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Inc

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TABELL'S MARKET LETTER

July 10, 1964

CLEVITE CORPORATION

Current Price	46
Current Dividend	\$1.40
Current Yield	3.1%
Long Term Debt	\$6,631,247
\$4.50 Cum. Pfd.	24,031 shs.
Common Stock	1,948,339 shs.
Sales 1964-E	\$110,000,000
Sales 1963	\$103,150,000
Earn. Per Sh. 1964-E	\$4.00
Earn. Per Sh. 1963	\$3.57
Mkt. Range 1964-60	72 1/2 - 31 1/2

At its present price, the common stock of Clevite Corporation sells at some 11 1/2 times 1964 estimated earnings of \$4.00 per share. It has sold at a higher price/earnings ratio than this at some time during every year since 1956 and, indeed, never sold this low in relation to earnings during most of the 1960-61 period when the stock reached a high of 72 1/2.

The failure of Clevite's stock to command a higher multiple probably stems from a tendency on the part of the financial community to place the company in one of two categories, neither of which fully describes it. Many analysts, on the one hand, tend to regard the stock

as a rather unglamorous auto equipment company and thus unable to command a high multiple. Others tend to regard it as a rather marginal scientific-technological operation whose value was over inflated in the speculative boom of the early 1960's, and should correspondingly be downgraded today. Such an "either-or" analysis inhibits a real understanding of Clevite.

Let us take the first conception. Clevite is, admittedly, largely a supplier to the automotive industry. Some two-thirds of its sales are accounted for by sleeve bearings and the greater number of these find their way into automobiles. It is possible to draw, moreover, an extremely close correlation between Clevite's sales and indices of auto production. Stopping at this point, however, fails to take into account the excellence of Clevite's bearing operation. In a highly automated plant in Cleveland, the company is producing a multiplicity of sizes and types of bearings. Yet, under a strict system of process control, these bearings are turned out using advanced assembly-line techniques. The efficiencies of this plant are at least partially demonstrated by the fact that the company has been able to increase earnings in each of the last four years, despite the impact of heavy losses in the semiconductor area which reached their peak in 1963 and will only be partially mitigated this year.

On the other hand, it is all too easy to point to these semiconductor losses and downgrade Clevite along with the rest of the semiconductor industry. This division, located in Natick, Mass., has, admittedly, been a thorn in the company's side in recent years, but it is by no means the company's only venture in the scientific area and, indeed, results of the other technological divisions stand in happy contrast to it. Brush Instrument is the largest producer of pen-writing oscillographs used in various research applications, and sales of this division have expanded sharply over recent years with gratifying profit margins. Basic research takes place in a number of different areas, including that of Naval armaments and the company's research capability in metallurgy, particularly as it applies to the problem of metal to metal contacts which manifests itself in bearing manufacture, is high. The ring bearing, to be discussed below, is a product of just such research.

Clevite, in summary, appears to be selling at record lows in relation to earning power at a time when significant improvement is in the offing. Such improvement could take place in a number of areas. (1) Certainly a strenuous effort will be made to eliminate or reverse the semiconductor losses. (2) Brush, and the other scientific divisions, should add increasing amounts to earnings over the years. (3) A new product, the ring bearing, could have an important impact on the entire bearing field. This bearing, consisting of two concentric rings operates on the principle of metal to metal contact as does the familiar sleeve bearing, but incorporates capabilities of the much more expensive ball, roller and needle bearings. The total market for bearings of this type is over \$900 million annually and it is easy to see the significance that even a small penetration of this market would hold for Clevite. While commercial sales of the ring bearing are not imminent, they provide a strong long range plus. From a technical point of view Clevite has an upside objective of 57 followed by considerably higher levels, with support not too far under the current market. It is being added to our recommended list for long term capital appreciation.

Dow-Jones Ind. 847.51
Dow-Jones Rails 218.20

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