

Stock Rating: **SELL**  
("Please see the disclaimer at back of this report for important information.")

**12-Month Target Price:** \$25.23  
**Current Share Price:** \$41.10  
**% Change from Current:** (39)%

Index: S&P 500 FDRE  
Bloomberg Ticker: WMK US

**Company Statistics**

52-week Range: \$38.24 - \$47.10  
Shares Outstanding: 26.991M  
Float: 9.81M  
Short Int. as % of Float: 7.8%  
Market Capitalization: \$1,110M  
Dividend: \$1.16  
Fiscal Year End: Dec-31  
Book Value: \$23.45  
Net Debt: 0  
Preferred: 0  
Enterprise Value: \$1,029M  
Debt/Equity: N/A  
Beta: 0.98

(Sources: Yahoo! Finance; Weis Markets Annual Report)

**Financials**

FYE Feb	2005A	2006A	2007E
P/E Ratio:	18.3x	19.4x	15.2x
Revenue (M)	\$2,222.6	\$2,244.5	\$2,303.1
EBITDA (M)	129.7	132.6	139.5

**December 11, 2007**

**Brian Sarcopski**

Analyst  
Yale School of Management  
[Brian.sarcopski@yale.edu](mailto:Brian.sarcopski@yale.edu)

**Christopher Moore**

Analyst  
Yale School of Management  
[c.moore@yale.edu](mailto:c.moore@yale.edu)

(c) 2007, C. Moore; B. Sarcopski

Our Report on:

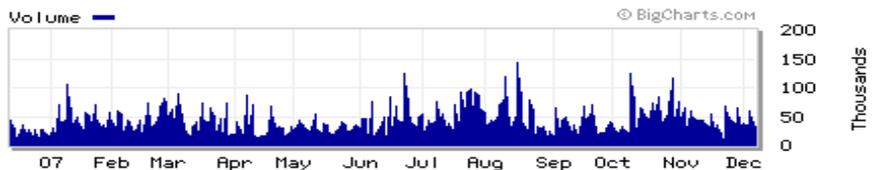


**Weis Markets**

**Main Analysis**

We feel that Weis Markets is a SELL at these levels. Our SELL rating indicates that we believe that there are better opportunities, like Kroger, for investors elsewhere in the grocery store industry. We see the “stock” as little more than a bond in disguise. At current levels the Weis Markets yields 2.8% and we do not expect any capital appreciation in the next 12-18 months for the stock in addition to this yield. The company has fairly stagnant growth and does not seem concerned with growing out the Weis brand to areas outside the mid-Atlantic United States (especially Pennsylvania). There are relatively few growth drivers when Weis is compared to others in its industry. It is not focused on private label expansion as are Kroger and Whole Foods Markets. The company also does not appear to be focused on expanding its product offerings or making their stores a “Third Place”, something that will drive growth for Kroger and Whole Foods Markets in the future.

Weis Markets Price Activity (Source: [www.marketwatch.com](http://www.marketwatch.com))



Thousands

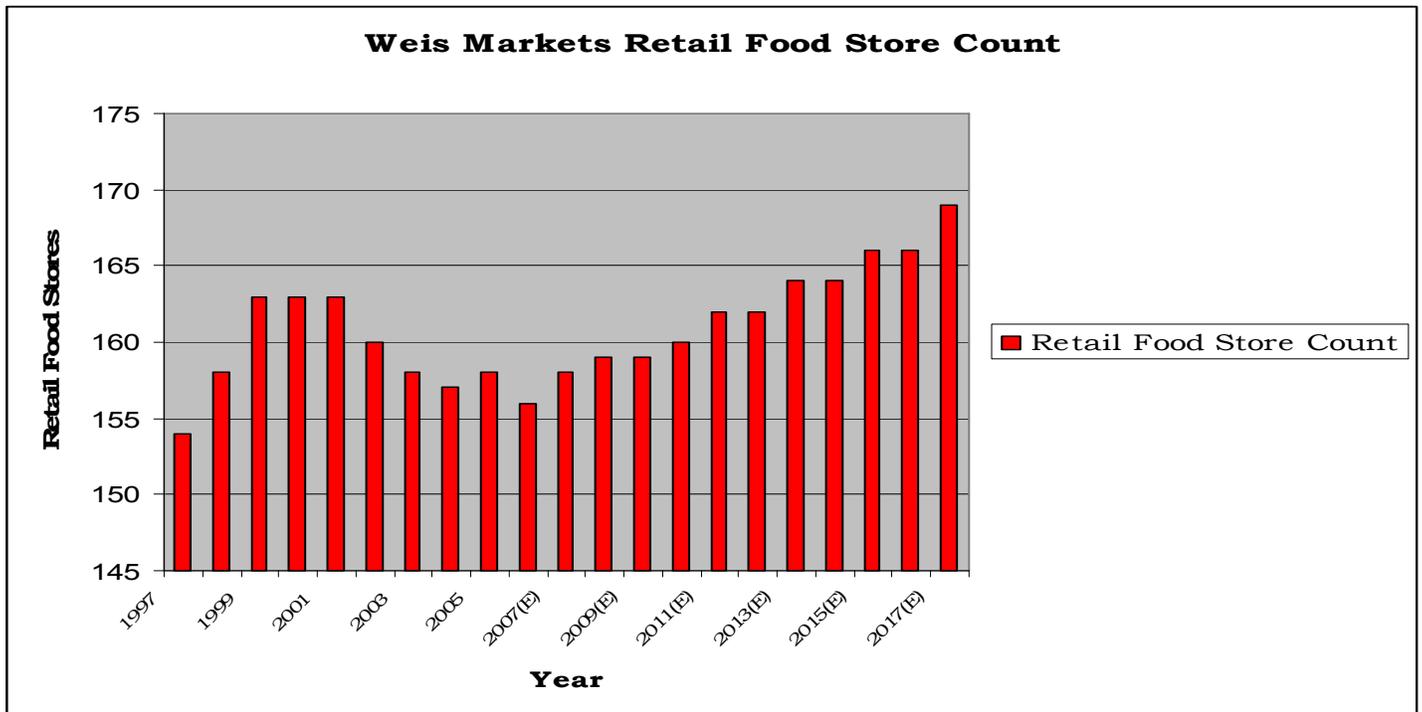
**GROWTH DRIVERS**

**Square Footage Growth**

In our prior analysis of Kroger and Whole Foods Markets, we identified many growth drivers for each company ranging from improved store formatting to private label expansion to increased organic offerings. However, for Weis Markets there is really only one driver of growth for the company and that is square footage growth. The company gives only a brief mention in its most recent 10-K that its private label market sales “continue to grow,” but it does not state that it intends to expand these offerings in the future.<sup>1</sup>

The company’s store expansion has been lackluster at best. At the end of fiscal 1997 the company had 154 stores in operation.<sup>2</sup> In fiscal 2007 they projected that they would have 158 stores in operation.<sup>3</sup> During that time period they increased their square footage from 6.2 million square feet<sup>4</sup> to a projected 7.3 million square feet in 2007<sup>5</sup>, most of this expansion came in 1998 and 1999 during the company’s expansion plan. Over that time period their square footage growth has increased by a CAGR of only 1.5%. From this data we are projecting a very modest growth of stores to 169 by 2017 with a total square footage of approximately 7.74 million square feet. See Figures 1 and 2 for data and projections.

**FIGURE 1 – WEIS MARKETS RETAIL FOOD STORE COUNT**



<sup>1</sup> Weis Markets 10-K, 09March2007.  
<sup>2</sup> Weis Markets 10-K, 1998.  
<sup>3</sup> Weis Markets 10-K, 09March2007.  
<sup>4</sup> Weis Markets, 10-K, 1998.  
<sup>5</sup> Weis Markets, 10-K, 09March2007.

**FIGURE 2 – WEIS MARKETS TOTAL SQUARE FOOTAGE**

Year	Square Feet (1000s)	Average Square Feet	Square Foot Growth
1997	6,200	40,260	N/A
1998	6,527	41,310	5.3%
1999	6,909	42,387	5.9%
2000	N/A	N/A	N/A
2001	N/A	N/A	N/A
2002	7,154	44,713	N/A
2003	7,157	45,297	0.0%
2004	7,183	45,752	0.4%
2005	7,280	46,076	1.4%
2006	7,311	46,865	0.4%
2007(E)	7,343	46,000	0.4%
2008(E)	7,314	46,000	-0.4%
2009(E)	7,314	46,000	0.0%
2010(E)	7,360	46,000	0.6%
2011(E)	7,452	46,000	1.3%
2012(E)	7,452	46,000	0.0%
2013(E)	7,544	46,000	1.2%
2014(E)	7,544	46,000	0.0%
2015(E)	7,636	46,000	1.2%
2016(E)	7,636	46,000	0.0%
2017(E)	7,774	46,000	1.8%

Source: Weis Markets' 10-K from 1997-2006.

Notes: (1): Weis Markets did not provide total square footage data for 2000 and 2001.

(2): We estimated average square footage of stores to be 46,000 square feet going forward based on company documentation and consistent with prior year's square footage.

The company has also had poor growth in another key metric: sales per square foot. Its 5-year and 10-year CAGRs for this metric are 1.9% and 0.7%, respectively. While the company has improved their sales per square foot numbers in recent years (see Figure 3 for details) the growth of their sales per square foot as compared to their competitors is poor. This shows that the company has not tried to improve the productivity of its existing asset base by offering products that may increase their revenue numbers. Because of this slow growth rate in the productivity of their stores, we are projecting a constant year-over-year increase of 2.2% in sales per square foot going out to 2017 for our projections. We are projecting above their historical growth rates for this metric due to the fact that they had sales per square foot growth rate of 0.6% in fiscal 2006, which lowered their 5-year CAGR of this metric.

**FIGURE 3 – WEIS MARKETS SALES PER SQUARE FOOT**

Year	Sales (in \$1000s)	Total Square Footage (in 1000s)	Sales Per Square Foot	Sales Per Square Foot Growth
1997	1,818,816	6,200	\$293.36	N/A
1998	1,867,492	6,527	\$286.12	-2.5%
1999	1,992,791	6,909	\$288.43	0.8%
2000	2,042,329	N/A	N/A	N/A
2001	1,971,665	N/A	N/A	N/A
2002	1,999,364	7,154	\$279.47	N/A
2003	2,042,499	7,157	\$285.38	2.1%
2004	2,097,712	7,183	\$292.04	2.3%
2005	2,222,598	7,280	\$305.30	4.5%
2006	2,244,512	7,311	\$307.00	0.6%
2007(E)	2,303,138	7,343	\$313.66	2.2%
2008(E)	2,344,571	7,314	\$320.56	2.2%
2009(E)	2,396,152	7,314	\$327.61	2.2%
2010(E)	2,464,269	7,360	\$334.82	2.2%
2011(E)	2,549,964	7,452	\$342.19	2.2%
2012(E)	2,606,063	7,452	\$349.71	2.2%
2013(E)	2,696,278	7,544	\$357.41	2.2%
2014(E)	2,755,596	7,544	\$365.27	2.2%
2015(E)	2,850,563	7,636	\$373.31	2.2%
2016(E)	2,913,276	7,636	\$381.52	2.2%
2017(E)	3,031,176	7,774	\$389.91	2.2%

Source: Weis Markets' 10-K from 1997-2006.

Notes: (1): Weis Markets did not provide total square footage data for 2000 and 2001.

### Economies of the Mid-Atlantic States

Weis Markets primary operations are grocery stores which are located in Pennsylvania, Maryland, West Virginia, New Jersey, and New York with the bulk of their stores located in Pennsylvania.<sup>6</sup> The company also owns 31 Superpetz stores in various states, although these stores contribute very minimally to revenue (2.6% of annual revenues in 2006<sup>7</sup>). Since the company is primarily located in Pennsylvania (126 of their 156 stores as of the end of fiscal 2006 were located in Pennsylvania<sup>8</sup>) growth of their sales will be partially affected by the economies of the Mid-Atlantic States, especially Pennsylvania.

<sup>6</sup> Weis Markets, 10-K, 09March2007.

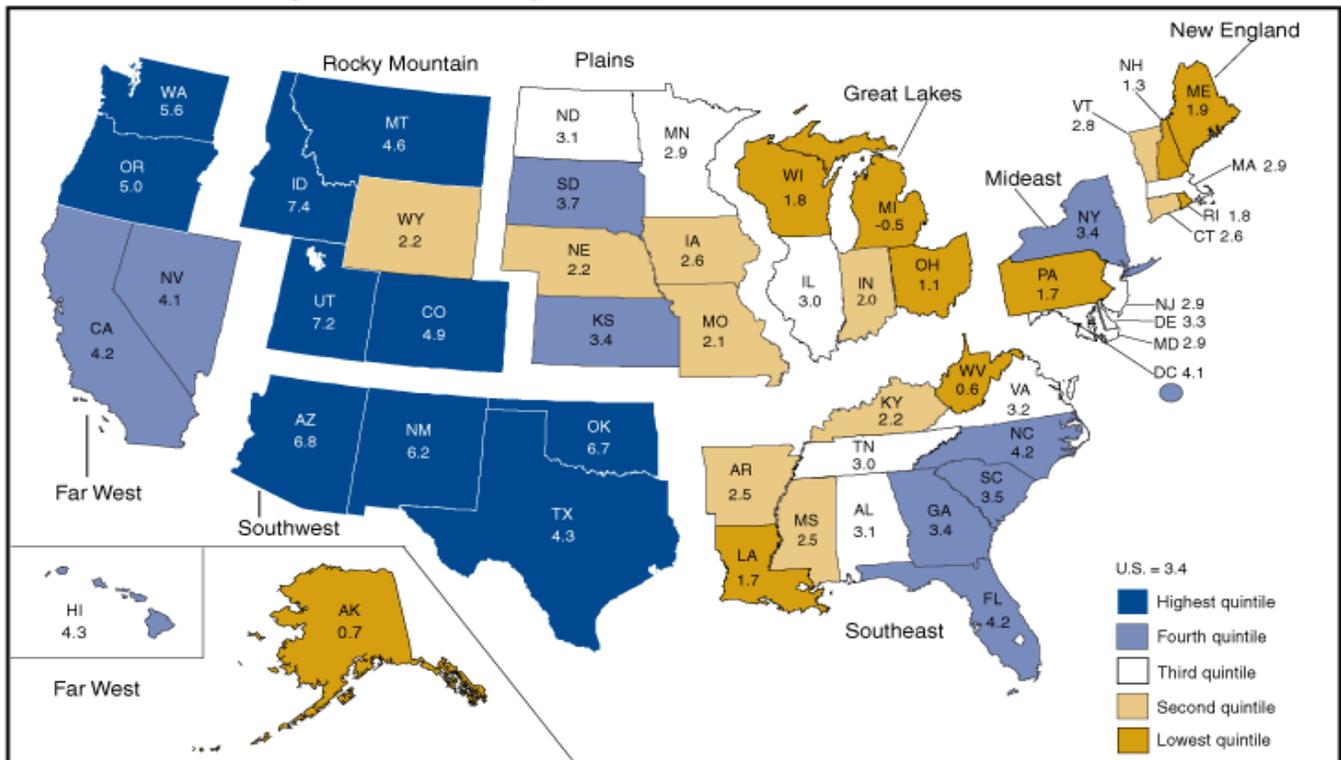
<sup>7</sup> Weis Markets, 10-K, 09March2007.

<sup>8</sup> Weis Markets, 10-K, 09March2007.

Job growth in the state is strong as the state added 4,300 jobs in October 2007 and has an unemployment rate of 4.5%, which is below the national unemployment rate of 4.7%<sup>9</sup> and it is the 48<sup>th</sup> month out of the last 58 that the state's unemployment rate has been less than the national unemployment rate.<sup>10</sup>

However economic growth has not followed this job growth rate. In the latest data released in June 2007, the growth rate of Pennsylvania's GDP was 1.7%, half of that of the United States as a whole.<sup>11</sup> This continues an alarming trend of underperformance of the state's economy as compared to that of the United States. From 1997 to 2006, U.S. Gross Domestic Product grew by 30.6%. In contrast, during the same period Pennsylvania's Gross Domestic Product grew by just 19.4% or more than one-third below average.<sup>12</sup> Because of slower growth compared to the rest of the nation, Pennsylvania's share of the U.S. economy is shrinking – down to 3.9% as of 2006.<sup>13</sup> We have no reason to believe this trend of underperformance by the state will subside in the near future as the major tenants of the state's economy are: manufacturing, durable goods, and non-durable goods.<sup>14</sup> These industries are most likely to come under pressure during any recession in the overall United States economy, which is a distinct possibility at this time.

Chart 1. Percent Change in Real GDP by State, 2005-2006



U.S. Bureau of Economic Analysis

Figure courtesy of: [http://www.bea.gov/newsreleases/regional/gdp\\_state/gsp\\_newsrelease.htm](http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm)

<sup>9</sup> [www.bls.gov](http://www.bls.gov)

<sup>10</sup> <http://www.dli.state.pa.us/landi/cwp/view.asp?Q=244975&A=3>

<sup>11</sup> <http://www.commonwealthfoundation.org/commentary/2006-pa-economic-growth-only-half-u-s-rate>

<sup>12</sup> <http://www.commonwealthfoundation.org/commentary/2006-pa-economic-growth-only-half-u-s-rate>

<sup>13</sup> <http://www.commonwealthfoundation.org/commentary/2006-pa-economic-growth-only-half-u-s-rate>

<sup>14</sup> <http://www.bea.gov/regional/gsp/action.cfm>

We believe that the lagging Pennsylvania economy will not aid Weis in growing revenues faster than its 5-year CAGR of 2.3%. If there was a catalyst for growth in the Pennsylvania economy we would expect that the company could possibly increase their overall revenues due to people buying higher margin items from Weis Markets' stores (such as meats, produce (perishables), and seafood<sup>15</sup>), however we would not project that their overall revenue growth rate would increase by more than a few basis points per year as the company derived only 31% (\$700 million) of its overall revenues in 2006 from these type of items (see Figure 4 for their revenue breakdown). If the company managed to growth their sales in these areas by 2%, it would only add \$14 million in overall revenue. Based on this data we feel that the Pennsylvania economy can only act as a deterrent to the company's growth.

**FIGURE 4 – Weis Markets Revenue Breakdown (2002-2006)**

<u>Year</u>	<u>Grocery</u>	<u>Meat</u>	<u>Produce</u>	<u>Pharmacy</u>	<u>Pet Supply</u>	<u>Other</u>
2006	53.5%	16.0%	15.0%	10.2%	2.6%	2.7%
2005	53.9%	16.2%	14.8%	10.2%	2.7%	2.2%
2004	53.9%	16.2%	14.6%	10.5%	3.0%	1.9%
2003	54.6%	15.7%	14.7%	10.3%	3.2%	1.6%
2002	55.4%	15.3%	14.7%	9.8%	3.3%	1.5%

SOURCE: Weis Markets 10-K 09March2007. Numbers may not total 100% due to rounding.

## UNDERPERFORMANCE OF FAMILY OWNED COMPANIES

When analyzing Weis Markets as an investment we must note the ownership structure of the company. The Weis family currently owns approximately 64% of the float. Robert F. Weis serves as Chairman of the Board of Directors, and Jonathan H. Weis, son of Robert F. Weis, serves as Vice Chairman and Secretary. Both are involved in the day-to-day operations of the business.<sup>16</sup> We believe that the stock should trade at a discount due to this factor. The Weis family could block a potential sale of the company to a buyer who might be willing to pay for a presence in the state of Pennsylvania. This occurred in 2001 when some members of the Weis family who wanted to sell the company to outside investors were defeated and sold their 35% stake in the company.<sup>17</sup> The family could also pursue measures that may meet its needs but not increase shareholder value such as retaining earnings instead of reinvesting them in building new stores or making acquisitions.

In order to analyze if family-controlled companies actually underperformed their peers, we looked at a sample of family-controlled companies in 4 different industries: grocery stores, automobiles, cable TV, and food processing. In the majority of instances we found that the family-controlled company was outperformed by its peers over the past 5 years (See Figures 5-8).

The family controlled companies are bolded. We define family controlled companies as those companies where the family controls at least 50% of the company's shares or have "super shares" in which the family controls the majority of the voting interests in the company (Ford Motor Company).

<sup>15</sup> [http://www.thekrogerco.com/operations/operations\\_grocery.htm](http://www.thekrogerco.com/operations/operations_grocery.htm)

<sup>16</sup> Weis Markets 10-K, 09March2007.

<sup>17</sup> <http://www.answers.com/topic/weis-markets-inc?cat=biz-fin>

FIGURE 5 – 5 YEAR GROCERY STORE PERFORMANCE

<b>GROCERY STORES</b>	
<b>Company Name/Ticker</b>	<b>5 Year Return</b>
Great Atlantic and Pacific Tea Co (GAP)	281.3%
Kroger (KR)	74.5%
Safeway (SWY)	44.7%
Winn Dixie (WINN)	39.9%
<b>Weis Markets (WMK)</b>	<b>29.4%</b>

FIGURE 6 – 5 YEAR AUTOMOBILE PERFORMANCE

<b>AUTOMOBILIES</b>	
<b>Company Name/Ticker</b>	<b>5 Year Return</b>
Toyota Motors (TM)	117.7%
Diamler AG (DAI)	91.9%
Honda Motors (HMC)	84.1%
General Motors (GM)	-27.8%
<b>Ford Motor Company (F)</b>	<b>-30.8%</b>

FIGURE 7 – 5 YEAR CABLE TV/TELECOM PERFORMANCE

<b>CABLE TV/TELECOMMUNICATIONS</b>	
<b>Company Name/Ticker</b>	<b>5 Year Return</b>
<b>Cablevision (CVC)</b>	<b>51.0%</b>
AT&T (T)	33.3%
Comcast Corporation (CMCSK)	15.5%
Time Warner Inc. (TWX)	4.6%
Verizon Communications (VZ)	3.6%
<b>Adelphia Communications (N/A)</b>	<b>Bankrupt in 2002</b>

FIGURE 8 – 5 YEAR FOOD PROCESSING PERFORMANCE

<b>FOOD PROCESSING</b>	
<b>Company Name/Ticker</b>	<b>5 Year Return</b>
Pilgrim's Pride Corporation (PPC)	206.9%
Hormel Foods Corporation (HRL)	70.8%
Smithfield Foods, Inc. (SFD)	47.4%
<b>Tyson Foods, Inc. (TSN)</b>	<b>20.4%</b>

Stock Return Data Courtesy of [www.finance.google.com](http://www.finance.google.com)

**Balance Sheet Analysis**

In our analysis of Weis Markets we feel it is important to analyze the balance sheet in order to determine why the stock is trading at \$41.10 per share which is approximately 18x our projected 2008 earnings of \$2.24 per share. For a company that is growing at less than 3% per year we do not feel that a forward P/E of 18x is justified based solely on earnings. After analyzing the balance sheet we see that Weis has a great deal of assets on its balance sheet compared to its liabilities. The company's greatest asset is its plant, property, and equipment which is valued at \$494.5 million (approximately 59% of its total assets). The company also has \$81.8 million worth of cash and investable securities on its balance sheet as well. The calculation of the book value of the company is shown in Figure 9.

**FIGURE 9 – WEIS MARKETS BOOK VALUE CALCULATION**

<b>BOOK VALUE</b>	
<b>Total Assets</b>	\$ 838,726,000
<b>(-) Total Liabilities</b>	\$ 1,901,470
<b>(-) Preferred Stock</b>	\$ -
<b>(-) Intangible Assets</b>	\$ 157,220
<b>TOTAL BOOK VALUE</b>	\$ 6,328,570
<b>SHARES OUTSTANDING</b>	26,990,000
<b>BOOK VALUE PER SHARE</b>	<b>\$ 23.45</b>

Since the company is not in any danger of going bankrupt in the near future, the book value of the company will put a floor under the stock price. As the value of the company's plant, property, and equipment continues to appreciate and as the company continues to grow its cash on the balance sheet its book value will increase, which we believe will lead to a slow stock price appreciation.

# Yale School of Management

## Equity Research

### 4<sup>th</sup> Quarter 2007 Estimates

	1st Qu	2nd Qu	3rd Qu	4th Qu (est)	Total
Net Sales	\$ 571,795	\$ 578,812	\$ 564,966	\$ 587,565	\$ 2,303,138
<i>Sales increase (incremental)</i>		1.2%	-2.4%	4.0%	
Cost of Sales	420,254	424,601	417,272	433,035	1,695,162
Gross Profit	\$ 151,541	\$ 154,211	\$ 147,694	\$ 154,530	\$ 607,976
<i>% of Sales</i>	26.5%	26.6%	26.1%	26.3%	26.4%
Operating, General, Administrative Exp.	131,790	126,559	132,471	130,439	521,259
<i>% of Sales</i>	23.0%	21.9%	23.4%	22.2%	22.6%
Income from Operations	\$ 19,751	\$ 27,652	\$ 15,223	\$ 24,090	\$ 86,716
<i>% of Sales</i>	3.5%	4.8%	2.7%	4.1%	3.8%
Investment Income	691	773	768	705.1	2,937
<i>% of Sales</i>	0.12%	0.13%	0.14%	0.12%	0.1%
Income before Income Taxes	\$ 20,442	\$ 28,425	\$ 15,991	\$ 24,795	\$ 89,653
<i>% of Sales</i>	3.6%	4.9%	2.8%	4.2%	3.9%
Income Taxes	7,037	10,268	5,174	8,678.3	31,157
<i>Tax Rate</i>	34.4%	36.1%	32.4%	35.0%	34.8%
Net Income	\$ 13,405	\$ 18,157	\$ 10,817	\$ 16,117	\$ 58,496
<i>% of Sales</i>	2.3%	3.1%	1.9%	2.7%	2.5%
WASO	26,990,797	26,988,659	26,990,991	26,947,460	26,947,460
WASO - Diluted	27,003,494	27,000,535	26,998,807	26,958,706	26,958,706
Div/Share	\$ 0.29	\$ 0.29	\$ 0.29	\$ 0.29	\$ 1.16
basic/diluted EPS	\$ 0.50	\$ 0.67	\$ 0.40	\$ 0.60	\$ 2.17

# Yale School of Management

## Equity Research

	2008E	2009E	2010E	2011E	2012E
Net Sales	\$ 2,344,571	\$ 2,396,152	\$ 2,464,269	\$ 2,549,964	\$ 2,606,063
<i>Sales increase</i>	2.8%	2.2%	2.8%	3.5%	2.2%
Cost of Goods Sold	1,725,605	1,763,568	1,813,702	1,876,773	1,918,062
Gross Profit	\$ 618,967	\$ 632,584	\$ 650,567	\$ 673,190	\$ 688,001
<i>Gross Profit Margin</i>	26.4%	26.4%	26.4%	26.4%	26.4%
Operating, General, Administrative Exp.	527,529	539,134	554,461	573,742	586,364
<i>% of Sales</i>	22.5%	22.5%	22.5%	22.5%	22.5%
Income from Operations	\$ 91,438	\$ 93,450	\$ 96,106	\$ 99,449	\$ 101,636
<i>Operating Profit Margin</i>	3.9%	3.9%	3.9%	3.9%	3.9%
Investment Income	2,345	2,396	2,464	2,550	2,606
<i>% of Sales</i>	0.1%	0.1%	0.1%	0.1%	0.1%
Income before Income Taxes	\$ 93,783	\$ 95,846	\$ 98,571	\$ 101,999	\$ 104,243
<i>% of Sales</i>	4.0%	4.0%	4.0%	4.0%	4.0%
Income Taxes	32,824	33,546	34,500	35,699	36,485
<i>Tax Rate</i>	35%	35%	35%	35%	35%
Net Income	\$ 60,959	\$ 62,300	\$ 64,071	\$ 66,299	\$ 67,758
<i>% of Sales</i>	2.6%	2.6%	2.6%	2.6%	2.6%

	2013E	2014E	2015E	2016E	2017E
Net Sales	\$ 2,696,278	\$ 2,755,596	\$ 2,850,563	\$ 2,913,276	\$ 3,031,176
<i>Sales increase</i>	3.5%	2.2%	3.4%	2.2%	4.0%
Cost of Goods Sold	1,981,764	2,025,363	2,095,164	2,141,258	2,227,914
Gross Profit	\$ 714,514	\$ 730,233	\$ 755,399	\$ 772,018	\$ 803,262
<i>Gross Profit Margin</i>	26.5%	26.5%	26.5%	26.5%	26.5%
Operating, General, Administrative Exp.	606,663	620,009	641,377	655,487	682,015
<i>% of Sales</i>	22.5%	22.5%	22.5%	22.5%	22.5%
Income from Operations	\$ 107,851	\$ 110,224	\$ 114,023	\$ 116,531	\$ 121,247
<i>Operating Profit Margin</i>	4.0%	4.0%	4.0%	4.0%	4.0%
Investment Income	2,696	2,756	2,851	2,913	3,031
<i>% of Sales</i>	0.1%	0.1%	0.1%	0.1%	0.1%
Income before Income Taxes	\$ 110,547	\$ 112,979	\$ 116,873	\$ 119,444	\$ 124,278
<i>% of Sales</i>	4.1%	4.1%	4.1%	4.1%	4.1%
Income Taxes	38,692	39,543	40,906	41,806	43,497
<i>Tax Rate</i>	35%	35%	35%	35%	35%
Net Income	\$ 71,856	\$ 73,437	\$ 75,968	\$ 77,639	\$ 80,781
<i>% of Sales</i>	2.7%	2.7%	2.7%	2.7%	2.7%

### Discounted Cash Flow Valuation

**Sales:** We projected sales based on square footage growth and sales per square foot projections which can be seen in Figure 1. Based on the company's average store size over the past 5 years we projected that the average store size going forward would be 46,000 square feet. We do not feel that Weis Markets will overhaul all of their stores and make them "supercenter-like" stores by increasing the average square footage much above 46,000 square feet. With this total square footage number we then multiplied by sales per square foot, which we increased 2.2% per year. Since square footage growth is not a constant percentage, our sales forecast tends to be lumpy.

**Gross Margins:** We projected that gross margins would slightly improve to 26.5% by 2017. We did not see any reason that Weis Markets would improve their gross margins more than a few basis points from where they are now.

**Operating Margins:** We project that operating margins would also slightly improve to 4.0% by 2017. We feel that SG&A costs for Weis will remain relatively stable for the foreseeable future as we don't believe that they will be faced with higher labor costs in the form of their employees unionizing, nor will they incur higher sales costs in selling their merchandise.

**Investment Income:** This has been stable for the past 5 years for the company at 0.1% of sales. We have no reason to believe that Weis Markets will make any investments in the future that will increase this number, so we kept it constant at 0.1% of sales until 2017.

**Tax Rate:** The Company's tax rate has been decreasing from 38% in 2002 to a projected 34.8% in 2007. We have no reason to believe that the company's tax rate will rise or fall substantially in the near future so we are keeping the tax rate constant at 35%.

**Working Capital:** We do not foresee any major increases or decreases in the components of working capital (ie.: the company purchasing more inventory, extending customers more credit or purchasing more goods on credit all as a percentage of sales) for Weis Markets in the near future. Working capital as a percentage of sales has remained in a range of 5.0-5.6% from 2002-2006. We project that working capital will be constant at 5.4% of sales.

**Depreciation and Amortization:** We do not see rapid expansion of the company's store base or a rapid expansion of the purchase of fixed assets; therefore we are keeping depreciation and amortization constant at 2.2% of sales going forward.

**Capital Expenditures:** The Company has been increasing capital expenditures as a percent of sales in the past few years, but as mentioned above we do not feel that they will keep rapidly expanding their capital expenditures to build new stores. We feel that most of their capital expenditures will come in the form of store remodels and general upkeep of their properties. Therefore we are keeping capital expenditures constant at 3.5% of sales going forward.

# Yale School of Management

## Equity Research

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBIT	\$ 91,438	\$ 93,450	\$ 96,106	\$ 99,449	\$ 101,636	\$ 107,851	\$ 110,224	\$ 114,023	\$ 116,531	\$ 121,247
- Taxes	32,003	32,707	33,637	34,807	35,573	37,748	38,578	39,908	40,786	42,436
= Tax Effectuated EBIT	\$ 59,435	\$ 60,742	\$ 62,469	\$ 64,642	\$ 66,064	\$ 70,103	\$ 71,645	\$ 74,115	\$ 75,745	\$ 78,811
+ Depreciation	\$ 44,547	\$ 45,527	\$ 46,821	\$ 48,449	\$ 49,515	\$ 51,229	\$ 52,356	\$ 54,161	\$ 55,352	\$ 57,592
+ Amortization	6,214	6,351	6,532	6,759	6,908	7,147	7,304	7,556	7,722	8,034
+ Changes in Deferred Taxes	23,031	23,446	23,962	24,643	25,500	26,061	26,963	27,556	28,506	29,133
- Capital Expenditures	72,500	82,060	83,865	86,249	89,249	91,212	94,370	96,446	99,770	101,965
- Changes in Working Capital	2,226	2,771	3,659	4,603	3,014	4,846	3,187	5,102	3,369	6,333
= Unlevered Free Cash Flow	\$ 58,502	\$ 51,235	\$ 52,259	\$ 53,640	\$ 55,724	\$ 58,481	\$ 60,712	\$ 61,840	\$ 64,186	\$ 65,272
PV of Free Cash Flows	52,780	41,704	38,377	35,539	33,309	31,538	29,539	27,145	25,420	23,322
Terminal Value in 2017										812,731
Terminal Value Discounted										368,187
Sum	\$ 52,780	\$ 41,704	\$ 38,377	\$ 35,539	\$ 33,309	\$ 31,538	\$ 29,539	\$ 27,145	\$ 25,420	\$ 391,509

<b>Discount Value</b>	
Value of Debt as of Dec-10	-
Value of Equity as of Dec-10	
Total Value	
Fraction of Debt in the Capital Structure	0%
Discount Rate on Debt	0%
Tax Rate	35.0%
Beta	0.98
Risk-free Rate - Current 1Mo T-Bill	3.98%
Market Premium	7%
Discount Rate on Equity	10.8%
WACC	10.8%
Growth Rate	2.6%

Total Equity Value	\$ 706,860,575
Shares Outstanding	26,947,460
Price	\$ 26.23
Price/Earnings	12.1x

**Growth Rate for WACC Calculation:** Since our sales projections yield very lumpy sales numbers, so we took a 10 year CAGR of sales over our projection period (2008-2017) and used that value (2.6%) for our terminal growth rate.

5 year chart



5 year vs. S&P



5 year vs. (WFMI, PTMK, GAP, WINN, SWY, SVU, KR)



All data courtesy of [www.marketwatch.com](http://www.marketwatch.com)

## Important Disclaimer

### Please read this document before reading this report.

This report has been written by MBA students at Yale's School of Management in partial fulfillment of their course requirements. *The report is a **student and not a professional** report.* It is intended solely to serve as an example of student work at Yale's School of Management. It is not intended as investment advice. It is based on publicly available information and may not be complete analyses of all relevant data.

If you use this report for any purpose, you do so at your own risk. **YALE UNIVERSITY, YALE SCHOOL OF MANAGEMENT, AND YALE UNIVERSITY'S OFFICERS, FELLOWS, FACULTY, STAFF, AND STUDENTS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, ABOUT THE ACCURACY OR SUITABILITY FOR ANY USE OF THESE REPORTS, AND EXPRESSLY DISCLAIM RESPONSIBILITY FOR ANY LOSS OR DAMAGE, DIRECT OR INDIRECT, CAUSED BY USE OF OR RELIANCE ON THESE REPORTS.**