

# Rick Phillips' Position

- Telecommunications Services Segment
- Stable
- Low Risk
- Regulated
- Asset Intensive
- Debt
- Know the Business
- Competitive Advantage?

- Products and Systems Segment

- Dynamic

- Growing

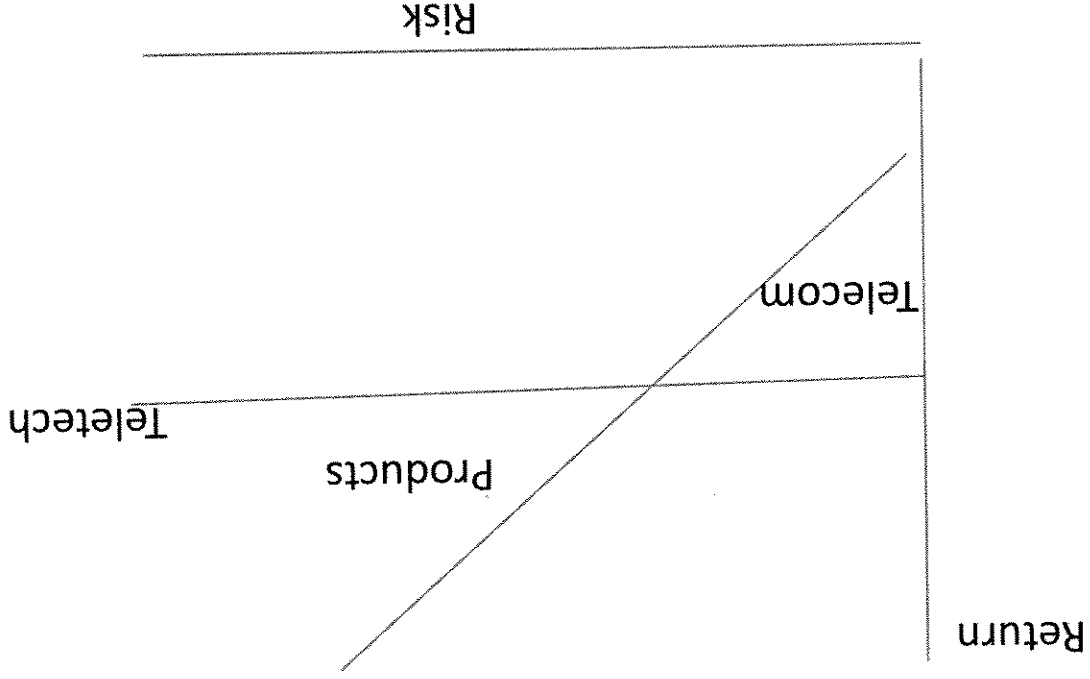
- High Uncertainty

- Idea Intensive

- Competitive Advantage?

- “Pure play” data shows how different the businesses are
- Is there a “vision?” “Strategic move to IT?”
- Milk the Cow? Butcher the Cow?
- Synergy?
- Is resource allocation process correct?
- Does Teletch treat risk properly?

# Who is right?



## Telecommunications Services

$$E(R) = R_f + \beta[E(R_M) - R_f]$$

$$E(R) = .0462 + 1.04(.055) = .1034$$

$$WACC = .271(.0344) + .729(.1034) = .0847$$

## Products & Services

$$E(R) = R_f + \beta[E(R_M) - R_f]$$

$$E(R) = .0462 + 1.36(.055) = .121$$

$$WACC = .092(.0448) + .908(.121) = .114$$

$$\text{EVA} = (\text{ROC} - \text{cost of capital}) \times \text{Capital}$$

Telecommunications Services	NOPAT	ROC	Capital	WACC	EVA
\$1.18 Billion	\$1.18 Billion	.091	\$12.967 Billion	.0847	(\$12.967 Billion + \$.082 Billion)
					(\$12.967 Billion - \$.082 Billion)
Products & Services	\$1.18 Billion	.11	\$4.364 Billion	.114	(\$12.967 Billion - \$.082 Billion)
					(\$12.967 Billion - \$.082 Billion)

## Conclusions?

- Just one year (last year). How long should we subsidise?
- What will change? Does Products & Services have any competitive advantage?
- Synergy? Now? In the Future?
- Sell Products & Services Segment?
- What to do with proceeds?
- Spin off Products & Services



# Group A: IT/Telecom

Company	β	D/E	Payout	P/E
Exelon	1.23	0%	30%	23
Yahoo	2.68	0%	0%	25
Microsoft	.54	129%	50%	17
Oracle	1.21	1%	0%	26
Verizon	1.04	80%	61%	13

# Group B: Pharma/Biotech

Company	$\beta$	D/E	Payout	P/E
Chiron	.35	5%	38%	18
DuPont	.93	28%	0%	72
ExxonMobil	.66	35%	0%	49
Genentech	1.04	78%	70%	21
Johnson & Johnson	.65	6%	22%	11

# Group C: Manufacturing

Company	$\beta$	D/E	Payout	P/E
Boeing	2.12	0%	0%	25
Cisco	1.15	86%	39%	25
Coca-Cola	2.15	6%	23%	14
Emerson Electric	1.15	41%	49%	23
Intel	.46	7%	60%	21

# Group D: Retailing

Company	$\beta$	D/E	Payout	P/E
Amazon	1.85	0%	0%	48
Barnes & Noble	1.37	68%	17%	12
eBay	.80	114%	16%	20
Federated	2.44	618%	0%	46
Safeway	1.16	6%	32%	24

# Group E: Services

Company	β	D/E	Payout	P/E
Accenture	.46	19%	44%	23
Host Marriott	1.59	47%	16%	17
IBM	1.71	3%	19%	20
Marriott International	1.35	52%	15%	24
UPS	1.14	242%	22%	14