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TABELL'S MARKET LETTER

February 19, 1965

At Tuesday's intra-day low of 877.48, the Dow-Jones Industrial Average had re-traced just about two-thirds of the advance from the December low of 850.19 to the February high of 911.80. It is interesting to note that this decline can probably be taken to be the end of the year-end rally and thus, in 1965, the rally has failed to carry much beyond the first month of the year and, in addition, failed to advance 10% from the December low. This raises some question as to the trend of the market for the year.

A rally at the end of the week moved the averages back to an intra-day high of 890.24. The short-term outlook will, of course, depend on what type of pattern forms at these levels.

In current uncertain markets the investor will probably do best to concentrate on companies where sound earnings growth affords some measure of market protection. Such a company is reviewed below.

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LITTON INDUSTRIES, INC.

Current Price	86
Current Dividend	2 1/2% stock
Current Yield	-
Long Term Debt	\$147,474,000
\$3 Conv. Pfd.	539,925 shs.
Common Stock	10,817,235 shs.
Sales - 1964-65 E	\$950,000,000
Sales - 1963-64	\$686,140,000
Earn. per sh. 1964-65 E	\$3.35
Earn. per sh.	\$2.70

The technique of diversification by acquisition is hardly an unfamiliar one in American corporate annals. However, as many investors in acquisition-minded companies have learned to their sorrow, the merger route is often fraught with pitfalls. By contrast, it is not unfair to say that Litton Industries has been the leader among all American companies in displaying the management skill necessary to successful growth by acquisition.

One example will suffice. In the past decade, Litton has acquired a multiplicity of other enterprises, yet in 1957 Litton's sales plus the sales of all companies it has since acquired, were under \$80 million. For the year ended July 1964, Litton sales were \$686

Mkt. Range - 1965-63 86 1/2-54 3/4
Note: Debt includes \$73 million Conv. Debts.
Preferred convertible into common share for share. Fiscal year ends July 31st.

million. Obviously, Litton has not only acquired companies - it has caused them to grow and prosper under its aegis.

Particular management skills probably account for a goodly portion of this record. Another factor may be the fact that Litton-acquired companies generally dovetail one way or another with existing Litton operations. For example, let us consider two major acquisitions shortly to be consummated. The acquisition of Royal McBee will allow the integration of that company's typewriters and office form business into the sales organization of Litton's successful business machine operation. The takeover of Hewitt-Robins places Litton in the materials handling field and materials handling and processing systems utilize the computing and controls technology which Litton already possesses.

Litton, as put together over the years, now consists of five major groups. The systems group is a leader in a broad line of aircraft guidance systems. The business machine group manufactures and sells Monroe calculators, adding machines and accounting machines, Sweda Sales registers, plus paper, steel office equipment and special purpose computers. The components group produces electronic equipment, some of which goes into Litton's own systems, and the marine products group currently has a \$300 million backlog, including four nuclear submarines. The industrial and professional equipment division has as its major areas of activity seismic exploration and aerial mapping.

Litton has increased its per share earnings in every year since 1955. Results for the year ended July 31, 1964 were \$2.70 a share and for the six months ended January 31, 1965 were \$1.58 vs. \$1.24 in the prior period. For the full 1964-65 year an advance to \$3.30 - \$3.40 per share is expected. Acquisition of Royal McBee and Hewitt-Robins will probably bring Litton's 1964-65 sales fairly close to a billion dollars on a pro-forma basis.

From a technical point of view the stock has a longer term upside objective of 128 and shows excellent relative strength. It is recommended for purchase in capital gains accounts.

Dow-Jones Ind. 885.61
Dow-Jones Rails 210.37

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