

Walston & Co.

Inc

INVESTMENT BANKERS • MUTUAL FUNDS • MUNICIPAL BONDS

Members New York Stock Exchange

and Other Principal Stock and Commodity Exchanges

OFFICES COAST TO COAST AND OVERSEAS

TABELL'S MARKET LETTER

November 15, 1965

GILLETTE COMPANY

Current Price	39
Current Dividend	\$1.20
Current Yield	3.1%
Long Term Debt	None
Common Stock	28,390,730 shs.
Sales- 1965-E	\$340,000,000
Sales- 1964	\$298,960,000
Earn. per sh. 1965-E	\$1.55
Earn. per sh. 1964	\$1.33

"Sweet", in Shakespeare's words, "are the uses of adversity". Adversity, especially of a temporary nature, often provides buying opportunities in the stock market and this is, we believe, currently the case with Gillette Company.

As recently as 1962, Gillette had to be considered the very model of a modern merchandiser. The company's major product, razor blades, which was a necessity in every American home, was relatively easy to make, and would, one would think, be the focus of intense competition. Yet, by dint of product superiority, effective promotion and advertising, and an untarnished reputation, Gillette held, in 1962, an

astounding 90% of the total double-edged razor blade market. Nor had the company achieved this pre-eminent position by scraping by on razor-thin profit margins. Indeed, in 1961, of the 500 largest industrial corporations in the United States, Gillette ranked third in terms of return on sales, operating income as a percentage of sales running as high as 35%.

Then came the debacle -- in the form of a razor blade made of stainless steel and first imported into this country by a little-known English manufacturer of garden tools. The stainless steel blade, with its superior shaving quality and much longer blade life, took the shaving market by storm, and Gillette, delaying its entry into the stainless market until it could achieve the proper quality control, and the vast production facilities it would require, found itself, for the first time, losing ground to its major competitors. Although sales continued to increase, profit margins dropped off sharply to under 27% in 1964 and per-share earnings declined from \$1.60 in 1962 to \$1.33 a year ago. In the face of the uncertainty, the price-earnings ratio also declined and Gillette sold in 1964 for 25 1/2 vs. a 1961 high of 57 5/8.

There is now evidence, however, that the situation has begun to stabilize. It appears that the stainless steel blade has now achieved its maximum market penetration and Gillette's share of the total stainless blade market also appears to have leveled out. Starting with the last quarter of 1964, quarter-to-quarter earnings comparisons for the company again became favorable and for this year earnings should improve to around \$1.55 per share. Gillette may have started on the road back to pre-eminence.

Helping it along that road, will be two new products recently introduced. The first of these is a new stainless blade, to be sold at a higher price and evidently of even better quality than existing stainless blades. The introduction of this product is highly reminiscent of Gillette's 1959 introduction of the "Super Blue" blade which brought to it the lion's share of the blade market which it enjoyed in the early 1960's. Another new and perhaps even more dramatic product is a new type of razor utilizing a replaceable cartridge with a continuous band of stainless steel. This razor will mark Gillette's first entry into the single-edge injector market, a market estimated to account for a quarter of all U. S. blade sales. In short, it appears that Gillette's growth over the next few years could come not only from world-wide growth in razor blade sales, but also by the company's carving out a large slice of the blade market it had lost with the introduction of stainless blades.

Meanwhile, the company continues to do well in non-shaving areas. Its Toni Company Division, despite declining sales of home permanents, has increased profits with such toiletries as "Adorn" hair spray. The company's "Right Guard" is a leading name in the deodorant market, and the company is also a leader in shaving cream and hair grooming products. Its Sterilon Division is a profitable producer of disposable hospital supplies.

From a technical point of view, the recent upside breakout from the long 1962-1965 base between 40 and 26 indicates an upside objective of 80 with support just under current levels. The \$1.20 dividend provides a 3% yield and the stock is considered attractive for purchase in capital gains accounts. It is being added to our recommended list for quality and long term growth.

Dow-Jones Ind. 956.29

Dow-Jones Rails 238.55

ANTHONY W. TABELL
WALSTON & CO. INC.

This market letter is published for your convenience and information and is not an offer to sell or a solicitation to buy any securities discussed. The information was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. Walston & Co., Inc. and its officers, directors or employees may have an interest in or purchase and sell the securities referred to herein.

WN-301