

# Intrinsic Value Weekly

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## "The Turmoil Continues"

The tug of war between corporate results and discount rates is continuing to cause volatile stock prices. Short-term results are given great weight in the current market, suggesting that investors' time horizon has shrunk somewhat. Of course, as interest rates have risen, the present value of far-in-the-future cash flows have become a smaller portion of any company's valuation. By subtraction the here-and-now has become a bigger part. The most dramatic example of this rapid shortening of vision is in the area of internet stocks, where all positive cash flows are a part of the distant future. The amount of venture capital now available to these dreamboats has shrunk drastically and some investors are now seeing problems for "real" companies that serve internet companies. While many strategists have looked at this event as the inevitable come-uppance for these upstarts, we see the process as the result of the operation of the discount rate: the cost of equity capital. Our take is that, as oil prices recede and the economy slows, monetary policy will create a positively-sloped yield curve by lowering short-term rates. We are usually very early on these insights, so don't hold your breath. But the forces are in place to produce higher PE ratios, longer investment horizons and a much healthier attitude about short-term corporate results.

The Intrinsic Value Portfolio has had a rough quarter, lagging the S&P 500 by several percentage points. Our concentration on only under-priced stocks has much to do with this. HON a year ago was priced close to Intrinsic Value, but we kept it in the portfolio. Had we dropped it then, performance would have been substantially enhanced. But, so what. Short-term performance is a mirage at least and a heightened opportunity at best. Over time we expect each of these very high discounts to intrinsic value to be closed by price appreciation. When is as yet undetermined.

## Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 7/7/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change *
HON	Honeywell Int'l Inc.	4/29/1999	\$ 34.875	\$64.60	(46.0%)	1.6	0.5%
BGP	Borders Group, Inc.	3/6/2000	\$ 13.938	\$33.81	(58.8%)	1.1	(12.5%)
BGG	Briggs & Stratton	3/6/2000	\$ 35.625	\$106.86	(66.7%)	1.3	(9.7%)
CTL	CenturyTel, Inc.	3/6/2000	\$ 29.563	\$50.51	(41.5%)	1.4	(4.2%)
<b>DAL</b>	<b>Delta Air Lines, Inc.</b>	<b>3/6/2000</b>	<b>\$ 54.250</b>	<b>\$66.30</b>	<b>(18.2%)</b>	<b>0.9</b>	<b>4.5%</b>
<b>G</b>	<b>Gillette Company</b>	<b>3/2/2000</b>	<b>\$ 34.625</b>	<b>\$50.55</b>	<b>(31.5%)</b>	<b>3.8</b>	<b>8.2%</b>
<b>LOW</b>	<b>Lowe's Companies</b>	<b>3/6/2000</b>	<b>\$ 45.813</b>	<b>\$63.82</b>	<b>(28.2%)</b>	<b>2.3</b>	<b>8.8%</b>
<b>MLHR</b>	<b>Herman Miller, Inc.</b>	<b>3/6/2000</b>	<b>\$ 28.438</b>	<b>\$46.28</b>	<b>(38.6%)</b>	<b>2.7</b>	<b>5.8%</b>
NYT	New York Times Co.	2/10/2000	\$ 40.000	\$49.37	(19.0%)	2.7	(2.1%)
NUE	Nucor Corporation	3/6/2000	\$ 34.125	\$59.99	(43.1%)	1.0	(0.2%)
<b>WEN</b>	<b>Wendy's International</b>	<b>3/6/2000</b>	<b>\$ 19.313</b>	<b>\$24.49</b>	<b>(21.2%)</b>	<b>1.4</b>	<b>4.7%</b>

Average: (37.5%) Average: 0.3%

Bold - Outperformed the S&P 500 for the week

S&P 500 2.6%

\* 2 week change

## Value Drivers

## Standard Market Statistics

Symbol	Value Drivers					Standard Market Statistics				
	Capital Turnover	Sales Growth Last 12M	EBIT Margin %	Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/ Book	Price/ Sales	Market Cap (\$billions)
HON	1.2	0.7%	13.8%	14.0%	8.3%	2.2%	17.7	3.1	1.6	26.9
BGP	1.0	14.7%	5.7%	10.9%	10.1%	0.0%	12.9	1.5	0.4	1.2
BGG	2.2	13.3%	12.0%	26.4%	(1.6%)	3.4%	5.5	2.2	0.5	0.8
CTL	0.4	3.4%	30.3%	11.1%	(0.3%)	0.6%	17.7	2.2	2.5	4.0
<b>DAL</b>	<b>0.7</b>	<b>6.8%</b>	<b>12.7%</b>	<b>10.4%</b>	<b>13.0%</b>	<b>0.2%</b>	<b>5.3</b>	<b>1.6</b>	<b>0.5</b>	<b>6.2</b>
<b>G</b>	<b>0.9</b>	<b>0.3%</b>	<b>21.3%</b>	<b>14.5%</b>	<b>5.5%</b>	<b>1.9%</b>	<b>30.1</b>	<b>11.1</b>	<b>3.7</b>	<b>36.5</b>
<b>LOW</b>	<b>2.2</b>	<b>19.0%</b>	<b>7.4%</b>	<b>11.1%</b>	<b>18.4%</b>	<b>0.3%</b>	<b>21.4</b>	<b>3.3</b>	<b>1.1</b>	<b>15.7</b>
<b>MLHR</b>	<b>2.0</b>	<b>9.7%</b>	<b>12.7%</b>	<b>18.4%</b>	<b>20.9%</b>	<b>0.5%</b>	<b>14.7</b>	<b>9.8</b>	<b>1.2</b>	<b>2.0</b>
NYT	1.1	9.5%	18.7%	13.1%	14.1%	1.2%	20.7	4.7	2.1	6.8
NUE	1.4	10.5%	9.3%	14.4%	34.2%	1.8%	9.7	1.3	0.7	2.8
<b>WEN</b>	<b>0.9</b>	<b>7.4%</b>	<b>13.8%</b>	<b>10.2%</b>	<b>9.1%</b>	<b>1.2%</b>	<b>12.5</b>	<b>2.0</b>	<b>1.1</b>	<b>2.0</b>

# Intrinsic Value Weekly

## 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	(16.9%)	(30.0%)	(12.9%)
CONSUMER CYCLICALS	<b>(18.8%)</b>	(26.3%)	(12.7%)
CONSUMER STAPLES	(9.9%)	(13.1%)	<b>(6.0%)</b>
HEALTH	(23.0%)	<b>17.5%</b>	<b>24.8%</b>
ENERGY	8.2%	82.5%	47.8%
FINANCIAL	<b>(13.7%)</b>	(37.5%)	(30.1%)
CAPITAL GOODS	(20.4%)	8.8%	5.1%
TECHNOLOGY	15.9%	12.1%	43.7%
COMMUNICATIONS	(12.7%)	36.8%	(50.2%) *
UTILITY	(10.2%)	(15.9%)	(22.9%)
TRANSPORTATION	<b>(32.4%)</b>	(27.3%)	<b>(13.7%)</b>
Weighted Total:	(4.3%)	0.3%	8.1%

RED - Overvalued

BLUE - (Undervalued)

**Bold - outperformed the relevant index**

## WEEKLY PRICE CHANGE

(two week 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 7/7/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	1.9%	(13.9%)	4.7%	0.9%	3.6%	6.9%
CONSUMER CYCLICALS	7.9%	6.4%	12.8%	(5.1%)	17.7%	4.4%
CONSUMER STAPLES	9.9%	0.3%	8.2%	(2.7%)	7.8%	6.1%
HEALTH	10.4%	0.3%	13.2%	7.9%	12.4%	7.0%
ENERGY	5.4%	(6.7%)	7.0%	(9.7%)	4.3%	(10.2%)
FINANCIAL	13.6%	4.2%	10.4%	0.5%	11.2%	2.5%
CAPITAL GOODS	7.9%	(0.0%)	8.0%	(7.0%)	14.2%	(4.6%)
TECHNOLOGY	33.0%	0.1%	21.8%	(2.4%)	22.7%	(2.6%)
COMMUNICATIONS	7.0%	(3.5%)	1.8%	(3.2%)	0.2%	2.7% *
UTILITY	2.5%	(1.8%)	10.9%	(0.8%)	2.9%	(0.9%)
TRANSPORTATION	0.5%	7.4%	1.2%	(0.1%)	3.0%	6.5%
Index Total:		2.6%		1.8%		5.4%

\* Sector contains only 2 companies

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

**Sector Comments** Finally, the natural market forces worked on the energy market. Often, what seems so logical and inevitable takes a long time and happens all at once. Of course, political intervention sometimes has a role in the outcome too. But in this case the economics and politics were headed in the same direction. So, our recommendation of Transportation stocks last quarter were sufficiently early to provide decent prices. And the news on crude oil pricing is not all bad for Energy stocks. With large producers willing to fine tune production to stabilize prices at a level that still allows a decent return on capital to exploration and production companies, the financial health of that sector could be spared the debilitating effects of previous wild price swings. We'll redo our valuations of that sector with overall Nominal GDP-type revenue growth and see what it brings.

As for the Financial stocks that we highlighted two weeks ago, the larger, faster-growing companies have done well. And more is left since valuations are still modest.

Large Cap Capital Goods makers are substantially under-priced now perhaps because of fears of a recession. Companies in the sector that supply the auto, truck and defense sectors look attractive. As well, the diversified manufacturers are priced to reflect little long-term growth. Timing of cash flow can affect short term performance, as we have learned from BGG, so it may not pay to be too early on these. Their value drivers can be examined on Page 3.

(\$millions)	<u>Large Capitalization</u>		<u>Mid-Cap Capitalization</u>		<u>Small-Cap Capitalization</u>
	\$ 12,459,504	90.8%	\$876,831	6.4%	\$ 380,968 2.8%

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**Large Capital Goods: If no recession, value is here.**

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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
ALLIED WASTE INDS INC	AW	\$1,889	237.8%	10.0	(4.25)	22.0	(6.6)	3.1	11.6	8.30	0.0%
<b>AMERICAN PWR CNVRSION</b>	<b>APCC</b>	<b>\$8,268</b>	<b>11.6%</b>	<b>42.6</b>	<b>22.26</b>	<b>20.9</b>	<b>36.4</b>	<b>8.7</b>	<b>34.8</b>	<b>34.56</b>	<b>0.0%</b>
AVERY DENNISON CORP	AVY	\$6,421	3.4%	65.0	45.77	10.2	25.0	8.2	17.5	17.82	1.7%
BALL CORP	BLL	\$955	-0.3%	32.1	59.42	6.6	9.1	1.7	3.6	8.75	1.9%
BOEING CO	BA	\$39,711	-31.1%	43.8	27.96	4.2	16.7	3.2	9.6	9.10	1.3%
<b>BRIGGS &amp; STRATTON</b>	<b>BGG</b>	<b>\$798</b>	<b>-1.6%</b>	<b>35.6</b>	<b>112.17</b>	<b>12.2</b>	<b>5.5</b>	<b>2.2</b>	<b>5.3</b>	<b>26.42</b>	<b>3.4%</b>
CATERPILLAR INC	CAT	\$11,852	1.1%	34.0	24.41	7.9	12.0	2.2	6.4	5.64	3.8%
<b>COOPER INDUSTRIES INC</b>	<b>CBE</b>	<b>\$3,110</b>	<b>12.3%</b>	<b>33.4</b>	<b>78.92</b>	<b>14.7</b>	<b>9.0</b>	<b>1.8</b>	<b>6.6</b>	<b>13.70</b>	<b>4.2%</b>
CRANE CO	CR	\$1,454	-4.1%	24.0	25.65	8.7	16.5	2.7	9.3	9.99	1.7%
CROWN CORK & SEAL CO INC	CCK	\$1,898	-8.6%	14.8	32.44	8.4	11.5	0.7	2.6	6.20	6.8%
<b>CUMMINS ENGINE</b>	<b>CUM</b>	<b>\$1,041</b>	<b>9.5%</b>	<b>27.3</b>	<b>49.05</b>	<b>4.5</b>	<b>5.9</b>	<b>0.7</b>	<b>2.6</b>	<b>6.74</b>	<b>4.4%</b>
DANAHER CORP	DHR	\$6,739	9.4%	47.6	29.56	11.3	25.7	4.1	17.5	13.22	0.1%
DEERE & CO	DE	\$9,151	9.3%	39.1	(0.16)	4.2	30.8	2.1	12.6	2.73	2.3%
DOVER CORP	DOV	\$8,831	29.0%	43.5	26.84	9.7	18.4	4.0	15.0	13.50	1.1%
EATON CORP	ETN	\$5,089	40.0%	70.0	51.43	6.3	7.4	1.9	5.5	7.31	2.5%
EMERSON ELECTRIC CO	EMR	\$26,403	8.5%	61.9	52.08	12.1	19.0	4.2	13.7	14.39	2.3%
FLUOR CORP	FLR	\$2,431	-17.3%	32.1	41.53	2.5	10.4	1.5	5.8	8.81	3.1%
<b>GENERAL DYNAMICS CORP</b>	<b>GD</b>	<b>\$10,547</b>	<b>27.2%</b>	<b>52.6</b>	<b>83.03</b>	<b>12.9</b>	<b>14.1</b>	<b>3.3</b>	<b>9.8</b>	<b>42.56</b>	<b>2.0%</b>
<b>GENERAL ELECTRIC CO</b>	<b>GE</b>	<b>\$507,097</b>	<b>24.4%</b>	<b>51.3</b>	<b>(28.28)</b>	<b>13.1</b>	<b>46.8</b>	<b>12.3</b>	<b>29.0</b>	<b>2.37</b>	<b>1.1%</b>
GOODRICH (B F) CO	GR	\$3,643	-2.4%	33.9	65.71	12.1	20.9	2.9	10.8	15.71	3.2%
<b>HONEYWELL INTERNATIONAL</b>	<b>HON</b>	<b>\$27,836</b>	<b>8.3%</b>	<b>34.9</b>	<b>40.14</b>	<b>11.5</b>	<b>17.3</b>	<b>3.1</b>	<b>11.4</b>	<b>14.03</b>	<b>2.2%</b>
<b>ILLINOIS TOOL WORKS</b>	<b>ITW</b>	<b>\$17,320</b>	<b>63.2%</b>	<b>57.4</b>	<b>45.58</b>	<b>12.2</b>	<b>18.3</b>	<b>3.6</b>	<b>14.6</b>	<b>12.81</b>	<b>1.3%</b>
INGERSOLL-RAND CO	IR	\$6,677	4.5%	41.3	51.96	10.7	11.5	2.1	8.2	10.20	1.6%
<b>ITT INDUSTRIES INC</b>	<b>IIN</b>	<b>\$2,934</b>	<b>10.5%</b>	<b>33.4</b>	<b>51.08</b>	<b>8.2</b>	<b>11.1</b>	<b>2.4</b>	<b>7.8</b>	<b>38.19</b>	<b>1.8%</b>
<b>JOHNSON CONTROLS INC</b>	<b>JCI</b>	<b>\$4,442</b>	<b>12.3%</b>	<b>51.8</b>	<b>57.20</b>	<b>3.3</b>	<b>10.5</b>	<b>2.0</b>	<b>5.1</b>	<b>8.67</b>	<b>2.2%</b>
LOCKHEED MARTIN CORP	LMT	\$10,125	-10.1%	25.3	(4.81)	4.2	18.2	1.6	5.9	4.14	1.7%
MCDERMOTT INTL INC	MDR	\$475	-21.0%	7.9	(17.61)	2.9	62.9	0.7	7.0	1.59	2.5%
MILLIPORE CORP	MIL	\$3,221	24.6%	70.4	22.40	12.5	42.6	19.3	29.3	12.12	0.6%
<b>MINNESOTA MINING &amp; MFG CC</b>	<b>MMM</b>	<b>\$34,139</b>	<b>7.3%</b>	<b>86.3</b>	<b>68.45</b>	<b>13.5</b>	<b>17.7</b>	<b>5.2</b>	<b>13.3</b>	<b>16.23</b>	<b>2.7%</b>
MOLEX INC	MOLX	\$9,683	33.2%	49.4	18.20	13.8	46.0	6.3	27.9	16.36	0.2%
NATIONAL SERVICE INDS INC	NSI	\$817	13.2%	20.1	36.09	7.1	7.5	1.3	4.5	9.17	6.6%
NAVISTAR INTERNATIONL	NAV	\$1,891	4.5%	31.9	109.07	7.9	3.6	1.5	2.8	11.69	0.0%
NORTHROP GRUMMAN CORP	NOC	\$4,642	-0.6%	66.5	146.11	10.7	8.4	1.4	5.3	11.74	2.4%
OWENS-ILLINOIS INC	OI	\$1,846	3.0%	12.6	1.52	9.9	6.7	1.0	2.4	5.03	0.0%
<b>PACCAR INC</b>	<b>PCAR</b>	<b>\$3,318</b>	<b>8.3%</b>	<b>43.3</b>	<b>172.59</b>	<b>11.9</b>	<b>5.0</b>	<b>1.5</b>	<b>4.6</b>	<b>18.21</b>	<b>2.8%</b>
PALL CORP	PLL	\$2,383	6.1%	19.3	11.74	10.9	15.3	3.1	19.0	8.74	3.4%
<b>PARKER-HANNIFIN CORP</b>	<b>PH</b>	<b>\$4,002</b>	<b>11.0%</b>	<b>35.8</b>	<b>42.66</b>	<b>8.3</b>	<b>10.8</b>	<b>2.1</b>	<b>8.4</b>	<b>11.41</b>	<b>1.9%</b>
PITNEY BOWES INC	PBI	\$10,100	5.0%	39.2	41.83	23.0	15.8	6.5	9.7	13.62	2.9%
ROCKWELL INTL CORP	ROK	\$6,257	4.9%	33.1	46.97	10.7	9.6	2.3	6.9	10.32	3.1%
SANMINA CORP	SANM	\$11,671	97.5%	91.0	19.77	14.3	70.1	16.1	77.0	12.03	0.0%
SEALED AIR CORP	SEE	\$4,089	5.5%	48.9	13.67	9.6	28.5	7.9	10.0	7.17	0.0%
SOLECTRON CORP	SLR	\$26,457	51.8%	44.4	10.13	5.8	56.6	8.1	50.5	13.94	0.0%
TEXTRON INC	TXT	\$8,362	17.8%	57.8	(71.02)	0.5	12.7	1.8	8.0	0.42	2.3%
THERMO ELECTRON CORP	TMO	\$3,687	7.8%	23.5	(0.44)	7.6	(234.0)	1.6	37.1	3.09	0.0%
THOMAS & BETTS CORP	TNB	\$1,246	7.8%	21.5	35.00	8.7	7.4	1.0	5.0	9.29	5.2%
TIMKEN CO	TKR	\$1,196	9.7%	19.6	6.95	3.7	18.4	1.1	5.6	3.67	3.7%

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@AF - Annual Figure

@NA - Not available

@CF - Combined Figure

@SF - SemiAnnual Figure

Red - Warning

**Bold Blue - Favorable Drivers**

Source: Standard & Poors Corporation Compustat Research Insight®, Intrinsic Value Associates, LLC

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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
TYCO INTERNATIONAL LTD	TYC	\$77,226	35.0%	45.8	22.94	15.9	30.3	6.5	38.5	16.12	0.1%
UNITED TECHNOLOGIES CORP	UTX	\$27,853	17.4%	58.8	45.95	8.6	30.3	3.9	16.5	12.94	1.4%
WASTE MANAGEMENT INC	WMI	\$12,068	4.8%	19.2	0.96	6.7	(17.3)	2.7	9.9	4.29	0.2%

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@AF - Annual Figure

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@SF - SemiAnnual Figure

Red - Warning

**Bold Blue - Favorable Drivers**

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