

Walston & Co. Inc.

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TABELL'S MARKET LETTER

September 14, 1956

BELL & HOWELL COMPANY

Statistics

Current Price	42
Current Dividend	\$1.00
Current Yield	2.4%
Funded Debt	\$3,800,000
\$4.75 pfd. Stock	19,200 shs.
\$4.25 pfd. Stock	20,803 shs.
Common Stock	521,194 shs.
Sales - 1956-E	\$45,000,000
Sales - 1955	\$42,100,000
Earnings per Share-1956-E	\$4.00
Earnings per Share-1955	\$3.51
Mkt. Range - 1956-1951	45½ - 14½

One of the fruits of America's current prosperity is that the American worker at all levels is enjoying an unprecedented rise in leisure time and discretionary income, that portion of his income available for spending on items other than the basic necessities of life. One of the fastest growing of American leisure time pursuits has been the hobby of photography. This hobby is now being engaged in by millions of Americans, stimulated in part by the growth in income and leisure time mentioned above and, in part, by population statistics, which show an increasing number of babies being born each year, thus lending impetus to the tendency to make photographic

records of growing children. An active participation in the coming photography boom would seem to be provided by the common stock of Bell & Howell Company.

Bell & Howell has, from its inception fifty years ago, enjoyed a reputation as one of the leading companies in the field of quality home movie equipment. The company manufactures a comprehensive line of amateur motion picture cameras and projectors, together with other types of amateur photographic and optical equipment. Within the past three years it has entered the rapidly expanding field of high volume, low-cost movie cameras via its Model 220 and 252 8 mm. models. These cameras, the least expensive of which lists for \$39.95, are now being produced via assembly line methods at a record rate, and the company is now making plans to enlarge its distribution outlets and reach an even greater mass market through sales to photographic outlets such as drug stores, etc. A full line of accessories, complementing the new models, includes an inexpensive projector which may be used for the showing of home movies. A complete home movie outfit may now be purchased by the amateur for a little over \$100.

In addition to its less expensive model, Bell & Howell is continuing to manufacture the quality products which have made it famous during the past fifty years.

It is one characteristic of the photographic industry that after being "broken in" with a less expensive model, the photographer often wishes to "graduate" to a more expensive and versatile camera. Bell & Howell's leadership in this high quality field is undisputed.

Through its recently acquired TDC division, Bell & Howell makes other products which serve the amateur photography market. Among these are 35 mm. slide projectors and home stereo cameras. Over the long term these items are expected to demonstrate a growth trend approximating that of movie equipment.

Some 55% of Bell & Howell's products are sold to the amateur market, but the remaining lines would appear to have as interesting a growth potential. Bell & Howell's Filmosound projector is a standard fixture in almost all schools and with the hugely expanded school program and the growing trend toward audio-visual methods of education, sales in this field should trend sharply upward over future years. Another product with a large potential is the microfilm field which Bell & Howell recently entered and which it shares with Eastman Kodak. In a relatively short space of time,

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Bell & Howell has elevated itself to competitive status with Kodak in terms of new sales, and its new model reading-recording machine selling for approximately \$1800 - \$2000 is expected to have growing application in offices of all sizes. Bell & Howell manufactures both micro-film and equipment which is distributed by Burroughs Corporation, thus affording outlets through an established office machines distribution setup.

Another important potential for Bell & Howell products may be found in government sales which, although trending downward in recent years, may be expected to flatten out and increase as product line is revised. The Armed Forces are an important outlet for Bell & Howell sound projectors. In addition, the company manufactures gun cameras which are used extensively in jet training and is active in production of a number of guided missile parts. It is felt that military sales can increase in the future as Bell & Howell gears itself toward the new defense spending program.

As may be seen from the above, there is a good deal of growth potential in Bell & Howell products. This growth has been planned for and provided for under the leadership of an unusually capable executive team. The current management has formulated a system of five-year planning under which sales, earnings, capital requirements and product introduction are charted five years in advance. Under this system, Bell & Howell is able to make concrete plans for expansion well into the future and is able to introduce and formulate new products with a minimum of start-up costs. Currently, the plan calls for a continuation of the sales growth under which sales have multiplied more than two and one half times since 1950.

Profit margins on projected increased sales will be protected by a comprehensive integration program under which Bell & Howell manufactures almost all the parts for its products, including die castings, gears, motors, lenses and even leather cases.

As would be expected in a company of this type, new product development plays an important part in maintaining sales leadership. Among recent new products have been the revolutionary new electric-eye movie camera in which a built-in exposure meter automatically adjusts the lens opening to compensate for existing light. This is the first camera of this type which has ever entered commercial production and has been held by photographic sources as one of the most revolutionary developments in recent years. Under the five-year plan, many other new products now in the development stages are charted for introduction and it is felt that these products will add considerable new volume to re-enforce the growth in other lines.

An indication as to the future of Bell & Howell may be provided by a look at its past record. As mentioned above, sales have been increased from \$16.8 million in 1950 to \$42.1 million in 1955. Per share earnings have been held down somewhat by rising costs but have still risen from \$2.60 in 1951 to \$3.51 last year. With averages accruing from integration and modern plant and equipment, future profits are expected at a rate consistent with volume. Despite the fact that per share earnings were down to 91¢ in the first six months of 1956 from \$1.11 last year on increased sales, management is estimating that per share results will be improved over last year's. Lower profit margin in the first half was due to start-up expenses incurred in introduction of new products and it is expected that these products will contribute to substantially increased Christmas volume. Earnings for 1956 should approach \$4.00 per share on possible sales of \$45 million.

The conservative dividend pay-out ratio (\$1.00 was paid in 1955) will probably remain in force as Bell & Howell follows the "growth company" policy of reinvesting earnings in the business. It is possible that the cash dividend may be augmented with stock from time to time as conditions warrant. 10% stock was paid in 1955.

Bell & Howell's strong fundamental position is re-enforced by an outstanding technical pattern. A long term base built up in the 12-28 range during 1947-1955 has an indication of 95. Currently, ability to penetrate 44 would indicate an intermediate term 65. There is strong support at 41-38. The stock is herewith added to our recommended list as a long term capital appreciation vehicle.

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