

Intrinsic Value Weekly

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"Slow Growth: Bad for Stocks"

Like many analysts, we had based our **Honeywell (HON - NYSE)** valuation on 10% revenue growth over the next several years. Today's announcement that revenue for the second quarter would grow only 7 to 8% took a large bite out of the price, but we are not persuaded that our longer term forecast is in jeopardy. Further, our margin assumptions had already taken some higher raw material costs and higher interest rates into account. We expect that **HON** will resume stock repurchase at the appropriate time as well. The company is properly focused on producing growing free cash flow and understands how to create increased intrinsic value. Uncertainty about the growth of revenue and the controllability of costs will likely keep the stock price under pressure for some time now, so don't expect the price to move to our estimate of intrinsic value, \$64 per share, any time soon. The price has been there before, as recently as December 1999, so it is feasible though. Such a move would produce a 60% rise from today's closing price.

The Intrinsic Value Portfolio suffered last week and the average discount has soared to 35%. That means an average expected rise to fair value of 53.8% from current prices. The group is now very economically sensitive and so the outcome of the Federal Reserve experiment with using economic weakness to combat inflation pressures matters a lot in the short run. Our view has been that slowing growth will increase, not decrease, inflation tendencies. This has been consistent with a rise in long term interest rates over the period of Fed rate increases. Long term corporate rates are the benchmark to use now that long US Treasury issues are increasingly scarce. This means that if the Fed calls time out on their experiment soon, that the prospects for inflation improving will brighten, long term interest rates will fall and the Intrinsic Value Portfolio should do very well.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 6/16/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
HON	Honeywell Int'l Inc.	4/29/1999	\$ 48.500	\$64.60	(24.9%)	2.3	(6.8%)
BGP	Borders Group, Inc.	3/6/2000	\$ 16.875	\$33.81	(50.1%)	1.1	1.1%
BGG	Briggs & Stratton	3/6/2000	\$ 41.375	\$106.86	(61.3%)	1.5	0.8%
CTL	CenturyTel, Inc.	3/6/2000	\$ 30.250	\$50.51	(40.1%)	1.4	(2.2%)
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 50.563	\$66.30	(23.7%)	0.9	(6.3%)
G	Gillette Company	3/2/2000	\$ 31.250	\$50.55	(38.2%)	3.7	(6.4%)
LOW	Lowe's Companies	3/6/2000	\$ 43.000	\$63.82	(32.6%)	2.5	(0.9%)
MLHR	Herman Miller, Inc.	3/6/2000	\$ 28.813	\$46.28	(37.7%)	2.8	3.8%
NYT	New York Times Co.	2/10/2000	\$ 40.813	\$49.37	(17.3%)	2.6	1.9%
NUE	Nucor Corporation	3/6/2000	\$ 36.563	\$59.99	(39.1%)	1.2	(3.5%)
WEN	Wendy's International	3/6/2000	\$ 18.750	\$24.49	(23.5%)	1.5	(6.5%)

Average: (35.3%) Average: (2.3%)

Bold - Outperformed the S&P 500 for the week

S&P 500 0.5%

Value Drivers

Standard Market Statistics

Symbol	Capital Turnover	Sales		EBIT Margin %	Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/ Book	Price/ Market Cap Sales (\$billions)
		Growth Last 12M	EBIT Margin %							
HON	1.2	0.7%	13.8%	14.0%	8.3%	1.5%	17.7	5.1	1.6	43.6
BGP	1.0	14.7%	5.7%	10.9%	10.1%	0.0%	11.6	1.4	0.4	1.1
BGG	2.2	13.3%	12.0%	26.4%	(1.6%)	2.9%	6.4	2.5	0.6	0.9
CTL	0.4	3.4%	30.3%	11.1%	(0.3%)	0.6%	16.7	2.1	2.5	3.8
DAL	0.7	6.8%	12.7%	10.4%	13.0%	0.2%	5.4	1.6	0.5	6.3
G	0.9	0.3%	21.3%	14.5%	5.5%	2.1%	28.8	10.6	3.3	34.8
LOW	2.2	19.0%	7.4%	11.1%	18.4%	0.3%	24.3	3.8	1.0	17.8
MLHR	2.0	2.7%	12.7%	18.4%	13.4%	0.5%	15.6	10.3	1.2	2.1
NYT	1.1	9.5%	18.7%	13.1%	14.1%	1.1%	20.2	4.6	2.2	6.6
NUE	1.4	10.5%	9.3%	14.4%	34.2%	1.6%	11.4	1.5	0.7	3.3
WEN	0.9	7.4%	13.8%	10.2%	9.1%	1.3%	13.8	2.2	1.0	2.2

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ECONOMIC SECTOR VALUATION

SECTORS	S&P 500	S&P MIDCAP	S&P SMALL CAP
BASIC INDUSTRY	(3.4%)	(30.6%)	(18.5%)
CONSUMER CYCLICALS	(23.6%)	(22.3%)	(16.4%)
CONSUMER STAPLES	(10.2%)	(10.8%)	(11.4%)
HEALTH	(23.2%)	8.8%	16.6%
ENERGY	15.9%	102.1%	64.5%
FINANCIAL	(17.2%)	(37.7%)	(31.8%)
CAPITAL GOODS	(20.4%)	17.0%	10.2%
TECHNOLOGY	15.8%	14.8%	47.6%
COMMUNICATIONS	(9.6%)	41.4%	(51.6%) *
UTILITY	(8.6%)	(15.2%)	(22.2%)
TRANSPORTATION	(37.1%)	(27.3%)	(18.9%)
Weighted Total:	(4.2%)	3.2%	9.1%

RED - Overvalued

BLUE - (Undervalued)

Bold - outperformed the relevant index

WEEKLY PRICE CHANGE

SECTORS	S&P 500		S&P MIDCAP		S&P SMALL CAP	
	Weight	Price	Weight	Price	Weight	Price
prices as of 6/16/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.1%	(4.7%)	4.4%	(1.3%)	3.5%	(1.5%)
CONSUMER CYCLICALS	7.3%	(0.3%)	13.2%	0.7%	16.9%	(0.3%)
CONSUMER STAPLES	10.1%	0.4%	8.2%	(5.3%)	7.3%	(0.6%)
HEALTH	10.7%	5.5%	12.3%	2.3%	12.4%	4.0%
ENERGY	5.8%	4.1%	7.4%	4.8%	4.6%	3.2%
FINANCIAL	12.9%	(5.7%)	10.3%	(3.3%)	10.7%	(9.2%)
CAPITAL GOODS	7.8%	(2.9%)	8.9%	(1.0%)	14.7%	(1.3%)
TECHNOLOGY	32.9%	1.8%	21.7%	(1.8%)	24.0%	(2.5%)
COMMUNICATIONS	7.3%	(0.0%)	1.8%	(2.3%)	0.2%	(10.8%) *
UTILITY	2.6%	0.1%	10.6%	2.2%	3.0%	0.2%
TRANSPORTATION	0.5%	(4.1%)	1.2%	1.3%	2.7%	(0.6%)
Index Total:		0.5%		0.3%		(0.7%)

* Sector contains only 2 companies

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

Sector Comments The concerns about potential economic accident are rising. Reports of rising bad loan experience crushed the financials last week. And Health stocks rose in spite of continuing concerns for potential government price control intervention. Basics also sold off, except for Energy, continuing the trend we spotted the week before. The political bashing of oil companies is less credible this summer than in previous price flare-ups. Perhaps the deep involvement of the Environmental Protection Agency in the processing choices available to refiners is now so well known that the standard rant from politicians finally rings tinny. Utility stocks have begun to pick up steam as well, another group that does relatively well in the market when growth slows. Capital Goods companies sank across the board last week as the implications of slower economic growth became more widely spread. While Technology stocks had a mixed week, an astute observer should conclude that slower growth might puncture some expectations about rapid growth in the "new" economy as well as the old one. The only sector out of "synch" was Consumer Staples, where slower growth overseas has already caused problems for this traditionally recession proof area. Since much of the growth of Consumer Staples stocks has come from an ever higher mix of higher margin products, the sector seems to have become more sensitive to changes in economic conditions. Our Page 3 presentation shows value drivers for Large Cap Consumer Staples. Note the revenue patterns and return on capital levels. This sector has been losing share of world GDP.

(Millions)	Large Capitalization	Mid-Cap Capitalization	Small-Cap Capitalization
\$	12,470,477	\$907,697	\$ 379,947
	90.6%	6.6%	2.8%

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Revenue Growth Seems Rare in the Consumer Staples

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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	Return on Capital	Dividend Yield
ALBERTO-CULVER CO -CL B	ACV	\$1,686	13.6%	27.9	18.76	6.6	15.1	2.6	13.1	10.25	1.1%
ALBERTSONS INC	ABS	\$14,752	-2.2%	34.9	36.68	4.2	42.6	2.7	11.0	14.27	2.2%
ANHEUSER-BUSCH COS INC	BUD	\$34,898	4.7%	77.3	67.30	20.9	25.1	9.1	16.3	21.82	1.6%
AVON PRODUCTS	AVP	\$9,987	9.2%	42.1	27.28	10.7	24.4	(24.2)	26.0	18.66	1.8%
BESTFOODS	BFO	\$19,132	1.0%	69.7	61.04	15.0	24.8	21.1	19.9	26.20	1.5%
BROWN-FORMAN -CL B	BF.B	\$3,858	18.1%	56.3	31.52	11.1	18.3	4.3	15.0	10.21	2.2%
CAMPBELL SOUP CO	CPB	\$12,867	-6.6%	30.6	42.56	20.6	18.0	56.6	14.2	29.02	2.9%
CARDINAL HEALTH INC	CAH	\$18,565	15.8%	66.0	51.80	4.2	28.6	5.1	26.2	26.02	0.2%
CLEAR CHANNEL COMMUNICA	CCU	\$27,686	107.7%	81.7	(14.89)	9.5	374.4	2.5	34.2	1.79	0.0%
CLOROX CO/DE	CLX	\$10,518	4.3%	44.8	41.09	17.6	29.2	5.9	25.0	22.99	1.8%
COCA-COLA CO	KO	\$137,301	-0.8%	55.5	29.50	24.6	80.9	13.9	47.8	31.08	1.2%
COCA-COLA ENTERPRISES	CCE	\$7,259	0.7%	17.3	(4.04)	6.5	85.6	2.5	5.2	4.76	0.9%
COLGATE-PALMOLIVE CO	CL	\$33,374	3.1%	57.9	26.13	13.7	32.3	16.8	26.2	18.02	1.1%
COMCAST CORP -CL A SPL	CMCSK	\$33,281	35.3%	36.7	(12.13)	5.3	57.4	2.9	20.4	1.72	0.1%
CONAGRA INC	CAG	\$10,430	1.8%	21.2	24.06	4.4	37.8	3.9	12.3	12.30	3.8%
COORS (ADOLPH) -CL B	RKY	\$2,406	5.6%	65.5	53.86	7.5	21.8	2.5	11.1	11.85	1.1%
CVS CORP	CVS	\$14,937	11.8%	38.4	20.63	5.9	26.2	4.7	16.5	9.50	0.6%
DARDEN RESTAURANTS INC	DRI	\$2,096	5.8%	16.9	15.81	6.3	13.3	2.4	8.4	9.64	0.5%
DELUXE CORP	DLX	\$1,819	-2.3%	25.2	45.12	14.7	9.3	4.3	7.0	22.81	5.9%
DISNEY (WALT) COMPANY	DIS	\$87,438	13.4%	41.2	8.04	9.9	64.5	4.1	16.8	5.59	0.5%
DONNELLEY (R R) & SONS CO	DNY	\$2,918	9.1%	23.9	33.27	7.7	9.9	2.7	4.6	10.40	3.7%
FORT JAMES CORP	FJ	\$4,925	0.5%	23.7	18.83	8.9	14.9	4.3	6.2	8.55	2.5%
FORTUNE BRANDS INC	FO	\$3,690	7.4%	23.3	32.49	9.9	(5.1)	1.6	(5.7)	7.75	4.0%
GENERAL MILLS INC	GIS	\$11,490	8.3%	38.7	28.40	11.9	19.7	73.5	16.1	21.60	2.8%
GILLETTE CO	G	\$32,625	5.5%	31.3	17.56	16.7	28.8	10.6	19.8	14.45	2.1%
GREAT ATLANTIC & PAC TEA C	GAP	\$667	-0.2%	17.4	10.83	2.8	49.7	0.8	2.7	6.17	2.3%
HEINZ (H J) CO	HNZ	\$14,596	0.6%	41.4	44.70	15.7	20.1	7.9	18.6	17.91	3.5%
HERSHEY FOODS CORP	HSY	\$7,089	5.1%	51.7	22.54	8.1	23.5	6.5	11.5	9.70	2.0%
KELLOGG CO	K	\$11,736	0.4%	28.9	23.76	11.4	32.0	15.1	18.7	18.41	3.4%
KIMBERLY-CLARK CORP	KMB	\$31,898	8.4%	58.6	46.66	14.9	18.5	6.4	13.8	18.84	1.8%
KROGER CO	KR	\$15,291	53.0%	18.3	23.96	5.3	25.8	6.2	9.6	16.13	0.0%
LONGS DRUG STORES INC	LDG	\$760	9.9%	19.4	19.73	3.2	12.2	1.1	6.1	7.32	2.9%
MCDONALDS CORP	MCD	\$41,840	10.2%	31.3	19.62	22.7	24.2	4.6	15.1	10.20	0.6%
MCKESSON HBOC INC	MCK	\$6,287	10.8%	22.3	0.49	0.5	24.9	1.6	24.2	3.88	1.1%
MEDIAONE GROUP INC	UMG	\$42,578	6.2%	66.6	(44.31)	(22.5)	9.0	2.6	9.1	(9.78)	0.0%
NABISCO GROUP HLDGS CORP	NGH	\$8,182	11.5%	25.1	5.80	6.8	24.8	2.3	11.2	3.42	2.0%
NEWELL RUBBERMAID INC	NWL	\$6,841	2.3%	24.3	26.66	10.7	29.2	2.7	18.6	13.38	3.5%
PEPSICO INC	PEP	\$63,044	-18.0%	43.8	19.96	11.7	28.0	8.6	20.7	14.03	1.2%
PHILIP MORRIS COS INC	MO	\$58,573	3.0%	25.5	71.40	22.1	7.8	4.0	6.4	28.64	7.5%
PROCTER & GAMBLE CO	PG	\$72,588	6.0%	55.5	71.53	17.7	26.4	7.4	12.4	26.67	2.3%
QUAKER OATS CO	OAT	\$9,475	9.1%	72.4	49.40	11.1	26.8	53.3	16.5	23.89	1.6%
RALSTON PURINA CO	RAL	\$5,626	0.0%	19.6	20.18	11.4	10.9	4.4	8.4	13.70	1.4%
RITE AID CORP	RAD	\$1,910	16.4%	7.4	21.57	9.5	@NA	0.6	4.8	8.05	0.0%
SAFEWAY INC	SWY	\$20,256	15.9%	40.9	29.07	6.0	22.8	5.6	12.1	11.16	0.0%
SARA LEE CORP	SLE	\$15,435	4.7%	17.8	28.82	9.9	13.4	12.6	9.0	25.15	3.0%
SEAGRAM CO LTD	VO	\$26,816	6.0%	61.4	(16.58)	3.9	106.0	1.6	68.1	2.20	1.1%

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@AF - Annual Figure

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Red - Warning

Bold Blue - Favorable Drivers

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STARBUCKS CORP	SBUX	\$6,497	34.3%	34.9	13.17	9.5	54.0	6.5	32.0	16.63	0.0%
SUPERVALU INC	SVU	\$2,575	31.9%	19.1	9.58	1.6	11.1	1.5	5.0	6.19	2.8%
SYSCO CORP	SYU	\$13,855	13.4%	41.6	14.92	2.4	32.7	9.7	24.2	14.25	1.2%
TIME WARNER INC	TWX	\$106,030	7.5%	80.6	(5.25)	7.1	59.7	11.4	23.1	5.00	0.2%
TRICON GLOBAL RESTAURANT	YUM	\$4,163	-11.9%	28.1	26.24	8.1	7.0	(7.9)	4.2	10.81	0.0%
TUPPERWARE CORP	TUP	\$1,247	7.1%	21.6	17.14	8.8	15.9	8.8	9.3	14.46	4.1%
UNILEVER N V -NY SHARES	UN	\$29,401	@AF	51.4	66.90	9.5	16.5	4.8	@CF	20.57	2.3%
UST INC	UST	\$2,676	5.2%	16.5	68.96	52.6	6.1	13.8	5.4	92.42	10.7%
VIACOM INC -CL B	VIA.B	\$46,803	2.5%	68.4	(2.61)	6.9	112.7	3.9	54.9	3.70	0.0%
WALGREEN CO	WAG	\$28,959	19.6%	28.8	15.99	6.0	41.7	8.2	34.6	25.45	0.5%
WENDY'S INTERNATIONAL INC	WEN	\$2,137	9.1%	18.8	20.38	11.9	13.8	2.2	8.4	10.21	1.3%
WINN-DIXIE STORES INC	WIN	\$2,095	-0.1%	14.5	(5.74)	2.4	33.6	1.7	4.5	4.32	7.0%
WRIGLEY (WM) JR CO	WWY	\$9,063	4.6%	79.5	55.22	20.4	29.5	8.0	24.6	31.34	1.8%

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Phone: 973-635-5335 Fax: 973-635-8307

<http://www.intrinsicvalue.com>

Email: gboleman@intrinsicvalue.com