

Walston & Co.

Inc.

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TABELL'S MARKET LETTER

October 12, 1962

Gloom and pessimism is rampant, but there is little change in the actual technical market pattern. The indications continue that we are in the long tedious process of forming a long-term base, and this requires downside price movement along with upside. From a shorter term point of view, ability of the Dow Industrials to move above 600 would indicate a further extension of the advance from the June lows. A decline below 570 would indicate a return to the 550-525 level which we consider a long-term buying area.

CLUETT, PEABODY & CO. INC.

Current Price	45
Current Dividend - E	\$1.65
Current Yield	3.7%
Long-Term Debt	\$6,302,278
\$7 Cum. Pfd.	22,566 shs.
\$4 Cum. 2nd Pfd.	4,186 shs.
Common Stock	1,985,658 shs.
Sales -1962-E	\$175,000,000
Sales -1961	\$138,610,000
Earn. Per Sh. 1962-E	\$3.40
Earn. Per Sh. 1961	\$3.02
Market Range 1962-61	53 1/2 - 30 1/2

It is a stock market axiom that the whole is usually worth considerably less than the sum of its parts, but in the case of Cluett, Peabody, the present discount from a realistic valuation of the divisions taken separately appears to be rather excessive.

Any man who has ever worn an Arrow shirt is familiar with Cluett's basic clothing business. It is a business which, while hardly glamorous, appears to be an attractive and expanding operation. Cluett has expanded sales from \$97 million in 1958 to \$138 million in 1961. In the same period, pre-tax income from sales has almost tripled from under \$4

million to \$11 1/2 million, and profit margins have roughly doubled. Further growth is foreseen as Cluett is adding considerably to its basic line of Arrow furnishings and, in an effort to protect and expand its markets, has entered the retail clothing field. The company is expanding into the growing women's Sportswear market with a wide line of Lady Arrow shirts and blouses and is understood to be in the black on the women's wear operation for the first time this year. For 1962, sales are expected to increase to \$175 million, and although profit margins will narrow due to entrance into the retail field, pre-tax income should increase to \$11.75 million.

Entirely separate from the company's production and retail operations is its licensing of the Sanforized and Sanforized Plus trademarks. Sanforized provides technical services for 141 licensees in 41 countries and royalty income after applicable expenses has increased in every year since 1953 and should continue to increase at approximately a 6% growth rate. For 1962, it is estimated at some \$3.75 million before taxes.

Let us now assume that the clothing manufacturing and retailing operations of Cluett should be valued at a conservative rate of 12 times 1962 earnings. Let us moreover apply a 20 P/E ratio to the high-grade royalty income which requires little or nothing in the way of production facilities and investment and which, in a sense, provides an annuity for Cluett. After adding these two valuations and subtracting debt, preferred stock and minority interest, we arrive at a total valuation for the common equity of around \$46 a share or, just about what Cluett sells for today. Why, then, get excited about a stock which appears to be only fairly valued?

The answer is that we have not taken into account the company's 50% owned Clupak, Inc. which licenses a unique process for the production of extensible paper. The potentials inherent in the Clupak process are staggering. In 1961, total tonnage of Clupak paper produced was 38% greater than in 1960. Yet, at the moment, Clupak's penetration of the unbleached Kraft paper market is only 8% and unbleached Kraft constitutes only one outlet for the process. Cluett is currently involved in litigation concerning the process which should be decided shortly, and a favorable decision could clear the air for sharply expanded licensing.

The investor in Cluett at current prices is, therefore, buying an expanding apparel operation at a slight discount and is paying absolutely nothing for the tremendous growth inherent in Clupak. From a technical point of view, the stock is selling just above strong support at 40-35 and has a shorter-term upside potential of 55 with much higher levels possible over the longer-term. The stock, originally suggested at 28 3/8, is again recommended for long-term investment.

Dow-Jones Ind. 586.47
Dow-Jones Rails 118.04

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