

# Walston & Co. Inc

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## TABELL'S MARKET LETTER

August 30, 1968

Now that the suspense has lifted and the candidates of both major political parties are known, perhaps the market can begin to move out of its recent lethargic state. Current technical data would tend to weigh in favor of a limited corrective movement, compensating for the recent rally. As mentioned in previous issues of this letter, a return to the broader trading range around the mid 800's would be considered healthy for the future course of the market, adjusting for many of the excesses of recent weeks. This correction should make available more favorable buying levels in such favored groups as, savings and loans, financials, cements and construction stocks, oils, drugs and home furnishings, all of which are expected to be in the forefront of an advancing market later this year. One issue we feel to be of timely interest is discussed below.

### REXALL DRUG & CHEMICAL COMPANY

Current Price	38 7/8
Current Dividend	\$0.30 + Stk.
Current Yield	0.7%
Long Term Debt	\$80,326,000
\$2 Cum Conv. Pfd. Stk.	2,667,529 shs.
Common Stock	14,451,617 Shs.
Sales-1968 Est.	\$570,000,000
Sales-1967	\$531,600,000
Earn. Per Sh. 1968-Est.	\$1.80 - \$1.85
Earn. Per Sh. 1967	\$1.86 pro forma
Mkt. Range 1967-'68	41 3/8 - 21 1/2

With chemical and drug stocks starting to recover from their unfavorable performance of the last year or so, investors again are directing their attentions to individual issues within these two groups that hold the potential of attractive future growth. Rexall Drug & Chemical occupies a position of importance in both industrial areas and would appear to offer the long-term investor an opportunity for capital appreciation and growth in income.

Over the last ten years, Rexall's earnings per common share have increased nearly five-fold, equal to a 17% compound annual growth rate. Much of this progress has been due to the corporate philosophy of successfully embracing new opportunities and by providing a climate in which these enterprises could more rapidly and more soundly grow. With the company management dedicated to the continuation of this philosophy, Rexall's future potential seems bright.

1968 started out to be a troublesome year for the company. First quarter results were adversely affected by a glass strike that lowered earnings almost 30% from the year-earlier level. This together with the imposition of the "surtax" is expected to result in full 1968 earnings being little changed from the 1967 result of \$1.86, pro forma. Management, however, feels that Rexall's earnings can grow at an annual rate of between 10% and 15% and that a return to this approximate area of growth is likely to characterize next year's results. In the meantime, shares are reflecting the optimism being voiced for the future of the company, and the disadvantages brought about by the glass strike and the "surtax" probably have been taken into consideration in the current pricing of the issue, especially since most of these disadvantages are considered of a non-recurrent nature.

Rexall certainly can be considered a type of "conglomerate." Its activities fall into seven major groupings: Petrochemicals, packaging, construction, plastics processing, ethical drugs, cosmetics and housewares, and retail stores. The recent acquisition of The West Bend Company, an old line housewares producer, will considerably broaden REX's product line and, if its sales are included in the 1968 total, they could lift REX revenues well above the \$600 million level. Recent price increase made in various areas, such as in beer bottles and several grades of polypropylene will help 1969 compare favorably with 1968.

During the last 10 years, stock dividends have supplemented the conservative cash payout in nine years. With the company fully aware that its cash can do all stockholders more good by being largely retained and reinvested in the growth of the overall concern, the distribution of stock dividends is expected to be continued.

Technically, Rexall has constructed a base of considerable extent in the 36 to 32 area extending back approximately one year. This base not only indicates good support in the mid-30s region, but also suggests an initial price objective in the mid-40s, followed by a higher price goal in the mid to upper 50s. For the favorable fundamental and technical indications, we are adding Rexall Drug & Chemical to the Price Appreciation Section of our Recommended List as a buy candidate for investment clients.

Dow-Jones Ind. 896.01  
Dow-Jones Rails 251.11

HARRY W. LAUBSCHER for ANTHONY W. TABELL  
WALSTON & CO. INC.

HWL:at

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