

Intrinsic Value Weekly

Volume 3, No. 28

Published Weekly by Intrinsic Value Associates, LLC

July 17, 2000

"Huge Discounts Persist"

Gillette (G - NYSE) has had its troubles this year with the stock off about 19% in price and trading at a 34% discount to intrinsic value. Our intrinsic value estimate is based upon an expectation that the company will be able to resume growing at a reasonable rate without sacrificing profit margins. Right now, the company has little credibility on this front with investors. Though some analysts are speculating upon a fast rebound, we think that current investors will need great patience to reap the closing of **Gillette's** value gap.

The rebound in economically sensitive stocks arose from interpretations of Mr. Greenspan's speeches this week. Many now think that the squeeze on the credit markets is over and that clear sailing is in immediate prospect. We're somewhat skeptical. First, we think that the rise in short-term rates has had little effect on inflation expectations. But, secondly, we think that the economic slowdown from higher rates will actually cause a blip up in the measure inflation rate. Something like too much money, too few goods. So, higher inflation reports are still probably in prospect and could cause great disruptions in expectation about future Fed action. The tragedy is that this whole episode could have been avoided with a little common sense and an understanding that inflation is a monetary phenomenon, not a result of too much wealth or too many people working.

Nucor (NUE - NYSE) seems to swoon every time one of its competitors announces new capacity, though the company has been expanding rapidly all through the past decade. We expect that **NUE's** progress will continue, given its low cost, efficient production and focus on the fastest growing segments of the steel business.

The Intrinsic Value Portfolio did somewhat better last week, but the average discount is still very large. We are currently emphasizing only those stocks that have a discount over 20%.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	Price 7/14/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change *
HON	Honeywell Int'l Inc.	4/29/1999	\$ 36.625	\$64.60	(43.3%)	1.6	5.0%
BGP	Borders Group, Inc.	3/6/2000	\$ 14.250	\$33.81	(57.9%)	1.1	2.2%
BGG	Briggs & Stratton	3/6/2000	\$ 37.000	\$106.86	(65.4%)	1.3	3.9%
CTL	CenturyTel, Inc.	3/6/2000	\$ 30.063	\$50.51	(40.5%)	1.4	1.7%
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 55.438	\$66.30	(16.4%)	0.9	2.2%
G	Gillette Company	3/2/2000	\$ 33.313	\$50.55	(34.1%)	3.8	(3.8%)
LOW	Lowe's Companies	3/6/2000	\$ 47.875	\$63.82	(25.0%)	2.3	4.5%
MLHR	Herman Miller, Inc.	3/6/2000	\$ 30.188	\$46.28	(34.8%)	2.7	6.2%
NYT	New York Times Co.	2/10/2000	\$ 42.250	\$49.37	(14.4%)	2.7	5.6%
NUE	Nucor Corporation	3/6/2000	\$ 35.938	\$59.99	(40.1%)	1.0	5.3%
WEN	Wendy's International	3/6/2000	\$ 19.000	\$24.49	(22.4%)	1.4	(1.6%)

Average: (35.8%) Average: 2.8%

Bold - Outperformed the S&P 500 for the week

S&P 500 2.1%

Value Drivers

Standard Market Statistics

Symbol	Capital Turnover	Sales				Quarterly Sales Y/Y	Yield	PE Last 12M	Price/ Book	Price/ Sales	Market Cap (\$billions)
		Growth Last 12M	EBIT Margin %	Return On Capital	Return On Capital						
HON	1.2	0.7%	13.8%	14.0%	8.3%	2.0%	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%)	3.2%	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	
DAL	0.7	6.8%	12.7%	10.4%	13.0%	0.2%	5.3	1.6	0.5	6.2	
G	0.9	0.3%	21.3%	14.5%	5.5%	2.0%	30.1	11.1	3.5	36.5	
LOW	2.2	19.0%	7.4%	11.1%	18.4%	0.3%	21.4	3.3	1.1	15.7	
MLHR	2.0	9.7%	12.7%	18.4%	20.9%	0.5%	14.7	9.8	1.2	2.0	
NYT	1.1	12.0%	18.7%	13.1%	13.6%	1.1%	20.7	4.7	2.2	6.8	
NUE	1.4	10.5%	9.3%	14.4%	34.2%	1.7%	9.7	1.3	0.7	2.8	
WEN	0.9	7.4%	13.8%	10.2%	9.1%	1.3%	12.5	2.0	1.1	2.0	

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ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	(12.2%)	(27.9%)	(11.4%)
CONSUMER CYCLICALS	(17.7%)	(24.5%)	(10.2%)
CONSUMER STAPLES	(10.6%)	(10.9%)	(5.6%)
HEALTH	(27.0%)	19.2%	22.1%
ENERGY	8.0%	92.2%	50.7%
FINANCIAL	(11.2%)	(35.7%)	(28.8%)
CAPITAL GOODS	(17.6%)	13.0%	9.7%
TECHNOLOGY	22.8%	21.8%	47.4%
COMMUNICATIONS	(13.4%)	50.8%	(48.8%) *
UTILITY	(7.3%)	(14.0%)	(21.5%)
TRANSPORTATION	(36.6%)	(23.6%)	(8.5%)
Weighted Total:	(1.2%)	5.2%	10.1%

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 7/14/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.0%	5.6%	4.6%	2.9%	3.6%	1.7%
CONSUMER CYCLICALS	7.8%	1.4%	12.5%	2.4%	17.6%	2.8%
CONSUMER STAPLES	9.6%	(0.8%)	8.2%	2.6%	7.7%	0.5%
HEALTH	9.7%	(5.3%)	12.4%	1.5%	11.7%	(2.2%)
ENERGY	5.3%	(0.2%)	7.0%	5.3%	4.3%	2.0%
FINANCIAL	13.7%	2.9%	10.3%	2.9%	11.5%	1.8%
CAPITAL GOODS	8.0%	3.6%	8.0%	3.9%	14.5%	4.4%
TECHNOLOGY	34.4%	5.9%	23.0%	8.7%	22.9%	2.6%
COMMUNICATIONS	6.5%	(0.7%)	1.9%	10.2%	0.2%	2.9% *
UTILITY	2.5%	3.3%	10.7%	2.2%	2.9%	1.7%
TRANSPORTATION	0.5%	(6.1%)	1.3%	5.2%	3.1%	6.0%
Index Total:		2.1%		4.0%		1.8%

* Sector contains only 2 companies

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

Sector Comments Health got crushed this week as the issue of prescription drugs for Medicare came back to haunt it. Our contacts tell us that the see-saw nature of this year's Presidential campaign will likely see much more volatility, both up and down from the current level, before the election settles it. And even then, speculation about the shape of any Medicare reform will continue to spook investors periodically. Nevertheless, Health is generally a very good business and large cap Health stocks seem very attractive at current levels.

Technology had one of its periodic celebrations last week, with all markets participating. While our work shows much of the valuation in Technology is at high levels relative to any reasonable forecast, many of the Technology companies are selling at discounts to intrinsic value. This is especially true of stocks like IBM Corp (IBM - NYSE) where expectations surrounding the health of the supposedly dying mainframes computer business become gloomy periodically. The death of this segment has been predicted continuously since 1993 and yet it seems to soldier on, finding new ways to exploit the need for some centralized computer functions. We expect that mainframes will be with us for many years yet and the business has gotten less competitive with other companies concentrating on areas with higher revenue growth. Such conditions are excellent breeding ground for higher free cash flow. We present large Technology companies on Page 3 this week.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
	\$ 12,715,098	90.7%	\$912,545
			6.5%
			\$ 388,953
			2.8%

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Find the Mainframe-related Companies in this List

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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
3COM CORP	COMS	\$25,830	@AF	73.6	(0.34)	1.7	32.6	6.4	38.7	1.65	0.0%
ADAPTEC INC	ADPT	\$2,073	15.8%	20.2	34.49	31.2	13.8	2.7	9.1	21.40	0.0%
ADC TELECOMMUNICATIONS II	ADCT	\$24,861	55.3%	81.1	15.47	17.3	127.1	20.2	128.3	12.92	0.0%
ADOBE SYSTEMS INC	ADBE	\$16,306	22.0%	136.2	37.09	28.2	54.4	30.1	56.0	54.43	0.1%
ADVANCED MICRO DEVICES	AMD	\$13,692	72.9%	89.4	(42.78)	(9.8)	51.2	5.8	31.1	(6.84)	0.0%
AGILENT TECHNOLOGIES INC	A	\$34,768	23.6%	76.9	31.16	9.5	51.9	8.3	29.6	22.15	0.0%
ALTERA CORP	ALTR	\$23,776	46.3%	119.4	23.19	35.7	80.3	18.1	93.6	28.71	0.0%
AMERICA ONLINE INC	AOL	\$141,878	46.5%	61.8	4.16	19.6	110.9	38.2	138.0	14.19	0.0%
ANALOG DEVICES	ADI	\$30,670	70.8%	86.4	10.10	17.8	77.6	16.5	90.1	12.22	0.0%
ANDREW CORP	ANDW	\$2,574	41.1%	31.9	16.92	12.0	44.2	5.7	37.7	15.92	0.0%
APPLE COMPUTER INC	AAPL	\$18,769	27.1%	57.7	20.54	8.3	22.4	5.7	27.0	13.29	0.0%
APPLIED MATERIALS INC	AMAT	\$71,620	87.1%	88.7	20.76	23.2	53.6	16.0	67.8	21.29	0.0%
AUTODESK INC	ADSK	\$1,388	14.6%	23.8	9.16	4.3	39.4	3.4	20.0	6.64	1.0%
AUTOMATIC DATA PROCESSIN	AUD	\$33,360	13.6%	53.2	17.06	16.9	41.2	8.3	34.2	12.07	0.7%
BMC SOFTWARE INC	BMCS	\$4,907	23.3%	20.1	29.42	28.2	36.1	6.5	11.0	21.26	0.0%
BROADCOM CORP -CL A	BRCM	\$53,810	91.4%	250.1	11.66	30.9	409.2	91.9	537.7	36.00	0.0%
CABLETRON SYSTEMS	CS	\$5,559	-21.3%	30.5	1.36	3.2	10.3	2.2	9.5	2.48	0.0%
CERIDIAN CORP	CEN	\$3,504	12.6%	24.2	19.95	20.4	28.0	4.1	15.5	16.82	0.0%
CISCO SYSTEMS INC	CSCO	\$477,818	55.1%	68.3	8.18	28.6	169.5	35.6	172.9	36.79	0.0%
CITRIX SYSTEMS INC	CTXS	\$3,928	49.9%	21.3	8.79	33.4	26.1	6.4	26.6	19.74	0.0%
COMPAQ COMPUTER CORP	CPQ	\$47,014	1.0%	27.7	3.38	1.1	69.1	2.9	23.9	3.06	0.4%
COMPUTER ASSOCIATES INTL	CA	\$17,019	17.1%	28.9	47.07	39.5	39.7	4.3	13.4	19.16	0.3%
COMPUTER SCIENCES CORP	CSC	\$12,040	14.2%	71.9	43.61	7.4	30.9	4.1	13.6	10.60	0.0%
COMPUWARE CORP	CPWR	\$3,232	16.4%	8.9	23.35	27.4	10.6	3.1	7.6	36.38	0.0%
COMVERSE TECHNOLOGY INC	CMVT	\$15,972	30.3%	102.8	13.16	20.5	72.7	20.1	79.8	13.88	0.0%
CONEXANT SYSTEMS INC	CNXT	\$11,469	58.3%	52.9	0.53	2.4	(607.8)	9.2	@NA	2.70	0.0%
CORNING INC	GLW	\$74,119	36.5%	267.0	24.22	13.1	143.6	29.7	76.4	10.49	0.3%
DELL COMPUTER CORP	DELL	\$137,380	31.5%	53.1	16.36	11.2	72.5	23.9	75.0	53.65	0.0%
EASTMAN KODAK CO	EK	\$18,936	-0.2%	61.1	79.65	14.2	12.6	4.7	8.2	14.87	2.9%
ELECTRONIC DATA SYSTEMS	EDS	\$19,460	4.7%	41.8	18.85	6.6	27.1	4.2	14.9	8.70	1.4%
EMC CORP/MA	EMC	\$174,544	22.9%	80.4	7.44	18.0	141.2	32.3	119.6	17.00	0.0%
EQUIFAX INC	EFX	\$3,552	7.0%	26.5	23.75	17.8	16.6	16.3	10.4	15.61	1.4%
FIRST DATA CORP	FDC	\$19,964	-1.0%	48.4	5.48	19.1	17.1	5.3	13.1	13.68	0.2%
GATEWAY INC	GTW	\$21,360	12.0%	66.4	28.39	6.9	38.5	9.0	37.7	32.89	0.0%
GRAINGER (W W) INC	GWW	\$2,932	9.6%	31.3	20.88	3.5	17.3	1.9	10.9	6.83	2.2%
HEWLETT-PACKARD CO	HWP	\$134,424	15.0%	133.8	47.56	8.3	40.7	6.9	30.4	13.23	0.5%
INTEL CORP	INTC	\$491,258	12.5%	146.7	34.82	26.9	55.5	13.6	46.6	24.30	0.1%
INTL BUSINESS MACHINES CO	IBM	\$186,344	-4.8%	103.9	31.93	10.0	25.5	9.6	13.4	7.39	0.5%
KLA-TENCOR CORP	KLAC	\$11,531	95.8%	62.0	2.86	3.8	56.0	8.3	124.0	2.60	0.0%
LEXMARK INTL GRP INC -CL A	LXK	\$7,796	13.3%	60.3	46.13	12.7	26.2	13.1	19.4	31.44	0.0%
LINEAR TECHNOLOGY CORP	LLTC	\$21,877	42.3%	69.9	14.29	56.4	78.5	21.7	99.3	33.98	0.2%
LSI LOGIC CORP	LSI	\$18,109	32.7%	59.1	5.27	9.0	67.2	8.7	33.6	5.98	0.0%
LUCENT TECHNOLOGIES INC	LU	\$205,044	16.8%	64.0	18.84	12.8	49.8	13.4	41.4	17.91	0.1%
MAXIM INTEGRATED PRODUCT	MXIM	\$21,732	53.9%	77.1	16.34	47.6	74.2	21.0	@CF	37.58	0.0%
MERCURY INTERACTIVE CORP	MERQ	\$8,476	63.8%	106.6	7.51	20.2	199.5	37.9	215.5	22.01	0.0%
MICRON TECHNOLOGY INC	MU	\$55,379	107.1%	96.6	(5.64)	(1.4)	62.2	11.9	74.1	(1.00)	0.0%

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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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Find the Mainframe-related Companies in this List

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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
MICROSOFT CORP	MSFT	\$413,793	23.1%	78.9	30.14	50.9	44.9	14.9	48.8	44.57	0.0%
MOTOROLA INC	MOT	\$83,535	23.2%	38.8	9.64	6.0	51.3	3.3	23.8	7.09	1.2%
NATIONAL SEMICONDUCTOR C	NSM	\$9,412	24.8%	53.3	28.54	14.9	15.7	10.6	(14.9)	20.05	0.0%
NCR CORP	NCR	\$3,744	-5.9%	39.8	7.14	2.8	11.4	2.3	5.4	4.76	0.0%
NETWORK APPLIANCE INC	NTAP	\$29,972	120.3%	96.1	5.21	18.2	322.0	79.3	334.9	27.21	0.0%
NORTEL NETWORKS CORP	NT	\$226,112	43.3%	78.0	4.33	5.6	1,436.8	15.8	200.2	6.77	0.1%
NOVELL INC	NOVL	\$3,174	-4.2%	9.8	10.51	17.5	15.4	2.0	12.2	14.81	0.0%
NOVELLUS SYSTEMS INC	NVLS	\$8,393	137.8%	64.3	11.78	21.6	53.7	8.7	71.9	12.43	0.0%
ORACLE CORP	ORCL	\$216,074	14.6%	76.1	16.48	30.4	37.9	65.1	133.5	43.62	0.0%
PARAMETRIC TECHNOLOGY C	PMTC	\$3,489	-13.7%	12.7	13.87	23.0	35.5	5.7	19.4	48.23	0.0%
PAYCHEX INC	PAYX	\$15,847	35.6%	42.6	10.73	17.7	82.4	35.6	97.7	51.26	0.6%
PEOPLESOFT INC	PSFT	\$5,745	7.2%	20.9	(0.16)	2.7	558.3	5.9	(70.3)	3.54	0.0%
PERKINELMER INC	PKI	\$3,388	65.4%	73.1	(0.84)	2.5	85.9	5.6	35.9	2.77	0.8%
POLAROID CORP	PRD	\$774	6.4%	17.3	8.76	4.9	21.2	2.2	6.7	4.92	3.5%
QUALCOMM INC	QCOM	\$46,732	-21.9%	63.1	13.52	16.2	69.6	13.5	113.4	20.37	0.0%
RAYTHEON CO -CL B	RTN.B	\$7,008	-2.4%	20.6	45.81	9.7	23.2	0.6	5.9	7.03	3.9%
SABRE HLDGS CORP -CL A	TSG	\$3,293	1.1%	25.4	23.13	10.5	12.1	2.9	5.6	11.57	0.0%
SAPIENT CORP	SAPE	\$7,138	73.6%	122.0	13.66	18.4	159.6	20.2	172.7	22.03	0.0%
SCIENTIFIC-ATLANTA INC	SFA	\$13,717	37.7%	86.2	3.34	3.1	81.0	15.6	89.8	4.86	0.0%
SEAGATE TECHNOLOGY	SEG	\$14,557	-5.8%	64.1	30.28	9.1	11.2	3.5	8.4	11.00	0.0%
SIEBEL SYSTEMS INC	SEBL	\$38,543	118.7%	193.9	10.45	25.9	215.2	47.2	261.2	19.57	0.0%
SUN MICROSYSTEMS INC	SUNW	\$150,611	35.5%	94.9	13.08	14.3	93.3	29.4	89.0	15.31	0.0%
TEKTRONIX INC	TEK	\$3,988	-7.7%	83.9	5.10	2.6	274.1	5.6	194.4	3.80	0.6%
TELLABS INC	TLAB	\$30,687	36.1%	74.9	23.16	26.6	47.9	13.5	47.1	32.83	0.0%
TERADYNE INC	TER	\$13,028	88.2%	75.4	22.50	14.5	44.5	10.9	46.4	20.38	0.0%
TEXAS INSTRUMENTS INC	TXN	\$118,229	27.5%	72.3	13.35	18.0	70.4	12.1	49.1	15.83	0.1%
UNISYS CORP	UIS	\$4,215	-8.5%	13.4	37.19	12.0	8.6	2.3	6.2	22.52	0.0%
VERITAS SOFTWARE CO	VRTS	\$54,543	240.2%	136.8	(17.07)	(61.4)	(58.1)	13.0	1,720.4	(15.06)	0.0%
XEROX CORP	XRX	\$13,367	3.0%	20.1	37.87	16.5	17.1	2.8	5.7	8.82	4.0%
XILINX INC	XLNX	\$31,066	66.3%	95.4	14.78	32.6	40.1	15.1	45.3	21.52	0.0%
YAHOO INC	YHOO	\$69,538	110.1%	128.0	4.36	25.8	485.8	52.3	659.2	16.68	0.0%

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