

Comments

General Comments to All Groups:

- ❑ Overall growth rates: Please use the www.wsrn.com website or the Bloomberg terminal to access the analyst growth rates for your respective companies. This helps in doing your projection of sales and earnings and provides you with a benchmark. Also, go to the forward looking section of your companies 10Ks. If your growth projections differ from those of management and/or analysts, please explain your rationale.
- ❑ Scoring Your Company and the Competition: For those groups which haven't done so, please show a comparison table with the names of your biggest competitors as well as your company in the first column. In the subsequent columns, report the attributes/characteristics which are the basis for comparison. These attributes should include but not be limited to 1) the estimated earnings per share (EPS) growth rate for the next year as reported in www.wsrn.com or on the bloomberg machine, 2) historical 5 year constant average growth rate in EPS, 3) percentage of market share, 4) same store sales preferably on a per square foot basis, 5) advertising as a percentage of sales, 6) profit margins, 7) return on capital and return on equity, etc. Please provide some analysis/discussion of your table.
- ❑ Use Decision Trees:
 - ❑ Quantitative: Since this section involves your initial strategy recommendations, you should use decision tree analysis. Put your strategies on the branches of the tree together with the appropriate growth rate for each branch and the cash flows (gross and net) associated with each option. Also, do a net present value for each alternative.
 - ❑ Qualitative: Use the tree process to qualitatively highlight your strategies in a similar fashion to the flowchart graph associated with Porter's 5 forces.

Biotech: Amgen

Major Comments:

- See general comments above
- What to do with R&D expenses: A problem area in estimating economic income involves the treatment of research and development (R&D) expenses. While R&D expenditures are expensed in the period in which they occur, such expenditures have “the spirit” of investment outlays which yield higher revenues and/or lower costs in the future. From an economic perspective, only that portion of R&D that goes to maintain the firm’s current technological edge should be treated as a current expense. The remaining expenditures should be capitalized and depreciated over time e.g. treat as capital expenditures.
- Growth: With Epogen and Nupogen coming off patent in the near future, there are several questions that need some elaboration:
 - ✓ How did your group arrive at the slower growth numbers for these products?
 - ✓ How did your group predict the growth in revenues for products such as NESP that are coming on-line in the future? Near term, NESP seems to be the white knight near term.
 - ✓ How do you reconcile the fact that analysts following Amgen are assigning a 14% growth in earnings per share for the next year while you have the firm growing at 11%? Analysts following these firms do have medical knowledge. (For analysts estimates, please visit my website... one of the places I keep giving out to visit is www.wsrn.com. Type in the name of your stock’s ticker and then follow the bouncing ball. Also look in the forward looking portion of the 10K for management’s estimates of revenue and EPS growth rates.)

You need to do some validation here. For example, what has been the historical growth pattern (year by year) for both Epogen and Nupogen on an individual basis? What about the per year growth of drugs of other biotech firms? Plot the annual growth over time since the time of their introduction. I realize that you sort of allude to this on page 9. (I wrote this comment before reading this in your report). You need to support your conjecture that the sales response function is most likely an S-shaped curve with a very steep mid-portion. Another suggestion is to plot the sales and r&d expenses over time for your firm to see the lead-lag relationships. This is important before you start to do any forecasting. Make sure to indicate on your graph(s) when the new product was introduced.

- Refer to the Copeland, etal Valuation text for a Real Options approach to the Biotech valuation. (I discussed this with you in the valuation class)
- Corporate culture: While management is not my forte, on page 12, you note that the organizational structure should be horizontal. You also allude to biotech firms having a small, start up firm mentality. What is the current organizational structure? You need to include an organizational chart. How does the current organizational chart qualitatively translate into growth? How does making the structure horizontal make things “better” from a growth and/or profit perspective?

Minor Comments:

- On page 5, second paragraph, needs to be toned down. Too sensationalistic/too much hype.

Amazon.com**Major Comments:**

- See general comments above
- Get a Prospectus: Amazon.com recently floated a convertible, callable bond (rated CCC) which has implications since it is well known that they needed this financing in order to give themselves breathing room to grow the firm. If your group can get a copy of the prospectus, this should give you insights into their growth rates and business policies and strategies. If you will also note, management set a conversion price of \$254 per share (an estimate of where they see the value of their firm in the near future).
- Use Decision Trees: See general comments above. What I need to get a better perspective on is the growth (I would like to see numbers) associated with each strategy, the probability for the success of a particular strategy, as well as the incremental costs and incremental revenues. To what extent can a strategy be replicated by competitors is a key issue here since it does not appear that barriers to entry exist.
- Relationship between Hits and Sales: I need to get a better sense of the link between being one of the top five reach sites (see page 12) and how this translates into sales dollars. Is there any measure of \$ generated per hit or the number of hits necessary to generate \$1 of sales?

Minor Comments: I'm not really clear as to what is the strategy (from those listed on page 7) that your initial projections on page 21 is based on. You allude to a strategy on page 12. I guess you need to restate this strategy on page 21.

McDonald's

Major Comments:

- See general comments above
- Closings vs. Openings: Are there any statistics on *where* the various competitors are closing locations and where they are opening new stores? How fast does MCD close a restaurant? What about its competitors? What determines whether a store remains opened?
- Franchisees vs Owned Stores: What's the *% of sales* and the *growth in sales* that's driven by franchise operations vs. owned stores for MCD and its competitors? Your group makes the claim that franchise operations are a competitive advantage and therefore this should be reflected in the answer to the preceding question. What are the policy implications? (the % of franchise operations are reported on page 56, which is a start)
- Buy vs. Lease: While McDonald's for the most part has owned their real estate, others such as Burger King, have chosen to do a sale-leaseback of the land in order to free up cash that's tied up in the land (and thus, isn't productive). As MCD expands abroad, should this policy continue to hold?
- Focus on Competitors: While your group talks about specific competitors, your quantitative analysis "lumps" all of these competitors together via a Restaurant Industry average. There is just too much "noise" in the aggregate. To get a sense of whose winning/losing the battle, you really need to look at your major competitors to get a sense of what MCD is doing right and what it could improve upon. See especially your table on page 57 and page 63.
- Growth through New Product Innovations/Product Lines: To what extent, going forward, should MCD add items such as pizza to their menu to capture some of competitors sales? Your group has broken down the menu items into burgers, pizza, chicken, etc. What I don't get a good sense of is what's the profit margin on each major item? Shouldn't MCD go after high margin items in order to grow? My point is that MCD makes more money on their fries and soft drinks than their burgers. I would suspect that finger foods (known as pupus in Hawaii) aka appetizers have a higher profit margin. My suggestion is that it isn't only that MCD has to innovate new products but also to look for those new products that have a high profit margin.

Minor Comments:

- Please proofread your report e.g. page 4 "... is to minimize the inconsistencies with local suppliers who continue which continues to be an obstacle."
- I need to know more on how your projections were made on your last page. What assumptions did you use in forecasting sales and profits?

Sprint PCS

Major Comments:

- See general comments above
- Organizational Structure: Your group really needs to sort out all of the Byzantine relationships between the various Sprint companies. To start with, put together a flowchart showing inflow and outflow relationships (don't limit this to only financial arrangements). Is Sprint PCS a "captive" affiliate/subsidiary? Is Sprint PCS maximizing value for its shareholders or for the shareholders of its parent company (FON)? What was the relationship between entities before the recapitalization? After the recapitalization?
- Cannibalization: To what extent is wireless growth coming at the expense of growth in regular phone (wire-line) sales growth? More specifically, to what extent do people trade in their phones for wireless phones? You briefly allude to this but there are no numbers. Since Sprint PCS has an incestuous relationship with its parent, to what extent does Sprint PCS sales come at the expense of FON sales (I presume that this is the parent company?) To what extent is it "sales creation" growth e.g. new growth that comes in addition to wired sales?
- Cost of Capital vs. Cost of Debt: Your group claims that Sprint PCS has one of the lowest costs of capital of any traded wireless carriers since FON lends to Sprint PCS at two notches below investment grade rating of FON. This is the cost of debt, NOT the cost of capital. You need to also consider the cost of equity as well. Once again, the question I have is what is the tie-in arrangement(s) with the parent company?
- Efficiency in Advertising: Given your claim that advertising is used to stabilize, if not lessen, the churn rate, it would be interesting to take the ratio of advertising expense ÷ churn rate over time for Sprint and its competitors. This gives an indication of how effective advertising is in lessening the churn rate.
- Lessons of history: To get a better sense of how Sprint and its competitors have fared over time, I'd like it if your group would provide more history (say at least 5 years). This is needed, for example, to support your claim that "Sprint's capex per net addition is in the middle of the pack, but the sharp downward trend is a good sign"
- Assumptions for Cash Flow Projections: What are your cash flow projections based on? What strategy (ies)? This section is very incomplete as you know. Other sections of your report are also incomplete.

Minor Comments:

- Use bullets with Key themes boldfaced: This is to emphasize the major drivers and also to facilitate easier readability.
- Graphs: In some of your graphs such as Chart 4, on page 53, I can't distinguish between Airtouch and Sprint (which is which?). I guess that I'm going blind. Please make Sprint stand out.
- Please proofread your report and use a spellchecker.

Host Marriott

Major Comments:

- See general comments above; I'm happy to see that you have incorporated my suggestions into your analysis, especially with respect to competitors and the organizational chart.
- REVPAR vs. FFO: In addition to showing your analysis based on RevPAR, you also need to look at how your firm fares on an FFO basis relative to your competitors.
- Statistics on Hotel Building Permits by region (top markets): Given that 3 states comprise over 50% of HMC's revenue, you need some sense of new hotels coming on line in the near future which would tend to dampen revenues.
- Growth rates by proposed product line: One option in your strategy involves expanding into long term executive/corporate apartment ownership while another option considers entering the "low end" hotel market. What are the growth rates in sales, FFO, and FAD for firms involved in these lines of business? Are they higher or lower than the existing line of business? How about the correlation of revenues between these business lines? Is the correlation positive or negative?
- Demand vs. supply drivers: You tend to focus on supply in this part of the paper. One key question is where are the final destinations of luxury/high end travelers. First, construct profiles of representative types of high end travelers. Next, which cities are they going to and why (business vs. pleasure). Given the high concentration of HM in the MidAtlantic and Northeast region, I would suspect that they are focusing on the business traveler. If you get into other product lines, where is the clientele going to (final destination)? Look for long term trends and patterns in business travel/high end consumer travel. Point: Long term, is Host Marriott positioned in the right markets?
- Diversification of hotel management firms: Is there any contract which states the portion of properties that Marriott International must manage? Again, this gets to the issue of tie-in arrangements in the organizational structure.
- Leverage Relative to Other Hotel REITs: Your point about your firm being highly levered needs to be put in the correct context. What's the leverage of other Hotel REITs? I agree that the leverage is high relative to REITs in general.
- Contracting: To what extent does Host Marriott have the option to shorten the length of the management contract or alternatively, to make the contract contingent on performance. Once again, the question raised is to what extent is HM a "captive" affiliate/subsidiary of MI?

Minor Comments:

- Proofread your report: e.g. Jones, Lange, Wooton is spelled incorrectly on page 6.

