

# 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

January 28, 1966

### AMERICAN BOSCH ARMA CORPORATION

Current Price	33
Current Dividend	\$. 60
Current Yield	1. 8%
Long Term Debt	None
Common Stock	1,692,540 shs.
Sales -1966-E	\$80,000,000
Sales-1965	\$72,000,000 approx.
Earn. per sh. 1966-E	\$2. 50
Earn. per sh. 1965	\$1.85-\$1.90 approx.
Current Range: 1966-65	34 1/4-15 1/2

American Bosch Arma, originally recommended on April 5, 1965 at 20 3/8, is again reviewed by this letter in order to reflect a number of substantial improvements that have taken place within the company. In order to completely understand the significance of these changes, it becomes necessary to first examine its past history. From 1957 through 1964 net sales have declined from \$134 million to \$70 million. Earnings during this period experienced the same downward trend from a record high of \$2. 67 in 1957 to 91¢ a share in 1964. A new management team assumed command in the Fall of 1964 and

has, in a short period of time, arrested the downward trend in sales and earnings, indicating a reversal in these areas for the year 1965.

The present structure of this turn-about situation has been tremendously changed during this period. Two divisions of the company now account for over 90% of total 1965 net sales. They are:

**AMERICAN BOSCH DIVISION - (55%).** This division is the largest independent manufacturer of diesel fuel injection equipment. Recent technological developments within the industry have significantly increased the potential markets for commercial and military application. Manufacturers are projecting an optimistic future as diesel engine trucks continue to become increasingly competitive with gasoline models. Initial cost of a diesel engine is higher. However, through maintenance and efficiencies of operation, a substantial saving is accrued over the life of the truck. General Motors, Mack Truck, and other major producers, are currently using these systems. Large research expenditures have placed the division in a commanding technological position. This faculty, coupled with low-cost production, should deter other manufacturers from making their own systems. Also, the replacement equipment market continues to be highly profitable. Further growth potential for this division can be expected due to the good results from this division's successful fuel injection system.

**ARMA DIVISION - (35%)** Heavy dependence on one major defense contract (Atlas Missile Guidance System) in the early 1960's resulted in greatly reduced sales as the contract was eventually phased out. This logically led to excess plant capacity and a subsequent decrease in profits. Faced with this problem, management consolidated the experienced research and technological abilities of the division, then instituted a marketing sales effort which has placed the division in the position to better sell their products. A diversified product line of electro-mechanical devices for military electronic systems has now been established. Over twenty various government programs now have contracts with the Arma Division. Consequently, any phasing out of business will now have nowhere near the relative adverse effect it once had in the past. Emphasis continues to be placed on the development of defense business. The division is once again contributing to profits, although profit margins continue to remain low. Special consideration is now being given to non-defense business. Along these lines a new but undisclosed patented electronic product in a major commercial market is to be announced shortly. This could be extremely beneficial to revenues, possibly improving overall profit margins.

Revenues for 1965 are estimated at \$72 million and earnings will approach \$1. 85, doubling 1964's figure. Earnings could approximate \$2. 50 per share this year (1966). With a debt-free balance sheet, the acquisition-oriented management believes it is in a position to acquire companies which would supplement their current earnings improvement and growth rate beyond fiscal 1966. We feel a conservative rate of 15%-20% yearly improvement can be anticipated. Therefore, benefits may be reflected to investors through an increase in earnings, and an increase in the price/earnings multiple.

Technically, the stock continues to indicate an upside objective of 50 with support in the 30-28 area. Despite the sharp rise that has already taken place in recent months at less than 14 times 1966 estimated earnings, we feel the stock continues to have merit as a capital gains speculation.

RJS:amb

Dow-Jones Ind. - 985. 35

Dow-Jones Rail - 268. 46

ANTHONY W. TABELL

WALSTON & CO. INC.

This information is furnished 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.