From the moors north of Skagen, 1885. By P.S. Krøyer, one of the Skagen Painters. This image belongs to the Skagens Museum.

SKAGEN Global

Status Report February 2016

The art of common sense

SKAGEN

Summary – February 2016

- SKAGEN Global underperformed its benchmark index by 2.4% in February. The fund lost 2.0% while the benchmark MSCI All Country World Index gained 0.4% (measured in EUR).*

- In 2016, the fund has declined 8.9% while the benchmark has declined 6.2%. Hence, the fund's year-to-date relative performance is -2.7%.

- Lundin Mining, Volvo and Tyson Foods were the three best monthly contributors to absolute performance while AIG, Citigroup and State Bank of India were the three largest detractors.

- The team initiated a new position in the Japanese conglomerate Sony and added to existing holdings in Autoliv and Teva. We trimmed several winners, including Tyson Foods, Xcel Energy and Alphabet. The Indonesian media company Global Mediacom left the portfolio.

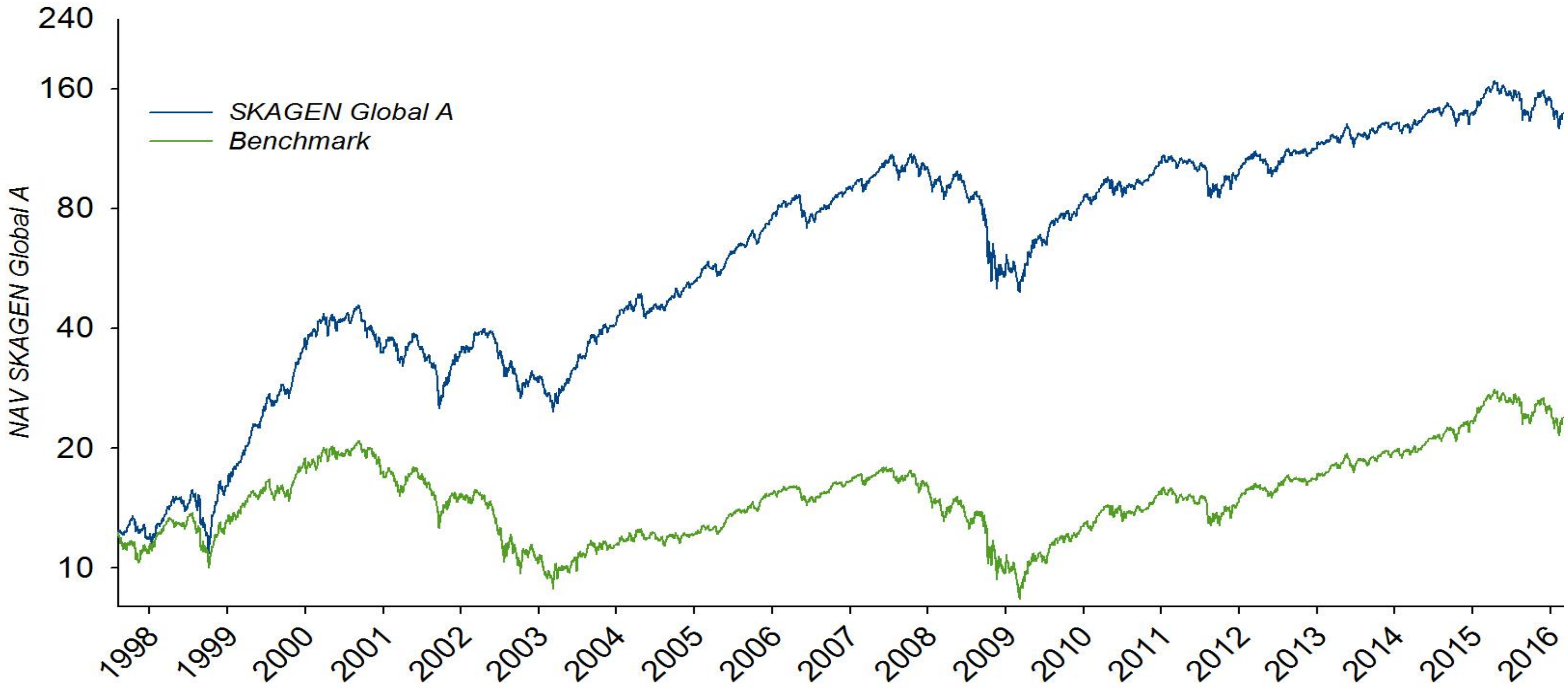
- The portfolio remains attractively valued both on an absolute and a relative basis. The fund's top 35 holdings trade at a weighted Price/Earnings (2016e) of 12.6x and a Price/Book of 1.2x vs. the index at 15.0x and 1.9x, respectively.

- The weighted average upside to our price targets for the fund's top-35 holdings is 47%.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*

SKAGEN Global A results, February 2016

EUR, net of fees

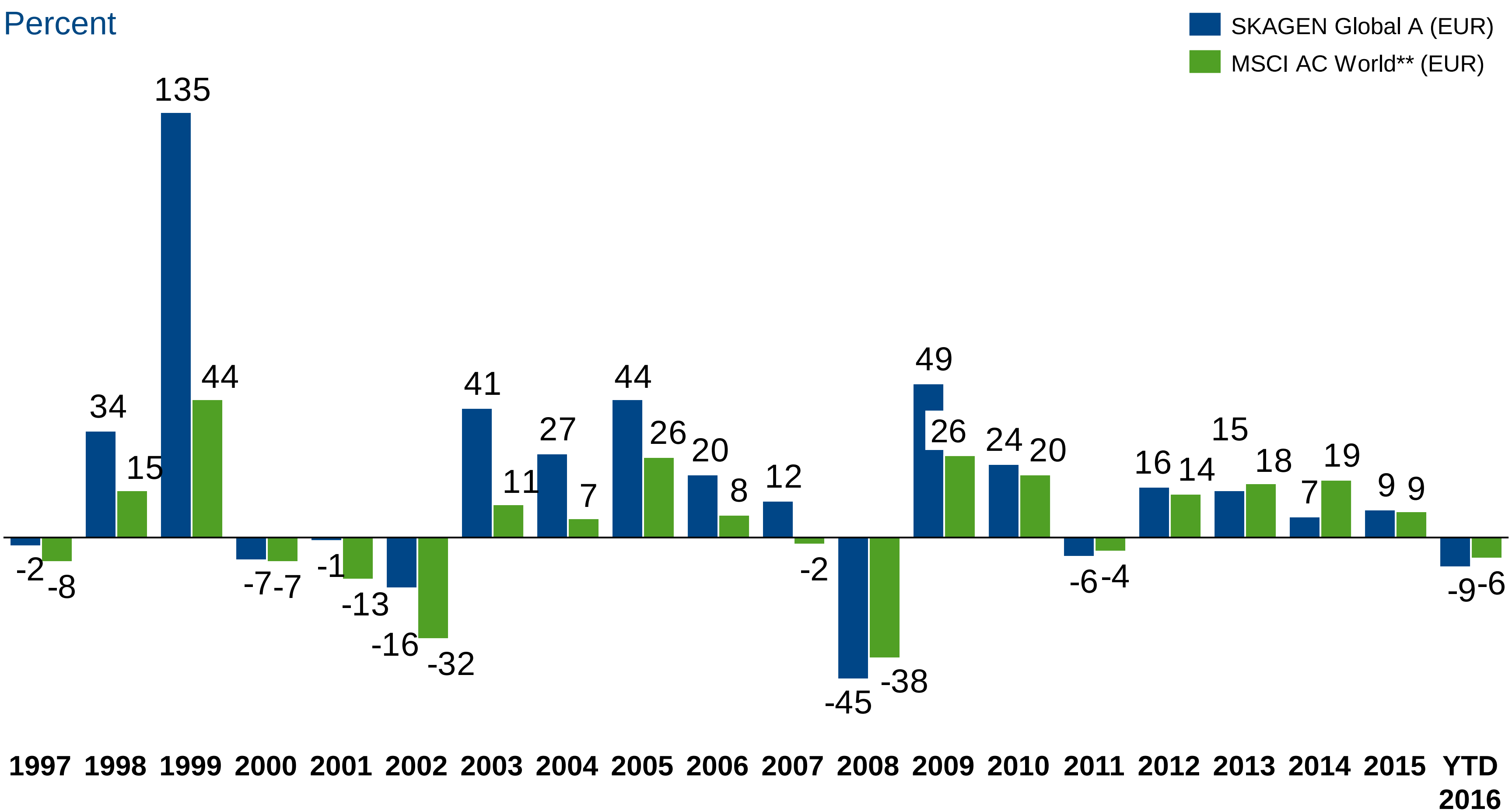


	February	QTD	YTD	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Global A	-2,0%	-8,9%	-8.9%	-10,8%	5,2%	5,4%	5,3%	13,9%
MSCI AC World Index*	0,4%	-6,2%	-6.2%	-9,1%	10,5%	8,9%	4,2%	3,6%
Excess return	-2,4%	-2,7%	-2.7%	-1,7%	-5,2%	-3,5%	1,1%	10,3%

Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 2009 and MSCI All Country World Index from 1 January 2010 onwards*

Annual performance since inception (%)*

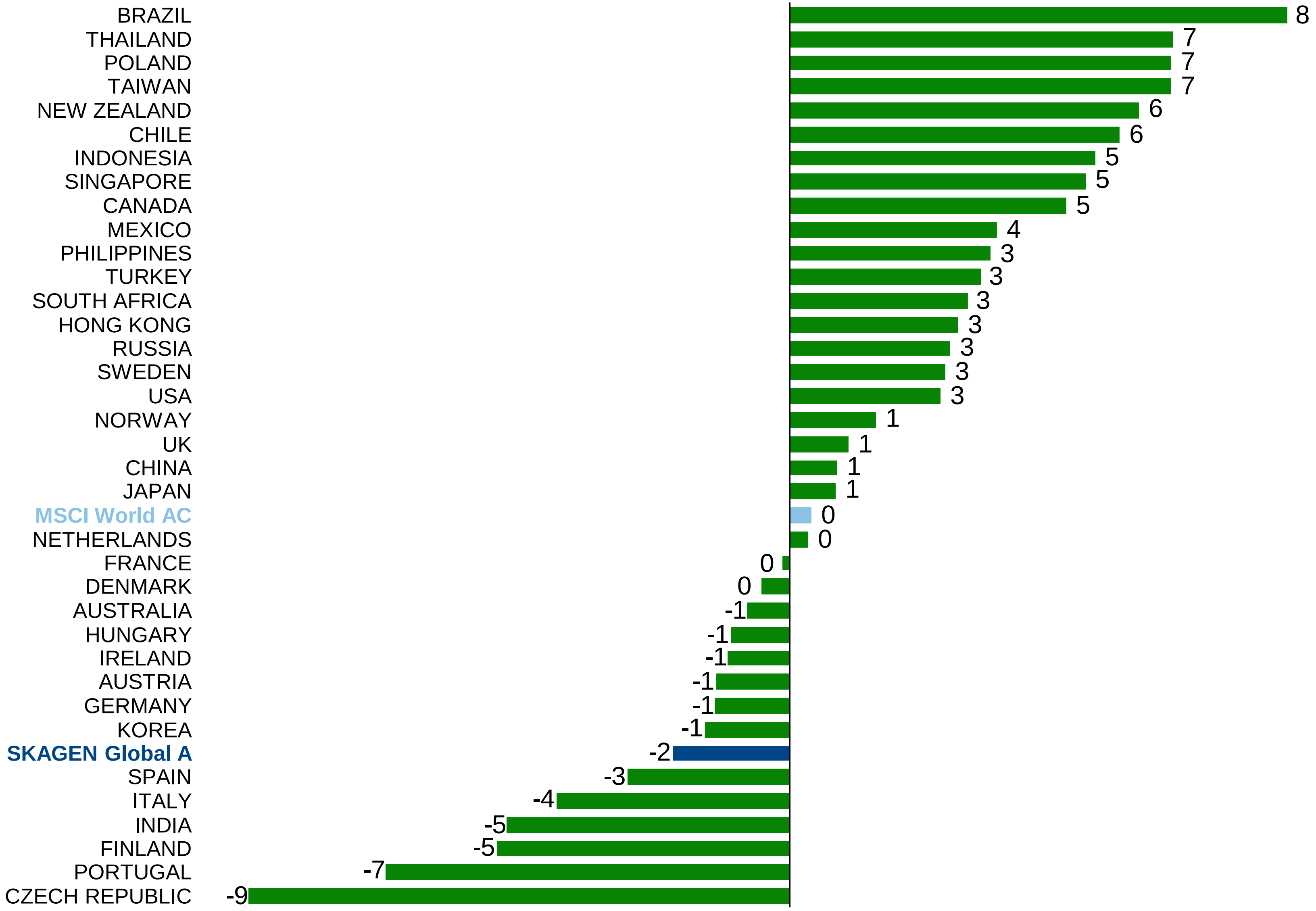
SKAGEN Global A has beaten its benchmark 15 out of 19 years



Note: All figures in EUR, net of fees
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 1997 and MSCI All Country World Index from 1 January 2010 onwards*

SKAGEN

Markets in February 2016 in EUR (%)



Main contributors February 2016

Largest positive contributors

Company	*NOK Millions*
Lundin Mining Corp	102
Volvo AB	59
Tyson Foods Inc	56
IRSA Inversiones y Representac	47
General Electric Co	46
Lundin Petroleum AB	40
Autoliv Inc	31
Koninklijke DSM NV	21
Comcast Corp	21
UPM-Kymmene OYJ	20

Largest negative contributors

Company	*NOK Millions*
American International Group	-211
Citigroup Inc	-88
State Bank of India	-81
G4S Plc	-79
NN Group NV	-73
Credit Suisse Group AG	-70
Teva Pharmaceutical Industries	-49
Toyota Industries Corp	-48
Microsoft Corp	-40
Samsung Electronics Co Ltd	-40

Value Creation MTD (NOK MM): -497

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	*NOK Millions*
Tyco International Plc	51
WM Morrison Supermarkets PLC	44
Tyson Foods Inc	43
Xcel Energy Inc	41
Dollar General Corp	29
Volvo AB	27
Lundin Petroleum AB	25
IRSA Inversiones y Representac	16
Comcast Corp	9
Haci Omer Sabanci Holding AS	5

Largest negative contributors

Company	*NOK Millions*
Citigroup Inc	-554
American International Group	-531
State Bank of India	-281
Samsung Electronics Co Ltd	-280
Credit Suisse Group AG	-149
G4S Plc	-130
NN Group NV	-130
Roche Holding AG	-120
Cheung Kong Holdings Ltd	-111
Teva Pharmaceutical Industries	-103

Value Creation YTD (NOK MM): -3572

NB: Contribution to absolute return

Most important changes Q1 2016

Holdings increased

Q1

Cap Gemini SA	(New)
Sony Corp	(New)
Autoliv Inc	
Citigroup Inc	
Teva Pharmaceutical Industries	
General Electric Co	

Holdings reduced

Q1

Global Mediacom	(Out)
Tyson Foods Inc	
Alphabet Inc	
Dollar General Corp	
Xcel Energy Inc	
Tata Motors Ltd	
Nordea Bank AB	

Holdings increased and decreased during February 2016

Key buys in February

- The fund initiated a new position in the Japanese conglomerate **Sony** based on an investment thesis around the business mix evolving from Hardware to Entertainment and a clear trigger in Sony becoming the "Netflix for gaming". See attached fact sheet.

- The Swedish automotive safety supplier **Autoliv** has been weak after the Q4 report where management lowered growth and margin expectations. However, we have gone against the negative sentiment and added to our holding in Autoliv at these attractive levels. The investment case remains high conviction.

- The Israeli generics pharma manufacturer **Teva** is off to a relatively weak start in 2016 as sector rotation and minor concerns – in our view exaggerated – around generics pricing and delays in the deal with Allergan have weighed on the share. We have re-deployed the cash from some of our winners into this laggard.

Key sells in February

- We have gradually reduced our position in Indonesian media company **Global Mediacom** and offloaded the last shares this month as the company's outlook is no longer as positive as we initially envisioned.

- The US food producer **Tyson Foods** has returned 22% (in USD) YTD and we have therefore trimmed the position size as the market has started to adopt our view of the story.

- In early February, the US tech giant **Alphabet** (ex-Google) briefly overtook Apple as the world's most valuable company. We reduced our position size in light of the strong share price performance.

- The US utility **Xcel Energy** has provided stability in the market mayhem and as predicted benefited from a flight-to-safety. As valuation has risen we have sold some shares into strength.

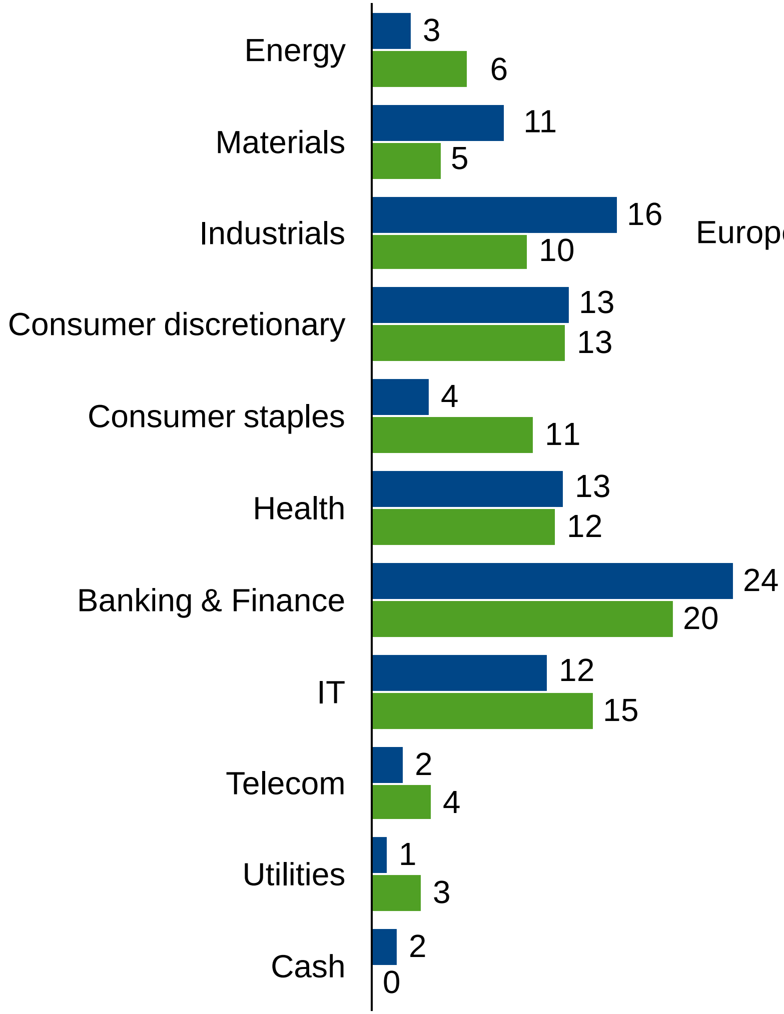
- The Indian auto company **Tata Motors** reported falling margins and we see negative free cash flow for several years ahead. Hence, we have re-deployed some of the capital into other auto-related names in the portfolio with a better outlook.

Largest holdings in SKAGEN Global as of 29 February 2016

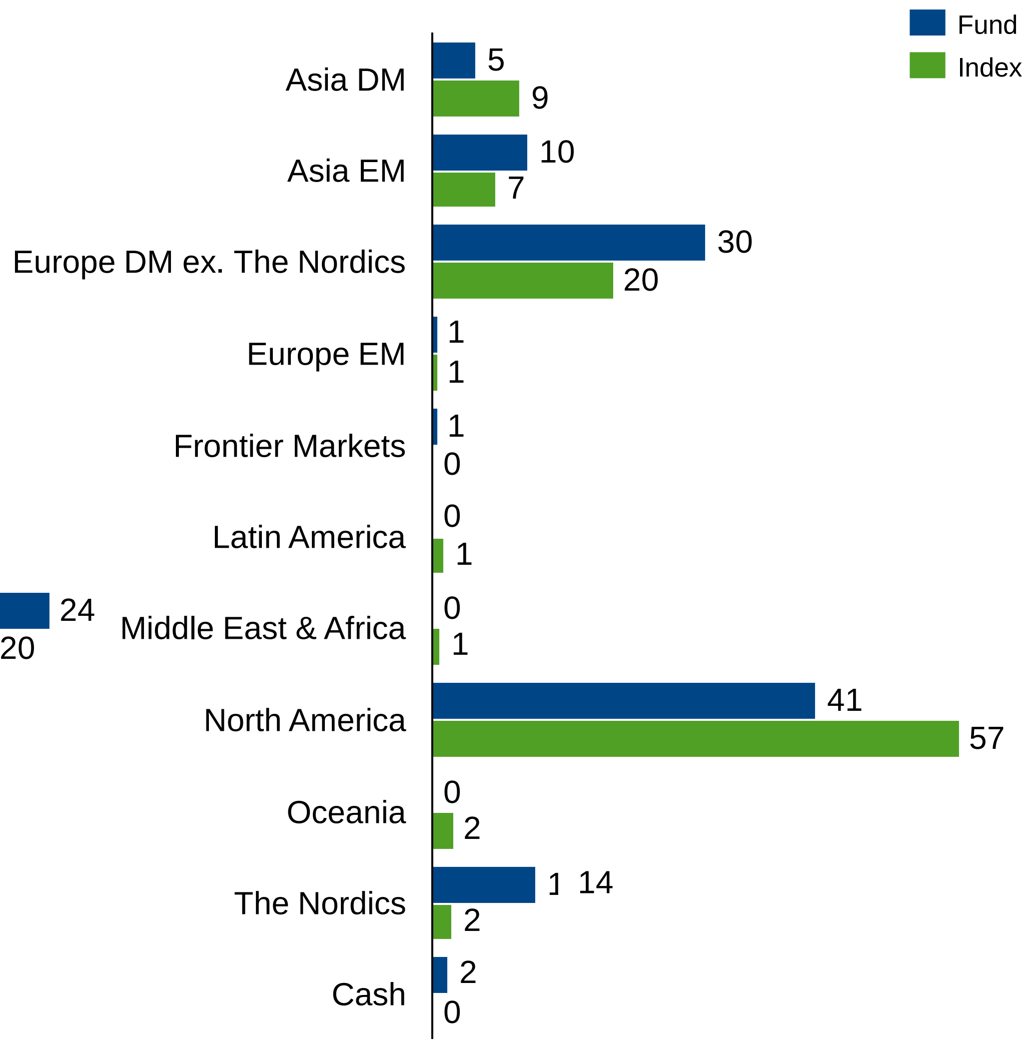
	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Price target
AIG	6.8	50.2	22.9	10.3	0.7	90
CITIGROUP	5.9	38.9	7.3	7.3	0.6	70
SAMSUNG ELECTRONICS	5.3	986,000	7.7	7.6	0.8	1,500,000
GENERAL ELECTRIC	4.9	29.1	22.2	19.3	2.7	34
ROCHE	4.4	257.0	19.1	17.6	10.4	380
MERCK	3.6	50.2	14.0	13.5	3.1	76
DOLLAR GENERAL	3.0	74.3	21.2	18.9	4.0	94
KINGFISHER	2.9	334.3	15.5	15.5	1.3	450
CK HUTCHISON HOLDINGS	2.9	94.0	11.4	10.4	0.9	140
G4S	2.8	208.1	14.3	13.0	4.4	403
Weighted top 10	**42.5**		**12.9**	**11.3**	**1.1**	**55%**
Weighted top 35	**86.5**		**14.7**	**12.6**	**1.2**	**47%**
MSCI AC World			**16.7**	**15.0**	**1.9**	

Sector and geographical distribution vs index (Feb 2016)

Sector distribution



Geographical distribution



Key earnings releases and corporate news, February 2016

AIG
(6.8%)

Lack of fundamental improvement but continues to return cash to shareholders
Summary: P&C core combined ratio was in line with expectations, but at 97.8% showed no progress vs. last year on either loss (62.8%) or expense ratio (35%). Life insurance continues to perform OK with growth of 9% YoY in 4Q but earnings were hurt by disappointing alternative investment income. In 2015, AIG returned 18% of current market cap to shareholders and has already bought back close to 4% of shares outstanding in Q1. The company agreed with activist shareholders Carl Icahn (owns a 3.4% stake in AIG) and Paulson & Co to each appoint one new director to AIG's board.

Investment case implications: AIG continues to deliver in line with our investment hypothesis by exiting non-core assets and increasing financial leverage from a very low base to return a significant amount of capital to shareholders in the form of buybacks below book value. However, we still see limited improvements in its core underwriting activities within the underperforming P&C business. The stock has mainly done well as a result of low/no expectations on execution, something that is still reflected in today's low valuation. The appointment of two activist investors to AIG's board is a clear positive as it instils a sense of urgency and clearly increases the likelihood of transformational asset sales.

Samsung Electronics
(5.3%)

4Q15 in line with expectations; muted 2016 outlook
Summary: 4Q15 operating profit of KRW 6.14tr was in line with pre-announcement and +16% YoY but -17% QoQ. The company said FX contributed KRW 400bn negative QoQ, while 3Q15 had a positive FX impact of KRW 800bn versus 2Q15. Weaker EM currencies are the reason for the negative impact in 4Q15. While Semiconductor OP of KRW 2.8tr was slightly below expectations (margin of 21.2% down from 28.5% in 3Q15), Consumer electronics surprised on the upside with OP of KRW 820bn for a margin of 5.9% (up from 3.1% in 3Q15 and 1.3% in 4Q14).

Investment case implications: Slightly negative, due to muted 2016 outlook but this was no big surprise and we would note that Samsung management is normally conservative.

NN Group
(2.7%)

NN Group 2015 Q4 results confirm undervalued capital return story
Summary: NN Group reports strong capital position but slightly weak operating results. Operating income in Q4 at EUR 250m is 8% below market estimates driven by lower fees, lower private equity dividends and minor one-offs. The non-life division reported 100.7% combined ratio vs. 100% expected and 99.4% last year. Solvency II at 239%, up YoY from 200%. Cash at HoldCo level (pro-format of dividends and buybacks) is EUR 1.36bn and at the high end of the EUR 0.5-1.5bn target range. Dividend per share at EUR 1.51 is significantly above last year's EUR 0.57 (and consensus at EUR 1.37).

Investment case implications: Neutral. Case intact. NN Group is a capital return story as illustrated by 11% total capital return yield in 2015. Solvency levels remain strong and the HoldCo cash levels support further capital return (we estimate well over 20% of market cap over the next couple of years). Operational results can – and should – be further improved (non-life has 97% combined ratio target, more expense management) which could provide further upside. So far in 2016, the market has not shown much appetite for this 8-9% free cash flow yield story but we find the case compelling.

Key earnings releases and corporate news, February 2016 (cont.)

Lundin Mining

(2.0%)

Beat expectations on the underlying business

Summary: Again, Lundin Mining delivered solid execution with costs being lowered substantially during 2015. Non-cash impairment (due to lower metal prices) hurt the results but underlying business is good. Lundin reported positive cash flow from operations of USD 107m which was impressive given the current metal price environment. Guidance for 2016 kept unchanged, with cash from Tenke (Congo) at USD 30-40m lower than expected but usually the guidance is conservative. Expects to be cash flow positive for 2016 and might look at M&A if the right asset comes up for sale.

Investment case implications: We continue to like Lundin due to their good execution, solid balance sheet and good asset base that is in the mid/lower part of industry cost curve. We think they have attractive assets like Neves Corvo (zinc) that could be expanded in the years to come. Drilling at both the Candelaria (copper) and Eagle (nickel) mines could increase their resource base substantially. Balance sheet leaves room for M&A but likely not for a big deal. Their Tenke asset (Lundin owns 24%) could come into play as the operator Freeport (56%) is in some financial difficulty. Metal prices are at low levels. Some new copper capacity coming online in 2016 but some shutdowns also happening.

Credit Suisse

(1.0%)

Credit Suisse fumbles and the share tanks

Summary: Both headline and underlying Q4 net profit (loss) for Credit Suisse were vastly underwhelming. A CHF 3.8bn goodwill impairment (DLJ acquisition in 2000) charge coupled with restructuring and litigation expenses resulted in a CHF 5.8bn loss for the year. Mark-to-market losses on high-yield and fixed income instruments explain part of the underperformance, but group revenue also fell by 30% QoQ to CHF 4.2bn. The look-through CET1 ratio was 11.4% (vs. 12.3% expected) and the CET leverage ratio was 3.3% (vs. 3.5% expected). The bank will accelerate its cost savings program and eliminate 4,000 positions (out of 48,000) to achieve its CHF 3.5bn cost savings target by 2018.

Investment case implications: Big negative. The three key issues are capital burn, business mix and financial targets:
On capital burn - The 11.4% CET1 ratio is a bit low, but not extremely low. In a normal year, Credit Suisse can probably add 80 bps and in more challenging markets (resorting to a dividend scrip) perhaps 40-50 bps. Unless material negative surprises emerge from the books, this part should be OK over the next couple of years;
On business mix - The transformation plan is sound and we support it. While the negative trend around credit spreads and energy loan worries has continued in Q1, the inventory levels are much smaller and expectations should have come down. We admit that short-term catalysts are lacking, but as long-term investors we see value in the name as it rides out the storm. More goodwill write-downs seem unlikely;
On financial targets - We are sceptical that the revenue targets can be met and don't bank on this in our valuation. However, we think that cost targets can be exceeded (CHF 4.4 vs CHF 3.5bn). Our lower valuation essentially reflects that the turn-around plan has been delayed by about a year and we won't see significant progress until 2018 (at which point ROTE reaches 12%). The CEO has asked for a 2015 bonus cut, indicating he's aware of having disappointed investors and is likely to set his sights on success going forward.

Key earnings releases and corporate news, February 2016 (cont.)

ServiceMaster

(0.7%)

Beat and raised – The rodents don't fear a recession

Summary: Terminix grew +6% YoY o/w +2% organically, driven by pest control and improving trends in termite control. Contribution margin was strong at ~75% leading to a better than expected EBITDA margin of 22.4% in the quarter. Organic growth should accelerate slightly in FY16 and we expect further margin expansion due to operating leverage and the integration of Alterra (acquired in November). Announced USD 300m buyback authorisation, the first since going public. Some people were hoping for a dividend, but we agree with management's capital allocation strategy to prioritise deleveraging at this stage, especially when the high-yield debt market is jittery. The company now targets 2.5-3.0x ND/EBITDA over the long-term versus the current level at 4.2x. Remember that operational risks are low in this company, so the capacity to take on financial leverage is high (ServiceMaster operated with ND/EBITDA of 9-10x throughout the financial crisis when it was owned by private equity).

Investment case implications: Q4'15 operational performance broadly in line with expectations, strong pest control somewhat offset by growing pains in the home insurance business, and FY16 was guided ahead of consensus. Despite beating expectations, the share lost some of this year's outperformance, giving us an opportunity to increase our exposure to what remains a fairly recession-proof story at an attractive valuation.

Tyson Foods

(0.3%)

Chickens might not fly, but margins can

Summary: Monster numbers – in a positive sense - scaring hedge funds that have been short the name sending the stock up as much as 13% during the session before ending +10% for the day. Chicken margins for the quarter at 13.6% vs. expectations of 10-11% due to favourable feed costs. Guidance for the year on chicken margins increased from 10% to 11%. Pork margins of 13% were incredible and the second best quarterly performance in history on robust packer margins. Guidance for pork margins was increased to 8%+ from previous 6-8%. Beef margins of 2% also better than expected and management is bullish on beef as more cattle will be available in 2H2016. Prepared foods margin at 10.9% was also much better than expected with synergies from the Hillshire acquisition and lower raw material costs continuing to help. Operating cash flow was at record levels and new share buyback program of 50m shares or 12.5% of market cap of the company announced.

Investment case implications: As we initiated the position 10 months ago our analysis showed that Tyson should be able to close some of the valuation gap between a pure commodity player (8-9x PE) and the prepared foods players (20-25x PE). A fair multiple for Tyson should be 15x PE as they have increased their share of prepared foods. In addition, we predicted that chicken margins would be more stable going forward as they can partly stabilise the market by buying up 10% of their demand instead of producing it themselves and thereby not flood the market with meat. Tyson has also signed longer term cost-plus contracts for their chicken business. Considering all of this Tyson is today trading at 15x PE and we have scaled back the position substantially although we still see more upside. 2017 EPS of USD 4.25 at 15x PE gets us to a target of USD 65 including dividend. The stock has massively outperformed the market in 2016 so we have acted counter-cyclically and sold down our position in a disciplined manner.

The 10 largest companies in SKAGEN Global

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings that it intends to keep: Sun America and Chartis.

Citi is a US financial conglomerate with operations in more than 100 countries worldwide. The bank was bailed out by the US government during the credit crisis and subsequently raised USD 50bn of new capital. Consists of two units: Citi Holdings which is a vehicle for assets that are to be run down and sold and Citi Corp which is the core of the going concern business. In Citicorp 60% of revenues are derived from outside the US - mainly from emerging markets.

Samsung Electronics is one of the world's largest producers of consumer electronics. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces domestic appliances, cameras, printers, PCs and air conditioners.

Founded in 1892 by Thomas Edison et al., General Electric (GE) operates two divisions (GE Industrial and GE Capital) contributing approximately the same portion of group earnings. GE is the world's 10th largest publicly-traded company and boasts the 6th most valuable brand. The industrial segment is a play on global infrastructure with a high-margin service business and a large installed base producing a wide variety of capital goods ranging from aircraft engines and power turbines to medical imaging equipment and state-of-the-art locomotives.

Roche is a leading pharmaceuticals and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT are derived from the company's Big 3 oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

The 10 largest companies in SKAGEN Global (cont.)

MERCK	Founded in 1891, Merck & Co is a US large-cap pharma company (and #7 worldwide by revenue) with a broad pharma portfolio and a solid pipeline (R&D 16-17% of sales). HQ in New Jersey and 70,000 employees. Sales by division (2014, USD 42bn): Diabetes (14%), Infectious Diseases (18%), Vaccines (13%), Animal Health (8%), Oncology (2%), Other (45%). Consensus expects legacy drugs sales to shrink by single-digit percent annually.
DOLLAR GENERAL	Dollar General (DG) is the largest US dollar store retailer with an estimated 28% market share and 2015e sales of USD 20bn. DG has more than 12,000 stores in 43 states. Most customers live within 3 to 5 miles, or a 10-minute drive, from the store. DG has 12 distribution centres and employs 100,000 people. Items typically cost in the range of USD 1-5 apiece. DG sales are divided into 4 main categories: Consumables (76%), Seasonal (13%), Home Product (6%) and Apparel (5%).
Kingfisher	Kingfisher is the largest home improvement retailer in Europe with leading market share in the UK, France and Poland which together represent 90% of sales and 95% of profits. Kingfisher operates via B&Q and Screwfix in the UK and via Castorama and Brico Depot in France. Sales came in at close to GBP 11bn for 2014/2015. The new CEO, Ms. Laury, has 26 years experience within the do-it-yourself (DIY) industry, including 11 years at Kingfisher.
CKH	Founded in 1950 as a plastics manufacturer by its current main shareholder Li Ka Shing, CK Hutchison Holdings is now a multinational conglomerate. The company holds the non-property businesses of the former Cheung Kong and Hutchison group. The group owns assets in (% of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).
G4S	G4S is the world's largest security company operating in more than 110 countries with over 620,000 employees. The group was formed in 2004 by the merger of UK-based Securicor plc and Denmark-based Group 4 Falck. By activity (FY2014): Security Services (84% of sales; 74% of EBITA) and Cash Solutions (16%; 26%). Main source of business opportunity is in emerging markets where the company has an unrivaled presence with >30% of sales. New management team installed in 2013.

Sony (6758 JP) ¥2,623

Mean reversion	Special situation	LT value creator:
25%	0%	75%

History, business model and source of investment case

- Sony is a Japanese conglomerate of entertainment, technology and finance businesses that employs c. 130,000 people across the world. Its key business areas include the PlayStation ecosystem, CMOS image sensors, movies, music, smartphones, cameras, TVs, audio equipment and life insurance (indirectly through its 60% ownership of Sony Financial Holding). What sets Sony apart from other large consumer electronics companies is that it is also a significant content provider within its entertainment business arm (mainly the PlayStation ecosystem, and movies & music production).
- Revenue (c. ¥ 8.4tn) by region: Japan 27%, Europe 23%, North America 19%, Asia ex-China 13%, China 7%, RoW 11%; by activity: Gaming & Network Services 21%, Device 14%, Mobile Communication 14%, Home Entertainment & Sound 14%, Financial Services 12%, Movies 10%, Image Products & Solution 8%, Music 7%.
- Case identified via SKAGEN Global internal proprietary research

ESG Our ESG research shows that Sony complies with SKAGEN's ethical guidelines.

Investment rationale

- **Centre of gravity is shifting to Entertainment from Hardware.** Historically, the focus of the group has been in areas commonly associated with the Sony brand, namely TVs, mobile phones and cameras. This is changing fast. Over the coming 5 years we foresee the Entertainment business growing profits at an annual rate of 15-20%, thus clearly overtaking the Hardware business. In 2020, we expect Entertainment to make up c. 70% of group profits versus c. 40% today (excluding financial holdings). This shift will have material implications for shareholders, mainly because it supports a more predictable repeat-earnings stream that warrants a higher valuation than the group gets credit for in the market. This will put an end to the cycles that historically have characterised the group's performance.
- **New business models evolving – "Netflix for gaming", etc.** The evolving PlayStation ecosystem is at the heart of our investment thesis. Over the past couple of years we have observed Sony winning this generation of the console war (against Microsoft and Nintendo) and integrated the distribution chain (digital game distribution has replaced physical). This opens up a variety of business models, including a "Netflix for gaming", that are still in their infancy but are set to continue to transform Sony's positioning in the value chain over the coming years. On back of this we expect Sony to benefit from massive operating leverage in its structurally growing Network business where c.15% revenue CAGR translates into 70+% profit growth p.a. This potential remains underappreciated in the market.
- **Myopic investor focus.** While the company is at the tipping point of fundamental change most investors remain focused on something else: short-term dynamics in the image sensor (CMOS) business. Sony dominates the market for high-end image sensors with a technology lead of 1-2 years ahead of its closest competitors. As a monopoly-supplier to Apple, it is important how smartphone sales are trending, but taking a more pragmatic view, this is not where Sony will generate shareholder value over the medium term. Uncertainties around quarterly iPhone sales have nonetheless made a large imprint on the current valuation of the Sony group, with the share trading down c. -20% in the month prior to its Jan-16 results announcement. With most investors busy looking in the rearview mirror instead of the road ahead, we view this as a good entry point for the medium term.
- **Inflection in cash generation.** The electronics business, notably mobile phones and TVs, has endured weak conditions for a long time, which has consumed a lot of resources through restructuring and operating losses, but signs of a bottom are emerging (mainly as we start to see benefits from the 2014 reform of the consumer electronics operations, prioritising margins over sales). With these legacy businesses stabilised and the heavy investment phase expanding CMOS capacity coming to an end, Sony is now set to generate a lot of cash. Some of this cash will be distributed to shareholders as the group just reinstated its dividend but the majority is likely to be invested into the Entertainment business. We consider this to be a sound capital allocation decision that will ultimately benefit shareholders.

Triggers

- Pick-up in demand for CMOS image sensors. (short-term)
- Successful launch of the PlayStation VR. (short-term)
- Confirmation that Mobile and TV businesses can be maintained at break-even levels. (medium-term)

Risks

- Key customers within the device segment deciding against a dual-sensor setup in future cameras (e.g., Apple).
- Failure to capitalise on possible future migration to a distributed gaming model.

Price target

Our base case upside of 77% (21% p.a.) is based on an SOTP valuation and cash flow generation over the next couple of years. Significant evaluation potential from <8x to 12x EV/EBITA, closer to the historical range. The stock has c. -20% downside in a bear case scenario.

SONY
make.believe

Key Figures

Market cap	YEN	3,308 bn
Net debt (adj.)	YEN	-691 bn
Enterprise value	YEN	2,617 bn
Equity	YEN	2,150 bn
No. of shares o/s		1.261 bn
EV/Sales 2016		0.37x
EV/EBITA 2016		7.7x
P/E 2016		11.4x
FCF yield 2016		10%
EPS CAGR (2015-17)		28%
Daily turnover	USD	300 mn
No of analysts		23
with Sell/Hold		13%

Owners

Citibank	9.4%
State Street Corp	5.9%
Blackrock	5.7%

3U acid test

Unpopular

- 13% Sell/Hold – (Significantly) less popular in the market than on the sell side.
- Share has underperformed recently following uncertainties around the short-term smartphone outlook, which we view as largely irrelevant for the medium-term case.

Under-researched

- Implications of ongoing shift to Entertainment from Hardware not widely understood by the market. Will benefit from operating leverage and a more predictable revenue stream from new emerging business models, including the highly scalable “Netflix for gaming”.
- The Hardware businesses have been restructured and operating performance has stabilised, albeit at a low level. Some people misperceive the TV and mobile phone businesses as “black holes” with perpetual losses; we disagree and consider current break-even levels to be sustainable.

Under-valued

- Currently trading at <8x EV/EBITA which fails to discount the shift of centre of gravity to Sony’s more attractive Entertainment business. Our sum-of-the-parts approach suggests a fair valuation of 12+x EV/EBITA. On top of this we see an FCF yield of 10+% p.a.
- We estimate that the Entertainment business alone covers well in excess of the current market value of the whole group, which implicitly assigns a large negative value to the Hardware business.

For more information please visit:

Our latest Market report
Information on SKAGEN Global A on our web pages