

Walston & Co.

Inc.

Members New York Stock Exchange

NEW YORK • SAN FRANCISCO • LOS ANGELES • PHILADELPHIA • CHICAGO

OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER

November 27, 1964

MOHASCO INDUSTRIES, INC.

Current Price	14
Current Dividend	\$. 60
Current Yield	4. 3%
Long Term Debt	\$15, 250, 000
Pfd. Stk (\$100 par)	64, 413 shs.
Common Stock	3, 774, 028 shs.
Sales-1964-E	\$145, 000, 000
Sales-1963	\$107, 780, 000
Earn. Per Sh. 1964-E	\$1. 25
Earn. Per Sh. 1963	\$0. 72
Mkt. Range 1964-61	15 1/4-7 5/8

If the average investor were asked to name America's growth industries, the carpet industry would be well down around the bottom of the list. The reason for this lies in the investor's orientation. When he thinks of growth he is liable to mean one thing --- growth in earnings. This is an area where most carpet manufacturers have been notoriously deficient.

Yet, paradoxically, on the record, the carpet industry is one of the fastest growing in the country. For example, in 1963, 226 million square yards of carpeting were shipped vs. 79.7 million in 1953, with each intervening year showing an increase. Total value of carpet manufactured has more than doubled over the past decade. The average household now

purchases 4.09 yards of carpet per year vs. 1.72 yards ten years ago. And the industry is just on the verge of exploiting a huge commercial market by proving that, over the long run, carpet is the cheapest of all possible floor coverings even in such applications as schools, hospitals and kitchens.

Mohasco Industries, Inc. is the largest factor in this burgeoning industry and yet, as noted above, except for a couple of good years, the earnings trend has been relatively static. Any analysis of the company, therefore, hinges on finding the answer to two questions. (1) Why have company earnings failed to reflect industry growth and, (2) is there any indication that they may more closely parallel such growth in the future?

To answer the first question it is necessary to look at industry background. Carpeting is, after all, an old product. At the end of World War II, most manufacturing facilities were located in the north, in antiquated, multi-storied plants. These plants, moreover, were largely devoted to the production of wool carpeting by traditional methods, the familiar Wilton, Velvet and Axminster weaves. Since that time, a number of major shifts have taken place. First of all, the center of the industry has shifted to the south, to modern, one-story plants. Secondly, wool is no longer dominant carpet material. It constitutes only 47% of current fiber consumption vs. 63% in 1959. Nylon, on the other hand, has better than tripled its market share in the past five years, and the acrylic fibers have been growing strongly. Even more startling has been the move away from the traditional weaves which accounted for virtually 100% of production at the end of the war. In 1963, the modern tufted carpet process accounted for 78% of all production, with knitted carpet, another relatively new product, comprising much of the remainder.

Herein lies the explanation of Mohasco's recent rather spotty earnings record. Formed by a merger in 1956, it has, slowly, to be sure, gradually moved most of its operations southward. The newer facilities have quite naturally emphasized the production of tufted carpet, which now accounts for about 50% of the company's sales, and knitted carpet, of which Mohasco is the largest producer. It is also gradually lessening its dependence on wool and consequent exposure to fluctuations in price. Yet, this operation has taken time and has drastically penalized the company's ability to participate in industry-wide growth.

It appears, however, that the period of change-over is now largely past. Capital expenditures for 1964 will be considerably less than depreciation. Debt has been sharply reduced and the company is now in a position to invest surplus cash, and this it did when it acquired Futorian Manufacturing Company for cash late last year. The acquisition added a major line of upholstered furniture to the product mix and broadened the scope of the company's operations in the home decorating field.

Under this stimulus earnings are expected to increase sharply to around \$1.25 this year vs. 72¢ in 1963. The recently raised dividend could again be increased and another good earnings gain is expected for 1965. From a technical point of view, considerably higher levels are indicated over the longer term and the stock is again recommended for purchase in speculative accounts.

Dow-Jones Ind. 882.12
Dow-Jones Rails 215.24

ANTHONY W. TABELL
WALSTON & CO. INC.