and \$69.50 up to 3% with trim price of \$96.80 and a sell of \$105 (based on cap'l charge) .

NSRGY	FY End			Stock Price		Market Value (in																							
	\$75	December	ESN.V2	CHF 73.00		CHF 225,132		1995	1996	1997	1998	1999	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Profit (CHF)				4,205	4,724	5,296	7,564	6,213	6,717	7,995	9,775	10,649	10,774	11,723	9,933	9,804	11,060	10,040	10,364	9,702	9,555	10,800							
EPS/ORD				CHF 1.04	CHF 1.21	CHF 1.49	CHF 1.95	CHF 1.61	CHF 1.73	CHF 2.02	CHF 2.37	CHF 2.78	CHF 2.82	CHF 3.09	CHF 3.05	CHF 3.09	CHF 3.47	CHF 3.15	CHF 3.27	CHF 3.15	CHF 3.10	CHF 3.50							
EPS/ORD/Oper.				CHF 1.04	CHF 1.21	CHF 1.49	CHF 1.95	CHF 1.61	CHF 1.73	CHF 2.10	CHF 2.37	CHF 2.78	CHF 2.82	CHF 3.09	CHF 3.05	CHF 3.09	CHF 3.47	CHF 3.15	CHF 3.27	CHF 3.15	CHF 3.10	CHF 3.50							
CY P/E Ratios						21.6	17.1	17.0	18.0	17.3	16.9	17.6	16.5	14.4	16.1	16.1	18.2	19.8	20.8	22.9									
Yrly Price Low						CHF 25.4	CHF 27.1	CHF 23.3	CHF 27.6	CHF 32.4	CHF 35.5	CHF 42.6	CHF 35.0	CHF 35.0	CHF 47.0	CHF 52.0	CHF 55.0	CHF 60.0	CHF 64.3	CHF 70.0	CHF 67.0								
Yrly Price High						CHF 38.9	CHF 39.7	CHF 31.4	CHF 34.6	CHF 40.4	CHF 44.8	CHF 55.3	CHF 58.0	CHF 54.0	CHF 56.6	CHF 65.0	CHF 68.0	CHF 68.8	CHF 72.0	CHF 80.0	CHF 80.0								
Dividends Paid						1,932.5	2,484.0	2,705.0	2,800.0	3,187.0	3,463.2	3,912.5	4,410.3	5,555.2	6,025.5	6,026.8	6,217.8	6,857.6	6,970.5	7,031.5	7,157.2	7,558.3							
Dividends PS				CHF 0.38	CHF 0.43	CHF 0.50	CHF 0.55	CHF 0.70	CHF 0.72	CHF 0.80	CHF 0.90	CHF 1.04	CHF 1.22	CHF 1.60	CHF 1.85	CHF 1.90	CHF 1.95	CHF 2.15	CHF 2.20	CHF 2.28	CHF 2.32	CHF 2.45							
Ave. Div. Yld.						1.56%	1.65%	2.56%	2.32%	2.20%	2.24%	2.12%	2.62%	3.60%	3.57%	3.25%	3.17%	3.34%	3.23%	3.04%	3.16%								
Shares Outstdg.(ORD)						3865.0	3876.0	3870.0	3884.0	3870.0	3848.0	3762.0	3615.0	3472.0	3257.0	3172.0	3188.6	3189.6	3168.4	3084.0	3085.0	3085.0							
Buyback \$ (mln)						0	100	164	435	510	883	4,210	6,836	6,364	11,137	4,973	1,021	64	1,445	6,330	74	0							
Shr. Equity (mln)						29,904	34,819	36,880	39,219	49,847	50,991	52,085	50,774	48,915	61,867	56,797	60,947	64,299	66,591	62,338	64,735	67,975							
Book Value PS						CHF 7.7	CHF 9.0	CHF 9.5	CHF 10.1	CHF 12.9	CHF 13.3	CHF 13.8	CHF 14.0	CHF 14.1	CHF 19.0	CHF 17.9	CHF 19.1	CHF 20.2	CHF 21.0	CHF 20.2	CHF 21.0	CHF 22.0							
LT Debt (mln)				14,592	12,872		10,548	14,225	12,725	8,153	6,952	6,129	6,344	8,966	7,483	6,207	9,009	10,389	12,396	11,601	11,400	10,500							
Return On Eq.						17.71%	21.72%	16.85%	17.13%	16.04%	19.17%	20.45%	21.22%	23.97%	16.06%	17.26%	18.15%	15.61%	15.56%	15.56%	14.76%	15.89%							
Return On Capl.				28.82%	36.70%	17.71%	16.67%	12.16%	12.93%	13.78%	16.87%	18.29%	18.86%	20.25%	14.32%	15.56%	15.81%	13.44%	13.12%	13.12%	12.55%	13.76%							

Description:

Instructions: On Oct.2003, NSGRY was at 300 SFr/share.
On Dec.2003, CHI On May 5, 2004, is 1.274 On may 30, 2004 On Novem. 2007, : 1.15

Analysis:

Observations: The dividend is stepped off by one year; they declare it after the year is past and pay it in the following year, creating some difficulties. Their financial statements assign the dividend to the year that it was generated but not paid; I assign it to paid year.

Investment Characteristics

Earnings Analysis: **Use Of Earnings Analysis:**

Growth Rate: 6.24% **Avg Div Payout Rate:** 51.95%

Quality %: 99.82% **Avg Stk Buyback Rate:** 25.25%

	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (mln)																					
Revenues (CHF)			74,660	81,422	84,698	89,160	87,979	86,769	91,075	98,548	107,552	109,938	107,619	104,613	83,642	92,186	92,388	86,364	88,785	91,600	96,000
SPS				CHF 21.1	CHF 21.9	CHF 23.0	CHF 22.7	CHF 22.3	CHF 23.5	CHF 25.6	CHF 28.6	CHF 30.4	CHF 31.0	CHF 32.1	CHF 26.4	CHF 28.9	CHF 29.0	CHF 27.3	CHF 28.8	CHF 29.7	#####
Adj. Sales (mln)																					

Sales Analysis: **Sales Analysis (last 5 yrs.):**

Growth Rate: 1.37% **Growth Rate %:** 1.83%

Growth Rate PS: 2.17% **Growth Rate PS %:** 2.40%

	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Oper. Margin						12.27%	12.51%	12.64%	12.87%	13.51%	13.97%	14.29%	14.59%	13.42%	15.66%	15.61%	15.93%	15.90%	16.50%	17.00%	17.50%
Tax Rate						0.00%	22.16%	23.80%	23.30%	25.54%	24.21%	26.01%	22.29%	24.00%	25.10%	27.20%	26.20%	28.00%	31.00%	33.00%	30.00%
Deprec. (mln)			2,597	2,750	2,857	2,968	2,408	4,383	2,728	3,061	3,211	3,249	3,369	3,182	3,132	3,176	3,165	3,182	3,150	3,250	3,350
Depreciation %			54.97%	51.93%	49.00%	39.24%	38.76%	65.25%	34.12%	31.31%	30.15%	30.16%	28.74%	32.03%	31.95%	28.72%	31.52%	30.70%	32.47%	34.01%	31.02%

Description:

Instructions:

Analysis:

Observations:

Description & Analysis of Profitability (in mlns of CHF):

	2002	2003	2004	2007	2008	2009	2010	2011	2012	2013	2014	2015					
Net Revenues:	0.0%	89,160	87,979	86,769	107,552	109,938	107,619	104,613	83,642	92,186	92,158	91,612	88,785				
Beverages	23,325	26.2%	23,520	21,793	25.1%	17,836	18,879	19,271	20,612	18,204	20,038	20,495	22.2%	20,302	22.2%	19,245	21.7%
Waters						10,409	9,595	9,066	9,101	6,526	7,178	6,773	7.3%	6,875	7.5%	7,112	8.0%
Milk Products	23,376	26.2%	23,283	23,582	27.2%	20,668	20,556	19,557	20,360	16,406	18,564	17,357	18.8%	16,743	18.3%	14,637	16.5%
Nutrition and health science						8,438	10,380	9,965	10,368	9,744	10,726	11,840	12.8%	13,046	14.2%	14,854	16.7%
Prepared dishes	15,834	17.8%	16,068	15,878	18.3%	18,504	18,117	17,205	18,093	13,933	14,432	14,171	15.4%	13,538	14.8%	12,579	14.2%
Pet care	10,719	12.0%	9,816	9,934	11.4%	12,130	12,497	12,938	13,091	9,764	10,810	11,239	12.2%	11,339	12.4%	11,488	12.9%
Confectionery	10,774	12.1%	10,240	10,258	11.8%	12,248	12,370	11,796	12,097	9,065	10,438	10,283	11.2%	9,769	10.7%	8,870	10.0%
Pharma	5,132	5.8%	5,052	5,324	6.1%	7,319	7,544	7,821	891	0	0	0	0.0%	0	0.0%	0	0.0%
Internal Costs:	-0.3%	78,220	76,973	75,799	92,528	94,232	91,919	90,575	70,547	77,797	77,481	77,049	75,051				
Cost of sales	38,521	43.2%	37,583	36,146	41.7%	45,037	47,339	45,208	44,775	44,127	48,398	48,111	52.2%	47,553	51.9%	44,730	50.4%
Distribution Expenses	7,112	8.0%	7,104	7,045	8.1%	9,104	9,084	8,420	8,385	7,602	8,167	8,156	8.9%	8,217	9.0%	7,899	8.9%
Marketing and Admin. Expe	31,379	35.2%	31,081	31,195	36.0%	36,512	35,832	36,270	36,012	17,395	19,688	19,711	21.4%	19,651	21.5%	20,744	23.4%
Research and Developmen	1,208	1.4%	1,205	1,413	1.6%	1,875	1,977	2,021	1,403	1,423	1,544	1,503	1.6%	1,628	1.8%	1,678	1.9%
EBITDA:	0.9%	15,109	15,240	15,353	18,235	18,955	19,069	17,220	16,020	17,539	17,842	17,621	16,912				
-2% Amortization/Dep.	4,169		4,234	4,383		3,211	3,249	3,369	3,182	2,925	3,150	3,165	3,058	3,178			
"Free" Cash Flow	0.9%	11,532	11,903	12,058	13,264	14,086	14,428	12,644	11,241	12,171	12,914	13,707	13,040				
3% Capital Expenditures	3,577		3,337	3,295		4,971	4,869	4,641	4,576	4,779	5,368	4,928	3,914	3,872			
EBIT/Margin%:	1.8%	10,940	11,006	10,970	15,024	15,706	15,700	14,038	13,095	14,389	14,677	14,563	13,734				
Beverages	4,075	17.5%	4,038	3,867	17.7%	4,002	4,176	4,185	4,329	4,129	4,502	4,649	22.7%	4,685	23.1%	4,100	21.3%
Waters						852	575	633	670	520	636	678	10.0%	710	10.3%	796	11.2%
Milk Products	2,756	11.8%	2,796	2,682	11.4%	2,294	2,357	2,345	2,623	2,251	2,799	2,632	15.2%	2,701	16.1%	2,471	16.9%
Nutrition and health science						1,450	1,798	1,734	1,874	1,820	1,958	2,228	18.8%	2,723	20.9%	2,909	19.6%
Prepared dishes	1,712	10.8%	1,884	1,924	12.1%	2,414	2,311	2,226	2,229	2,016	2,041	1,876	13.2%	1,808	13.4%	1,724	13.7%
Pet care	1,418	13.2%	1,444	1,446	14.6%	1,876	1,962	2,108	2,264	2,008	2,206	2,163	19.2%	2,246	19.8%	2,386	20.8%
Confectionery	1,180	11.0%	1,047	1,153	11.2%	1,426	1,620	1,599	1,667	1,524	1,782	1,630	15.9%	1,344	13.8%	1,246	14.0%
Pharma	1,267	24.7%	1,329	1,532	28.8%	2,435	2,573	2,477	165	0	0	0	0	0	0	0	0
External Costs:	2.4%	2,960	2,901	3,121	4,332	4,932	3,977	4,105	3,533	3,932	4,102	4,199	4,032				
Taxes	2,295		2,307	2,452		3,416	3,787	3,362	3,343	3,112	3,451	3,256	3,367	3,305			
Interest exp., net	665		594	669		916	1,145	615	762	421	481	416	384	326			
Minority Interest											430	448	401				
Earnings/Margin:	1.5%	7,980	8,105	7,849	10,692	10,774	11,723	9,933	9,562	10,457	10,575	10,364	9,702				
Dividend Paid/% of FCF:	8.3%	2,484	2,705	2,800	3,912	4,410	5,047	6,025	6,027	6,218	6,858	6,970	7,032				
Common Stock/% of FCF:	0	0.0%	164	(435)	4,210	6,836	7,013	11,137	4,973	(1,021)	(64)	1,445	6,330				
Share buybacks: Stmt of C. F.											421	1,617	6,377				
Net Bness Acquisitions:										10,774	(100)	1,665	317				
Acquisitions										10,916	321	1,986	530				
Disposals										(142)	(421)	(321)	(213)				
Description:																	
Instructions:																	
Analysis:																	
Observations:																	

Balance Sheet (in mlns of CHF):

	2003	2004	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Assets:	2.4%	93,354	87,094	114,659	106,215	110,916	111,641	114,091	126,229	120,442	133,450	123,992
Cash & Equivalents	7,222	4,902	6,594	5,835	2,734	8,057	4,938	5,840	6,415	7,448	4,884	
Other Liquid Assets	7,953	10,380	2,902	1,296	2,585	8,189	3,050	3,585	638	1,433	921	
Inventories	6,543	7,025	9,272	9,342	7,734	7,925	9,255	9,125	8,382	9,172	8,153	
Trade Receivables	9,645	11,809	15,421	13,442	12,309	12,083	13,340	13,404	12,206	13,459	12,252	
Prepayments and Acc.Income	2,839			897	589	748	900	844	762	565	583	
Other	1,591	1,169	1,581	2,236	2,716	1,967	1,841	2,407	1,663	1,884	2,641	
P, P & E	18,152	17,052	22,065	21,097	21,599	21,438	23,971	26,903	26,895	28,421	26,576	
Goodwill	29,653	23,854	33,423	30,637	27,502	27,031	29,008	32,615	31,039	34,557	32,772	
Intangible Assets	1,054	2,028	7,217	6,867	6,658	7,728	9,356	13,643	12,673	19,800	19,236	
Inv. in Associates	2,988	4,091	8,936	7,796	8,693	7,914	8,629	9,846	12,315	8,649	8,675	
Financial Assets	3,112	2,410	4,213	3,868	4,162	6,456	7,161	5,003	4,550	5,493	5,419	
Emp. Benefit Assets	1,083	928	811	60	230	166	127	84	537	383	109	
Deferred Tax Asset	1,519	1,446	2,224	2,842	2,202	1,911	39	27	2,367	2,186	1,771	
Assets held for sale					11,203	28	2,476	2,903				
Liabilities:	0.8%	54,595	46,818	60,425	50,239	57,285	49,043	55,818	63,624	56,303	61,566	60,006
Financial Liabilities	17,202	14,722	24,541	15,383	14,438	12,617	16,100	18,568	11,380	8,810	9,629	
Trade Payables	5,963	9,107	14,179	12,608	13,033	12,592	13,584	14,455	16,072	17,437	17,038	
Accruals/Deferred Income	4,379	3,848	3,266	2,931	2,779	2,798	2,909	3,229	3,185	3,759	3,673	
Provisions			477	417	643	601	576	441	523	695	564	
Derivative Liabilities	3,741				1,127	456	646	428	381	757	1,021	
Current Income Tax Liabilities	1,305	1,440	863	824	1,173	1,079	1,417	1,631	1,276	1,264	1,124	
Liabilities with assets held for sale					2,890	3	1	0	100	173	272	
Financial Liabilities	14,225	10,731	6,129	6,344	8,966	7,483	6,207	9,009	10,363	12,396	11,601	
Emp. Benefit Liabilities	3,492	3,192	5,165	5,464	6,249	5,280	7,105	8,554	6,279	8,081	7,691	
Provisions	3,381	3,004	3,316	3,663	3,222	3,510	3,094	2,842	2,714	3,161	2,601	
Deferred Tax Liabilities	492	447	1,398	1,341	1,404	1,371	2,060	2,276	2,643	3,191	3,063	
Other Payables	415	327	1,091	1,264	1,361	1,253	2,119	2,191	1,387	1,842	1,729	
Minority Interests	646	1,057	2,149	4,142	4,716	731	1,477	1,657	1,564	1,754	1,648	
Shareholder's Equity:	4.5%	36,880	39,219	52,085	50,774	48,915	61,867	56,797	60,947	62,575	70,130	62,338
Share capital	404	404	393	383	365	347	330	322	322	322	319	
Share premium	5,926	5,926	5,883	0	0	0	0	0	0	0	0	
Reserve for Treasury Shares	2,458	2,619	7,839	0	0	0	0	0	0	0	0	
Translation Reserve	-5,630	-7,189	-6,302	-11,103	-11,175	-15,794	-16,927	-17,923	-20,811	-17,255	-21,129	
Retained Earnings	36,093	39,894	52,285	71,146	67,736	88,422	80,116	80,626	85,260	90,981	90,637	
Treasury stock, at cost	-2,371	-2,435	-8,013	-9,652	-8,011	-11,108	-6,722	-2,078	-2,196	-3,918	-7,489	

Description:

The format used is the report form (rather than the account form).

Instructions:

Reviewed retained earnings statement; method has changed post 2006.

Analysis:

Observations:

Industry Overview

NSRGY is in a class of dominant consumer food processing companies.

This brain washing ability is what sets these companies apart from their competitors. By trial and error, these companies have discovered that it does not pay to be third in a market. They either function as dominant players or get out.

Clearly, private label players are continuously putting pressure on consumers to make a switch and save money.

The result is that these consumer franchises need to continuously innovate in order to maintain and expand margins. The candy business does not have such a powerful private label business competition. Cheese and dairy has been less resistant to private labelling than snacks.

Industry Comparisons

Operating Statistics:

Company	Yrs.Paybk	Sales	ROC	Operating Margin
HSY	2.42	7,650	29.92%	22.50%
TR	0.10	550	9.00%	19.50%
MDLZ	4.64	31,000	8.00%	16.50%
SWX:LISN	0.50	3,549	12.00%	17.50%
NSRGY	1.10	91,600	12.55%	19.05%

Market Statistics:

Company	P/B	P/E	Divd. Yld.	EV/Sales
HSY	13.67	22.5	2.26%	2.91
TR	2.82	29.5	1.10%	3.64
MDLZ	2.81	26.5	1.50%	2.61
SWX:LISN	5.39	47.5	1.02%	4.71
NSRGY	3.48	23.6	3.16%	2.58

Qualitative Characteristics

Positives:

Negatives:

Product/Service:

Pricing Power:	
Durability:	None
Brand Appeal:	Yes
Unique:	Yes
Role Of Media:	Volume opportunity
Toll Bridge:	
Global Opportunity	Yes
Competition	
Economic Risk:	Low level
Government Role	
Role Of Technology:	Very limited
Supply/Demand:	

Limited, generics can compete
No, but for some it is
Yes
Patent/Brand issues could develop
No growth in mature markets
Good prospective growth in emerging markets
Pension plans in old companies.
Capital expenditures are high during changing times
Slow growth.

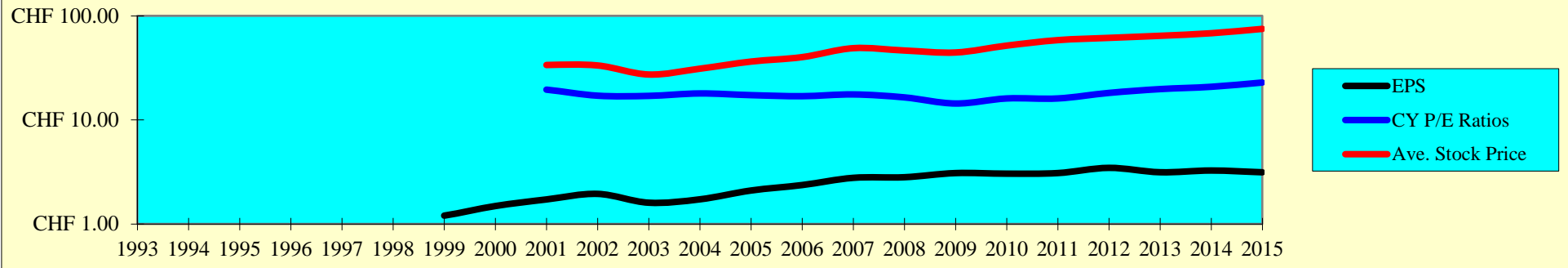
Financial:

Business Model:	Volume opportunity
High Capital Reinv.:	
Effective As Public:	Yes
Ownership:	
Growth:	
Concentration:	Global

Management:

Reasonable

Average Stock Price vs. Average P/E vs. EPS



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EPS	CHF 0.00	CHF 0.00	CHF 0.00	CHF 0.00	CHF 0.00	CHF 1.04	CHF 1.21	CHF 1.49	CHF 1.73	CHF 1.95	CHF 1.61	CHF 1.73	CHF 2.10	CHF 2.37	CHF 2.78	CHF 2.82	CHF 3.09	CHF 3.05	CHF 3.09	CHF 3.47	CHF 3.15	CHF 3.27	CHF 3.15
CY P/E Ratios	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21.56	19.57	17.12	17.04	17.99	17.33	16.93	17.60	16.49	14.40	16.10	16.10	18.20	19.80	20.83	22.90
Ave. Stock Price	0.00	0.00	0.00	0.00	0.00	0.00	0.00	32.15	33.75	33.40	27.35	31.10	36.40	40.15	48.95	46.50	44.50	51.80	58.50	61.50	64.38	68.15	75.00

Price/Earnings Ratio: used - **CHF 3.10**
 Fifteen year average low P/E **16.0**
 Fifteen year average high P/E **20.5**
 If we set the purchase at the ave. Fifteen year low P/E,
 the price implied is: **CHF 49.48**
 If we set the sell at the ave. Fifteen year high P/E,
 the price implied is: **CHF 63.35**

Price/Sales Ratio: used - **CHF 29.69**
 Fifteen year average low P/S is **1.57**
 Fifteen year average high P/S is **1.99**
 If we set the purchase at the ave. Fifteen year low P/S,
 the price implied is: **CHF 46.50**
 If we set the sell at the ave. Fifteen year high P/S,
 the price implied is: **CHF 59.07**

Price/Book Ratio: used - **CHF 20.98**
 Fifteen year average low P/B **2.83**
 Fifteen year average high P/B **3.67**
 If we set the purchase at the ave. Fifteen year low P/B,
 the price implied is: **CHF 59.49**
 If we set the sell at the ave. Fifteen year high P/B,
 the price implied is: **CHF 76.97**

Price/Cash Flow Ratio: used - **CHF 4.15**
 Fifteen year average low P/CF is **11.8**
 Fifteen year average high P/CF is **15.1**
 If we set the purchase at the ave. Fifteen year low P/CF,
 the price implied is: **CHF 48.98**
 If we set the sell at the ave. Fifteen year high P/CF,
 the price implied is: **CHF 62.62**

Initial Rate of Investment	
Current Price	CHF 73.00
Current EPS	CHF 3.10
Initial ROI	4.24%

Relative Value to Investment In T-Bonds	
Current EPS	CHF 3.10
T-Bond Rate	4.00%
Relative Value	CHF 77.43

Capital "charge" approach

16,912 ebitda
0.12 required return
0.07 growth rate (not on EPS) (due to margin expansion)
0.8 % not required (inc. increase in debt)
0.064 denominator
264,250 ev
11,601 debt
252,649 equity value
3085 shares
81.90 share value
49.14 buy at 60%
98.28 sell at 120%

Valuation as an Equity Bond:	
Current BV	CHF 20.98
Current ROE	14.76%
Retained %	22.80%
Net BV Growth	3.37%
BV in Year 10	CHF 29.22
EPS in Year 10	CHF 4.31
Valueat19P/E	CHF 86.25
Total Dividends	CHF 27.75
Total F.Value	CHF 114.01
Purchaseat14%	CHF 30.75

Valuation on Earnings Growth:	
Current EPS	CHF 3.10
EPS in Year 10	CHF 7.33
Ave. P/E Ratio	18.12
Valueat20.P/E	CHF 174.40
Price Return	9.10%
Dividend Return	3.16%
Total Return	12.26%
Purchaseat14%	CHF 47.04
Sell@5%	CHF 107.07

History of Buys/Sells

by	NSRGY	8/12/2009	170.00	6,709	39.46	1.5%
by	NSRGY	4/20/2010	160.00	7,846	49.04	3.0%

Discussion of Buys/Sells

What: The return of NSRGY on the first tranche was 89% and SP 103% for an underperformance of 14% over six years. The return of NESN on the first tranche was 71% and SP 103% for an underperformance of 32% over six years. By the first quarter 2013, most of the return of NSRGY and NESN occurred and had outperformed. Since then, NSRGY has underperformed. The return of NSRGY on the second tranche was 53% and SP 73% for an underperformance of 20% over 5.5 years. The return of NESN on the second tranche was 38% and SP 73% for an underperformance of 35% over 5.5 years. Most of the return of NSRGY over NESN occurred in 2010 and remained. Little difference if started in 2011.

So what: It appears that we were able to purchase a superior company which we had researched for eight years prior. On our initial purchase, we had NSRGY as a Tier II, but only purchased 1.5% - probably due to our first "foreign" stock. This purchase was at 13X earnings. On our second purchase, we had moved NSRGY to a Tier I, but the pricing only allowed the 3% purchase - due to a run up in stock. The pricing was now 15X earnings for a first buy and about 17X for the second at 3%.

Now what: NSRGY has had consistent predictable returns. In 2006, we predicted CHF 4/share in 2016 and they are now estimated at CHF 3.5/share. NSRGY has had to deal with consistent strong currency headwinds. Consistent with our thesis of purchasing foreign companies on a strong domestic currency, we purchased at pockets of dollar strength. NSRGY stock runs fairly expensive for us at times of dollar weakness, although these are periods that generate superior performance.

Takeaway: look for strong foreign companies, write reports, get Tiering correct and buy during times of dollar strength and reduce at times of dollar weakness.
Takeaway: use ADR for pricing; creates a good currency adjustment.

