



OnTarget

CapitalBridge's monthly newsletter that puts the focus on institutional targeting for your investor relations efforts

OnTarget – Trends

With the first quarter being a "tipping point" for the reporting of options expensing by issuers, this quarter's earnings season has become one of the more confusing times in recent history for the reporters that have to chime in at a moment's notice whether a firm's press release includes earnings that "beat expectations" or "missed expectations." And I'm sure we at CapitalBridge aren't the only ones that can report seeing more mentions of breathless journalists talking about "beating top-line" this quarter since they know revenue estimates are more easily comparable.

Note that the timing of the "consensus switchover" is controlled by the earnings editors at First Call, Reuters, or other estimate aggregators, generally not by the issuer or by any individual analyst. First Call and Reuters have taken two different approaches to questions about the comparability of estimates -- First Call will report the primary "mean estimate" that is determined by a majority (or plurality) of the analyst base reporting on the same basis, whether that estimate includes or excludes options expenses. Reuters is "pushing" analysts towards reporting all bottom-line estimates including the effects of options expensing.

Credit Suisse wrote a very interesting report (referenced in the *WSJ* as well) that shows the effects of the changeover in consensus to "options expensing" versus "non-options expensing" basis. CS looked at stock price returns of large-cap companies that switch to options expensing consensus and found this group underperformed the S&P 500 in the trading sessions afterwards (particularly in the week after the switch). However, the returns of these companies tend to even out after the first five sessions or so.

Even further, they looked at price returns of companies that show a switch that have >5% effect on net income (a "material effect" on earnings), and find this group underperforms even more, and stock prices **didn't** tend to recover after the initial losses. Most importantly, the sample size of these returns are now big enough, after companies beginning to report these changes over the last year, to prevent anyone from ignoring their effects.

For over a year now, we've heard arguments on both sides of the investment decision (both issuers and analysts) suggesting that options expensing is a "non-operating" concern, and there's no reason to make a major change to a view of a company's prospects based on this accounting reclassification. (Not to mention a few years worth of letters sent in to "comment periods"...) Or is there?

The bottom line for IR is that "earnings editors" at Reuters/First Call etc. exercise at least some control on the "switchover," and in general are the conduits to making sure the primary estimate that shows up on the Street is a "valid consensus." At minimum, dropping a call to your earnings editor at either service can not only make the service provider aware that you're knowledgeable about their part of the process, but may also translate into extra attention in keeping your numbers "on the same page."

The breathless journalists are thanking you already...

OnTarget – Firms

Target Firm: Evergreen Investment Management

Targeting Profile

Evergreen Investment Management Company is one of the largest investment houses in the Boston area and makes a good target for investors with a either a solid growth story or a value/income story with a decent track record. The firm tends to accumulate or liquidate positions over long periods of time, minimizing the price impact of trading its holdings (and keeping expenses lower for its clients).

How to Approach

Sector-wise, the firm has reversed its early 2005 trend and has cut back its financials exposure from \$13.3 billion at the end of 3Q to just under \$11.0 billion by the end of the year, with materials and industrials falling more in favor during the period. Its largest US equity purchase during the quarter, small-cap Treehouse Foods (THS), is a "turnaround" story that took a 30% stock price hit in early November.

Health-care "story stocks" have also provoked recent buys from Evergreen – it has diversified its already-large pharmaceutical investments (including additional investments large-caps such as PFE and WYE) with new buys of global pharms such as generic drugmaker Teva (TEVA). Health-care equipment stocks are also popular. The firm's International Equity Fund is its fastest-growing fund by asset size – emphasize any global exposure in your investment story.

How Not to Approach

At the industry level, the firm cut its holdings in telecoms in half in the fourth quarter, in particular a large Verizon (VZ) stake. A relatively low weighting in gas utilities was decreased by a sharp drop in Kinder Morgan (KMP) holdings.

Average equity holding period: 3.4 years

Largest Mutual Funds Managed

Evergreen International Equity Fund -- \$2.9 billion equity – Gillman Gunn

Evergreen Special Values Fund – \$2.6 billion equity -- James Tringas

Evergreen Large Cap Equity Fund -- \$1.7 billion equity – Bill Zieff

Evergreen Strategic Growth Fund -- \$1.6 billion equity – Shannon Reid

Evergreen Fundamental Large Cap Fund -- \$1.5 billion equity – Walter McCormick

Investment Potential

Average holdings for the firm at each market cap range:

Giant-cap: ~\$150 mm

Large-cap: ~\$30 mm

Mid-cap: ~\$10 mm

Small-cap: \$5 mm

Micro-cap: \$1.2 mm

OnTarget – Funds

Target Fund: Evergreen Special Values Fund

Portfolio Manager:

James Tringas (617-210-3461),
jtringas@evergreeninvestments.com

Targeting Profile

If you're a small-cap company with a good valuation story and some growth on the horizon, this fund is a "must see." Equity assets for the fund are up a full 15% just in the last quarter, meaning new cash flowing into the fund can be used for new investment stories. The fund's portfolio has a weighted average price/book ratio of a cheap 2.6x book, and trades on an average of just 1.8x sales.

How to Approach

Bring a good absolute valuation story, not necessarily relative to your peer group. A long-term growth track record is not a necessity here (the firm's investments average just 7% per year in EPS growth over the last five years) as long as the near-term story gives a good price for upcoming growth.

The fund's largest recent buys come from a variety of sectors, with the aforementioned Treehouse Foods (1.1x sales), Valassis Communications (1.2x sales) and Blyth Inc. (0.6x sales) as indicative of the fund's "stock-picking" methodology.

Average equity holding period: 2.3 years

How Not to Approach

The fund limits nearly all of its investments to companies \$1.5 b in market cap or below, while it has liquidity limits on the smallest of micro-cap companies.

Its largest two liquidations for the quarter (Burlington Coat Factory and Western Digital) saw very strong price performance over the period and may have crossed the fund's valuation limits.

Investment Potential

Average holdings for the firm at each market cap range:

Mid-cap: ~\$18.2 mm

Small-cap: ~\$14.5 mm

Micro-cap: ~\$5.3 mm

OnTarget – Sectors

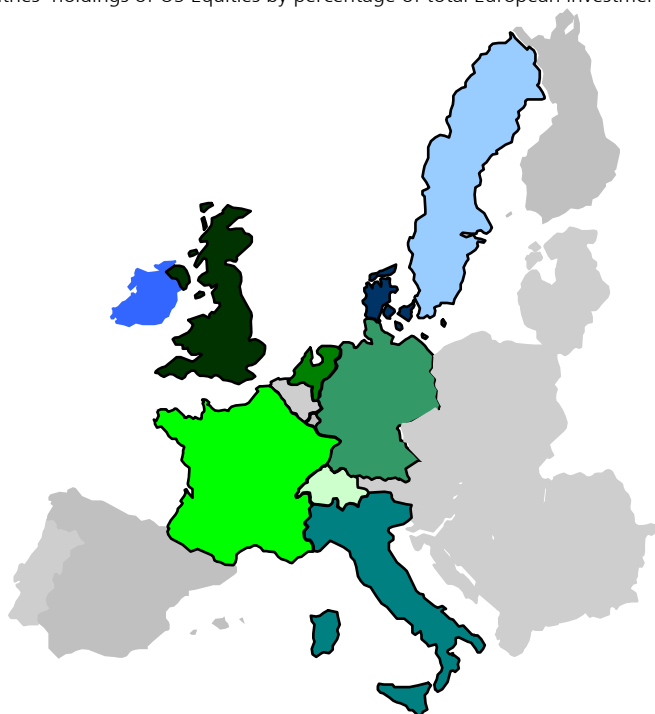
Technology companies can have a “field day” with these companies that are pumping extra dollars into their tech portfolio holdings:

Rank	Firm Name	Value Owned in Tech (\$M)	Net Change in Tech (\$M)	% of Holdings in Tech	Sector Weighting	Investment Style	City
1	Dresdnerbank Investment Management Kap. GmbH	4,172.99	3,938.53	14.73	Level	GARP	Frankfurt
2	JPMorgan Asset Management, Inc. (US)	12,151.90	3,489.25	12.78	Level	Value	New York
3	Calamos Advisors, LLC	9,852.84	1,889.50	28.03	Signif. Over	Growth	Naperville
4	OppenheimerFunds, Inc.	17,188.84	1,656.84	23.88	Over	Value	New York
5	Legg Mason Capital Management, Inc.	9,905.25	1,160.31	15.93	Level	Value	Baltimore
6	Credit Suisse Securities (USA)	7,113.81	1,106.11	12.07	Level	Asset Allocation	New York
7	Davis Selected Advisors, LP	2,868.16	1,065.94	4.27	Signif. Under	GARP	New York
8	Loomis, Sayles & Company	4,104.77	972.26	22.21	Over	Value	Boston
9	Sands Capital Management	4,684.93	890.63	25.59	Signif. Over	Growth	Arlington
10	T. Rowe Price Associates, Inc.	29,214.63	884.79	17.36	Over	Growth	Baltimore

Drop us a line if you'd like to see a similar study for your industry – targeting@cap-bridge.com

OnTarget – Regions

The trend of larger European holdings of US equities continues as transaction costs drop and European investors continue to diversify. However, the UK is still the place to spend most of your time on any European visit, with an estimated 51% of US equities held in Europe managed by UK firms. Top 10 Eurozone Countries' holdings of US Equities by percentage of total European investment:



Country	Value of US Equities (% of Eur holdings in US)
United Kingdom	50.6%
Netherlands	7.6%
Germany	7.6%
France	6.8%
Switzerland	6.1%
Sweden	4.5%
Norway	2.9%
Ireland	2.9%
Italy	2.6%
Denmark	2.1%

Data based on publicly filed holdings and direct survey communication with European investment managers.

OnTarget – Weightings

Which firms are the most underweight in financials stocks (versus the overall market) but are increasing their holdings? These firms have been drastically increasing their dollar holdings of banks/financials, while still maintaining a lower weighting than the overall market in the sector. Firms are listed in descending order of sector purchases over the last quarter.

Rank	Firm Name	Value Owned in Banks (\$M)	Net Change in Banks (\$M)	Total Global Equity (\$M)	% of Holdings in Banks	Sector Weighting	Investment Style	City
1	Fidelity Investments	22,233.07	1,505.98	702,813.06	4.32	Under	Growth	Boston
2	Morgan Stanley & Company, Inc.	3,591.72	1,239.88	86,488.32	4.65	Under	Asset Allocation	New York
3	Capital Research & Management Company	22,221.04	1,115.65	718,363.81	5.04	Under	Value	Los Angeles
4	RiverSource Investments, LLC	3,072.64	440.76	65,904.42	5.21	Under	Growth	Minneapolis
5	Hotchkis & Wiley Capital Management, LLC	1,290.53	420.87	27,212.49	4.99	Under	Value	Los Angeles
6	Brandes Investment Partners	927.84	363.01	77,426.00	3.60	Under	Value	San Diego
7	Fiduciary Asset Management Company	448.03	356.31	8,364.10	5.42	Under	Growth	St. Louis
8	Goldman Sachs Asset Management (US)	6,677.30	229.83	126,979.26	5.62	Under	Value	New York
9	Templeton Global Advisors Ltd.	764.52	211.86	58,184.06	4.80	Under	Value	Hamilton
10	Earnest Partners, LLC	473.29	203.70	17,952.18	2.65	Signif. Under	Value	Atlanta

CapitalBridge can produce a similar study for any sector focus, not just banks/financials – drop us an email and we'll send you a table that focuses on your industry – targeting@cap-bridge.com.

OnTarget – Conferences

Wrap in your visits to these industry conferences with investor outreach to maximize your use of time:

Conferences – May 2006

Mon	Tues	Wed	Thurs	Fri
1	2 Credit Suisse Semiconductor & Semi Capital Equipment Conference – New York, NY Merrill Lynch Tech Gathering – New York, NY Deutsche Bank Securities 31 st Annual Healthcare Conference – Boston, MA Lehman Brothers Annual Retail Conference – New York, NY	3 Bank of America 2006 Basic Industries Conf. – New York, NY Credit Suisse Digital Media Conference – Boston, MA	4 CIBC Annual Commodity Products Conference – Banff, AB	5

Mon	Tues	Wed	Thurs	Fri
8 Jefferies & Co. Gaming/Lodging/Media /Entertainment Conference – Las Vegas, NV	9 Merrill Lynch 8 th Annual Global Industry Conference -- London Merrill Lynch Global Metals Mining & Steel Conference – Miami, FL CIBC World Markets Media, Internet & Telecom Conf. – Boston, MA Bear Stearns & Co. 2006 Global Transportation Conf. – New York, NY Credit Suisse Large Cap Conference – Boston, MA Robert W. Baird Growth Stock Conference – Chicago, IL D. A. Davidson Financial Services Conference – Seattle, WA	10	11 Goldman Sachs 6 th Annual Power & Utility Conf – Las Vegas, NV Needham & Co. 1 st Annual Internet & Digital Media Conf. – New York, NY Prudential Equity Group 2 nd Annual Midwest Investor Day – Chicago, IL	12
15 UBS Global Financial Services Conference – New York, NY	16 Bank of America Securities 2006 Healthcare Conf. – Las Vegas, NV Jefferies & Co. Clean Technology & Alternative Energy Conf. – New York, NY	17 Lehman Brothers Ninth Annual Financial Services Conference – London	18 Bank of America Industrials/Services Conf. – New York, NY Bear Stearns & Co. Mortgage Finance & Housing Markets Conf. – New York, NY	19
22 JPMorgan 34 th Annual Tech Conference – San Francisco, CA Bear Stearns & Co. Internet Roundtable – New York, NY Lehman Brothers Worldwide Wireless, Wireline, & Media Conference – New York, NY UBS Global Oil & Gas Conference – Austin, TX	23 UBS Enterprise Technology Conference – New York, NY	24 Morgan Keegan Security Conference – New York, NY	25 Credit Suisse Small Cap Materials Conference – Boston, MA	26
29	30	31 Citigroup 7 th Annual Semiconductor Conference – Boston, MA FBR 2006 Growth Investor Conference – New York, NY		

OnTarget – Contacts

Recent notable contact moves:

Dr. Laurence Blumberg (Portfolio Manager) and Michael Steiner (Senior Analyst) joined Scout Capital Management, LLC in February 2006, covering the healthcare sector. Previously, Dr. Blumberg was at Blumberg Capital Management, LLC, and Michael Steiner was with Bain Capital, LLC.

Brian Foote (Equity Analyst) joined Levin Capital Strategies, New York, in February 2006, covering the technology sector. He was formerly an equity analyst at Mortar Rock Capital Management, LLC.

Luciana Amram (Research Analyst) joined Fortis Bank in January 2006, covering the industrials sector. She was previously a research analyst at IXIS Securities.

To keep an eye on other major contact moves, subscribe to CapitalBridge's IRXtras monthly newsletter containing research updates on movements from contacts, firms, and funds. To subscribe, simply email IRxHelp@cap-bridge.com.

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