

ICS Project

General Comments for all Groups

- **Financial Dimension:** Tale of the tape: Stats
 - Expected growth rate in earnings per share (EPS) for your industry
 - Are there any special statistics associated with the industry such as revpar, book to bill, same store sales, etc.?
 - Ratios for the industry, each of the major players (firms) in your industry, and the S&P500 or S&P400 and an analysis of what these ratios suggest with respect to the following broad categories e.g. internal liquidity. Ratios should be associated with the following categories:
 - Internal Liquidity: indicates the ability of the firm to meet future short-term financial obligations. Ratios in this category include the current ratio, quick ratio, receivables turnover, average collection period, working capital/sales
 - Operating Performance: indicates how well management is operating the firm from the standpoint of efficiency and profitability. Ratios in this category include total asset turnover, inventory turnover, working capital turnover, and net fixed asset turnover.
 - Profitability: Gross profit margin, operating profit margin, net profit margin, return on total capital, return on equity, equity turnover.
 - Risk Analysis Ratios: are used to estimate the uncertainty of flows to various sources of capital (debt and equity) where uncertainty is measured in terms of the variability of flows over time
 - ✓ Business risk
 - ✓ Financial risk: Debt/equity ratio, debt/total capital, interest coverage, cash flow/long term debt
 - Growth Analysis Ratios: are used to examine how fast a firm should grow which in turn depends on the future growth in earnings and dividends (if any). Ratios include the retention rate, return on equity, total asset turnover, total asset/equity, sustainable growth rate (plowback rate * ROE), expected growth rate in EPS.
- **Major Players in the Industry**
 - Who are the major players in the industry and do they play in all submarkets or only certain niches?
 - What's their market share in terms of sales?

□ **Original Sources of Information:**

- Please read the 10Ks of the major players in the industry for an overview of what the industry is all about.

Gaming Industry: Very Good

Probability of slot machine payoffs--does it matter? Need to discuss gaming stats such as the odds, pay out rates etc. for different types of gambling (land based vs. riverboat vs. Indian reservation vs Internet). Also Vegas vs. Atlantic City.

Industry drivers:

- Price of gas?
- Airfares?
- Consumer profile (do different types of gambling attract different types of gamblers? E.g. age, income, etc. Also is the person who visits Vegas the same as a person who visits Atlantic City?) Know your market and know your customer. Develop this concept more fully.
- Growth in disposable income vs. growth in gambling revenues.

Profiling the Players/Companies in the industry: To what degree does each company engage in or is associated with different types of gambling e.g. has a presence in both Vegas and Atlantic City, is involved in riverboat gambling, managing a casino on Indian land,

Incremental value of diversification into tiers

Financials: not enough statistics

- Also report the numbers in addition to the graphs and charts e.g. debt to equity.
- What is the debt typically rated for firms in this industry?
- Report some ratios such as the coverage ratio, return on asset vs return on equity (as measures of management efficiency), same store sales etc. for the industry as well as the major competitors in the industry
- Market share

Optical Networking

Availability of fiber optics (supply)

To what degree do competitors do joint ventures (JVs)? To what extent are markets for competitors separate/distinct? To what extent are the competitors players in each specialized submarket?

Profiling the ultimate customer: Since the optical networking industry is a intermediary provider of supplies, I think that a little more discussion is warranted about the ultimate consumer and what drives THEIR needs since this is what your industry's revenues are based on. Things that affect the demand for optical networking by say the telecom carriers such as Sprint and MCI Worldcom will surely impact on your industry as well. To give you an analogy, if your allowance (when you were a kid) depends on your father's salary and your father's salary goes down, what do you think happens to your allowance?

Statistics

- R&D as a percentage of sales

I like your Table 4-1 Attributes by which firms compete in the industry

Toys

This section is an industry analysis rather than a company analysis. Too much of your discussion is focused on the company.

There is no discussion of the numbers and graphs (after the red partition).

To what extent are retailers using their websites to obtain a sense of what products people want and to rebalance their shelf space in brick and mortar stores? This needs a tad more elaboration.

While not a part of this section, the fact that mass merchandisers aka one stop shopping is taking sales away from Toy Stores, will one of your strategies be to have Toy Stores gravitate towards the mass merchandiser concept? For example, assuming that your company is Toys R Us, would this suggest that instead of having Toys R Us, Kids R Us, Babies R Us etc. to combine the various components of the company under one roof?

Minor comments: on page 4, you say that eToys tend to pursue a strategy of selling at the same price or only slightly cheaper than the traditional "bricks and mortars" companies. Have you actually checked their price vs. Toys R Us? Have you read their respective 10Ks? (personal note: on average, all of the toys that I have purchased for my sons have been at least \$10 cheaper on eToys vs. Toys R Us)

Drugs

What are the drivers of your industry e.g. drug industry dynamics? More elaboration is required here. For example, the elderly represent the fastest growing demographic group all over the world and they compose a disproportionate share of the drug market. What are the long term growth trends? Range of regulatory approval times in various countries?

Don't you need to discuss governments' involvement in paying for health care? Shouldn't you obtain the ratio of government spending on drugs to total drug spending? For example, in 1987, 60% of total drug spending in France was associated with government spending on drugs. This is especially important with respect to overseas markets where the largest growth opportunities exist. Towards this end, you also need to discuss the various ways that these governments restrict prices and contain medical costs.

To what extent are drug makers linked to biotech firms? For example, the majority of Immunex shares is owned by American Cyanamid which is a subsidiary of American Home Products.

Statistics by Major Players:

- Pipeline on a company by company basis. What I would like to see is some statistics and accompanying analysis of what the pipeline of the various drug companies looks like. In

addition to this, when are the various drugs (especially their major ones) going off patent for various companies by year (do it for the next 5 years).

- R&D as a percent of sales by company with appropriate analysis.

Mass Retail

Good job in general. That said, you need to incorporate some statistics generally used by the industry and companies in the industry such as same store sales or sales per square feet by company to the extent that you can obtain this information.