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TABELL'S MARKET LETTER January 23, 1959

BUTLER BROTHERS

Statistics

Current Price	39
Current Dividend	$1.60
Current Yield	4.1%
Long Term Debt	$6,504,000
Minority Interest	1,156,000
Common Stock	1,016,142 shs.
Sales-1958-E	$170,000,000
Earned Per Sh. 1958-E	$3.00
Mkt. Range 1959-58	40 1/2 - 22 1/4

From time to time this letter has pointed out some of the growth prospects inherent in the retailing field. In this field, Butler Bros., with a unique franchise-type operation, appears to have a good deal of attraction.

Butler franchises some 2400 retail variety stores known as Ben Franklin Stores. This franchise system has numerous advantages, both for Butler Bros. and for the independent owners who operate the stores. The owner has the satisfaction of having his own business, but has the large buying power of a nationwide chain. Consequently, the average store purchases 80% of its merchandise from Butler's own Ben Franklin warehouses. From Butler's point of view, the parent company is not committed to tying up capital in expansion. It can open stores as fast as it can find desirable operators. A further corollary is the fact that, as additional units are opened, profit margins for Butler expand as warehousing costs are spread over a larger number of units.

Sales to franchised Ben Franklin Stores constituted some 71% of Butler's total sales in 1957. These sales have shown an increase in every year since 1949 and current volume is more than three times that of ten years ago. That this strong growth trend has not been apparent is due to the fact that Butler, for many years, operated in other retailing fields. Some of these fields were relatively unprofitable and utilized capital which could better have been employed in the Ben Franklin operation. Over the past seven years, under a series of managements, Butler Bros. has made an effort to divest itself of less attractive segments of its business and to concentrate its investment on more profitable lines. This effort has recently been consummated under the aegis of Rapid American Corporation which now owns approximately half the outstanding common stock. Butler now consists of the Ben Franklin division; Scott Stores, a chain of company-owned variety stores located principally in the Mid-West, and the recently acquired T.G.& Y. Stores, serving the Southwest. Both the Scott and T.G.& Y. divisions have proved consistently profitable due to their centralized regional-type operations. The only low profit division remaining is a chain of West Coast department stores. Possible future sale of these outlets would provide further funds for expansion.

Thus, the Butler story so far has been one of improving earnings by eliminating relatively unprofitable outlets. Under this policy net income has increased from 73¢ per share in 1953 to $2.74 in 1957, a gain of 275%, on an 11% increase in sales. 1958 earnings are estimated at $3.00, and for 1959 net profits could well be over $4.00 a share.

The next chapter in Butler's history will probably be acquisition of other profitable regional chains such as T.G.& Y. It is felt that these acquisitions can be accomplished with a minimum of equity dilution. Thus, the earnings trend of the last five years could well be continued.

The current dividend of $1.60 provides a 4.1% yield, but this figure is somewhat below the company's usual payout ratio and a slight increase would not be surprising. Further liberalization could take place as earnings expand.

From a technical point of view, the stock has a possible long term objective of 60, with support just under current levels. The stock is being added to our recommended list and is suggested for relatively good income and capital appreciation.

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