

## Comments on Strategic Options

### Gaming Industry:

Your group is in luck. The Wall Street Transcript recently had a whole issue devoted to gaming: past, present, and future chocked full of strategies, growth, etc. I would encourage you to read this issue.

Current Strategy: I liked the fact that your group laid out the strategy for each of your firm's competitors. However, your discussion of Park Place's current strategy raises several questions. First, is PPE's current strategy working? More specifically, looking at their mergers and acquisition record, have they achieved their goals with respect to either increased revenue growth and/or improved economies of scale? Why or why not? Although PPE is very similar to Harrah's in terms of percent of revenue coming from gaming, etc., they underperform Harrah's with respect to return on assets and equity? Why? If rooms are so tight since not much new development is coming on line, why is PPE's sustainable growth rate at 5% vs. 17% for their competitors? I would like to see a percentage of sales analysis for PPE as well as for the competitors. What's their profit margin from each subsidiary? Is there any way to obtain market share by region for each of the major gaming players as well as the growth in each region? Each of your strategies needs to be developed further. It's way too preliminary. Also, what are the costs and benefits (NPV) of each option?

### Genomics:

Given your emails to John, Joe, and myself, you realize that MDCC has had a lot of bad press recently. However, they are not alone and this appears to be an industry wide phenomenon. Several of their competitors warned of slower growth prior to MDCC's pronouncement. That said, you correctly pointed out that their WC and turnover ratios were negative signals. What you need to do is show how these ratios impact the bottomline. Question: if MDCC is operating at the same receivable turnover ratio as other major competitors, how much more would earnings per share increase? Since this is a consumer oriented business where customer loyalty is a "lock-in", you need to examine the 10Ks of some of MDCC's largest customers to get a sense of how long they will defer purchases. Also, whether these customers plan on shopping around in the future for alternatives such as Lab on a Chip since this will definitely impact on sales growth. When do their customers think of switching? Point: you need to read the 10Ks of their customers.

You mention that Packard BioScience is a competitor in both arenas that MDCC operates in yet you do not detail Packard's strategy. Why? If you look at Hoover's, they claim that MDCC's primary competitor is Bio-Rad (BIOB) Laboratories. How come this company is not even mentioned in your report? You need to elaborate more on each competitor's strategy. Also, how successful are competitors in implementing their strategies. There is no summary table that provides information on performance ratios such as the profit margin, ROA and ROE as well as top line and bottomline growth rates

(R&D, etc) over time for each competitor and MDCC. Also, how does the price performance of your firm compare with its competitors? This is another metric of how well each company is doing in implementing their respective strategies. With respect to your analysis, you keep emphasizing gross profit margins. While it is true that MDCC has positive gross profit margins, both their operating margin and net profit margin are NEGATIVE. So too are their ROA and ROE. Please provide the analysis. Something's up if the firm is a market leader and they have these bottomline stats.

Given the large amount of cash that the company has (54% of Total Assets) and minimal debt, aren't you worried that they are a takeover candidate... especially if their stock price should plummet? What is their capex/sales ratio and how does this compare to their competitors?

How will MDCC gain market share on Perkin Elmer? You claim that MDCC will have a 55% of the fluorescence market in 5 years. How? Is MDCC's growth via internal developments or also due to external acquisitions?

On a positive note, of the three groups whose reports I have read, your group put the most thought into your strategic options.

### **Mutual Fund Industry:**

Current Strategy: Why are there so many portfolios for Franklin relative to all other fund complexes given the amount of assets under management? Could this be one of the reasons why Franklin Resources is one of only two companies that have a negative net cash outflow(see page 4). What you have failed to do is to link net cash outflows/inflows for the various mutual fund companies with their overall aggregate portfolio performance (aggregate up the returns on all of their mutual fund portfolios on a value-weighted basis). Bottomline: There seems to be an inconsistency between Franklin Resource's current strategy of gaining market share by taking away market share from the other major players and the fact that they are only one of two companies which have a net cash outflow. Seems like they're losing market share. This is especially an enigma since Franklin has been buying back shares which should increase its stock price. You don't show whether this is due to mediocre performance of their mutual funds relative to the mutual funds of other companies. Why? In fact, you don't show any performance metrics. Alternatively, is it due to a poor distribution channel e.g., their sales force is not generating sales (revenue per employee)? Is poor performance due to management not effectively implementing their current strategy or a bad current strategy?

Strategic Options: There are no NPV calculations associated with ANY strategic option. Also, you do not provide any data on how successful Franklin Resources has been in the past with developing innovative products. In terms of your strategic options, you need to discuss how each option improves the firm's performance. Since a lot of your strategic initiatives have already been put in place at other firms, how successful have they been?