

Intrinsic Value Weekly

Volume 2, No. 40

Published Weekly by Intrinsic Value Associates, LLC

October 4, 1999

"Buy Gillette"

Notes on Intrinsic Value Portfolio The continuing saga of **Gillette** unfolded further last week and offers another chance for long-term investors to load up on one of the best consumer franchises around. We pounded the table on **G** last year in September when this story of overseas economic trouble had begun to hit. From our recommendation at \$40 1/2, the stock soared to more than \$60, handily beating our valuation target of \$48.20. Now, the story is back. Shavers and stationery are weak. Latin American and European economies are weak. Revenue isn't growing as fast as it has at times in the past. And we still expect revenue growth to average more than 8% in the future. That forecast is very important to our valuation since current 3% unit growth would suggest a valuation of \$33, not \$48. That makes the investment case very clear: if you think **G** will grow faster than 3%, just add 10% to the \$33 base for each percentage point of additional revenue growth. By that measure, the stock at its high was discounting revenue growth of nearly 13%. With the strong brand franchise and the unequalled management and manufacturing skills of **G**, we think an 8% revenue growth forecast over the long term is conservative and the stock needs to be bought.

Overall, the Intrinsic Value Portfolio continues to offer considerable upside potential as a cushion in this time of equity discount rate upheaval .

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 10/1/1999	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
AC	Alliance Capital Mgmt LP	9/24/1999	\$ 27.125	\$44.68	(39.3%)	6.3	(0.5%)
ALD	AlliedSignal Inc.	4/29/1999	\$ 59.938	\$64.60	(7.2%)	2.6	4.0%
BGG	Briggs & Stratton	9/20/1999	\$ 56.750	\$117.62	(51.8%)	2.2	(8.1%)
CTL	Century Telephone Ent.	3/1/1999	\$ 39.688	\$42.51	(6.6%)	1.8	1.4%
DAL	Delta Air Lines, Inc.	3/1/1999	\$ 47.563	\$66.79	(28.8%)	0.4	(2.7%)
G	Gillette Company	6/23/1999	\$ 36.125	\$48.52	(25.6%)	5.4	(13.1%)
HD	Home Depot	9/27/1999	\$ 69.563	\$58.33	19.3%	6.3	3.5%
LOW	Lowes Companies	9/27/1999	\$ 49.188	\$61.77	(20.4%)	3.5	3.6%
MLHR	Herman Miller, Inc.	7/5/1999	\$ 23.625	\$46.47	(49.2%)	3.3	2.4%
NYT	New York Times Co.	3/1/1999	\$ 39.125	\$48.21	(18.8%)	2.7	(3.4%)
NUE	Nucor Corporation	3/1/1999	\$ 46.688	\$57.99	(19.5%)	1.6	(5.0%)
PFE	Pfizer, Inc.	6/23/1999	\$ 37.313	\$42.73	(12.7%)	11.3	2.4%
WEN	Wendy's International	3/1/1999	\$ 26.500	\$29.86	(11.3%)	2.1	8.8%

Average: (19.4%) Average: (0.5%)

Bold - Outperformed the S&P 500 for the week

S&P 500 0.4%

Value Drivers

Standard Market Statistics

Symbol	Sales		ROC	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Sales
	Growth Last 12M	EBIT Margin %						
AC	28.5%	27.7%	52.7%	26.1%	7.0%	13.1	10.3	2.9
ALD	(0.4%)	13.0%	11.6%	(1.3%)	1.1%	24.1	6.5	2.3
BGG	13.1%	12.0%	26.4%	16.3%	2.1%	13.4	3.9	0.9
CTL	31.6%	30.4%	10.9%	7.3%	0.5%	24.4	3.6	3.3
DAL	4.1%	12.7%	10.8%	5.2%	0.2%	6.7	1.9	0.5
G	(1.5%)	23.1%	18.5%	3.8%	1.6%	51.8	10.9	5.2
HD	26.2%	8.8%	13.0%	28.1%	0.2%	45.9	10.4	2.6
LOW	19.6%	6.8%	11.0%	18.8%	0.2%	29.0	5.1	1.1
MLHR	1.5%	12.7%	23.8%	5.7%	0.6%	13.5	9.0	1.1
NYT	2.0%	17.5%	11.9%	4.0%	1.1%	25.0	4.6	2.5
NUE	(14.3%)	9.9%	12.6%	(11.6%)	1.1%	19.9	2.0	1.1
PFE	22.5%	27.0%	20.8%	14.1%	0.9%	60.6	16.6	9.6
WEN	(2.8%)	12.6%	9.7%	(0.3%)	0.9%	25.9	3.3	1.8

Intrinsic Value Weekly

ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	17.7%	(27.0%)	(6.1%)
CONSUMER CYCLICALS	(16.5%)	(20.3%)	(11.4%)
CONSUMER STAPLES	(10.4%)	(12.2%)	(8.9%)
HEALTH	(32.2%)	(18.8%)	(28.1%)
ENERGY	9.2%	35.5%	13.0%
FINANCIAL	(18.4%)	(29.8%)	(30.9%)
CAPITAL GOODS	17.5%	(5.6%)	(5.2%)
TECHNOLOGY	7.7%	1.4%	21.7%
COMMUNICATIONS	10.7%	27.0% *	25.9% *
UTILITY	(16.6%)	(23.2%)	(1.6%)
TRANSPORTATION	(30.0%)	(33.2%)	(24.5%)
Weighted Total:	(3.8%)	(12.0%)	(6.6%)

RED - Overvalued

BLUE - (Undervalued)

Bold - outperformed the relevant index

WEEKLY PRICE CHANGE

<u>SECTORS</u>	<u>S&P 500</u>		<u>S&P MIDCAP</u>		<u>S&P SMALL CAP</u>	
	Weight	Price	Weight	Price	Weight	Price
prices as of 10/1/1999	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.2%	3.4%	4.9%	1.2%	4.3%	3.7%
CONSUMER CYCLICALS	8.9%	3.2%	15.3%	(0.1%)	19.9%	3.1%
CONSUMER STAPLES	12.0%	(1.8%)	9.0%	0.6%	8.4%	(5.1%)
HEALTH	10.6%	(0.1%)	9.9%	(3.2%)	10.0%	1.6%
ENERGY	6.3%	0.4%	4.7%	(0.9%)	3.3%	2.2%
FINANCIAL	13.3%	(2.0%)	12.0%	(1.7%)	13.2%	(0.0%)
CAPITAL GOODS	8.7%	0.9%	8.5%	(1.2%)	12.7%	1.3%
TECHNOLOGY	24.6%	0.1%	22.6%	(4.7%)	20.3%	2.0%
COMMUNICATIONS	8.7%	1.4%	1.2%	7.5%	0.6%	8.4% *
UTILITY	2.9%	1.9%	10.3%	1.7%	4.4%	2.0%
TRANSPORTATION	0.8%	(1.1%)	1.4%	0.4%	2.9%	0.2%
Index Total:		0.4%		(0.9%)		1.8%

* Sector contains only 3 companies

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

Sector Comments Markets are now getting under-priced versus the fundamentals. Even highly successful sectors such as Technology and Communications have come down toward their intrinsic values. Transportation stocks have been drubbed this past quarter and represent a significant value. In contrast, the Energy stocks have perhaps begun to peak now that the released pressure on gold prices have shown that worries about gold were overdone. The idea was that if monetary policy was driving gold prices down while energy prices were soaring, then any easing of monetary policy would worsen the oil price problem for oil users. Now that we've turned over that rock and found arbs betting that central bank sales of gold would put a permanent crimp in the price, we can see that the weak relative price of gold was not related to monetary policy at all. Thus any easing of policy would not be likely to boost gold prices more than they have been already. With the current speculation about the Fed deciding not to raise rates driving today's market, longer term issues are not much on the popular agenda. But we'd expect that moves to increase oil production won't be far off and the relative price of oil will return to its longer term trend of \$18 to 20\$ per barrel. Our long-term expectation for revenue growth in oil stocks overall is 6.5%, well above recent experience and largely based on those companies' ability to extract ever more value-added from each drop.

(\$millions)	Large Capitalization	Mid-Cap Capitalization	Small-Cap Capitalization
\$	10,521,872	\$819,121	\$ 333,082
	90.1%	7.0%	2.9%

Intrinsic Value Weekly

Is Energy Peaking?

Page 3

Company Name	Ticker	Market Value - Equity	Quarterly Sales Growth	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow per sh.	Return on Capital	Dividend Yield
AMERADA HESS CORP	AHC	\$5,451	-11.1%	60.2	(851.05)	(1.5)	(19.9)	2.1	27.5	(1.03)	1.0%
ANADARKO PETROLEUM CORP	APC	\$3,767	17.4%	29.6	(1,593.36)	(1.8)	(55.9)	3.9	21.8	(0.31)	0.7%
APACHE CORP	APA	\$4,776	24.1%	41.9	(133.24)	(20.1)	(33.7)	2.6	8.3	(4.60)	0.7%
ASHLAND INC	ASH	\$2,454	5.4%	34.0	(396.60)	(0.7)	16.3	1.4	6.7	(0.75)	3.2%
ATLANTIC RICHFIELD CO	ARC	\$29,271	18.8%	90.8	(130.09)	(26.2)	(74.5)	3.7	12.5	(10.65)	3.1%
BAKER-HUGHES INC	BHI	\$9,537	-27.0%	29.0	197.00	2.0	(26.5)	3.5	20.6	2.36	1.6%
BURLINGTON RESOURCES INC	BR	\$6,556	-8.7%	36.9	145.41	9.4	384.1	2.5	10.6	3.02	1.5%
CHEVRON CORP	CHV	\$57,845	10.7%	88.2	810.68	2.3	64.6	3.5	15.7	1.75	2.8%
CONOCO INC	COC.B	\$16,854	11.9%	26.9	353.51	1.1	179.2	3.8	10.8	1.12	2.8%
EXXON CORP	XON	\$181,190	0.4%	74.6	331.37	3.7	37.0	4.4	15.4	4.20	2.2%
HALLIBURTON CO	HAL	\$18,440	-20.0%	41.8	72.13	5.5	(68.2)	5.0	32.1	13.71	1.2%
HELMERICH & PAYNE	HP	\$1,262	-16.0%	25.5	22.67	19.3	26.5	1.7	6.6	12.08	1.1%
KERR-MCGEE CORP	KMG	\$4,773	9.3%	55.3	(99.85)	(31.9)	(8.8)	2.0	6.3	(16.63)	3.3%
MOBIL CORP	MOB	\$77,126	8.2%	98.5	11,048.39	0.1	52.0	4.3	17.0	0.16	2.3%
OCCIDENTAL PETROLEUM CO	OXY	\$7,995	6.7%	22.9	2,856.12	0.2	(127.6)	2.4	6.9	0.11	4.4%
PHILLIPS PETROLEUM CO	P	\$12,029	7.0%	47.5	(289.48)	(2.5)	(510.0)	3.0	7.8	(2.15)	2.9%
ROWAN COS INC	RDC	\$1,352	-41.7%	16.3	15.88	25.5	64.2	2.1	7.8	12.87	0.0%
ROYAL DUTCH PET -NY REG	RD	\$127,318	0.8%	59.4	252.37	4.5	247.5	4.0	22.3	4.28	3.9%
SCHLUMBERGER LTD	SLB	\$34,225	-29.5%	62.5	105.48	13.2	78.5	4.5	16.5	11.94	1.2%
SUNOCO INC	SUN	\$2,472	9.0%	27.3	143.18	1.6	17.0	1.9	4.6	2.24	3.7%
TEXACO INC	TX	\$35,375	5.0%	64.0	3,458.56	0.2	78.4	3.0	15.0	0.26	2.8%
TOSCO CORP	TOS	\$3,900	16.1%	25.6	29.01	5.4	51.0	2.0	11.6	11.35	1.1%
UNION PACIFIC RESOURCES CO	UPR	\$3,822	-22.9%	15.4	(11.72)	(90.2)	(5.4)	6.1	3.1	(24.75)	1.3%
UNOCAL CORP	UCL	\$9,029	21.9%	37.3	(600.84)	(1.4)	418.8	4.6	9.0	(0.88)	2.1%
USX-MARATHON GROUP	MRO	\$8,779	-2.1%	28.4	112.13	2.4	43.8	2.2	7.0	3.50	3.0%

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