

Intrinsic Value Weekly

Volume 4, No. 20

Published Weekly by Intrinsic Value Associates, LLC

May 14, 2001

"Fearing Inflation"

The fear of inflation is back. Now, we know that the discount rate applied to future cash flows is composed of four major elements: a real, after-tax rate; a tax premium; a risk premium; and an inflation premium. Now, the nastiest of these is inflation. Because an increase in inflation also boosts the tax premium and the risk premium. So, a 3% increase in the price of gold in the past month has some pundits in a froth. Indeed, if this were accompanied by a generalized boost in commodity prices and a drop in the foreign exchange value of the US dollar, we'd be knitting our brows too. Sometimes, markets can be very inefficient in the short term. The current activity in the bond market, with huge refinancing of telco debt, concerns about CLEC's debt (if you don't know this acronym, do a search on the web) and improving estimates of economic recovery, is enough to explain the recent rise in long and intermediate term yields. The fact that the current yield curve is positive (higher yields, longer maturity) is a harbinger of recovery in and of itself. The one cloud on this scenario is that the Fed seems committed to both objectives: economic growth and price stability. The Fed cannot effectively serve both these masters. A simple commitment to price stability alone would calm markets and lower yields across the yield curve. Write your Chairman now.

The Intrinsic Value Portfolio cannot in truth be called diversified. But, with such value discounts, it seems to score well and pretty consistently against the truly over-diversified S&P 500 Stock Index. Even with one member having double-digit down sales over the past 12 months (a lingering effect of Y2K), the performance of the portfolio has held up well. Every week, we profile one of the thirty-three economic sectors (three sized markets, eleven sectors) and show the latest reported quarterly sales, free cash flow annuity (see the website for definition), and other data. This week, we show that data for the current Intrinsic Value Portfolio on Page 3. The contrast of our intrinsic value calculation below and the free cash flow annuity is interesting. Assumptions about growth, profit margins and the need for capital are essential to intrinsic value. Free Cash Flow Annuity simply extrapolates last year's net operating profit into the infinite future. It is the shape of that future that determines intrinsic value.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	5/11/2001	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
BGP	Borders Group, Inc.	9/22/2000	\$ 19.170	\$29.31	(34.6%)	1.5	(0.7%)
BGG	Briggs & Stratton	9/22/2000	\$ 40.670	\$98.87	(58.9%)	1.4	0.1%
CTL	CenturyTel, Inc.	9/22/2000	\$ 27.460	\$40.74	(32.6%)	1.3	(2.4%)
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 46.270	\$66.30	(30.2%)	0.8	2.9%
MLHR	Herman Miller, Inc.	3/6/2000	\$ 26.680	\$46.28	(42.4%)	2.6	0.7%
NUE	Nucor Corporation	9/22/2000	\$ 49.520	\$60.65	(18.4%)	1.4	(2.9%)
WEN	Wendy's International	3/26/2001	\$ 25.150	\$30.37	(17.2%)	2.1	(0.1%)
Average:					(33.5%)	Average:	(0.3%)
						S&P 500	(1.5%)

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Capital Turnover	Sales Growth		Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/ Book	Price/ Sales	Market Cap (\$billions)
		Last 12M	EBIT Margin %							
BGP	1.6	9.1%	5.2%	8.4%	9.0%	0.0%	19.8	1.8	0.5	1.5
BGG	2.2	(15.4%)	12.9%	30.5%	(8.2%)	3.0%	12.4	2.2	0.6	0.9
CTL	0.3	16.3%	28.5%	9.8%	25.0%	0.7%	16.7	2.1	2.0	3.9
DAL	0.6	12.5%	10.4%	11.6%	(1.7%)	0.2%	9.6	1.0	0.3	5.7
MLHR	1.9	18.0%	12.1%	17.6%	12.6%	0.5%	13.6	7.1	1.0	2.0
NUE	1.5	2.3%	10.4%	15.9%	(14.3%)	1.4%	15.5	2.0	0.9	3.8
WEN	1.1	7.7%	13.9%	15.7%	6.9%	1.0%	16.7	2.8	1.3	2.9

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	1.7%	(28.1%)	(10.6%)
CONSUMER CYCLICALS	(23.2%)	(10.5%)	(4.2%)
CONSUMER STAPLES	(10.1%)	(12.9%)	7.8%
HEALTH	(29.7%)	(0.8%)	5.9%
ENERGY	18.3%	121.0%	88.5%
FINANCIAL	(15.2%)	(19.2%)	(29.0%)
CAPITAL GOODS	(16.7%)	(1.1%)	(6.8%)
TECHNOLOGY	(49.8%)	(25.4%)	(16.6%)
COMMUNICATIONS	(38.3%)	11.0%	(4.0%) *
UTILITY	1.5%	(16.7%)	(10.6%)
TRANSPORTATION	(32.5%)	(17.2%)	(9.7%)
Weighted Total:	(22.1%)	(4.4%)	(1.0%)

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 5/11/2001	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.6%	0.1%	4.0%	(1.8%)	4.7%	0.3%
CONSUMER CYCLICALS	8.8%	0.9%	14.6%	(1.0%)	19.0%	0.4%
CONSUMER STAPLES	12.8%	(0.4%)	7.7%	(1.5%)	9.8%	(0.3%)
HEALTH	12.7%	(1.2%)	11.4%	(1.5%)	11.7%	(0.7%)
ENERGY	6.8%	0.4%	7.5%	0.8%	7.2%	3.9%
FINANCIAL	17.0%	(2.8%)	16.4%	(1.6%)	11.1%	(1.0%)
CAPITAL GOODS	9.5%	(0.9%)	7.1%	0.1%	12.7%	(1.0%)
TECHNOLOGY	19.4%	(4.3%)	19.5%	(3.3%)	16.3%	(2.4%)
COMMUNICATIONS	5.8%	(2.4%)	1.6%	(4.1%)	0.4%	(0.6%) *
UTILITY	3.8%	(0.1%)	8.3%	(0.4%)	4.3%	(0.8%)
TRANSPORTATION	0.7%	2.3%	1.9%	(0.5%)	2.8%	(1.6%)
Index Total:		(1.5%)		(1.6%)		(0.4%)

* Sector contains only 4 companies

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

Sector Comments: The see-saw continues, with Technology stocks giving back what they had gained previously. The comments of one the sector's leading CEO's clouded the perceived recovery of sales and profit. Clearly, this sector will climb a "wall of worry", as the old market saw has it. Now that most of the first calendar quarter's results are out, we'll have a six to seven week wait before the agony begins again. With few clues about the timing or magnitude of the turn, many analysts are relying on previous cycles' history to guide their opinions and that's certainly better than extrapolating last quarter. Making the bet on who wins the next lap, though, may not provide clues on who will win the longer term race. We'd bet that looking at financial strength, profit margins and the health of customers will give some useful clues to finding the economic leadership of this important sector.

With Energy stocks edging ahead again last week, why isn't the enthusiasm of investors more vigorous? The emphasis on new supply does imply higher unit volumes of sales in the future, and that's good, right? The big problem investors face is that this sector is essential to economic growth, but we all hope to make it smaller in our budgets, not larger. Unlike many growing sectors, where more stuff is a good thing, spending more money on energy is like spending more money on taxes, to be avoided if possible. Therefore, consumers need energy, but they'd be just as happy if it were permanently plentiful and very cheap.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
\$	11,071,692	90.2%	\$851,426
			6.9%
\$			354,862
			2.9%

Intrinsic Value Weekly

The Value Drivers of the Intrinsic Value Portfolio

Page 3

Company Name	Ticker	Market Value - Equity	12 Mo.	Free Cash		NOPAT Margin	PE Ratio	Price/Book Ratio	Leverage At Market	Return on Capital	Dividend Yield
			Quarterly Sales Growth	Current Price	Flow Annuity						
BORDERS GROUP INC	BGP	\$1,533	9.0%	\$ 19.2	\$ 32.56	5.24	19.8	1.8	13.1%	8.45	0.0%
BRIGGS & STRATTON	BGG	\$878	(8.2%)	\$ 40.7	\$ 148.32	13.99	12.4	2.2	23.2%	30.47	3.0%
CENTURYTEL INC	CTL	\$3,863	25.0%	\$ 27.5	\$ 30.75	27.91	16.7	2.1	46.7%	9.75	0.7%
DELTA AIR LINES INC	DAL	\$5,692	(1.7%)	\$ 46.3	\$ 199.59	18.62	9.6	1.0	75.7%	11.62	0.2%
MILLER (HERMAN) INC	MLHR	\$2,028	12.6%	\$ 26.7	\$ 27.91	9.12	13.6	7.1	26.1%	17.57	0.5%
NUCOR CORP	NUE	\$3,842	(14.3%)	\$ 49.5	\$ 86.29	10.92	15.5	2.0	14.1%	15.86	1.4%
WENDY'S INTERNATIONAL INC	WEN	\$2,872	6.9%	\$ 25.2	\$ 39.12	14.49	16.7	2.8	7.8%	15.73	1.0%

FOR INFORMATIONAL PURPOSES ONLY The information contained in this publication has been obtained from a variety of sources. We cannot vouch for their reliability. However, through our analysis we attempt to provide reliable information. We do not guarantee accuracy or completeness. Intrinsic Value Weekly is published solely for informational purposes and should not be construed as a solicitation to buy or sell any security. All opinions and estimates included in this report represent our judgment as of this date and are subject to change without notice. Delivery of this publication shall not, under any circumstances, create any implication that there has been no change in the information provided herein from the date of this report which is May 14, 2001. Intrinsic Value Associates, LLC or its affiliates may maintain ownership positions in any of the companies mentioned in this report

@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