



Port Wren Capital, LLC

"Finding Value Investments."

PWC Stock Report

EMC: Cyclical Turn Around and Activist = Investment Opportunity

6/8/15

Summary:

- EMC Corporation (EMC) located in Hopkinton, MA founded in 1979 with 70,000 employees, in the Data Storage Industry. Develops various technologies products including storage area networks, networked attached storage, and cloud solutions at the enterprise level. The slow economy decreased demands for its products which undervalued the stock. Improving financial indicators and the involvement of an activist act as catalysis will bring an opportunity for value investors willing to go long. A turnaround story.

Description:

EMC Corp (EMC), Mkt Cap: \$52.88B; 52Wk Range: \$25.07 – \$30.92; Close Mkt Price: \$26.70.

Common Shares Outstanding: 1.94B; Dividend & Yield: \$0.46 (1.70%); Institutional Owners: 83.10%; Insiders Owners: 0.20%; EPS (ttm): 1.26; P/E (ttm): 21.2.

Opportunities:

- Stock currently out of favor due to decline in demand. Activist influence has already placed 2 on the BOD in January 2015, and related storage of digital information will increase as more enterprise companies upgrade and expand their capacity. EMC has a strategic position, is sound via ROIC and operating margins in the high teens with this mature technology company.

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Strengths:

- EMC 2014 Rev by geography 2013 to 2014: US increased by 5%. Europe, Middle East & Africa increased by 10%. Asia Pacific was flat, Latin America, Mexico & Canada decrease by 1%. Total Rev increased by 5%. Rev by market segment 2013 to 2014: information storage up 2%, enterprise content division down 1%, RSA information security up 5%, Pivotal (part owned by GE) up 27%, VMWare up 16%. Total Rev increased by 5%. EMC owners 82% of VMWare. January 2015 EMC approved a restructuring plan to be fully completed by year end to charge off \$130 to 150M, with cash payments of \$120M to \$140M. Reduced overall expense by 30%. 2014 EPS for yr was \$1.90 and 2015 EPS for yr estimate is \$1.98. In 2013, EMC increased its authorization to repurchase common stock from \$1B in 2013 to \$6B over the three year ending December 31, 2015. EMC is a dominant player with a very large installed base. Gross margin trend is good 2012, 2013 and 2014 are: 62.8%, 62.3% and 62.4% respectively overall. While VMWare gross margins are higher for 2012, 2013 and 2014 being: 88.9%, 89.9% and 87.4% respectively.

Weaknesses:

- Competition has been growing in the information storage market. They could buy other firms which may or may not add value to the company. CEO to retire in 2015.

Threats:

- Since about a third of its business is international the strong dollar is having a negative impact.

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Valuation:

- Looking at the Data Storage Industry as a whole and three other companies we see some evidence of the turnaround.

	Industry Statistics	EMC	NTAP	WDC	STX
Mkt Price @ close 6/8/15, \$		26.59	33.11	94.50	53.77
Mkt Cap \$M	1268.6B	53,096	10,581	21,907	17,275
EV \$M		53,692	6,824	19,210	18,597
Rev \$M		24,440	6,325	15,130	13,724
P/E (ttm)	22.7	21.20	17.40	14.40	9.40
P/B (ttm)	7.6	2.60	3.10	2.40	5.50
P/S		2.30	1.80	1.50	1.30
P/FCF	24.1	11.49	10.33	12.23	7.78
EV/EBIT		14.25	8.76	11.25	8.22
EV/Rev		2.18	1.09	1.28	1.32
Yield%	2.1	1.70	2	1.80	3.80
Payout		0.36	0.34	0.26	0.34
ROA%		5.78	6.02	10.17	19.74
ROE%	15.7	11.72	15.55	17.40	62.82
Operating Margin %		15.35	11.70	11.36	16.03
Net Profit Margin(ttm)%	10.4	10.47	9.14	10.39	13.64
Debt to	28.0	27	43	25	123

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Equity%					
10Yr Rev Growth%		14.20	18.90	17.30	10.40
10Yr Erng Growth%		16.90	14.70	22.80	0
5Yr Rev Growth%		9.80	13.50	12.30	11.90
5Yr Erng Growth%		21.10	40.20	8.90	0
1Yr Rev Growth%		10.10	6.20	0	8.10
1Yr Erng Growth%		0.80	10.40	53.50	27.50
1Yr EBITDA Growth (ttm)%		3.80	11.90	19.00	25.30
1Yr EBIT Growth (ttm)%		-2.60	18.80	42.20	32.20
1Yr Free CF Growth (ttm)%		0.40	-5.30	-14.50	35.00
1Yr BV Growth (ttm)%		-4.00	-4.20	4.80	20.00
Qty Rev Growth (yoy) (mrq) %		2.40	-6.60	-4.10	-2.20
Qty Erng Growth (yoy) (mrq) %		-35.70	-31.50	2.40	-26.30
ROIC %		14.78		25.34	49.31
ROC %		102.97	71.21	51.09	80.49

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P/DCF (Projected)		0.70	0.60	0.70	0.63
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- Comparison highlights:
 - Debt over Equity is low, Revenue is increasing, Operating Margin is high, 1 year Rev Growth at 10.10% a good trend, Qty Rev Growth is trending good at 2.40%, ROIC of 14.78 is a good trend, ROC is trending nicely at 102.97%, P/DCF (Projected) is within range, P/B is close to a 1 year low, P/S is close to a 5 year low, and Dividend yield is close to a 3 year high.
- Fair Value estimates:
 - Using Projected FCF the FV is \$39.57 with about a 48.3% MOS
 - Using DCF the FV is \$29.45 with about a 9.0% MOS

Catalyst:

- Activist wants to spin off VMWare.
- A standstill agreement between the activist and EMC is set to expire in September 2015.
- Two new appointments to BOD by Activist.
- Restructuring plan.
- Could be bought by IBM, HPQ ORCL or CSCO in part or whole at 25% premium.

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Recommendation:

Buy @ \$26.67 or <, Long.

Disclosure/Position:

Port Wren Capital, LLC has a position in the common stock: bull, long.

Key:

Curr Ratio: Current Ratio, **DCF:** Discounted Cash Flow, **Debt/Eq:** Debt over Equity, **EPS:** Earnings Per Share, **EBITDA:** Earnings Before Interest, Taxes, Depreciation and Amortization, **Erng:** Earnings, **EV/EBIT:** Enterprise Value over Earnings Before Interest and Taxes, **EV:** Enterprise Value, **EV/Rev:** Enterprise Value over Revenue, **FCF:** Free Cash Flow, **FTC:** Federal Trade Commission, **FV:** Fair Value, **Mkt Cap:** Market Capitalization, **MOS:** Margin of Safety, **mqr:** Most Recent Quarter, **P:** Price, **P/B:** Price over Book, **P/CF:** Price over Free Cash Flow, **P/E:** Price over Earnings, **P/S:** Price over Sales, **PWC:** Port Wren Capital, **Qty:** Quarter, **Rev:** Revenue, **ROA:** Return on Assets, **ROC:** Return on Capital, **ROE:** Return on Equity, **ROIC:** Return on Invested Capital, **TP:** Target Price, **ttm:** Trailing Twelve Months, **Yield %:** Dividend annual Interest Rate, **yoy:** Year Over Year.

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