

Prepared by: Professor Crocker H. Liu  
Industry Analysis  
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## **Comments for Drugs, Gaming/Lodging, Genomics, and the Mutual Fund Industry**

General Comments (for all groups)

- Financial
  - Constant growth rate: how fast is your industry growing relative to the economy as a whole as measured (for example) by the CAGR of the SP500?
  - DuPont Model: To the extent possible, use the DuPont model to calculate the sustainable growth rate for your industry.
  - Ratio analysis: Do a ratio analysis for your industry. The analysis (over a period of at least **3-5 years**) should address 6 areas: 1) Valuation, 2) growth, 3) financial strength, 4) profitability, 5) management effectiveness, and 6) efficiency. (please see [www.marketguide.com](http://www.marketguide.com) for the ratios under each category). Please discuss the results of your ratios; don't simply report what the ratios are... what do they mean/imply about the industry?

### **Drugs**

- Industry Drivers:
  - Do we have a sense of which companies in the industry have longer weighted-average patent expirations? In other words, what percentage of their drugs are coming off-patent in the near term and what percentage of their revenues do these drugs comprise?
  - R&D: While you do calculate R&D as a percent of sales for each major player, you do not discuss how this is linked to profitability (ROE) or stock price performance. Please address this. Ditto for advertising expenses as a percent of revenues.
- SWOT:
  - Symbiotic Relationship: Claim is made that bio-pharmaceuticals and genomics companies might represent a serious threat to traditional drug companies. Is this necessarily the case? To what extent is there a symbiotic relationship between the two e.g, some drug companies have an equity stake in bio-tech/genomic firms. Others have strategic alliances which you note. Please set up a mapping or table showing these relationships and discuss your results.
  - Diversification: A breakdown of the revenues (percent) associated with prescription drugs is given per company. What is the growth rate of sales of prescription drugs vs. the growth rate of other related and unrelated segments? What about the cost of goods sold (SGA) as a percentage of sales for each segment?

- Generics: Is this an area of opportunity for drug companies? Especially if they didn't hold the original patent on a drug coming off-patent?
- Financial Returns and Valuations: One year doesn't suffice. Please do it over at least 3 years. We're trying to ascertain trends and patterns.

### **Gaming/Lodging,**

- Industry Drivers:
  - What are the major drivers of this industry? For example, is fuel cost a factor? Does Vegas have enough energy given California's recent energy crisis and an impending concern for New York? What is the profile of a typical visitor e.g., age, income, comes by self or brings family, etc? Can we relate this profile to the aging of our population? Something is going on given that gaming has become more family oriented.
- SWOT:
  - Cyberspace: There is no mention of internet gambling statistics. Is it growing? Please discuss.
  - Segmentation: Isn't there a managed segmentation that operators use in terms of who they are trying to market certain goods and services to? Different brands for different segments e.g. Circus circus is only one brand name of one gaming company. You very briefly allude to this on page 31. More elaboration is required.
- Financial:
  - Over the most recent 3-5 year period, what percent of revenues has come from gaming and what percent has come from lodging/real estate related activities? Is this the same across companies? Which area is growing faster? Why?
  - Profit pie: I'd like to see a pie chart showing the percentages of revenue from each source. You briefly discuss this on page 4.
  - Where's the discussion/analysis of the financials? The reported financials are incomplete at best.
- Other
  - Sources of information: Your report reads as if it was based on only two or three sources. Could you please provide citations?
  - Comparison: Relative to the group that did gaming (Circus Circus) last year, this report is rather weak in the amount of industry analysis provided. Please cut the fluff, there's too much of it in this version of the paper.

## Genomics

- Industry Drivers:
  - Much of the discussion is focused on profiling your customers e.g., genomics and profiling your products but there's not enough linkage provided on how this translates to profit.
- SWOT:
  - Instruments: Are the major players only into bio-instruments for the Genomics industry or do they make instruments for the drug industry and other related industries as well? Is diversification necessary for survival since if one industry depends on another start-up industry, profits will be minimal at best?
  - Relationships: To what extent are bio-instrument revenues correlated with revenues of genomic, biotech firms, drug companies and other industries that your focus industry sells to?
- Financial:
  - Summary statistics: On page 14 you observe that you can't you obtain summary financial statistics for companies that comprise your index. Then you report some summary statistics. What gives?
  - Key question: where does the revenue for most bio-instrument firms come from? Is it genomics or drugs or another sector? Please provide a chart for the industry.
  - Profitability vs. Value Creation (Which is more desirable): It is unclear from your analysis whether the biggest firms or firms having the largest market share are profitable. For example, Affymetrix which has an 80% market share in the genechip segment and is the largest player in the overall biochip market has negative earnings. (You also claim that they are capturing value on page 44. When you speak of value it appears that it is based primarily on revenues instead of profit. Am I wrong?). Ditto for Caliper Technologies. What makes firms profitable in your industry segment? Also, casual empiricism seems to suggest that if you segment out HTS (non-chip instrumentation) firms from the rest of the firms, it appears that these firms tend to be profitable. What about non-HTS firms?
  - Net margins: Where are they?
- Other
  - Identification of Firms: You need to state up front which firms comprise your industry. You also need to do a better job in profiling your firms upfront e.g., are there are dominant players? (your mean vs. median numbers seems to suggest that there is a bifurcation). It's only when I get to page 19, is there any mention of this.
  - I'm Confused: From reading your report, are you focusing on the bio-instrument sector that concentrates on genomics and biotechs or is it broader. In the first

half of your report, this is the impression I get. However, starting on page 34, you also discuss drug companies, agriculture, etc.

**Mutual Fund Industry** (I'll give you more detailed comments when we meet on Tuesday)

- ❑ Profile of Mutual Fund Industry: too preliminary
  - ❑ Market share: There are no figures given on the market share for each company. Are the largest companies private or public?
  - ❑ Size vs. performance: Is bigger necessarily better?
- ❑ Industry Drivers:
  - ❑ Too preliminary
- ❑ SWOT: Ditto; very preliminary
  - ❑ Alternative Instruments: Need to address spiders, closed end investment companies, etc. Are these real threats, especially since they are traded and (Spiders) CAN be sold short?
  - ❑ Active Management vs. Indexing: have mutual funds historically added value above an index fund on a *consistent* basis?
- ❑ Financial: Ditto; very preliminary – still at the starting gate.
  - ❑ What financials? Where is the analysis? There is no percentage of sales analysis, ratio analysis, etc. How do these companies compare with one another? What's the growth rate in sales?
  - ❑ Where's the comparison of fund expenses relative to sales?
- ❑ Other
  - ❑ Larger font: Please use a larger sized font. I have difficulty reading your report.
  - ❑ Rating system used by Morningstar: Past performance is no indication of future performance especially if there is no persistence.
  - ❑ Other reference sources: <http://www.funds-sp.com/win/en/>, <http://www.bloomberg.com/money/mutual/index.html?sidenav=front>,