

Intrinsic Value Weekly

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"Fundamentals Rule"

The Intrinsic Value Portfolio closed out a relatively good year, roughly equaling the performance of the S&P 500 Index in a period when most managers have under-performed. This has been a difficult fundamental year for these stocks, as noted in the value driver table below. But only BGG, CTL and WEN had revenue growth below 10%. The quarterly sales progress has dipped below 10% for NYT, where internet-driven print advertising has cooled. CTL accelerated its sales growth, with the closing of its acquisition of GTE telephone lines. Return on Net Capital was uniformly above 10%. Capital turnover reflects the widely divergent nature of each of these businesses. Retail stands out as high turnover, except of course for BGP where mall stores drag the turnover down. Each of these stocks is under-priced relative to an intrinsic value that is based on a reasonable estimate of its future fundamental performance.

As for the standard market statistics, PE ratios range, as one would expect, all over the lot, from 8 to 21. PE ratio is not a good metric, even if it is widely used. The same can be said for each of the other standard measures. And, indeed, if one takes a static look at any of these measures, relative worth cannot be divined. It is only through the process of estimating the future cash flows of each company that an estimate of their intrinsic worth can be constructed. Even then, the shifting currents of competition, government action, and management activity will combine to make any forecast only a dimly perceived image of what will actually occur. Naturally, we believe that even the most dimly seen view of the future is superior to the (mostly) hard facts of the past in making decisions about investing in companies. We expect to find many more interesting investments in this new millennium. And each will require close monitoring to keep intrinsic values solidly based upon what develops fundamentally. We expect to make some mistakes, as all forecasters must. But we hope, too, that we can recognize and declare those mistakes before too much damage is done. As with all human processes, trying to move the odds of success a few points in your favor is all one could and should ask for or expect.

To all our readers: Have a prosperous and healthy New Year!

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	12/29/2000	Intrinsic Value	Over/Under Priced	Q Ratio	Weekly Price Change
BGP	Borders Group, Inc.	9/22/2000	\$ 11.688	\$29.31	(60.1%)	1.0	(0.5%)
BGG	Briggs & Stratton	9/22/2000	\$ 44.375	\$98.87	(55.1%)	1.3	8.1%
CTL	CenturyTel, Inc.	9/22/2000	\$ 35.750	\$40.74	(12.2%)	1.6	4.6%
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 50.188	\$66.30	(24.3%)	0.9	4.4%
LOW	Lowes Companies	9/22/2000	\$ 44.500	\$56.04	(20.6%)	2.2	7.2%
MLHR	Herman Miller, Inc.	3/6/2000	\$ 28.750	\$46.28	(37.9%)	2.4	7.2%
NYT	New York Times Co.	9/22/2000	\$ 40.063	\$46.26	(13.4%)	2.3	2.9%
NUE	Nucor Corporation	9/22/2000	\$ 39.688	\$60.65	(34.6%)	1.0	3.8%
WEN	Wendy's International	9/22/2000	\$ 26.250	\$28.69	(8.5%)	1.8	(0.9%)
Average:					(29.6%)	Average:	4.1%
						S&P 500	1.1%

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Capital Turnover	Sales				Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Market Sales (\$billions)	Market Cap (\$billions)
		Growth Last 12M	EBIT Margin %	Return On Capital	Return On Capital						
BGP	1.0	11.4%	5.7%	10.9%	7.2%	0.0%	11.0	1.2	0.3	0.9	
BGG	2.2	(6.6%)	12.9%	30.5%	(39.5%)	2.8%	8.1	2.0	0.7	1.0	
CTL	0.4	4.8%	30.3%	11.1%	15.1%	0.5%	21.1	2.7	2.9	5.0	
DAL	0.6	11.0%	11.6%	11.9%	13.5%	0.2%	4.8	1.2	0.4	6.2	
LOW	2.2	17.9%	7.4%	11.1%	15.2%	0.3%	18.7	3.3	0.9	17.0	
MLHR	1.9	18.4%	12.1%	17.6%	27.7%	0.5%	13.3	6.3	1.1	2.2	
NYT	1.1	12.1%	18.7%	13.1%	7.9%	1.1%	16.5	4.2	2.0	6.6	
NUE	1.4	23.2%	9.3%	14.4%	13.3%	1.5%	8.9	1.3	0.7	3.1	
WEN	0.9	9.2%	13.8%	10.2%	8.5%	0.9%	17.7	3.0	1.4	3.0	

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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	(2.4%)	(30.2%)	(9.6%)
CONSUMER CYCLICALS	(29.5%)	(14.3%)	(16.1%)
CONSUMER STAPLES	(4.1%)	(13.2%)	3.6%
HEALTH	(15.4%)	21.9%	8.5%
ENERGY	18.4%	123.5%	85.3%
FINANCIAL	(6.0%)	(11.8%)	(23.4%)
CAPITAL GOODS	(15.4%)	(7.0%)	(10.3%)
TECHNOLOGY	(41.6%)	(21.6%)	(11.6%)
COMMUNICATIONS	(41.1%)	24.1%	(21.1%) *
UTILITY	15.6%	(15.4%)	(8.9%)
TRANSPORTATION	(29.4%)	(11.5%)	(14.6%)
Weighted Total:	(17.2%)	(0.1%)	(2.8%)

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 12/29/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.3%	0.4%	3.8%	2.3%	4.2%	5.3%
CONSUMER CYCLICALS	7.7%	4.6%	14.1%	3.8%	17.9%	6.4%
CONSUMER STAPLES	11.2%	3.1%	7.9%	3.5%	10.0%	4.1%
HEALTH	14.2%	3.0%	12.7%	2.4%	10.7%	3.9%
ENERGY	6.5%	2.4%	7.4%	6.0%	7.4%	10.4%
FINANCIAL	17.2%	2.4%	15.4%	2.4%	12.7%	3.6%
CAPITAL GOODS	9.0%	1.6%	6.8%	5.5%	12.6%	6.7%
TECHNOLOGY	22.0%	(4.7%)	20.5%	0.8%	16.9%	5.1%
COMMUNICATIONS	5.5%	2.2%	1.7%	8.1%	0.3%	6.8% *
UTILITY	3.8%	3.2%	7.9%	3.2%	4.4%	4.2%
TRANSPORTATION	0.7%	2.6%	1.9%	6.6%	3.0%	5.2%
Index Total:		1.1%		3.1%		5.3%

* Sector contains only 3 companies

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

Sector Comments: In the final humiliation for Technology investors, the only down sector for the week that ended a sub-par year was the Large Cap Technology sector. And down enough to lower its weight to only 22% of the S&P 500 Index, compared to **19.1%** at the beginning of 1999. Talk about a round-trip. The sector peaked at over 35% of the S&P 500 in the spring of this year. Those who are becoming bears on the sector now just haven't been paying attention. While we expect current revenue trends in the sector to be pretty lackluster, we do expect positive year-to-year comparisons for most stocks in the Technology group. And, of course, it is the long-run revenue forecast that principally drives the intrinsic value of this sector. Clearly, over the longer span of recent history, it has been the superior revenue performance of Technology stocks that has increased its share of the total world economy. While those expectations have come down from ridiculous levels of last spring, we still expect the sector to exhibit faster growth than any other sector. And thus we expect that the sector will, over the long run, increase its share of the total revenue and total profit in the world economy. Clearly, that is not the market's expectation right now. So, it is probable that until the current short term outlook improves for the sector, not much enthusiasm for technology will be seen. Indeed, the pessimism could even grow. Meanwhile, the flavors of the day, Energy and Utility stocks, continue to do well in spite of emerging fundamental stresses. Page 3 displays the value drivers for Large Cap Health Stocks, a group that has performed well this year and still remains somewhat under-priced.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
	\$ 11,596,698	90.4%	\$884,048
			6.9%
			\$ 346,679
			2.7%

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Large Cap Health Performed Well in 2000

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Company Name	Ticker	Market Value - Equity	12 Mo.	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow	Return on Capital	Dividend Yield
			Quarterly Sales Growth								
ABBOTT LABORATORIES	ABT	\$74,906	5.8%	48.4	34.46	27.5	31.6	11.5	22.9	34.69	1.6%
AETNA INC NEW	AET	\$5,804	15.0%	41.1	(548.41)	5.4	14.3	0.9	@CF	1.39	1.9%
ALLERGAN INC	AGN	\$12,686	10.6%	96.8	23.48	16.9	58.0	19.0	48.0	17.70	0.3%
ALZA CORP	AZA	\$10,059	22.2%	42.5	5.78	19.5	65.3	13.1	72.0	8.90	0.0%
AMERICAN HOME PRODUCTS	AHP	\$83,104	15.2%	63.6	19.46	18.0	22.4	12.6	(152.1)	12.72	1.4%
AMGEN INC	AMGN	\$66,048	12.1%	63.9	21.93	43.7	53.9	21.4	51.1	46.98	0.0%
APPLERA CORP APPLIED BIOS	ABI	\$19,789	24.4%	94.1	19.91	22.3	84.3	18.5	81.8	19.96	0.2%
BARD (C.R.) INC	BCR	\$2,366	6.1%	46.6	35.16	13.6	18.9	4.4	14.1	13.50	1.8%
BAUSCH & LOMB INC	BOL	\$2,157	-1.2%	40.4	18.20	10.4	22.7	2.0	10.8	5.96	2.6%
BAXTER INTERNATIONAL INC	BAX	\$25,941	6.2%	88.3	34.09	15.4	36.1	7.5	23.6	12.15	1.3%
BECTON DICKINSON & CO	BDX	\$8,777	1.9%	34.6	36.46	18.7	22.1	4.9	15.6	15.78	1.1%
BIOGEN INC	BGEN	\$8,885	12.1%	60.1	34.55	44.5	24.7	8.4	36.6	32.47	0.0%
BIOMET INC	BMET	\$7,076	8.3%	39.7	24.13	30.8	36.2	7.0	34.5	28.11	0.3%
BOSTON SCIENTIFIC CORP	BSX	\$5,548	-5.6%	13.7	21.37	22.8	12.6	3.1	10.2	17.10	0.0%
BRISTOL MYERS SQUIBB	BMJ	\$144,811	8.9%	73.9	38.11	25.6	33.6	15.9	30.2	41.35	1.3%
CHIRON CORP	CHIR	\$8,157	9.1%	44.5	(11.65)	(14.1)	44.4	4.4	41.0	(4.40)	0.0%
CIGNA CORP	CI	\$20,308	7.2%	132.3	(456.12)	4.5	21.9	3.6	24.3	0.86	0.9%
FOREST LABORATORIES -CL	FRX	\$11,618	39.5%	132.9	39.34	24.7	83.1	13.0	73.4	26.50	0.0%
GUIDANT CORP	GDT	\$16,591	5.6%	53.9	33.34	30.9	35.0	19.1	39.2	38.61	0.0%
HCA-HEALTHCARE CO	HCA	\$24,331	5.0%	44.0	28.52	9.3	78.2	4.2	15.2	9.29	0.2%
HEALTHSOUTH CORP	HRC	\$6,302	6.8%	16.3	12.92	18.4	92.9	1.7	14.0	7.80	0.0%
HUMANA INC	HUM	\$2,556	2.3%	15.3	3.35	1.7	(5.7)	1.6	(9.9)	4.50	0.0%
JOHNSON & JOHNSON	JNJ	\$146,075	4.6%	105.1	47.59	17.2	29.9	8.6	26.0	19.62	1.2%
KING PHARMACEUTICALS INC	KG	\$8,726	9.4%	51.7	9.66	24.3	134.2	23.7	51.5	11.72	0.0%
LILLY (ELI) & CO	LLY	\$104,907	8.8%	93.1	42.78	33.0	32.9	20.4	34.0	44.42	1.1%
MANOR CARE INC	HCR	\$2,116	12.6%	20.6	17.32	8.7	(11.9)	1.8	39.6	7.80	0.0%
MEDIMMUNE INC	MEDI	\$10,047	3.1%	47.7	8.02	28.1	123.7	20.2	98.8	24.57	0.0%
MEDTRONIC INC	MDT	\$72,450	14.4%	60.4	15.65	25.3	53.8	14.2	53.9	25.55	0.3%
MERCK & CO	MRK	\$215,125	28.9%	93.6	50.46	26.0	32.3	16.3	31.2	29.78	1.5%
PFIZER INC	PFE	\$290,216	6.8%	46.0	14.19	23.2	71.5	19.2	47.6	25.01	0.8%
PHARMACIA CORP	PHA	\$78,669	14.7%	61.0	17.52	13.2	95.3	7.3	32.8	8.96	0.8%
QUINTILES TRANSNATIONAL C QTRN		\$2,417	2.4%	20.9	13.31	9.5	(107.1)	1.7	15.5	9.18	0.0%
SCHERING-PLOUGH	SGP	\$82,969	7.1%	56.8	23.61	25.6	34.8	16.0	36.0	33.80	1.0%
ST JUDE MEDICAL INC	STJ	\$5,208	4.0%	61.4	28.10	17.1	40.2	6.3	65.3	14.33	0.0%
STRYKER CORP	SYK	\$9,890	9.9%	50.6	13.82	12.9	52.5	15.4	112.8	8.60	0.1%
TENET HEALTHCARE CORP	THC	\$14,039	0.7%	44.4	23.93	9.8	36.4	3.3	18.5	7.38	0.0%
UNITEDHEALTH GROUP INC	UNH	\$19,571	9.5%	61.4	29.03	4.0	28.1	5.1	25.7	8.60	0.0%
WATSON PHARMACEUTICALS	WPI	\$5,257	7.1%	51.2	30.60	30.8	17.2	4.2	22.1	17.54	0.0%
WELLPOINT HLTH NETWRK -C WLP		\$7,176	24.4%	115.3	127.81	8.5	20.4	5.2	20.3	22.01	0.0%

Note: Many of these companies have been adversely affected by the weakness in the exchange rate of the Euro and that has shown up in relatively low comparisons of revenue growth. We explicitly remove short term changes in exchange rate from our estimates of future revenue growth in our valuation work. So, our valuations of many of these companies will tend to be based on much higher revenue growth assumptions than the recent sales growth might suggest. Further, since the Free Cash Flow Annuity is based on an assumption of zero future growth, the comparison of price to Free Cash Flow Annuity is likely to be more distorted than usual.

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