

# Intrinsic Value Weekly

Volume 2, No. 27

Published Weekly by Intrinsic Value Associates, LLC

July 6, 1999

## ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&amp;P 500</u>	<u>S&amp;P MIDCAP</u>	<u>S&amp;P SMALL CAP</u>
BASIC INDUSTRY	28.8%	(9.2%)	0.3%
CONSUMER CYCLICALS	(5.9%)	2.5%	0.9%
CONSUMER STAPLES	2.7%	(1.5%)	5.9%
HEALTH	(23.7%)	(13.6%)	(25.4%)
ENERGY	18.4%	20.7%	18.6%
FINANCIAL	2.0%	(10.9%)	(16.9%)
CAPITAL GOODS	23.3%	6.0%	2.4%
TECHNOLOGY	9.8%	20.1%	14.4%
COMMUNICATIONS	21.4%	28.9%	10.2% *
UTILITY	(7.6%)	(19.2%)	1.0%
TRANSPORTATION	(2.1%)	(19.6%)	(17.7%)
<b>Weighted Total:</b>	<b>5.4%</b>	<b>1.2%</b>	<b>(0.9%)</b>

RED - Overvalued

BLUE - (Undervalued)

## WEEKLY PRICE CHANGE

<u>SECTORS</u>	<u>S&amp;P 500</u>		<u>S&amp;P MIDCAP</u>		<u>S&amp;P SMALL CAP</u>	
	Weight	Price	Weight	Price	Weight	Price
prices as of 6/25/1999	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.3%	4.6%	5.8%	3.7%	4.4%	4.9%
CONSUMER CYCLICALS	9.0%	5.8%	17.7%	6.3%	20.7%	4.2%
CONSUMER STAPLES	12.2%	2.7%	8.6%	1.7%	9.6%	2.4%
HEALTH	10.8%	(5.2%)	9.1%	1.8%	8.9%	8.8%
ENERGY	5.9%	3.4%	4.3%	5.3%	3.4%	5.5%
FINANCIAL	15.9%	5.8%	12.2%	3.6%	14.9%	2.5%
CAPITAL GOODS	8.3%	3.7%	9.4%	3.8%	12.6%	4.1%
TECHNOLOGY	21.9%	8.5%	21.1%	7.0%	17.7%	8.3%
COMMUNICATIONS	9.0%	2.8%	1.2%	4.7%	0.4%	4.7% *
UTILITY	2.8%	(1.6%)	9.4%	(2.4%)	4.6%	1.1%
TRANSPORTATION	1.0%	4.9%	1.3%	3.5%	2.8%	7.5%
<b>Index Total:</b>		5.8%		4.0%		4.3%

\* Sector contains only 3 companies

Weekly price changes may not match prior issues due to changes in composition of sectors.

**Sector Comments** The only sector down for the week was Large Cap Health, reflecting the introduction of the Bill Clinton rescue plan for Hospitals devastated by his Health and Human Services people in implementing the Balanced Budget Act version of Medicare reform. To wit, the reimbursements were cut by as much as 25% for certain treatments. Some of the hospital stocks were sold on the news this week.

The absence of further upward pressure on interest rates had its desired effect on the present value of future free cash flow this week. Large Cap stocks benefitted most; just as they were hurt the most during this spring's rise in rates.

As we suggested last week, Transportation stocks moved up generally more than Energy stocks. We expect that energy prices in dollars will continue to reflect monetary policy that still focuses on price stability at least at the macro level. To the extent that the Fed commits errors, it forces commodity prices down when it becomes concerned with the ghost of the "Phillips Curve" and the erroneous notion that more growth causes inflation. This is the risk to the "value" investors looking at the rebound in commodity producers in the Basic and Energy sectors. We expect a slowdown in economic activity in the second half of 1999 and the resulting earnings "surprises" in the commodity sectors that would accompany it.

# Intrinsic Value Weekly

Page 2

## Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol	Name	Updated Valuation	Price 7/3/1999	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
ALD	AlliedSignal Inc.	4/29/99	\$ 63,250	\$64.60	(2.1%)	2.4	(2.9%)
CTL	Century Telephone Ent.	3/1/99	\$ 39,813	\$42.51	(6.3%)	1.8	1.3%
<b>DAL</b>	<b>Delta Air Lines, Inc.</b>	<b>3/1/99</b>	<b>\$ 61,063</b>	<b>\$66.79</b>	<b>(8.6%)</b>	<b>1.0</b>	<b>8.1%</b>
G	Gillette Company	5/24/99	\$ 41,250	\$53.52	(22.9%)	6.0	(0.5%)
<b>HD</b>	<b>Home Depot</b>	<b>3/1/99</b>	<b>\$ 64,000</b>	<b>\$53.65</b>	<b>19.3%</b>	<b>5.8</b>	<b>6.8%</b>
<b>INTC</b>	<b>Intel Corporation</b>	<b>3/1/99</b>	<b>\$ 63,500</b>	<b>\$59.17</b>	<b>7.3%</b>	<b>7.0</b>	<b>15.3%</b>
LOW	Lowe's Companies	3/1/99	\$ 56,313	\$52.28	7.7%	3.9	4.4%
<b>MLHR</b>	<b>Herman Miller, Inc.</b>	<b>3/1/99</b>	<b>\$ 23,313</b>	<b>\$46.27</b>	<b>(49.6%)</b>	<b>3.1</b>	<b>13.0%</b>
NYT	New York Times Co.	3/1/99	\$ 38,500	\$48.21	(20.1%)	2.4	4.6%
<b>NUE</b>	<b>Nucor Corporation</b>	<b>3/1/99</b>	<b>\$ 48,938</b>	<b>\$57.99</b>	<b>(15.6%)</b>	<b>1.7</b>	<b>9.7%</b>
<b>PFE</b>	<b>Pfizer, Inc.</b>	<b>5/31/99</b>	<b>\$ 38,625</b>	<b>\$45.27</b>	<b>(14.7%)</b>	<b>10.8</b>	<b>14.3%</b>
SLB	Schlumberger Limited	3/1/99	\$ 62,125	\$51.09	21.6%	2.6	4.9%
WEN	Wendy's International	3/1/99	\$ 28,938	\$29.86	(3.1%)	2.1	(1.1%)
<b>Average:</b>					<b>(6.7%)</b>	<b>Average:</b>	<b>6.0%</b>
						<b>S&amp;P 500</b>	<b>5.8%</b>

Bold - Outperformed the S&P 500 for the week

### Value Drivers

### Standard Market Statistics

Symbol	Sales Growth		Free Cash Flow		Yield	PE Last 12M	Price/Book	Price/Sales
	Last 12M	EBIT Margin %	ROC	Annuity				
ALD	1.9%	13.0%	11.5%	\$44.1	1.1%	23.8	6.1	2.2
CTL	50.8%	30.4%	10.9%	\$52.4	0.5%	22.7	3.5	3.2
<b>DAL</b>	<b>4.3%</b>	<b>12.0%</b>	<b>11.0%</b>	<b>\$68.1</b>	<b>0.2%</b>	<b>7.7</b>	<b>2.1</b>	<b>0.6</b>
G	-2.8%	23.1%	18.5%	\$21.5	1.4%	53.1	11.9	5.7
<b>HD</b>	<b>25.1%</b>	<b>8.8%</b>	<b>13.0%</b>	<b>-\$5.7</b>	<b>0.2%</b>	<b>47.1</b>	<b>9.5</b>	<b>2.6</b>
<b>INTC</b>	<b>11.2%</b>	<b>32.5%</b>	<b>25.8%</b>	<b>\$33.5</b>	<b>0.2%</b>	<b>26.6</b>	<b>7.6</b>	<b>6.6</b>
LOW	20.5%	6.8%	11.0%	-\$14.3	0.2%	36.1	5.8	1.4
<b>MLHR</b>	<b>2.8%</b>	<b>12.1%</b>	<b>24.0%</b>	<b>\$45.5</b>	<b>0.6%</b>	<b>11.9</b>	<b>7.6</b>	<b>1.0</b>
NYT	2.0%	17.5%	11.9%	\$27.6	1.1%	22.5	4.0	2.2
<b>NUE</b>	<b>-9.4%</b>	<b>9.9%</b>	<b>12.6%</b>	<b>\$71.5</b>	<b>1.1%</b>	<b>19.4</b>	<b>2.1</b>	<b>1.1</b>
<b>PFE</b>	<b>30.2%</b>	<b>27.0%</b>	<b>20.8%</b>	<b>\$27.3</b>	<b>0.8%</b>	<b>60.5</b>	<b>15.7</b>	<b>9.4</b>
SLB	-8.8%	14.7%	11.9%	\$38.8	1.2%	45.3	4.0	3.0
WEN	-3.2%	12.6%	9.7%	\$55.8	0.8%	26.2	3.2	1.8

#### Notes on Intrinsic Value Portfolio

We're tempted to focus on the spectacular this week, namely the performance of the IV stocks we highlighted last week: **DAL, G, MLHR, NYT, NUE, and PFE**. They rose an average of 8.2%. But it is the overall which is valid to assess and the group rose slightly more than the S&P 500 Index. Not bad, and a confirmation that when investors think that interest rates are done rising, and indeed fall somewhat, stocks get much more attractive. Some "value" stocks, like **NUE** and **MLHR**, did very well but the "growth" stocks like **INTC**, and **PFE** did even better. With a "bias" toward no Fed action, it is the value-building activities in the companies themselves which take over and power the increase in intrinsic value.

Individual stock developments include the confirmation from **Herman Miller (MLHR - NASDAQ)** that growth is coming back to their revenue stream, namely the confident statement from its CEO that "coupled with the new products and services introduced this year, should enable **MLHR** to regain its sales momentum going forward". We'll see. Our forecast is modest for Fiscal 2000, a modest 3%, is hardly a big advance over the 2.8% of Fiscal 1999. And our valuation, even with the 10-year US Treasury at 5.9% is now \$46.27. A large part of the value of **MLHR** is due to its aggressive stock repurchase program, which reduced shares outstanding by 7.2% last year. The company has instituted a "shareholder rights" plan to prevent unwanted bidders. We can think of several other companies in the industry that would benefit from **MLHR's** management policies.

The protectionist movement is still alive with the U.S. International Trade Commission recommending tariffs on imported wire rod. But, we expect that the Clinton administration will continue its policies of keeping trade as free as possible. **NUE's** product line won't be affected in any case. We expect that steel shipments will pick up in the second half and into 2000 and that the intrinsic value of the company will continue to reflect its commitment to continue growth and producing plenty of free cash flow. The company continued to repurchase share in the first quarter in spite of lower sales for the period.

Page 3 looks at the fundamentals of Large Cap Technology this week. Note that very few stocks are priced below their no-growth value. Those that are have problems, but turnarounds often give very high returns when they work.

# Intrinsic Value Weekly

## Technology Rules - The Large Cap Technology Sector

Page 3

Company Name	Ticker	Market Value - Equity	Last 12MM Sales Growth	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow per share	Return on Capital	Dividend Yield
3COM CORP	COMS	\$9,786	6.5%	26.8	-25.23	7.6	24.4	3.5	29.0	17.13	0.0%
<b>ADOBE SYSTEMS INC</b>	<b>ADBE</b>	<b>\$5,190</b>	<b>6.8%</b>	<b>85.1</b>	<b>118.47</b>	<b>18.5</b>	<b>34.2</b>	<b>8.7</b>	<b>32.1</b>	<b>26.95</b>	<b>0.2%</b>
ADVANCED MICRO DEVICES	AMD	\$2,520	12.3%	17.2	-66.54	(5.6)	(15.8)	1.3	6.9	(4.13)	0.0%
AMERICA ONLINE INC	AOL	\$124,169	59.8%	115.3	-3.21	11.0	190.0	175.2	578.6	14.97	0.0%
<b>ANDREW CORP</b>	<b>ANDW</b>	<b>\$1,564</b>	<b>-6.2%</b>	<b>19.0</b>	<b>40.67</b>	<b>19.6</b>	<b>25.0</b>	<b>2.6</b>	<b>11.4</b>	<b>27.71</b>	<b>0.0%</b>
APPLE COMPUTER INC	AAPL	\$6,329	-2.1%	46.3	30.21	6.3	12.0	4.0	14.9	12.58	0.0%
APPLIED MATERIALS INC	AMAT	\$27,078	-29.1%	72.1	24.13	10.8	183.3	6.5	46.3	10.72	0.0%
ASCEND COMMUNICATIONS IN	ASND	\$23,462	42.7%	105.4	-51.99	26.6	463.4	9.8	433.3	25.58	0.0%
<b>AUTODESK INC</b>	<b>ADSK</b>	<b>\$1,757</b>	<b>2.0%</b>	<b>29.8</b>	<b>35.52</b>	<b>20.4</b>	<b>25.1</b>	<b>2.8</b>	<b>10.4</b>	<b>36.55</b>	<b>0.8%</b>
AUTOMATIC DATA PROCESSIN	AUD	\$27,612	15.0%	44.6	@CF	14.2	37.8	7.3	31.7	14.65	0.7%
BMC SOFTWARE INC	BMCS	\$13,322	65.4%	56.3	@NA	36.1	33.6	@NA	32.6	29.45	0.0%
CABLETRON SYSTEMS	CS	\$2,120	1.1%	12.3	10.90	(2.9)	(23.6)	2.4	(16.2)	(3.73)	0.0%
CERIDIAN CORP	CEN	\$4,669	9.9%	32.4	@CF	18.9	28.0	7.3	21.2	23.84	0.0%
CISCO SYSTEMS INC	CSCO	\$215,540	39.8%	67.1	-2.13	24.9	88.4	24.0	124.9	36.66	0.0%
COMPAQ COMPUTER CORP	CPQ	\$39,316	39.6%	23.3	-11.35	2.7	(14.4)	3.5	(21.2)	7.68	0.3%
COMPUTER ASSOCIATES INTL	CA	\$28,392	11.3%	53.0	23.70	36.4	41.1	9.3	30.4	30.57	0.2%
COMPUTER SCIENCES CORP	CSC	\$11,050	16.0%	69.4	@CF	7.8	29.9	4.3	14.8	15.73	0.0%
COMPUWARE CORP	CPWR	\$11,958	43.8%	32.5	6.78	30.8	32.7	@NA	30.6	52.77	0.0%
DATA GENERAL CORP	DGN	\$876	-4.4%	17.3	@CF	(0.2)	(4.8)	1.7	(15.1)	(0.28)	0.0%
DELL COMPUTER CORP	DELL	\$94,260	45.4%	37.1	3.16	10.4	54.9	37.7	60.4	73.34	0.0%
EASTMAN KODAK CO	EK	\$22,701	-5.0%	70.6	36.17	11.3	16.1	5.5	10.2	12.36	2.5%
EG&G INC	EGG	\$1,609	-4.1%	35.8	@CF	2.8	16.5	3.3	10.5	4.92	1.6%
ELECTRONIC DATA SYSTEMS	EDS	\$28,619	10.8%	58.3	64.31	5.0	51.1	4.7	17.4	8.06	1.0%
EMC CORP/MA	EMC	\$59,474	35.8%	58.8	@CF	19.4	58.1	15.2	61.1	20.65	0.0%
EQUIFAX INC	EFX	\$4,995	20.1%	36.1	@CF	17.4	26.1	13.8	17.0	21.12	1.0%
FIRST DATA CORP	FDC	\$21,545	-0.4%	49.7	@CF	18.6	41.6	5.2	25.8	14.42	0.2%
GATEWAY INC	GTW	\$9,623	18.8%	61.5	18.54	6.6	25.6	7.1	21.3	39.20	0.0%
GENERAL INSTRUMENT CORP	GIC	\$8,028	17.9%	45.3	-7.68	9.8	45.0	4.0	55.0	11.58	0.0%
GRAINGER (W W) INC	GWW	\$5,094	4.0%	54.6	39.15	5.7	21.2	3.9	16.3	13.03	1.2%
HARRIS CORP	HRS	\$3,141	-5.9%	39.4	@CF	7.1	30.3	1.9	9.6	8.68	2.4%
HEWLETT-PACKARD CO	HWP	\$103,114	3.1%	101.8	@CF	6.4	29.9	5.7	21.5	13.05	0.6%
IKON OFFICE SOLUTIONS	IKN	\$2,227	1.1%	15.0	-22.07	3.8	(16.8)	1.7	36.0	4.33	3.7%
INTEL CORP	INTC	\$210,693	11.2%	63.5	33.51	24.2	26.6	7.6	23.7	25.75	0.2%
INTL BUSINESS MACHINES CO	IBM	\$240,012	7.0%	132.3	@CF	8.8	31.8	11.1	22.4	9.41	0.4%
KLA-TENCOR CORP	KLAC	\$6,072	-27.4%	68.9	9.64	16.0	239.5	3.3	34.8	16.39	0.0%
LSI LOGIC CORP	LSI	\$6,720	24.2%	47.4	-49.36	4.7	(33.1)	3.5	87.5	2.95	0.0%
LUCENT TECHNOLOGIES INC	LU	\$188,904	16.0%	70.7	@CF	9.6	74.8	27.1	98.5	15.16	0.1%
MICRON TECHNOLOGY INC	MU	\$11,255	3.0%	42.3	3.52	(16.2)	(61.1)	3.0	27.1	(11.34)	0.0%
MICROSOFT CORP	MSFT	\$468,372	26.0%	92.0	7.95	52.8	58.3	25.5	90.6	55.78	0.0%
MOTOROLA INC	MOT	\$59,283	-1.0%	98.3	@CF	1.6	(50.8)	4.1	47.9	2.18	0.5%
NATIONAL SEMICONDUCTOR	NSM	\$4,304	-22.9%	25.6	@CF	3.6	(3.2)	1.7	21.9	4.14	0.0%
NORTEL NETWORKS CORP	NT	\$60,501	18.4%	90.6	-56.20	6.5	(47.5)	4.5	34.9	9.46	0.3%
NOVELL INC	NOVL	\$9,368	34.0%	28.0	12.83	9.1	58.8	5.3	53.1	6.36	0.0%
ORACLE CORP	ORCL	\$55,331	23.6%	38.4	@CF	15.2	27.9	12.2	50.8	29.20	0.0%
PARAMETRIC TECHNOLOGY C	PMTC	\$3,824	-2.8%	14.1	35.23	32.7	36.5	11.4	28.3	61.86	0.0%
PAYCHEX INC	PAYX	\$7,913	18.3%	32.1	5.20	13.6	52.0	22.0	65.0	45.65	0.7%
PE CORP	PEB	\$6,153	27.5%	120.6	-0.75	7.7	53.7	9.8	54.3	11.03	0.6%

Source: Standard & Poors Corporation Compustat PC Plus®, Intrinsic Value Associates, LLC

# Intrinsic Value Weekly

## Technology Rules - The Large Cap Technology Sector

Page 4

Company Name	Ticker	Market Value - Equity	Last 12MM Sales Growth	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/	Return on Capital	Dividend Yield
PEOPLESOFT INC	PSFT	\$4,265	42.7%	17.4	-3.35	20.0	(62.3)	5.7	20.8	44.20	0.0%
POLAROID CORP	PRD	\$1,234	-11.8%	27.8	@CF	(1.0)	(14.4)	2.4	30.7	(1.00)	2.2%
<b>RAYTHEON CO -CL B</b>	<b>RTN.B</b>	<b>\$24,222</b>	<b>31.4%</b>	<b>72.1</b>	<b>146.28</b>	<b>12.3</b>	<b>25.8</b>	<b>2.1</b>	<b>14.9</b>	<b>10.06</b>	<b>1.1%</b>
SCIENTIFIC-ATLANTA INC	SFA	\$2,966	-0.7%	38.8	@CF	3.9	31.5	4.4	23.8	6.74	0.2%
SEAGATE TECHNOLOGY	SEG	\$5,971	-6.7%	26.8	@IF	(0.7)	40.8	2.5	111.2	(0.93)	0.0%
SHARED MEDICAL SYSTEMS C	SMS	\$1,675	21.6%	62.9	-45.72	8.3	24.4	4.4	15.7	14.13	1.3%
SILICON GRAPHICS INC	SGI	\$3,245	-22.8%	17.2	30.11	(12.9)	(7.2)	1.6	(22.2)	(17.66)	0.0%
SUN MICROSYSTEMS INC	SUNW	\$54,219	17.3%	70.1	14.13	10.5	49.8	12.8	43.8	27.13	0.0%
TEKTRONIX INC	TEK	\$1,359	-10.4%	29.0	@CF	6.7	(21.7)	1.5	9.8	11.88	1.7%
TELLABS INC	TLAB	\$27,433	40.4%	70.1	-0.86	25.1	51.5	16.5	60.0	33.63	0.0%
TEXAS INSTRUMENTS INC	TXN	\$55,539	-14.1%	141.7	@CF	10.4	68.4	6.5	35.7	11.41	0.2%
UNISYS CORP	UIS	\$10,296	9.1%	40.1	@CF	10.0	29.2	100.4	19.0	19.80	0.0%
XEROX CORP	XRX	\$39,143	5.5%	59.3	24.20	17.1	63.5	7.6	27.7	11.36	1.3%

@AF - Annual Figure

@NA - Not available

@CF - Combined Figure

@SF - SemiAnnual Figure

**Bold Blue - Favorable Drivers**

**FOR INFORMATIONAL PURPOSES ONLY** The information contained in this publication has been obtained from a variety of sources. We cannot vouch for their reliability. However, through our analysis we attempt to provide reliable information. We do not guarantee accuracy or completeness. Intrinsic Value Weekly is published solely for informational purposes and should not be construed as a solicitation to buy or sell any security. All opinions and estimates included in this report represent our judgement as of this date and are subject to change without notice. Delivery of this publication shall not, under any circumstances, create any implication that there has been no change in the information provided herein from the date of this report which is June 28, 1999. Intrinsic Value Associates, LLC or its affiliates may maintain ownership positions in any of the companies mentioned in this report

Source: Standard & Poors Corporation Compustat PC Plus®, Intrinsic Value Associates, LLC