AGL RESOURCES NYSE-GAS

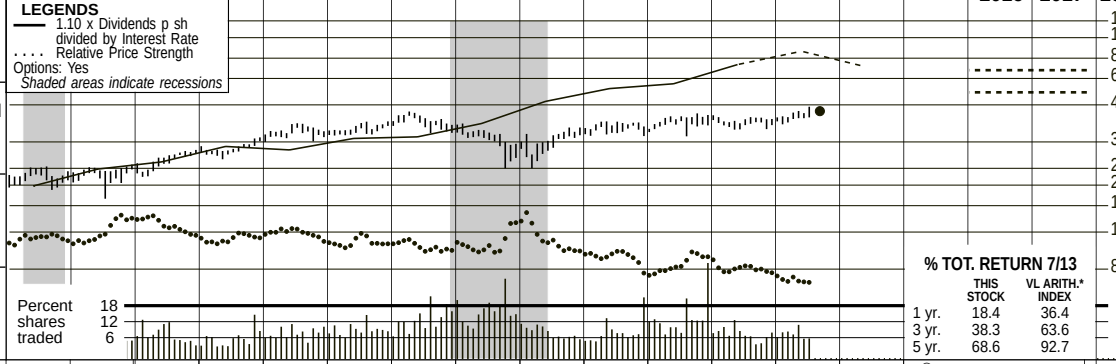
RECENT PRICE 44.75 | P/E RATIO 15.0 (Trailing: 17.0 Median: 13.0) | RELATIVE P/E RATIO 0.88 | DIV'D YLD 4.2% | VALUE LINE Ex. 3.8

TIMELINESS 2 Raised 6/28/13
SAFETY 1 Raised 9/9/11
TECHNICAL 3 Raised 9/6/13
BETA .75 (1.00 = Market)

High:	25.0	29.3	33.7	39.3	40.1	44.7	39.1	37.5	40.1	43.7	42.9	47.0
Low:	17.3	21.9	26.5	32.0	34.4	35.2	24.0	24.0	34.2	34.1	36.6	38.9

Target Price Range 2016 | 2017 | 2018

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+55%)	15%
Low	55	(+25%)	9%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	1	0	0	2	0
to Sell	0	0	0	0	2	0	1	2	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	150	158	146
to Sell	141	136	154
Hld's(000)	71771	73402	74626

Percent shares traded 18 12 6

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	18.4	36.4
3 yr.	38.3	63.6
5 yr.	68.6	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	36.41	29.88	30.42	19.97	33.27	*36.75*	*38.45*	Revenues per sh A	*44.85*
2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	4.90	5.05	3.06	5.82	*6.30*	*6.75*	"Cash Flow" per sh	*8.40*
1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.71	2.88	3.00	2.12	2.32	*2.60*	*2.90*	Earnings per sh A B	*4.10*
1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	1.72	1.76	1.90	1.74	*1.88*	*1.92*	Div'ds Decl'd per sh CF■	*2.32*
2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.84	6.14	6.54	3.65	6.63	*5.15*	*5.60*	Cap'l Spending per sh	*6.45*
10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	21.48	22.95	23.24	28.33	28.76	*33.35*	*34.10*	Book Value per sh D	*36.05*
56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	77.54	78.00	117.10	117.88	*117.00*	*117.00*	Common Shs Outst'g E	*117.00*
14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	12.3	11.2	12.5	18.8	12.6	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	.75	.80	1.18	.82	*Value Line*		Relative P/E Ratio	*1.00*
5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	5.0%	5.4%	4.7%	4.8%	4.8%	*estimates*		Avg Ann'l Div'd Yield	*3.3%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $4968 mill. **Due in 5 Yrs** $2370 mill.
LT Debt $3819 mill. **LT Interest** $184 mill.
(Total interest coverage: 4.4x)

Leases, Uncapitalized Annual rentals $214.9 mill.
Pension Assets-12/12 $845.0 mill. **Oblig.** $968.0 mill.

Pfd Stock None

Common Stock 118,592,240 shs. **as of 7/24/13**

MARKET CAP: $5.3 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
983.7	1832.0	2718.0	2621.0	2494.0	2800.0	2317.0	2373.0	2338.0	3922.0	*4300*	*4500*	Revenues ($mill) A	*5250*
132.4	153.0	193.0	212.0	211.0	207.6	222.0	234.0	172.0	271.0	*305*	*340*	Net Profit ($mill)	*480*
35.9%	37.0%	37.7%	37.8%	37.6%	40.5%	35.2%	35.9%	40.2%	39.8%	*38.5%*	*37.0%*	Income Tax Rate	*32.5%*
13.5%	8.4%	7.1%	8.1%	8.5%	7.4%	9.6%	9.9%	7.4%	6.9%	*7.1%*	*7.6%*	Net Profit Margin	*9.1%*
50.3%	54.0%	51.9%	50.2%	50.2%	50.3%	52.6%	48.0%	51.8%	49.5%	*47.5%*	*48.5%*	Long-Term Debt Ratio	*51.5%*
49.7%	46.0%	48.1%	49.8%	49.8%	49.7%	47.4%	52.0%	48.2%	50.5%	*52.5%*	*51.5%*	Common Equity Ratio	*48.5%*
1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	3754.0	3486.0	6879.0	6716.0	*7425*	*7725*	Total Capital ($mill)	*8670*
2352.4	3178.0	3271.0	3436.0	3566.0	3816.0	4146.0	4405.0	7900.0	8347.0	*8845*	*9380*	Net Plant ($mill)	*11170*
8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	6.9%	7.6%	3.1%	5.4%	*5.5%*	*6.0%*	Return on Total Cap'l	*7.0%*
14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	12.5%	12.9%	5.2%	8.0%	*8.0%*	*8.5%*	Return on Shr. Equity	*11.5%*
14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	12.5%	12.9%	5.2%	8.0%	*8.0%*	*8.5%*	Return on Com Equity	*11.5%*
6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	5.3%	5.6%	.7%	2.0%	*2.0%*	*3.0%*	Retained to Com Eq	*5.0%*
53%	49%	52%	52%	58%	60%	57%	57%	86%	75%	*72%*	*66%*	All Div'ds to Net Prof	*56%*

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	69	131	184
Other	2677	2537	1879
Current Assets	2746	2668	2063
Accts Payable	294	334	344
Debt Due	1928	2214	1149
Other	862	790	856
Current Liab.	3084	3338	2349
Fix. Chg. Cov.	325%	330%	438%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	5.0%	-3.0%	*8.0%*
"Cash Flow"	4.5%	1.5%	*10.5%*
Earnings	8.0%	1.5%	*9.0%*
Dividends	5.0%	6.5%	*4.5%*
Book Value	8.0%	5.0%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1003	359	346	665	2373
2011	878	375	295	790	2338
2012	1404	686	614	1218	3922
2013	1709	904	*560*	*1127*	*4300*
2014	*1840*	*710*	*610*	*1340*	*4500*

Cal-endar	EARNINGS PER SHARE AB Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1.73	.17	.29	.81	3.00
2011	1.59	.23	d.04	.37	2.12
2012	1.12	.28	.08	.84	2.32
2013	1.31	.41	*.14*	*.74*	*2.60*
2014	*1.70*	*.25*	*.15*	*.80*	*2.90*

Cal-endar	QUARTERLY DIVIDENDS PAID CF■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.43	.43	.43	.43	1.72
2010	.44	.44	.44	.44	1.76
2011	.45	.45	.45	.55	1.90
2012	.36	.46	.46	.46	1.74
2013	.47	.47	.47		

BUSINESS: AGL Resources Inc. is a public utility holding company. Distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas, Virginia Natural Gas, Florida City Gas and Elkton Gas. Acquired Nicor in 2011. The utilities have more than 4.4 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Illinois. Engaged in nonregulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. BlackRock Inc. owns 7.0% of common stock; officers/directors, less than 1.0% (3/13 Proxy). President & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

AGL Resources continues to improve upon last year's earnings. The top line was $904 million, which was well above our estimate. Sales have been helped by a cooler second quarter, and increased retail operations. We accordingly increased our 2013 revenue estimate from $4.155 billion to $4.3 billion. Earnings came in above our estimate, as the Nicor merger-related expenses may finally be in the rear window. The company booked a $0.04-a-share on the sale of its Compass Energy subsidiary, and purchased a smaller retail business at the end of June, which should add $0.02 to share net in 2013. The interest expense remained stable even though the debt load is higher than last year. All told, we raised our share earnings estimate to $2.60 from $2.55, as growth should remain solid for the rest of the year.

New laws and base-rate cases are causing some variability in forecasts. The legislature in Illinois voted in a new law that allows for infrastructure investment surcharges to be collected by gas utilities serving over 700,000 customers in the state. This new program will allow for an advancement in capital expenditures, up to $150 million, and revenue growth, when a plan is accepted by the state. Meanwhile, the company seeks to file a new depreciation rate case, which could lower that expense by between $4 million and $6 million a year. These developments should help benefit the bottom line, if approved.

The expansion in cash flow may allow for longer-term dividend expansion. AGL Resources' dividend yield remains high for a natural gas utility, but could further expand alongside increasing cash flow. Too, the balance sheet remains in good shape, and the long-term debt ratio should remain within the historical range. The company continues to have a Financial Strength score of A.

The Timeliness rank for this issue is 2 (Above Average). The stock has good appreciation potential for a utility and a strong dividend. The company has considerable potential for earnings growth, and the longer-term trends look to be in its favor. Conservative investors and momentum-based traders may want to consider this issue.

John E. Seibert III *September 6, 2013*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses):'99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07); '08, $0.13. Next earnings report due late October.
(C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available. (D) Includes intangibles. In 2012: $1933 million, $17.91/share.
(E) In millions. (F) Excluding special dividends from the Nicor merger.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	70

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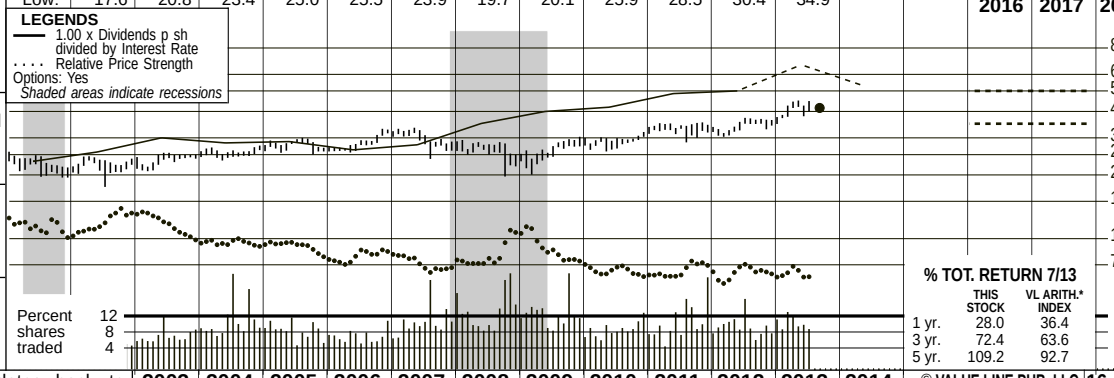
ATMOS ENERGY CORP. NYSE-ATO

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE
41.52	16.2	(Trailing: 16.6 Median: 14.0)	0.95	3.4%	Ex. 3.8

TIMELINESS 3 Lowered 7/12/13
SAFETY 2 Raised 12/16/05
TECHNICAL 3 Lowered 8/2/13
BETA .70 (1.00 = Market)

High:	24.5	25.5	27.6	30.0	33.1	33.5	29.3	30.3	32.0	35.6	37.3	45.6
Low:	17.6	20.8	23.4	25.0	25.5	23.9	19.7	20.1	25.9	28.5	30.4	34.9

Target Price Range 2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+20%)	8%
Low	35	(-15%)	Nil

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	0	0	0	0	5	0
to Sell	0	0	1	0	0	3	0	0	1

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	118	125	126
to Sell	115	120	121
Hld's(000)	53879	56136	57357

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	28.0	36.4
3 yr.	72.4	63.6
5 yr.	109.2	92.7

Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
54.39	46.50	61.75	75.27	66.03	79.52	53.69	53.12	48.15	38.10	*41.75*	*42.95*	Revenues per sh A	*56.30*
3.23	2.91	3.90	4.26	4.14	4.19	4.29	4.64	4.72	4.76	*5.20*	*5.45*	"Cash Flow" per sh	*6.05*
1.71	1.58	1.72	2.00	1.94	2.00	1.97	2.16	2.26	2.10	*2.45*	*2.60*	Earnings per sh A B	*3.00*
1.20	1.22	1.24	1.26	1.28	1.30	1.32	1.34	1.36	1.38	*1.40*	*1.42*	Div'ds Decl'd per sh C■	*1.50*
3.10	3.03	4.14	5.20	4.39	5.20	5.51	6.02	6.90	8.12	*8.80*	*9.00*	Cap'l Spending per sh	*10.00*
16.66	18.05	19.90	20.16	22.01	22.60	23.52	24.16	24.98	26.14	*29.70*	*31.30*	Book Value per sh	*34.65*
51.48	62.80	80.54	81.74	89.33	90.81	92.55	90.16	90.30	90.24	*91.00*	*92.00*	Common Shs Outst'g D	*103.00*
13.4	15.9	16.1	13.5	15.9	13.6	12.5	13.2	14.4	15.9	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.76	.84	.86	.73	.84	.82	.83	.84	.90	1.01	*Value Line*		Relative P/E Ratio	*.95*
5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	5.3%	4.7%	4.2%	4.1%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*
2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	4969.1	4789.7	4347.6	3438.5	*3800*	*3950*	Revenues ($mill) A	*5800*
79.5	86.2	135.8	162.3	170.5	180.3	179.7	201.2	199.3	192.2	*225*	*240*	Net Profit ($mill)	*310*
37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	38.5%	36.4%	33.8%	*37.5%*	*37.5%*	Income Tax Rate	*38.0%*
2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	4.2%	4.6%	5.6%	*5.9%*	*6.1%*	Net Profit Margin	*5.3%*
50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	49.9%	45.4%	49.4%	45.3%	*49.0%*	*49.0%*	Long-Term Debt Ratio	*49.0%*
49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.1%	54.6%	50.6%	54.7%	*51.0%*	*51.0%*	Common Equity Ratio	*51.0%*
1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4346.2	3987.9	4461.5	4315.5	*5300*	*5650*	Total Capital ($mill)	*7000*
1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4439.1	4793.1	5147.9	5475.6	*5950*	*6340*	Net Plant ($mill)	*8000*
6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	5.9%	6.9%	6.1%	5.8%	*5.5%*	*5.5%*	Return on Total Cap'l	*6.0%*
9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	8.8%	8.1%	*8.5%*	*8.5%*	Return on Shr. Equity	*8.5%*
9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.3%	9.2%	8.8%	8.1%	*8.5%*	*8.5%*	Return on Com Equity	*8.5%*
2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	2.7%	3.5%	3.3%	2.8%	*3.5%*	*4.0%*	Retained to Com Eq	*4.5%*
70%	77%	73%	63%	65%	65%	68%	62%	62%	65%	*57%*	*54%*	All Div'ds to Net Prof	*50%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $2597.6 mill. **Due in 5 Yrs** $1320.0 mill.
LT Debt $2455.6 mill. **LT Interest** $110.0 mill.
(LT interest earned: 3.1x; total interest coverage: 3.1x)
Leases, Uncapitalized Annual rentals $17.6 mill.
Pfd Stock None
Pension Assets-9/12 $343.1 mill. **Oblig.** $480.0 mill.
Common Stock 90,640,211 shs. as of 8/2/13
MARKET CAP: $3.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	131.4	64.2	32.0
Other	879.6	763.8	650.3
Current Assets	1011.0	828.0	682.3
Accts Payable	291.2	215.2	229.9
Debt Due	208.8	571.1	142.0
Other	367.6	489.7	348.7
Current Liab.	867.6	1276.0	720.6
Fix. Chg. Cov.	432%	448%	445%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	5.0%	-7.0%	*3.5%*
"Cash Flow"	4.0%	3.0%	*4.5%*
Earnings	5.0%	3.0%	*5.5%*
Dividends	1.5%	1.5%	*1.5%*
Book Value	6.5%	4.0%	*5.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	1292.9	1940.3	770.2	786.3	4789.7
2011	1133.3	1581.5	843.6	789.2	4347.6
2012	1084.0	1225.5	576.4	552.6	3438.5
2013	1034.2	1309.0	857.9	*598.9*	*3800*
2014	*1050*	*1355*	*910*	*635*	*3950*

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	1.00	1.17	d.03	.02	2.16
2011	.81	1.40	.04	.01	2.26
2012	.68	1.12	.31	- -	2.10
2013	.85	1.23	.36	*.01*	*2.45*
2014	*.82*	*1.37*	*.38*	*.03*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.33	.33	.33	.335	1.33
2010	.335	.335	.335	.34	1.35
2011	.34	.34	.34	.345	1.37
2012	.345	.345	.345	.35	1.39
2013	.35	.35	.35		

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to more than three million customers through six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Gas sales breakdown for 2012: 65%, residential; 28%, commercial; 3%, industrial; and 4% other. 2012 depreciation rate 3.3%. Has around 4,760 employees. Officers and directors own 1.2% of common stock (12/12 Proxy). President and Chief Executive Officer: Kim R. Cocklin. Incorporated: Texas. Address: Three Lincoln Centre, Suite 1800, 5430 LBJ Freeway, Dallas, Texas 75240. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

Atmos Energy is about to close the books on a prosperous fiscal 2013, which ends on September 30th. Through the first nine monts, results for the core natural gas distribution segment were helped, in part, by higher rates in such service areas as Kentucky/Mid-States and Louisiana. Another contributing factor here was cooler temperatures within divisions like Mississippi and Colorado-Kansas. Meanwhile, the regulated transmission and storage operation benefited from higher revenues from two Gas Reliability Infrastructure Program filings that became effective in April, 2012 and May, 2013. Barring a fourth-quarter pullback, it appears that the company's full-year share net will soar about 16%, to $2.45, versus the fiscal 2012 tally. We anticipate a slower rate of bottom-line growth next year partly due to the difficult comparison.

Meanwhile, there has been much activity on the rate-filing front. During the first nine months of fiscal 2013, Atmos completed 12 rate-case proceedings, which ought to result in a $70.5 million rise in annual operating income. (Most of the increase was for the Mid-Tex division, where rates became effective last January.)

Finances appear decent. The total amount available under several credit facilities, net of outstanding letters of credit, was nearly $880 million for the first nine months. Too, long-term debt looks manageable and cash flow from operations is adequate. Consequently, the company ought to continue to be able to satisfy its working capital requirements and capital spending program.

The equity has climbed to a record high in recent months. Indeed, it seems that investors are quite pleased with the company's operating performance during fiscal 2013. Other positives include a 2 (Above Average) Safety rank and excellent score for Price Stability.

However, total return possibilities out to 2016-2018 are not impressive. That's mainly because these shares are trading well within our Target Price Range. The current dividend is healthy, although we think additional increases will remain moderate. Meanwhile, the stock is neutrally ranked for Timeliness.

Frederick L. Harris, III September 6, 2013

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '03, d17¢; '06, d18¢; '07, d2¢; '09, 12¢; '10, 5¢; '11, (1¢). Excludes discontinued operations: '11, 10¢; '12, 27¢; '13, 14¢. Next egs. rpt. due early Nov. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	90

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CON. EDISON NYSE-ED

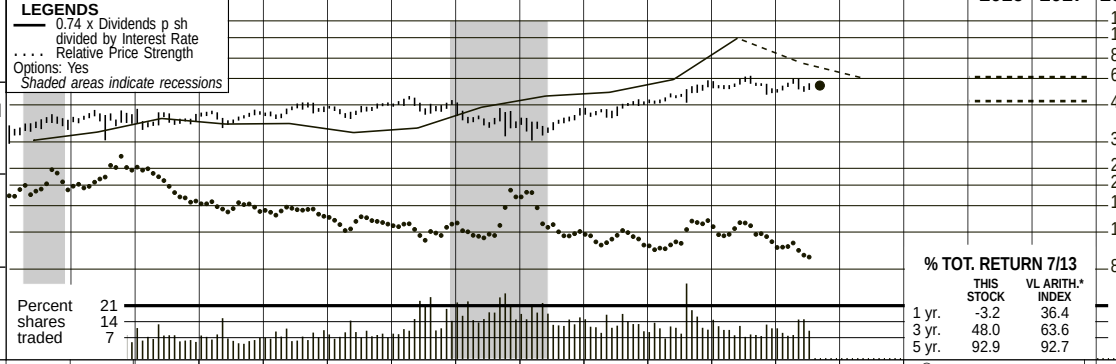
RECENT PRICE **59.28** | P/E RATIO **16.1** (Trailing: 15.2 / Median: 15.0) | RELATIVE P/E RATIO **0.91** | DIV'D YLD **4.2%** | VALUE LINE Ex. 3.8

TIMELINESS 3 Raised 5/17/13
SAFETY 1 New 7/27/90
TECHNICAL 3 Lowered 8/16/13
BETA .60 (1.00 = Market)

High:	45.4	46.0	45.6	49.3	49.3	52.9	49.3	46.3	51.0	62.7	66.0	64.0
Low:	32.7	36.6	37.2	41.1	41.2	43.1	34.1	32.6	41.5	48.6	53.6	54.9

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 0.74 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+10%)	7%
Low	50	(-15%)	1%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	1	0	0	1	0	0	1	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	2

Institutional Decisions

	3Q2012	4Q2012	1Q2013
to Buy	241	264	268
to Sell	263	286	261
Hld's(000)	122900	126940	127317

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-3.2	36.4
3 yr.	48.0	63.6
5 yr.	92.9	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
30.24	30.46	35.04	44.48	45.41	39.65	43.51	40.24	47.66	47.14	48.23	49.62	46.36	45.69	44.17	41.62	*42.65*	*43.70*	Revenues per sh	*48.75*
5.08	5.29	5.74	5.51	5.70	5.44	5.12	4.54	5.27	5.28	5.77	5.99	5.86	6.24	6.61	7.15	*7.25*	*7.55*	"Cash Flow" per sh	*8.75*
2.95	3.04	3.13	2.74	3.21	3.13	2.83	2.32	2.99	2.95	3.48	3.36	3.14	3.47	3.57	3.86	*3.75*	*3.85*	Earnings per sh A	*4.25*
2.10	2.12	2.14	2.18	2.20	2.22	2.24	2.26	2.28	2.30	2.32	2.34	2.36	2.38	2.40	2.42	*2.46*	*2.50*	Div'd Decl'd per sh B ■	*2.62*
2.78	2.66	3.17	4.52	5.20	5.68	5.72	5.60	6.59	7.17	7.09	8.50	7.80	6.96	6.72	7.06	*8.70*	*7.90*	Cap'l Spending per sh	*8.25*
25.18	25.88	25.31	25.81	26.71	27.68	28.44	29.09	29.80	31.09	32.58	35.43	36.46	37.93	39.05	40.53	*41.45*	*42.80*	Book Value per sh C	*47.75*
235.49	232.83	213.81	212.03	212.15	213.93	225.84	242.51	245.29	257.46	272.02	273.72	281.12	291.62	292.89	292.87	*293.00*	*293.00*	Common Shs Outst'g D	*293.00*
10.9	15.3	14.0	12.0	12.0	13.3	14.3	18.2	15.1	15.5	13.8	12.3	12.5	13.3	15.1	15.4	*Bold figures are*		Avg Ann'l P/E Ratio	*13.5*
.63	.80	.80	.78	.61	.73	.82	.96	.80	.84	.73	.74	.83	.85	.95	.98	*Value Line*		Relative P/E Ratio	*.90*
6.5%	4.6%	4.9%	6.6%	5.7%	5.3%	5.5%	5.3%	5.0%	5.0%	4.8%	5.7%	6.0%	5.2%	4.5%	4.1%	*estimates*		Avg Ann'l Div'd Yield	*4.5%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $12379 mill. **Due in 5 Yrs** $4302.0 mill.
LT Debt $10496 mill. **LT Interest** $514.0 mill.
(LT interest earned: 4.0x)

Leases, Uncapitalized Annual rentals $52.0 mill.

Pension Assets-12/12 $9.14 bill. **Oblig.** $13.4 bill.

Pfd Stock None

Common Stock 292,872,896 shs.
as of 7/26/13
MARKET CAP: $17 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
9827.0	9758.0	11690	12137	13120	13583	13032	13325	12938	12188	*12500*	*12800*	Revenues ($mill)	*14250*
639.0	560.0	719.0	749.0	936.0	933.0	868.0	992.0	1062.0	1141.0	*1115*	*1135*	Net Profit ($mill)	*1250*
33.7%	34.3%	33.6%	35.2%	32.6%	36.0%	34.2%	36.0%	36.1%	34.5%	*36.0%*	*36.0%*	Income Tax Rate	*36.0%*
4.2%	7.7%	2.2%	1.6%	1.9%	1.7%	2.6%	2.4%	1.6%	.5%	*1.0%*	*1.0%*	AFUDC % to Net Profit	*1.0%*
50.4%	47.4%	49.6%	50.2%	45.6%	48.3%	48.5%	48.6%	46.5%	45.9%	*47.0%*	*47.0%*	Long-Term Debt Ratio	*47.0%*
48.0%	51.0%	49.0%	48.5%	53.1%	50.6%	50.4%	50.4%	52.5%	54.1%	*53.0%*	*53.0%*	Common Equity Ratio	*53.0%*
13369	13828	14921	16515	16687	19160	20330	21952	21794	21933	*22975*	*23625*	Total Capital ($mill)	*26300*
15225	16106	17112	18445	19914	20874	22464	23863	25093	26939	*28475*	*29700*	Net Plant ($mill)	*33300*
6.3%	5.6%	6.3%	6.0%	7.0%	6.2%	5.7%	5.9%	6.2%	6.5%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.0%*
9.6%	7.7%	9.6%	9.1%	10.3%	9.4%	8.3%	8.8%	9.1%	9.6%	*9.0%*	*9.0%*	Return on Shr. Equity	*9.0%*
9.8%	7.8%	9.7%	9.2%	10.4%	9.5%	8.4%	8.9%	9.2%	9.6%	*9.0%*	*9.0%*	Return on Com Equity E	*9.0%*
2.9%	.8%	2.6%	2.6%	3.9%	3.1%	2.5%	3.2%	3.1%	3.6%	*3.0%*	*3.0%*	Retained to Com Eq	*3.5%*
71%	89%	74%	73%	63%	67%	71%	65%	66%	62%	*65%*	*64%*	All Div'ds to Net Prof	*61%*

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+3.6	-1.4	-1.1
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (¢)	NA	NA	NA
Capacity at Peak (Mw)	NMF	NMF	NMF
Peak Load, Summer (Mw)	12963	14788	14344
Annual Load Factor (%)	NMF	NMF	NMF
% Change Customers (yr-end)	NA	NA	NA
Fixed Charge Cov. (%)	331	360	382

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	--	-1.5%	*2.0%*
"Cash Flow"	2.0%	4.0%	*4.5%*
Earnings	2.0%	3.0%	*2.5%*
Dividends	1.0%	1.0%	*1.5%*
Book Value	4.0%	4.5%	*3.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	3462	3017	3707	3139	13325
2011	3349	2993	3629	2967	12938
2012	3078	2771	3438	2901	12188
2013	3306	2767	*3527*	*2900*	*12500*
2014	*3300*	*2900*	*3600*	*3000*	*12800*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.80	.64	1.23	.80	3.47
2011	1.06	.56	1.30	.65	3.57
2012	.94	.73	1.49	.70	3.86
2013	1.17	.49	*1.45*	*.64*	*3.75*
2014	*1.10*	*.60*	*1.50*	*.65*	*3.85*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.59	.59	.59	.59	2.36
2010	.595	.595	.595	.595	2.38
2011	.60	.60	.60	.60	2.40
2012	.605	.605	.605	.605	2.42
2013	.615	.615			

BUSINESS: Consolidated Edison, Inc. is a holding company for Consolidated Edison Company of New York, Inc. (CECONY), which sells electricity, gas, and steam in most of New York City and Westchester County. Also owns Orange and Rockland Utilities (O&R, acquired 7/99), which operates in New York, New Jersey, and Pennsylvania. Has 3.6 million electric, 1.2 million gas customers. Pursues competitive energy opportunities through three wholly owned subsidiaries. Purchases most of its power. Fuel costs: 39% of revenues. '12 reported depreciation rates: 2.8%-3.1%. Has 15,000 employees. Chairman, President & CEO: Kevin Burke. Incorporated: New York. Address: 4 Irving Place, New York, New York 10003. Tel.: 212-460-4600. Internet: www.conedison.com.

Consolidated Edison's largest subsidiary has revised its general rate case. Initially, Consolidated Edison Company of New York filed for an electric rate increase of $375 million (3.3%), a gas tariff hike of $25 million (1.3%), and a $5 million decrease in steam rates. The utility sought a return of 10.35% on a common-equity ratio of 50%. New rates are to be effective at the start of 2014, and CECONY would get additional rate relief in the following two years. However, the staff of the New York State Public Service Commission (NYSPSC) is proposing sharp *decreases* for each service. The staff is recommending that electric, gas, and steam rates be slashed by $187 million, $122 million, and $28 million, respectively, based on a return of 8.7% on a common-equity ratio of 48%. In June, CECONY revised its request. The company is now seeking raises in its electric, gas, and steam rates of $425 million, $26 million, and $11 million, respectively, based on a 10.1% return on a 50% common-equity ratio.

ConEd's utilities in New York State have proposed a storm-hardening plan. Last fall, Hurricane Sandy caused CECONY and Orange and Rockland to incur $394 million of operating expenses and $156 million of capital costs. Most of the operating expenses were deferred for future recovery. CECONY is proposing to recoup these costs over a three-year period. As a result, ConEd wants to spend $1 billion through 2016 to improve its system so that it can better withstand severe storms. The proposal requires the approval of the NYSPSC.

We have cut our 2013 and 2014 earnings estimates by $0.10 a share and $0.05 a share, respectively. Second-quarter results were below our expectation due in part to a loss of $0.06 a share due to the effects of mark-to-market accounting. We include this in our presentation because it is an ongoing part of quarterly results. We are more cautious in our 2014 forecast due to the wide disparity between CECONY's rate request and the staff recommendation.

This top-quality stock offers a dividend yield that is slightly above average for a utility. Like most utility stocks, 3- to 5-year total return potential is low.

Paul E. Debbas, CFA *August 23, 2013*

(A) Diluted EPS. Excl. nonrec. losses: '02, 11¢; '03, 45¢; '13, 41¢; gain on discontinued operations: '08, $1.01. Next earnings report due late Oct. (B) Div'ds historically paid in mid-Mar., June, Sept., and Dec. ■ Div'd reinvestment plan available. (C) Incl. intangibles. In '12: $35.35/sh. (D) In mill. (E) Rate base: net orig. cost. Rate allowed on com. eq. for CECONY in '10: 10.15% elec., 9.6% gas and steam; O&R in '12 (elec.) 9.4%, in '09 (gas) 10.3%; earned on avg. com. eq., '12: 9.5%. Regulatory Climate: Below Average.

Company's Financial Strength	A+
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	85

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LACLEDE GROUP NYSE-LG

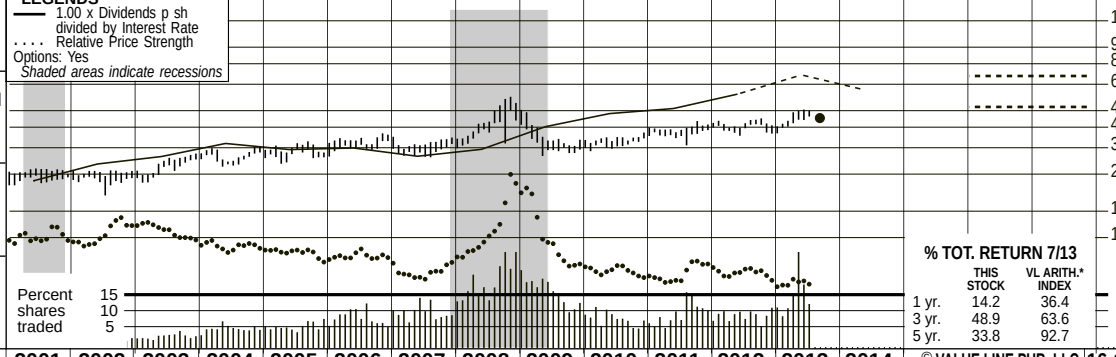
RECENT PRICE **44.26** | P/E RATIO **15.4** (Trailing: 15.8 / Median: 14.0) | RELATIVE P/E RATIO **0.90** | DIV'D YLD **3.8%** | VALUE LINE Ex. 3.8

TIMELINESS 4 Lowered 8/16/13
SAFETY 2 Raised 6/20/03
TECHNICAL 3 Lowered 8/16/13
BETA .60 (1.00 = Market)

High:	25.0	30.0	32.5	34.3	37.5	36.0	55.8	48.3	37.8	42.8	44.0	48.5
Low:	19.0	21.8	26.0	26.9	29.1	28.8	31.9	29.3	30.8	32.9	36.5	37.4

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+60%)	*15%*
Low	50	(+15%)	*7%*

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	1	2	0	0	0
to Sell	0	0	0	0	1	2	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	68	83	103
to Sell	52	55	60
Hld's(000)	11283	13119	20780

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	14.2	36.4
3 yr.	48.9	63.6
5 yr.	33.8	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	85.49	77.83	71.48	49.76	*43.25*	*50.00*	Revenues per sh A	*56.05*
3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	4.22	4.56	4.11	4.62	4.58	*4.25*	*4.75*	"Cash Flow" per sh	*5.85*
1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	2.64	2.92	2.43	2.86	2.79	*2.70*	*2.95*	Earnings per sh A B	*3.85*
1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	1.49	1.53	1.57	1.61	1.66	*1.70*	*1.74*	Div'ds Decl'd per sh C■	*2.00*
2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	2.57	2.36	2.56	3.02	4.71	*4.50*	*2.90*	Cap'l Spending per sh	*3.00*
14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	22.12	23.32	24.02	25.56	26.60	*26.40*	*23.55*	Book Value per sh D	*21.35*
17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	21.99	22.17	22.29	22.43	22.62	*26.00*	*32.00*	Common Shs Outst'g E	*33.00*
12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	14.3	13.4	13.7	13.0	14.5	*Bold figures are*		Avg Ann'l P/E Ratio	*15.5*
.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.86	.89	.87	.82	.97	*Value Line*		Relative P/E Ratio	*1.05*
5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	3.9%	3.9%	4.7%	4.3%	4.1%	*estimates*		Avg Ann'l Div'd Yield	*3.8%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $464.5 mill. **Due in 5 Yrs** $50.0 mill.
LT Debt $464.5 mill. **LT Interest** $24.0 mill.
(Total interest coverage: 6.1x)

Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-9/11 $248.0 mill. **Oblig.** $384.2 mill.
Pfd Stock None
Common Stock 32,692,182 shs. **as of 7/26/13**

MARKET CAP: $1.4 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	1895.2	1735.0	1603.3	1125.5	*1125*	*1600*	Revenues ($mill) A	*1850*
34.6	36.1	40.1	50.5	49.8	57.6	64.3	54.0	63.8	63.1	*70.0*	*95.0*	Net Profit ($mill)	*127.0*
35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	33.6%	33.4%	31.4%	32.0%	*31.0%*	*30.0%*	Income Tax Rate	*28.0%*
3.3%	2.9%	2.5%	2.5%	2.5%	2.6%	3.4%	3.1%	4.0%	5.6%	*6.3%*	*5.9%*	Net Profit Margin	*6.9%*
50.4%	51.6%	48.1%	49.5%	45.3%	44.4%	42.9%	40.5%	38.9%	36.0%	*54.0%*	*54.0%*	Long-Term Debt Ratio	*45.0%*
49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	57.1%	59.5%	61.1%	64.0%	*46.0%*	*46.0%*	Common Equity Ratio	*55.0%*
605.0	737.4	707.9	798.9	784.5	876.1	906.3	899.9	937.7	941.0	*1485*	*1635*	Total Capital ($mill)	*2570*
621.2	646.9	679.5	763.8	793.8	823.2	855.9	884.1	928.7	1019.3	*1025*	*1535*	Net Plant ($mill)	*1920*
7.4%	6.6%	7.6%	8.4%	8.5%	8.1%	8.7%	7.4%	8.1%	6.5%	*5.5%*	*7.0%*	Return on Total Cap'l	*5.5%*
11.5%	10.1%	10.9%	12.5%	11.6%	11.8%	12.4%	10.1%	11.1%	10.6%	*10.0%*	*12.5%*	Return on Shr. Equity	*9.0%*
11.6%	10.1%	10.9%	12.5%	11.6%	11.8%	12.4%	10.1%	11.1%	10.6%	*10.0%*	*12.5%*	Return on Com Equity	*9.0%*
3.1%	2.7%	3.1%	5.1%	4.3%	5.2%	5.9%	3.6%	4.9%	4.3%	*4.5%*	*5.0%*	Retained to Com Eq	*4.5%*
74%	73%	72%	59%	63%	56%	53%	64%	56%	60%	*63%*	*59%*	All Div'ds to Net Prof	*52%*

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	43.3	27.5	556.5
Other	325.8	315.5	284.9
Current Assets	369.1	343.0	841.4
Accts Payable	96.6	89.5	104.9
Debt Due	46.0	25.0	- -
Other	89.3	137.6	77.9
Current Liab.	231.9	252.1	182.8
Fix. Chg. Cov.	463%	442%	458%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	5.0%	-5.5%	*-3.0%*
"Cash Flow"	5.0%	4.5%	*4.5%*
Earnings	7.0%	4.0%	*6.0%*
Dividends	2.0%	3.0%	*3.5%*
Book Value	5.5%	6.5%	*-3.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	491.2	635.3	324.5	284.0	1735.0
2011	444.2	543.8	344.3	271.0	1603.3
2012	410.9	358.2	186.9	169.5	1125.5
2013	307.0	397.6	165.3	*255.1*	*1125*
2014	*510*	*550*	*290*	*250*	*1600*

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	1.03	1.26	.21	d.07	2.43
2011	1.05	1.25	.69	d.13	2.86
2012	1.12	1.32	.38	d.03	2.79
2013	1.14	1.34	.25	*d.03*	*2.70*
2014	*1.25*	*1.40*	*.40*	*d.10*	*2.95*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.385	.385	.385	.385	1.54
2010	.395	.395	.395	.395	1.58
2011	.405	.405	.405	.405	1.62
2012	.415	.415	.415	.415	1.66
2013	.425	.425	.425		

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 628,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Utility therms sold and transported in fiscal 2012: 1.0 bill. Revenue mix for regulated operations: residential, 64; commercial and industrial, 21%; transportation, 2%; other, 13%. Has around 1,640 employees. Officers and directors own approximately 7% of common shares (1/13 proxy). Chairman: William E. Nasser; CEO: Suzanne Sitherwood. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

Laclede Group reported mixed fiscal third-quarter results (years end September 30th). Revenues were down, largely due to lower Gas Marketing revenues. The Gas Utility segment, however, reported good results thanks to much cooler weather. Too, repayments expanded, offsetting increased infrastructure spending. Earnings per share of $0.25 were hurt due to a larger number of shares outstanding. We are lowering our 2013 estimate from $2.85 a share to $2.70 based on a much higher share count, and merger-related expenses.

The Laclede Group's closing of the Missouri Gas purchase should occur in fiscal 2013. Permission has been granted by the Missouri Public Service Commission to close the deal on or after September 1st, and management is eager for the transaction to close. The New England Gas Co. portion of the deal, however, is taking longer to receive regulatory approval for the subsequent selloff to Algonquin Power. Laclede may ultimately own the assets in Massachusetts.

Rate cases will improve future profitability. Missouri Gas is expected to file a new rate case by the end of the year, concerning the Infrastructure System Replacement Surcharge. The legacy Laclede Group agreed not to file a new rate case until fiscal 2016 in order for $14.8 million to be placed into the base rate from its ISRS program. This is likely to take some seasonality out of revenues.

The balance sheet is in flux. The company raised $428 million by selling over 10 million shares late in the fiscal third quarter. Too, Laclede sold $450 million of debt in the fiscal fourth quarter, which should increase company leverage. Although the increased interest expense will likely drag on fourth-quarter earnings, earnings will be helped by new revenues in 2014. Further changes should occur as the deal closes.

Laclede Group stock has a Timeliness rank of 4 (Below Average). This issue has decent 3- to 5-year total return potential, an above-average Safety rank of 2, and a dividend yield that is about average for a gas utility Still, waiting for a better price point may be the best strategy at this juncture.

John E. Seibert III *September 6, 2013*

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding in '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Excludes gain from discontinued operations: '08, 94¢. Next earnings report due late October. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Incl. deferred charges. In '12: $456.0 mill., $20.41/sh. (E) In millions. (F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	85

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NEW JERSEY RES. NYSE-NJR

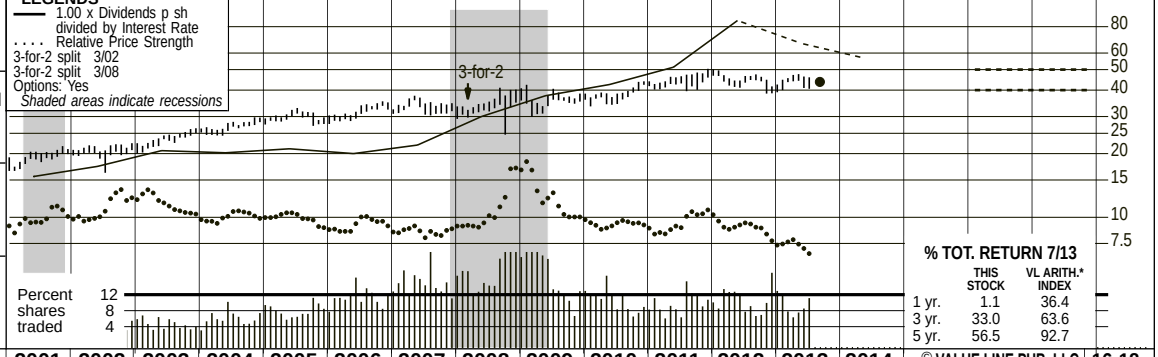
RECENT PRICE **43.73** | P/E RATIO **16.0** (Trailing: 17.8 / Median: 16.0) | RELATIVE P/E RATIO **0.94** | DIV'D YLD **3.7%** | VALUE LINE Ex. 3.8

TIMELINESS 2 Raised 8/23/13
SAFETY 1 Raised 9/15/06
TECHNICAL 3 Lowered 8/30/13
BETA .70 (1.00 = Market)

High:	22.4	26.4	29.7	32.9	35.4	37.6	41.1	42.4	44.1	50.5	50.3	47.6
Low:	16.2	20.0	24.3	27.1	27.7	30.3	24.6	30.0	33.5	39.6	38.5	39.1

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 3/02
3-for-2 split 3/08
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+15%)	7%
Low	40	(-10%)	2%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	0	0	0	0	0	1
to Sell	0	0	0	0	3	0	0	0	1

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	84	72	75
to Sell	68	68	64
Hld's(000)	24376	24522	23432

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	1.1	36.4
3 yr.	33.0	63.6
5 yr.	56.5	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
17.31	17.73	22.65	29.42	51.22	44.11	62.29	60.89	76.19	79.63	72.62	90.74	62.34	64.10	72.60	54.16	*74.15*	*76.35*	Revenues per sh A	*83.45*
1.63	1.74	1.86	1.99	2.12	2.14	2.38	2.50	2.62	2.73	2.44	3.62	3.16	3.26	3.40	3.74	*3.65*	*3.85*	"Cash Flow" per sh	*4.35*
.99	1.04	1.11	1.20	1.30	1.39	1.59	1.70	1.77	1.87	1.55	2.70	2.40	2.46	2.58	2.71	*2.70*	*2.80*	Earnings per sh B	*3.30*
.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	1.24	1.36	1.44	1.54	*1.60*	*1.64*	Div'ds Decl'd per sh C■	*1.72*
1.15	1.07	1.21	1.23	1.10	1.02	1.14	1.45	1.28	1.28	1.46	1.72	1.81	2.10	2.26	2.00	*2.00*	*2.00*	Cap'l Spending per sh	*2.00*
6.92	7.26	7.57	8.29	8.80	8.71	10.26	11.25	10.60	15.00	15.50	17.28	16.59	17.62	18.73	18.15	*18.80*	*20.05*	Book Value per sh D	*24.70*
40.23	40.07	39.92	39.59	40.00	41.50	40.85	41.61	41.32	41.44	41.61	42.06	41.59	41.17	41.45	41.53	*40.00*	*40.00*	Common Shs Outst'g E	*40.00*
13.5	15.3	15.2	14.7	14.2	14.7	14.0	15.3	16.8	16.1	21.6	12.3	14.9	15.0	16.8	16.8	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.15	.74	.99	.95	1.05	1.08	*Value Line*		Relative P/E Ratio	*.95*
5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%	3.3%	3.1%	3.2%	3.0%	3.3%	3.5%	3.7%	3.3%	3.3%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $881.6 mill. **Due in 5 Yrs** $214.3 mill.
LT Debt $516.2 mill. **LT Interest** $19.6 mill.
Incl. $65.8 mill. capitalized leases.
(LT interest earned: 7.5x; total interest coverage: 7.5x)
Pension Assets-9/12 $207.8 mill. **Oblig.** $332.2 mill.
Pfd Stock None

Common Stock 41,380,558 shs.
as of 8/5/13
MARKET CAP: $1.8 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
2544.4	2533.6	3148.3	3299.6	3021.8	3816.2	2592.5	2639.3	3009.2	2248.9	*2965*	*3055*	Revenues ($mill) A	*3335*
65.4	71.6	74.4	78.5	65.3	113.9	101.0	101.8	106.5	112.8	*110*	*115*	Net Profit ($mill)	*135*
39.4%	39.1%	39.1%	38.9%	38.8%	37.8%	27.1%	41.4%	30.2%	8.6%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
2.6%	2.8%	2.4%	2.4%	2.2%	3.0%	3.9%	3.9%	3.5%	5.0%	*3.5%*	*3.7%*	Net Profit Margin	*4.0%*
38.1%	40.3%	42.0%	34.8%	37.3%	38.5%	39.8%	37.2%	35.5%	39.2%	*40.0%*	*38.5%*	Long-Term Debt Ratio	*33.5%*
61.9%	59.7%	58.0%	65.2%	62.7%	61.5%	60.2%	62.8%	64.5%	60.8%	*60.0%*	*61.5%*	Common Equity Ratio	*66.5%*
676.8	783.8	755.3	954.0	1028.0	1182.1	1144.8	1154.4	1203.1	1339.0	*1250*	*1300*	Total Capital ($mill)	*1490*
852.6	880.4	905.1	934.9	970.9	1017.3	1064.4	1135.7	1295.9	1484.9	*1515*	*1545*	Net Plant ($mill)	*1640*
10.7%	10.1%	11.2%	9.6%	7.7%	10.7%	9.7%	9.7%	9.7%	9.4%	*9.5%*	*9.5%*	Return on Total Cap'l	*10.0%*
15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	14.6%	14.0%	13.7%	13.9%	*14.5%*	*14.0%*	Return on Shr. Equity	*13.5%*
15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	14.6%	14.0%	13.7%	13.9%	*14.5%*	*14.0%*	Return on Com Equity	*13.5%*
7.7%	7.8%	8.5%	6.3%	3.6%	9.5%	7.2%	6.7%	6.2%	6.2%	*6.0%*	*6.0%*	Retained to Com Eq	*6.5%*
51%	49%	50%	50%	64%	40%	50%	52%	55%	56%	*59%*	*56%*	All Div'ds to Net Prof	*52%*

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	7.4	4.5	1.9
Other	725.0	642.8	748.4
Current Assets	732.4	647.3	750.3
Accts Payable	66.0	265.8	336.3
Debt Due	166.9	287.6	365.4
Other	470.5	99.7	93.8
Current Liab.	703.4	653.1	795.5
Fix. Chg. Cov.	700%	700%	700%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	4.5%	-3.5%	*4.5%*
"Cash Flow"	5.0%	6.0%	*4.0%*
Earnings	7.0%	8.5%	*4.0%*
Dividends	6.5%	8.5%	*3.0%*
Book Value	8.0%	6.5%	*5.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	609.6	918.4	479.8	631.5	2639.3
2011	713.2	977.0	648.1	670.9	3009.2
2012	642.4	612.9	425.1	568.5	2248.9
2013	736.0	960.9	767.5	*500.6*	*2965*
2014	*760*	*985*	*790*	*520*	*3055*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	.66	1.55	.28	d.03	2.46
2011	.71	1.62	.23	.02	2.58
2012	1.09	1.79	.10	d.27	2.71
2013	.85	1.64	.23	*d.02*	*2.70*
2014	*.87*	*1.66*	*.25*	*.02*	*2.80*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.31	.31	.31	.31	1.24
2010	.34	.34	.34	.34	1.36
2011	.36	.36	.36	.36	1.44
2012	.38	.38	.38	.80	1.94
2013	- -	.40	.40	.40	

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 500,070 customers at 9/30/12 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2012 volume: 161 bill. cu. ft. (6% interruptible, 31% residential and commercial and electric utility, 63% incentive programs). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2012 dep. rate: 2.3%. Has 927 empls. Off./dir. own about 1.1% of common (12/12 Proxy). Chrmn., CEO & Pres. : Laurence M. Downes. Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

New Jersey Resources posted solid financial results for the June interim. Indeed, the top line advanced more than 80% on a year-over-year basis. A good portion of that gain can be attributed to an almost doubling of nonutility volumes, thanks to solid contributions from the NJR Energy Services unit. Meanwhile, the regulated utility segment, New Jersey Natural Gas, added 5,301 new customer accounts during the first nine months of this year. Finally, the NJR Home Services division also logged nicely higher earnings contributions during the quarter. On balance, the bottom line more than doubled, to $0.23 a share. This was relatively in line with our previous expectation. However, management recently raised its guidance for fiscal 2013.

As a result, we have added a dime to our annual earnings estimates for this year and next to $2.70 and $2.80 a share, respectively. This ought to be supported by 13,000-15,000 additional customer accounts at the regulated utility division. Meanwhile, the wholesale energy subsidiary, NJR Energy Services, and the Home Services divisions have both been performing nicely this year, a trend that we expect to continue. These steady gains will likely be offset by diminished top- and bottom-line contributions at the Clean Energy Ventures segment. Overall, these factors ought to leave earnings relatively unchanged for 2013 and contribute to modest share-net advances in 2014 and beyond.

Meanwhile, the balance sheet is providing a firm underpinning. On the upside, the long-term debt load has decreased about 2%, and represents a relatively modest portion of the capital structure, especially for a utility company. Notably, the company made it through difficulties caused by Superstorm Sandy without a hitch, financially. What's more, the board recently approved a one-million-share increase to the existing stock-repurchase agreement, bringing potential buybacks to 9.75 million shares.

These high-quality shares may appeal to income-seeking accounts. Indeed, NJR is ranked to outpace the broader market averages in the year ahead, and offers a dividend yield that is comparable to the industry average.

Bryan J. Fong *September 6, 2013*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qtly egs may not sum to total due to change in shares outstanding. Next earnings report due late Oct.
(C) Dividends historically paid in early Jan., April, July, and October. 1Q '13 div'd paid in 4Q '12. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2012: $441.3 million, $10.63/share.
(E) In millions, adjusted for splits.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	55

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NORTHEAST UTILITIES NYSE-NU

RECENT PRICE 43.49 | P/E RATIO 16.8 (Trailing: 17.6 Median: 17.0) | RELATIVE P/E RATIO 0.95 | DIV'D YLD 3.5% | VALUE LINE Ex. 3.8

TIMELINESS 2 Raised 7/12/13
SAFETY 2 Raised 5/25/12
TECHNICAL 4 Lowered 8/23/13
BETA .75 (1.00 = Market)

High:	20.7	20.3	20.3	22.0	28.9	33.6	31.6	26.5	32.2	36.5	40.9	45.7
Low:	12.7	13.1	17.2	17.3	19.1	26.2	17.2	19.0	24.7	30.0	33.5	38.6

2016-18 PROJECTIONS

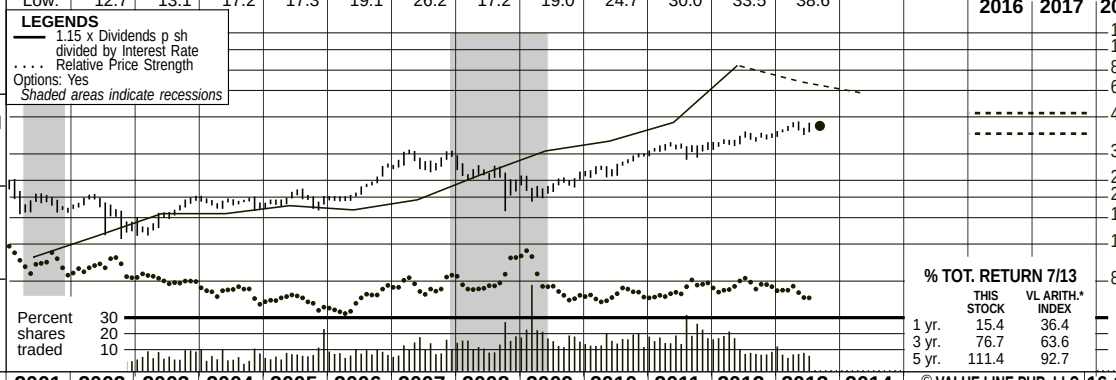
	Price	Gain	Ann'l Total Return
High	50	(+15%)	7%
Low	40	(-10%)	2%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	0	0	0
Options	0	2	0	0	0	0	2	0	0
to Sell	0	2	1	1	0	0	2	0	0

Institutional Decisions

	3Q2012	4Q2012	1Q2013
to Buy	189	212	208
to Sell	178	170	166
Hld's(000)	199126	204838	207192



% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	15.4	36.4
3 yr.	76.7	63.6
5 yr.	111.4	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
29.46	28.77	33.91	40.86	52.82	40.89	47.53	51.82	41.85	44.64	37.27	37.22	30.97	27.76	25.21	19.98	*23.50*	*24.20*	Revenues per sh	*26.25*
2.68	3.73	5.68	3.39	10.48	6.32	5.80	5.00	5.46	3.69	4.82	6.16	4.96	5.68	4.88	4.03	*5.35*	*5.70*	"Cash Flow" per sh	*6.75*
d1.05	d.36	d1.14	d.20	1.37	1.08	1.24	.91	.98	.82	1.59	1.86	1.91	2.10	2.22	1.89	*2.55*	*2.75*	Earnings per sh A	*3.25*
.25	- -	.10	.40	.45	.53	.58	.63	.68	.73	.78	.83	.95	1.03	1.10	1.32	*1.47*	*1.56*	Div'd Decl'd per sh B ■	*1.80*
1.85	1.79	2.50	2.88	3.40	3.86	4.31	4.85	5.89	5.49	7.14	8.06	5.17	5.41	6.08	4.69	*5.15*	*5.45*	Cap'l Spending per sh	*4.75*
16.34	15.63	15.80	15.43	16.27	17.33	17.73	17.80	18.46	18.14	18.65	19.38	20.37	21.60	22.65	29.41	*29.80*	*30.90*	Book Value per sh C	*34.75*
130.18	130.95	131.87	143.82	130.13	127.56	127.70	129.03	131.59	154.23	156.22	155.83	175.62	176.45	177.16	314.05	*315.00*	*316.00*	Common Shs Outst'g D	*319.00*
- -	- -	- -	- -	14.1	16.1	13.4	20.8	19.8	27.1	18.7	13.7	12.0	13.4	15.4	19.9	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
- -	- -	- -	- -	.72	.88	.76	1.10	1.05	1.46	.99	.82	.80	.85	.97	1.27	*Value Line*		Relative P/E Ratio	*.95*
2.4%	- -	.6%	1.9%	2.3%	3.0%	3.5%	3.3%	3.5%	3.3%	2.6%	3.2%	4.2%	3.6%	3.2%	3.5%	*estimates*		Avg Ann'l Div'd Yield	*4.0%*

CAPITAL STRUCTURE as of 3/31/13
Total Debt $9265.5 mill. **Due in 5 Yrs** $3588.6 mill.
LT Debt $7031.2 mill. **LT Interest** $309.4 mill.
Incl. $19.6 mill. of rate reduction bonds.
(LT interest earned: 3.8x)
Leases, Uncapitalized Annual rentals $22.4 mill.
Pension Assets-12/12 $3.41 bill.
Oblig. $5.02 bill.
Pfd Stock $155.6 mill. **Pfd Div'd** $7.6 mill.
Incl. 2,324,000 shs $1.90-$3.28 rates ($50 par) not subject to mandatory redemption.
Common Stock 314,621,345 shs.
as of 4/30/13
MARKET CAP: $14 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
6069.2	6686.7	5507.3	6884.4	5822.2	5800.1	5439.4	4898.2	4465.7	6273.8	*7400*	*7650*	Revenues ($mill)	*8400*
162.7	122.1	128.5	126.2	251.5	296.2	335.6	377.8	400.3	533.0	*810*	*880*	Net Profit ($mill)	*1060*
32.1%	29.8%	30.8%	- -	30.3%	29.7%	34.9%	36.6%	29.9%	34.0%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
7.1%	6.8%	17.4%	21.5%	13.9%	15.8%	4.6%	7.1%	8.6%	2.3%	*4.0%*	*5.0%*	AFUDC % to Net Profit	*4.0%*
63.9%	64.2%	63.2%	58.7%	59.2%	60.4%	57.2%	55.1%	53.4%	43.7%	*45.5%*	*45.5%*	Long-Term Debt Ratio	*46.0%*
34.3%	34.0%	35.1%	39.7%	39.2%	38.1%	41.5%	43.6%	45.3%	55.4%	*53.5%*	*53.5%*	Common Equity Ratio	*53.0%*
6591.6	6749.4	6923.2	7052.0	7431.1	7926.2	8629.5	8741.8	8856.0	16675	*17475*	*18275*	Total Capital ($mill)	*21000*
5429.9	5864.2	6417.2	6242.2	7229.9	8207.9	8840.0	9567.7	10403	16605	*17500*	*18450*	Net Plant ($mill)	*20600*
4.2%	2.8%	3.5%	2.9%	5.0%	5.4%	5.4%	5.8%	5.9%	4.2%	*5.5%*	*6.0%*	Return on Total Cap'l	*6.0%*
6.8%	5.1%	5.0%	4.3%	8.3%	9.4%	9.1%	9.6%	9.7%	5.7%	*8.5%*	*9.0%*	Return on Shr. Equity	*9.5%*
6.9%	5.1%	5.1%	4.3%	8.4%	9.6%	9.2%	9.8%	9.8%	5.7%	*8.5%*	*9.0%*	Return on Com Equity E	*9.5%*
3.7%	1.6%	1.5%	.3%	4.3%	5.3%	4.7%	5.0%	5.0%	1.6%	*3.5%*	*4.0%*	Retained to Com Eq	*4.5%*
48%	70%	72%	94%	50%	45%	50%	49%	50%	72%	*58%*	*57%*	All Div'ds to Net Prof	*55%*

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+1.7	-1.2	+47.0
Avg. Indust. Use (MWH)	627	624	NA
Avg. Indust. Revs. per KWH (¢)	NA	NA	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Winter (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+.5	+.4	+59.8
Fixed Charge Cov. (%)	284	291	320

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	-6.0%	-10.0%	*1.5%*
"Cash Flow"	-3.0%	1.0%	*5.5%*
Earnings	10.5%	13.0%	*8.0%*
Dividends	9.5%	9.5%	*8.0%*
Book Value	4.0%	6.0%	*6.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1340	1111	1243	1204	4898.2
2011	1235	1048	1115	1068	4465.7
2012	1100	1629	1861	1684	6273.8
2013	1995	1636	*2019*	*1750*	*7400*
2014	*2075*	*1700*	*2075*	*1800*	*7650*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.49	.41	.57	.64	2.10
2011	.64	.44	.51	.64	2.22
2012	.56	.15	.66	.55	1.89
2013	.72	.54	*.74*	*.55*	*2.55*
2014	*.76*	*.61*	*.77*	*.61*	*2.75*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.2375	.2375	.2375	.2375	.95
2010	.25625	.25625	.25625	.25625	1.02
2011	.275	.275	.275	.275	1.10
2012	.294	.343	.343	.343	1.32
2013	.3675	.3675			

BUSINESS: Northeast Utilities is the parent of utilities that have 3.1 mill. elec., 487,000 gas customers. Connecticut Light & Power (CL&P) serves most of CT; Public Service Co. of New Hampshire (PSNH) supplies power to three fourths of NH's population; Western Massachusetts Electric Co. (WMECO) serves western MA; NSTAR supplies power to parts of eastern MA & gas to central & eastern MA. Acq'd NSTAR 4/12. Elec. rev. breakdown: res'l, 53%; comm'l, 30%; ind'l, 6%; other, 11%. Generating sources not avail. Fuel costs: 33% of revs. '12 reported depr. rates: 2.5%-3.3%. Has 8,700 empls. Chairman: Charles W. Shivery. Pres. & CEO: Thomas J. May. Inc.: MA. Address: One Federal St., Building 111-4, Springfield, MA 01105. Tel.: 413-785-5871. Internet: www.nu.com.

Northeast Utilities is on track to post much higher earnings this year. The comparison isn't exactly apples to apples, since the company booked significant expenses associated with its merger with NSTAR in 2012, but the transaction has worked out well, so far. NU is on track to achieve (or beat) its target of a 3% reduction in operating and maintenance costs. The company is benefiting from lower interest rates, too—in fact, its interest payments on almost $2 billion of debt that it issued since the merger closed are *lower* than those on over $900 million of borrowings that it retired. Furthermore, NU's significant transmission investment is boosting the company's profits, especially since its allowed return on equity for transmission is well above its allowed ROE for the rest of its business. Finally, NU has benefited from more favorable weather patterns this year. The winter returned to normal after an unusually mild 2012, and a hot July has prompted us to raise our 2013 earnings estimate by a nickel a share, to $2.55. This is within management's targeted range of $2.45-$2.60.

We expect further bottom-line growth in 2014, mainly due to additional transmission investment. Also, the service area's economy is showing signs of improvement. We have raised our estimate by $0.05 a share, to $2.75.

Investors should be aware of some threats to the company's allowed ROEs. The Federal Energy Regulatory Commission is examining NU's allowed ROEs after complaints from some affected parties in New England. This matter probably won't be resolved until mid- to late 2014. Next year, Connecticut Light & Power is required to file a rate case, so a cut in its allowed ROE of 9.4% is possible. We are not assuming any change in allowed ROEs in our estimates and projections, but if such a reduction occurs, it wouldn't affect earnings until 2015.

This timely stock has a dividend yield that is slightly below average for a utility. With the recent price near the midpoint of our 2016-2018 Target Price Range, total return potential is low, despite our expectation of healthy dividend growth.

Paul E. Debbas, CFA *August 23, 2013*

(A) Diluted EPS. Excl. nonrec. gains (losses): '02, 10¢; '03, (32¢); '04, (7¢); '05, ($1.36); '08, (19¢); '10, 9¢. '10 & '11 EPS don't add due to rounding, '12 due to chg. in shs. Next earnings report due early Nov. (B) Div'ds historically paid late Mar., June, Sept., & Dec. ■ Div'd reinvestment plan avail. (C) Incl. def'd chgs. In '12: $27.55/sh. (D) In mill. (E) Rate allowed on com. eq. in MA: '11, 9.6%; in CT: (elec.) '10, 9.4% (gas) '11, 8.83%; in NH: '10, 9.67%; earn. on avg. com. eq., '12: 7.3%. Reg. Clim.: CT, Below Avg.; NH, Avg.; MA, Above Avg.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	85
Earnings Predictability	65

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N.W. NAT'L GAS NYSE-NWN

RECENT PRICE 41.74 | P/E RATIO 19.0 (Trailing: 19.5 Median: 17.0) | RELATIVE P/E RATIO 1.11 | DIV'D YLD 4.4% | VALUE LINE Ex. 3.8

TIMELINESS 3 Raised 7/5/13
SAFETY 1 Raised 3/18/05
TECHNICAL 3 Lowered 8/16/13
BETA .60 (1.00 = Market)

High:	30.7	31.3	34.1	39.6	43.7	52.8	55.2	46.5	50.9	49.0	50.8	46.6
Low:	23.5	24.0	27.5	32.4	32.8	39.8	37.7	37.7	41.1	39.6	41.0	41.2

2016-18 PROJECTIONS

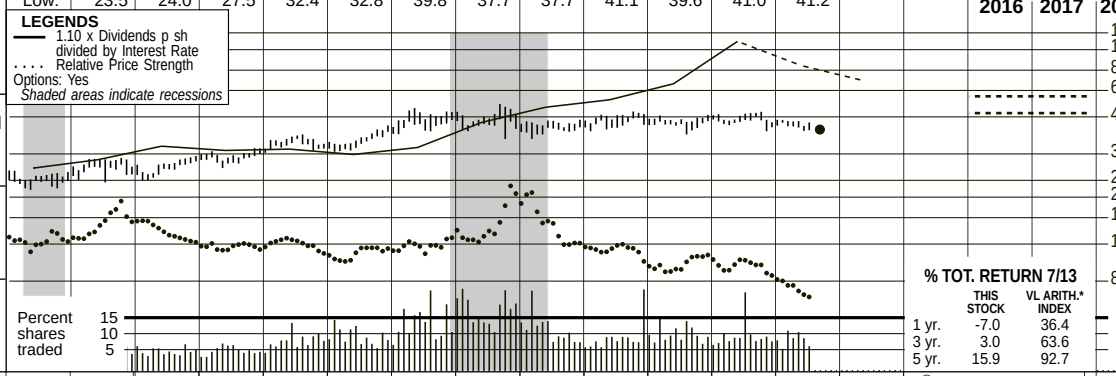
	Price	Gain	Ann'l Total Return
High	60	(+45%)	13%
Low	50	(+20%)	8%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	3	0	0	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	72	75	79
to Sell	58	53	63
Hld's(000)	16052	16036	15076



% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-7.0	36.4
3 yr.	3.0	63.6
5 yr.	15.9	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	39.13	39.16	38.17	30.56	31.72	27.14	27.20	27.80	Revenues per sh	28.95
3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.76	5.41	5.31	5.20	5.18	5.00	4.94	4.10	4.30	"Cash Flow" per sh	5.30
1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	2.76	2.57	2.83	2.73	2.39	2.22	2.15	2.30	Earnings per sh A	3.20
1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.44	1.52	1.60	1.68	1.75	1.79	1.83	1.87	Div'ds Decl'd per sh B■	2.00
5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.48	3.92	5.09	9.35	3.76	4.91	6.10	6.35	Cap'l Spending per sh	7.00
16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.01	22.52	23.71	24.88	26.08	26.70	27.23	27.95	29.15	Book Value per sh D	31.65
22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.24	26.41	26.50	26.53	26.58	26.76	26.92	27.00	27.00	Common Shs Outst'g C	28.00
14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	15.9	16.7	18.1	15.2	17.0	19.0	21.1	Bold figures are		Avg Ann'l P/E Ratio	17.0
.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.89	1.09	1.01	1.08	1.19	1.35	Value Line		Relative P/E Ratio	1.15
4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%	3.1%	3.3%	3.7%	3.6%	3.9%	3.8%	estimates		Avg Ann'l Div'd Yield	3.3%

CAPITAL STRUCTURE as of 6/30/13
Total Debt $827.7 mill. **Due in 5 Yrs** $200 mill.
LT Debt $691.7 mill. **LT Interest** $45.0 mill.

(Total interest coverage: 3.3x)

Pension Assets-12/12 $249.6 mill. **Oblig.** $435.9 mill.

Pfd Stock None

Common Stock 26,975,108 shares as of 7/26/13

MARKET CAP $1.1 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
611.3	707.6	910.5	1013.2	1033.2	1037.9	1012.7	812.1	848.8	730.6	735	750	Revenues ($mill)	810
46.0	50.6	58.1	65.2	74.5	68.5	75.1	72.7	63.9	59.9	57.5	62.0	Net Profit ($mill)	90.0
33.7%	34.4%	36.0%	36.3%	37.2%	36.9%	38.3%	40.5%	40.4%	42.4%	37.5%	36.0%	Income Tax Rate	31.0%
7.5%	7.1%	6.4%	6.4%	7.2%	6.6%	7.4%	8.9%	7.5%	8.2%	7.9%	8.3%	Net Profit Margin	11.1%
49.7%	46.0%	47.0%	46.3%	46.3%	44.9%	47.7%	46.1%	47.3%	48.5%	48.5%	48.5%	Long-Term Debt Ratio	48.0%
50.3%	54.0%	53.0%	53.7%	53.7%	55.1%	52.3%	53.9%	52.7%	51.5%	51.5%	51.5%	Common Equity Ratio	52.0%
1006.6	1052.5	1108.4	1116.5	1106.8	1140.4	1261.8	1284.8	1356.2	1424.7	1470	1525	Total Capital ($mill)	1705
1205.9	1318.4	1373.4	1425.1	1495.9	1549.1	1670.1	1854.2	1893.9	1973.6	2055	2135	Net Plant ($mill)	2400
5.7%	5.9%	6.5%	7.1%	8.5%	7.7%	7.3%	7.0%	6.2%	5.7%	5.0%	5.0%	Return on Total Cap'l	6.5%
9.1%	8.9%	9.9%	10.9%	12.5%	10.9%	11.4%	10.5%	8.9%	8.2%	7.5%	8.0%	Return on Shr. Equity	10.0%
9.0%	8.9%	9.9%	10.9%	12.5%	10.9%	11.4%	10.5%	8.9%	8.2%	7.5%	8.0%	Return on Com Equity	10.0%
2.6%	2.7%	3.7%	4.5%	6.0%	4.5%	5.0%	4.0%	2.4%	1.6%	1.0%	1.5%	Retained to Com Eq	4.0%
72%	69%	63%	59%	52%	59%	56%	61%	73%	80%	85%	81%	All Div'ds to Net Prof	63%

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	5.8	8.9	12.2
Other	342.9	274.8	166.9
Current Assets	348.7	283.7	179.1
Accts Payable	86.3	85.6	63.5
Debt Due	181.6	190.3	136.0
Other	146.6	92.5	73.7
Current Liab.	414.5	368.4	273.2
Fix. Chg. Cov.	334%	329%	393%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	2.0%	-4.0%	-.5%
"Cash Flow"	3.0%	1.0%	1.0%
Earnings	3.5%	0.5%	4.5%
Dividends	3.5%	4.5%	2.5%
Book Value	4.0%	4.0%	3.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	286.5	162.4	95.1	268.1	812.1
2011	323.1	161.2	93.3	271.2	848.8
2012	309.6	104.0	87.5	229.5	730.6
2013	227.9	131.7	95	280.4	735
2014	300	125	85	240	750

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1.64	.26	d.28	1.11	2.73
2011	1.53	.08	d.31	1.09	2.39
2012	1.51	.05	d.39	1.05	2.22
2013	1.40	.08	d.40	1.07	2.15
2014	1.45	.10	d.30	1.05	2.30

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.395	.395	.395	.415	1.60
2010	.415	.415	.415	.435	1.68
2011	.435	.435	.435	.445	1.75
2012	.445	.445	.445	.455	1.79
2013	.455	.455	.455		

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 681,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 59%; commercial, 29%; industrial, gas transportation, and other, 12%. Employs 1,092. BlackRock Inc. owns 8.2% of shares; officers and directors, 1.8% (4/13 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural Gas's results were mixed in the second quarter. Earnings per share were $0.08, helped by increased housing starts in the Portland housing market. Lower bad-debt expense also helped the bottom-line growth. That said, the company has delivered less gas thus far this year, hampering profit results in the first half when compared to last year. The base-rate cases should allow for more even revenue flow to cover fixed costs, likely helping in the third quarter. The company expects to file a case rate, concerning the rollout of compressed natural gas refueling. We expect this could be a good sector of growth over the longer term, as the move to natural gas vehicles accelerates. The pension base-rate case, which has been outstanding, will likely not be solved earlier than in 2014.

Management lowered fiscal earnings guidance on a settlement charge. As part of the settlement concerning its Site Remediation and Recovery Mechanism, Northwest Natural Gas agreed not to seek repayment of $7 million of deferred expenses, which will hit the income statement in the third quarter. Guidance from the company has accordingly declined to $2.02-$2.22 from $2.15-$2.35. We have lowered our earnings estimate to $2.15 from $2.30, and our revenue call from $735 million from $745 million, as well.

The company's financial position remains in good shape. Cash flow will likely be used to increase the dividend. Like clockwork, the dividend has been raised by one or two cents a share every fourth quarter. With the aforementioned hit to earnings, however, we expect a smaller raise to take place this year. The rest of cash flow will likely be used on capital projects.

Northwest Natural Gas stock has a Timeliness rank of 3 (Average). The dividend yield is among the highest in the industry. The payout ratio remains high, however. This company is leveraged and earnings could take a hit should longer-term rates rise significantly, increasing the associated interest expense. These shares have a top Price Stability score. The company's Financial Strength rating is A and this is a solid choice for income-minded investors.

John E. Seibert III *September 6, 2013*

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06); '08, ($0.03); '09, 6¢; Next earnings report due in early November.
(B) Dividends historically paid in mid-February, May, August, and November.
■ Dividend reinvestment plan available.
(C) In millions.
(D) Includes intangibles. In 2012: $387.9 million, $14.41/share.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	95

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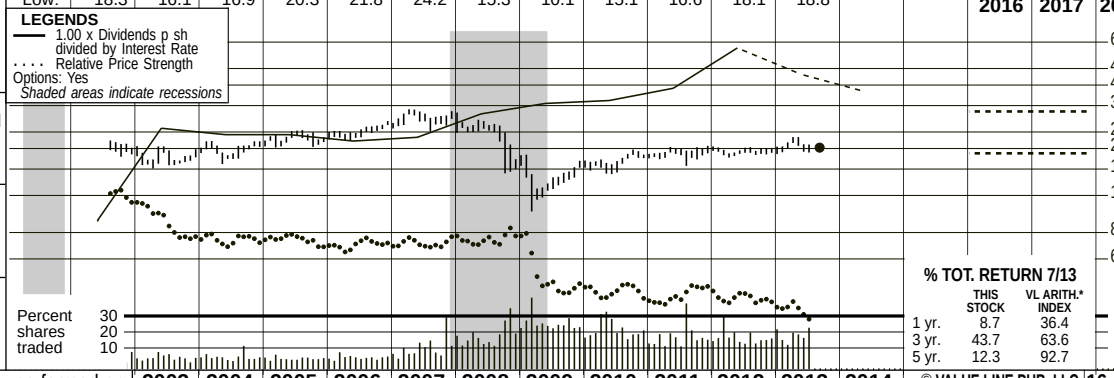
PEPCO HOLDINGS NYSE-POM

RECENT PRICE **20.20** | P/E RATIO **18.2** (Trailing: 17.9 Median: 15.0) | RELATIVE P/E RATIO **1.03** | DIV'D YLD **5.3%** | VALUE LINE PE Ex. 3.8

TIMELINESS 2 Raised 7/12/13
SAFETY 3 Lowered 6/6/03
TECHNICAL 3 Lowered 8/16/13
BETA .75 (1.00 = Market)

High:	21.9	20.6	21.7	24.5	27.0	30.7	29.6	18.7	19.8	20.6	20.5	22.7
Low:	18.3	16.1	16.9	20.3	21.8	24.2	15.3	10.1	15.1	16.6	18.1	18.8

Target Price Range 2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+50%)	15%
Low	19	(-5%)	4%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	0	1	0	0

Institutional Decisions

	3Q2012	4Q2012	1Q2013
to Buy	149	153	158
to Sell	134	143	134
Hld's(000)	125730	133078	139544

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	8.7	36.4
3 yr.	43.7	63.6
5 yr.	12.3	92.7

Pepco Holdings, Inc. (PHI) was formed on August 1, 2002, upon the merger of Potomac Electric Power Co. (PEPCO) and Conectiv. In the $2.2 billion deal, PEPCO common stockholders received one common share in PHI for each of their shares, and Conectiv investors exchanged each of their common shares for $25 worth of PHI stock and cash, prorated 50/50.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
42.33	38.35	42.49	43.57	46.71	48.88	41.66	31.27	26.02	22.09	*20.00*	*20.65*	Revenues per sh	*25.50*
3.80	3.71	3.67	3.47	3.30	3.55	2.82	2.97	3.00	3.21	*3.10*	*3.25*	"Cash Flow" per sh	*3.70*
1.35	1.46	1.49	1.33	1.53	1.93	1.06	1.24	1.14	1.24	*1.10*	*1.25*	Earnings per sh A	*1.70*
1.00	1.00	1.00	1.04	1.04	1.08	1.08	1.08	1.08	1.08	*1.08*	*1.12*	Div'd Decl'd per sh B ■	*1.16*
3.48	2.75	2.46	2.47	3.11	3.57	3.89	3.56	4.14	5.29	*5.20*	*5.20*	Cap'l Spending per sh	*4.00*
17.48	17.87	18.88	18.82	20.04	19.14	19.15	18.79	19.06	19.33	*19.00*	*19.45*	Book Value per sh C	*21.50*
171.77	188.33	189.82	191.93	200.51	218.91	222.27	225.08	227.50	230.02	*250.00*	*252.00*	Common Shs Outst'g D	*255.00*
13.4	13.6	14.9	18.1	18.2	12.2	13.7	14.0	16.7	15.6	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.76	.72	.79	.98	.97	.73	.91	.89	1.05	.99	*Value Line*		Relative P/E Ratio	*.95*
5.5%	5.0%	4.5%	4.3%	3.7%	4.6%	7.4%	6.2%	5.7%	5.6%	*estimates*		Avg Ann'l Div'd Yield	*4.9%*
7271.3	7221.8	8065.5	8362.9	9366.4	10700	9259.0	7039.0	5920.0	5081.0	*5000*	*5200*	Revenues ($mill)	*6500*
245.2	261.3	277.4	254.4	296.5	400.0	235.0	276.0	257.0	285.0	*275*	*315*	Net Profit ($mill)	*430*
18.3%	38.7%	38.8%	39.1%	39.3%	29.6%	31.9%	18.8%	37.2%	35.4%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
63.1%	59.7%	57.1%	54.6%	54.1%	56.2%	53.8%	49.0%	49.1%	47.3%	*46.0%*	*47.5%*	Long-Term Debt Ratio	*50.0%*
35.6%	39.6%	42.3%	45.1%	45.9%	43.8%	46.2%	51.0%	50.9%	52.7%	*54.0%*	*52.5%*	Common Equity Ratio	*50.0%*
8439.3	8494.0	8469.3	8004.0	8753.0	9568.0	9203.0	8292.0	8516.0	8432.0	*8750*	*9300*	Total Capital ($mill)	*10880*
6964.9	7088.0	7312.0	7576.6	7876.7	8314.0	8863.0	7673.0	8220.0	8846.0	*9600*	*10000*	Net Plant ($mill)	*11000*
4.8%	5.0%	5.0%	5.1%	5.1%	5.8%	4.5%	5.1%	4.5%	4.9%	*4.5%*	*5.0%*	Return on Total Cap'l	*6.0%*
7.9%	7.6%	7.6%	7.0%	7.4%	9.5%	5.5%	6.5%	5.9%	6.4%	*6.0%*	*6.5%*	Return on Shr. Equity	*8.0%*
7.7%	7.7%	7.7%	7.0%	7.4%	9.5%	5.5%	6.5%	5.9%	6.4%	*6.0%*	*6.5%*	Return on Com Equity E	*8.0%*
2.0%	2.5%	2.4%	1.5%	2.3%	4.2%	NMF	.8%	.3%	.8%	*.5%*	*.5%*	Retained to Com Eq	*2.5%*
75%	68%	69%	78%	68%	56%	101%	87%	95%	87%	*98%*	*90%*	All Div'ds to Net Prof	*69%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $5271 mill. **Due in 5 Yrs** $1784 mill.
LT Debt $4123 mill. **LT Interest** $250 mill.
(LT interest earned: 3.7x)

Pension Assets-12/12 $2.0 bill. **Oblig.** $2.5 bill.

Pfd Stock None

Common Stock 249,142,538 shs.
as of 7/25/13

MARKET CAP: $5.0 billion (Large Cap)

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+4.1	-2.8	NA
Avg. Resid'l Use (KWH)	11253	10836	10451
Avg. Resid'l Revs. per KWH(¢)	NA	NA	NA
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	+1.1	+.7	+.3
Fixed Charge Cov. (%)	204	251	253

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	-5.5%	-10.0%	*-.5%*
"Cash Flow"	-3.0%	-2.5%	*3.0%*
Earnings	-4.0%	-3.5%	*6.0%*
Dividends	- -	1.0%	*1.0%*
Book Value	.5%	- -	*2.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1819	1636	2067	1517	7039
2011	1634	1409	1643	1234	5920
2012	1292	1179	1476	1134	5081
2013	1226	1053	*1500*	*1221*	*5000*
2014	*1250*	*1100*	*1550*	*1300*	*5200*

Cal-endar	EARNINGS PER SHARE AF Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.16	.34	.52	.25	1.24
2011	.27	.42	.35	.10	1.14
2012	.30	.27	.49	.18	1.24
2013	.24	.22	*.43*	*.21*	*1.10*
2014	*.25*	*.25*	*.50*	*.25*	*1.25*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.27	.27	.27	.27	1.08
2010	.27	.27	.27	.27	1.08
2011	.27	.27	.27	.27	1.08
2012	.27	.27	.27	.27	1.08
2013	.27	.27	.27		

BUSINESS: Pepco Holdings, Inc. consists mainly of three electric utility subsidiaries: Potomac Electric Power Co., serving Washington, D.C. and adjoining areas of Maryland; Delmarva Power, which serves the peninsula area of Delaware, Maryland and Virginia; and Atlantic City Electric, serving southern New Jersey. In July 2010, Pepco sold competitive energy business (Conectiv Energy) to Calpine Corp. Electricity customers: 1.8 million; gas customers: 125,000. Electricity breakdown: residential, 40%; commercial, 41%; other, 19%. 2012 depreciation rate: 2.5%. Has approximately 5,040 employees as of 12/31/12. Chrmn., Pres. & CEO: Joseph M. Rigby. Inc.: DE. Address: 701 Ninth Street, N.W., Wash., D.C. 20068. Telephone.: 202-872-2000. Internet: www.pepcoholdings.com.

Pepco Holdings' second-quarter results came in below our expectations. The Washington, DC-based utility reported earnings of $0.22 a share during the period, versus our estimate of $0.25 (the figure excludes one-time charges related to cross-border lease investments). Despite the slight miss, the company reaffirmed its full-year earnings guidance of $1.05-$1.20 a share, though it did acknowledge that challenges related to weak load growth and regulatory outcomes continue to be somewhat of a burden. All told, we have lowered our 2013 share-net estimate by a nickel, to $1.10.

Rate-case outcomes continue to disappoint. On July 12th, the company received yet another lackluster regulatory ruling in its electric distribution rate case in Maryland. The commission's order authorized a $28 million increase in rates based on a 9.36% return on equity, which was less than half of the amount requested in Pepco's initial filing. Moreover, it was denied two of three grid resiliency charge proposals. As a result, the company filed an appeal of this decision and plans to file its next base rate case in Maryland by year's end.

The company reached a settlement in its Atlantic Electric rate case. On June 21st, the New Jersey Board of Public Utilities approved a settlement agreement that will provide for an annual rate increase of $26 million based on a return on equity of 9.75%. The revenue increase includes full recovery of incremental storm restoration costs by including capital cost in rate base and amortizing the deferred O&M expenses of $26 million over a three-year period. The outcome was less constructive than expected by the company.

Income-oriented accounts should consider taking a position here. Shares of Pepco are currently yielding an attractive 5.3%, well above the utility industry's 3.8% mean. Based on the steady earnings stream we project for 2013 and 2014, the payout appears well covered over this time. In our view, the favorable income component remains a key draw.

The stock has been upgraded a notch for Timeliness to 2 (Above Average). By utility standards, total return potential to 2016-2018 is also above average.

Michael Ratty *August 23, 2013*

(A) Based on dil. shs. Excl. nonrecur. items: '03, d69¢; '04, 1¢; '05, 47¢; '06, d1¢; '08, 46¢; '10, 62¢. Next egs. rpt. due early Nov. (B) Div'ds paid in early March, June, Sep., and Dec. ■ Div'd reinvest. plan. (C) Incl. def'd chgs: '12, $4.8 bill. or $20.87/sh. (D) In mill. (E) Rate allowed in MD: 9.36% ('13-Pepco), 10.0% ('09-Delmarva); DC: 9.6% ('10-Pep.); DEL: 10.0% ('06-Del.); NJ: 9.75% ('13-ACE); Earned on '12 avg. com. eq., 6.4%. Reg. Clim.: Avg. (F) Qtrly egs. may not add due to chng. in shs.

Company's Financial Strength	B
Stock's Price Stability	95
Price Growth Persistence	25
Earnings Predictability	70

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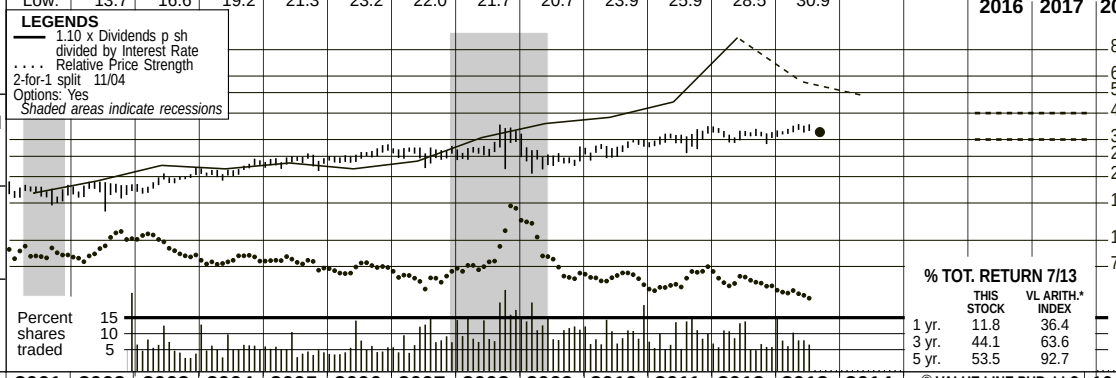
PIEDMONT NAT'L. GAS NYSE-PNY

RECENT PRICE 32.50 | P/E RATIO 18.3 (Trailing: 17.8 Median: 18.0) | RELATIVE P/E RATIO 1.07 | DIV'D YLD 3.8% | VALUE LINE x. 3.8

TIMELINESS 3 Raised 6/22/12
SAFETY 2 New 7/27/90
TECHNICAL 3 Lowered 6/14/13
BETA .70 (1.00 = Market)

High:	19.0	22.0	24.3	25.8	28.4	28.0	35.3	32.0	30.1	34.7	34.6	35.5
Low:	13.7	16.6	19.2	21.3	23.2	22.0	21.7	20.7	23.9	25.9	28.5	30.9

Target Price Range 2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+25%)	8%
Low	30	(-10%)	2%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	1	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	1	0	0	0	0	1

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	85	103	87
to Sell	78	63	83
Hld's(000)	33873	37241	38516

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	11.8	36.4
3 yr.	44.1	63.6
5 yr.	53.5	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	25.80	23.37	28.52	22.36	21.48	19.83	15.54	*17.10*	*17.75*	Revenues per sh A	*19.40*
1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.51	2.64	2.77	3.01	2.91	2.99	3.09	*3.15*	*3.20*	"Cash Flow" per sh	*3.45*
.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.28	1.40	1.49	1.67	1.55	1.57	1.66	*1.75*	*1.80*	Earnings per sh AB	*2.05*
.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	1.07	1.11	1.15	1.19	*1.23*	*1.27*	Div'ds Decl'd per sh C■	*1.39*
1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.47	1.76	2.75	3.37	7.33	*7.25*	*7.25*	Cap'l Spending per sh	*7.25*
6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	11.99	12.11	12.67	13.35	13.79	14.21	*15.70*	*16.20*	Book Value per sh D	*18.05*
60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.26	73.27	72.28	72.32	72.25	*76.00*	*76.00*	Common Shs Outst'g E	*76.00*
13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.2	18.7	18.2	15.4	17.1	18.9	19.2	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.10	1.03	1.09	1.19	1.22	*Value Line*		Relative P/E Ratio	*1.20*
4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	3.8%	4.1%	4.2%	3.9%	4.7%	*estimates*		Avg Ann'l Div'd Yield	*3.9%*

CAPITAL STRUCTURE as of 4/30/13
Total Debt $1320.0 mill. **Due in 5 Yrs** $175.0 mill.
LT Debt $875.0 mill. **LT Interest** $46.1 mill.
(LT interest earned: 4.1x; total interest coverage: 3.4x)

Pension Assets-10/12 $296.5 mill. **Oblig.** $333.7 mill.

Pfd Stock None

Common Stock 75,746,114 shs. **as of 6/4/13**

MARKET CAP: $2.5 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
1220.8	1529.7	1761.1	1924.6	1711.3	2089.1	1638.1	1552.3	1433.9	1122.8	*1300*	*1350*	Revenues ($mill) A	*1475*
74.4	95.2	101.3	97.2	104.4	110.0	122.8	111.8	113.6	119.8	*130*	*135*	Net Profit ($mill)	*155*
34.8%	35.1%	33.7%	34.2%	33.0%	36.3%	28.5%	23.4%	24.6%	29.7%	*25.0%*	*25.0%*	Income Tax Rate	*25.0%*
6.1%	6.2%	5.8%	5.0%	6.1%	5.3%	7.5%	7.2%	7.9%	10.7%	*10.3%*	*10.2%*	Net Profit Margin	*10.5%*
42.2%	43.6%	41.4%	48.3%	48.4%	47.2%	44.1%	41.0%	40.4%	48.7%	*45.5%*	*47.5%*	Long-Term Debt Ratio	*47.5%*
57.8%	56.4%	58.6%	51.7%	51.6%	52.8%	55.9%	59.0%	59.6%	51.3%	*54.5%*	*52.5%*	Common Equity Ratio	*52.5%*
1090.2	1514.9	1509.2	1707.9	1703.3	1681.5	1660.5	1636.9	1671.9	2002.0	*2200*	*2325*	Total Capital ($mill)	*2620*
1812.3	1849.8	1939.1	2075.3	2141.5	2240.8	2304.4	2437.7	2627.3	3105.1	*3200*	*3300*	Net Plant ($mill)	*3600*
8.6%	7.8%	8.2%	7.2%	7.8%	8.2%	9.1%	8.4%	8.2%	7.0%	*8.0%*	*8.0%*	Return on Total Cap'l	*8.0%*
11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	13.2%	11.6%	11.4%	11.7%	*11.0%*	*11.0%*	Return on Shr. Equity	*11.5%*
11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	13.2%	11.6%	11.4%	11.7%	*11.0%*	*11.0%*	Return on Com Equity	*11.5%*
3.1%	3.7%	3.6%	2.8%	3.5%	3.9%	4.8%	3.3%	3.1%	3.3%	*3.5%*	*3.5%*	Retained to Com Eq	*3.5%*
74%	66%	68%	74%	70%	69%	64%	72%	73%	72%	*70%*	*70%*	All Div'ds to Net Prof	*68%*

CURRENT POSITION ($MILL.)	2011	2012	4/30/13
Cash Assets	6.8	2.0	14.9
Other	279.2	303.6	291.9
Current Assets	286.0	305.6	306.8
Accts Payable	129.7	142.0	148.1
Debt Due	331.0	365.0	445.0
Other	73.4	85.6	65.2
Current Liab.	534.1	592.6	658.3
Fix. Chg. Cov.	323%	325%	325%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	3.0%	-4.5%	*.5%*
"Cash Flow"	5.0%	3.5%	*2.5%*
Earnings	5.0%	3.5%	*4.0%*
Dividends	5.0%	5.5%	*3.0%*
Book Value	5.0%	3.0%	*4.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2010	673.7	472.9	211.6	194.1	1552.3
2011	652.0	392.6	197.3	192.0	1433.9
2012	471.8	308.4	161.2	181.4	1122.8
2013	515.9	399.4	*180*	*204.7*	*1300*
2014	*530*	*410*	*195*	*215*	*1350*

Fiscal Year Ends	EARNINGS PER SHARE A B Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2010	1.14	.65	d.13	d.13	1.55
2011	1.16	.66	d.12	d.13	1.57
2012	1.05	.70	d.06	d.03	1.66
2013	1.18	.74	*d.09*	*d.08*	*1.75*
2014	*1.20*	*.75*	*d.08*	*d.07*	*1.80*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.26	.27	.27	.27	1.07
2010	.27	.28	.28	.28	1.11
2011	.28	.29	.29	.29	1.15
2012	.29	.30	.30	.60	1.49
2013	- -	.31	.31		

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 976,253 customers in North Carolina, South Carolina, and Tennessee. 2012 revenue mix: residential (48%), commercial (27%), industrial (9%), other (16%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 48.7% of revenues. '12 deprec. rate: 2.9%. Estimated plant age: 10 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,752 employees. Off./dir. own about 1.2% of common stock, BlackRock; 7.5% (1/13 proxy). Chrmn., CEO, & Pres.: Thomas E. Skains. Inc.: NC. Addr.: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas posted good financial results for the first six months of fiscal 2013 (ends October 31st). In the April quarter (the most recent period for which financial information was available), the company's top line advanced almost 30% on a year-over-year basis. This reflects organic customer growth; new rates in Tennessee; increased volume deliveries in the residential, commercial, and industrial markets; and higher transportation services in the power generation markets. So far this year, PNY has added nearly 6,800 customers. Meanwhile, on the profitability front, cost of goods sold increased almost 10% as a function of revenues. This was partially offset by a decline in operating expenses of roughly 7%. Still, all told, the tighter margins offset a good portion of the top-line gains, and on balance the bottom line inched 5.7% higher, to $0.74 a share. This was a bit higher than we had previously anticipated.

Consequently, we have added a nickel to our 2013 and 2014 earnings estimates. This would equate to a gain of about 5.5% in the current fiscal year. The steady gains should be supported by rising customer accounts as well as capital expansion projects that are in the works to widen PNY's geographic reach and boost system integrity.

Capital projects and rate cases augur well for prospects. The company is slated to spend about $550 million to $600 million this year. This covered the completion of the Sutton project, which went into service back in June. At the same time, Piedmont recently filed a general rate case in North Carolina, something that has not been done since 2008. Over that period, the company has invested more than $1.2 billion in that state and is seeking to adjust its rates to account for those initial outlays.

The overall financial position has improved over the course of this year. The long-term debt load has been trimmed by 10.5% and represents a relatively modest portion of the capital structure.

At this juncture, we think these shares are fairly valued. Dividend growth should be steady, but a fairly high payout ratio will probably limit the rate of advance.

Bryan J. Fong *September 6, 2013*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring gains (losses): '97, (2¢); '10, 41¢. Next earnings report due mid Sept. Quarters may not add to total due to change in shares outstanding.
(C) Dividends historically paid early-January, April, July, October. 2013 Q1 dividend paid in Q4 of 2012. ■ Div'd reinvest. plan available; 5% discount. (D) Includes deferred charges. In 2012: $597.2 million, $8.27/share.
(E) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	95

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SOUTH JERSEY INDS. NYSE-SJI

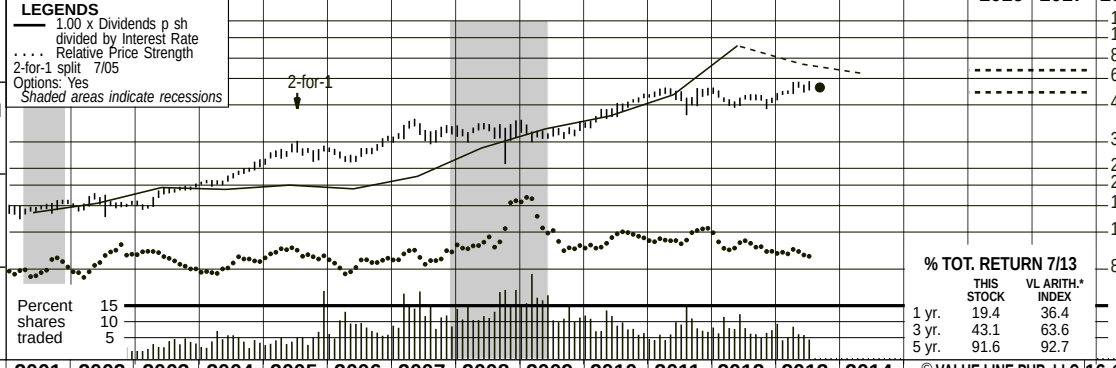
RECENT PRICE 57.99 | P/E RATIO 18.0 (Trailing: 19.7 Median: 16.0) | RELATIVE P/E RATIO 1.05 | DIV'D YLD 3.2% | VALUE LINE x. 3.8

TIMELINESS 3 Lowered 11/23/12
SAFETY 2 Lowered 1/4/91
TECHNICAL 4 Lowered 8/30/13
BETA .65 (1.00 = Market)

High:	18.3	20.3	26.5	32.4	34.3	41.3	40.6	40.8	54.2	58.0	58.0	62.3
Low:	14.1	15.3	19.7	24.9	25.6	31.2	25.2	32.0	37.2	42.8	45.8	50.5

Target Price Range 2016 | 2017 | 2018

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 7/05
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+20%)	8%
Low	55	(-5%)	3%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	3	1	0	0	1	0	1	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	2	1	1	1	6	1	3	1

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	69	76	76
to Sell	53	56	63
Hld's(000)	18794	19844	20301

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	19.4	36.4
3 yr.	43.1	63.6
5 yr.	91.6	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.36	28.37	30.97	27.42	22.31	23.10	25.05	Revenues per sh	33.35
1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	3.72	4.21	4.46	4.69	4.60	4.95	"Cash Flow" per sh	6.40
.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	2.38	2.70	2.90	3.03	3.15	3.35	Earnings per sh A	4.50
.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	1.22	1.36	1.50	1.65	1.80	1.95	Div'ds Decl'd per sh B ■	2.45
2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	3.67	5.59	6.39	8.02	5.55	5.95	Cap'l Spending per sh	7.80
6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	18.24	19.08	20.66	23.26	25.40	26.10	Book Value per sh C	30.55
21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	29.80	29.87	30.21	31.65	32.50	33.50	Common Shs Outst'g D	36.00
13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	15.0	16.8	18.4	16.9	Bold figures are		Avg Ann'l P/E Ratio	14.0
.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.96	1.00	1.07	1.15	1.08	Value Line		Relative P/E Ratio	.95
6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%	3.4%	3.0%	2.8%	3.2%	estimates		Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 6/30/13
Total Debt $922.1 mill. **Due in 5 Yrs** $476.4 mill.
LT Debt $601.4 mill. **LT Interest** $12.0 mill.
(Total interest coverage: 4.9x)

Pension Assets-12/12 $150.2 mill. **Oblig.** $224.4 mill.

Pfd Stock None

Common Stock 31,984,745 common shs. **as of 8/1/13**

MARKET CAP: $1.9 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
696.8	819.1	921.0	931.4	956.4	962.0	845.4	925.1	828.6	706.3	750	840	Revenues ($mill)	1200
34.6	43.0	48.6	72.0	61.8	67.7	71.3	81.0	87.0	93.3	100	110	Net Profit ($mill)	160
40.6%	40.9%	41.5%	41.3%	41.9%	47.7%	23.0%	15.2%	22.4%	10.8%	15.0%	20.0%	Income Tax Rate	25.0%
5.0%	5.2%	5.3%	7.7%	6.5%	7.0%	8.4%	8.8%	10.5%	13.2%	13.3%	13.1%	Net Profit Margin	13.3%
50.8%	48.7%	44.9%	44.7%	42.7%	39.2%	36.5%	37.4%	40.5%	45.0%	43.0%	42.5%	Long-Term Debt Ratio	42.0%
49.0%	51.0%	55.1%	55.3%	57.3%	60.8%	63.5%	62.6%	59.5%	55.0%	57.0%	57.5%	Common Equity Ratio	58.0%
608.4	675.0	710.3	801.1	839.0	848.0	856.4	910.1	1048.3	1337.6	1450	1525	Total Capital ($mill)	1900
748.3	799.9	877.3	920.0	948.9	982.6	1073.1	1193.3	1352.4	1578.0	1700	1825	Net Plant ($mill)	2100
7.3%	7.9%	8.3%	10.1%	8.6%	8.9%	9.0%	9.5%	8.9%	7.4%	7.5%	7.5%	Return on Total Cap'l	9.0%
11.5%	12.4%	12.4%	16.3%	12.8%	13.1%	13.1%	14.2%	13.9%	12.7%	12.0%	12.5%	Return on Shr. Equity	14.5%
11.6%	12.5%	12.4%	16.3%	12.8%	13.1%	13.1%	14.2%	13.9%	12.7%	12.0%	12.5%	Return on Com Equity	14.5%
5.0%	5.9%	6.2%	10.2%	6.7%	6.7%	6.4%	7.1%	6.7%	5.8%	5.0%	5.0%	Retained to Com Eq	6.5%
57%	52%	50%	37%	48%	49%	51%	50%	52%	55%	59%	59%	All Div'ds to Net Prof	55%

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	7.5	4.6	2.3
Other	333.1	390.2	390.7
Current Assets	340.6	394.8	393.0
Accts Payable	153.7	193.3	192.4
Debt Due	323.6	363.9	320.7
Other	110.7	94.6	119.2
Current Liab.	588.0	651.8	632.3
Fix. Chg. Cov.	505%	579%	411%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	.5%	-3.5%	3.5%
"Cash Flow"	8.5%	7.5%	6.0%
Earnings	9.5%	6.5%	7.5%
Dividends	7.5%	10.0%	8.5%
Book Value	10.0%	7.0%	6.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	329.3	151.6	160.7	283.5	925.1
2011	331.9	160.5	137.6	198.6	828.6
2012	274.8	121.9	112.0	197.6	706.3
2013	255.6	122.6	130	241.8	750
2014	275	145	150	270	840

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1.49	.24	.10	.87	2.70
2011	1.63	.20	.01	1.05	2.89
2012	1.65	.28	.13	.98	3.03
2013	1.52	.31	.20	1.12	3.15
2014	1.60	.38	.22	1.15	3.35

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	- -	.298	.298	.628	1.22
2010	- -	.330	.330	.695	1.36
2011	- -	.365	.365	.768	1.50
2012	- -	.403	.403	.845	1.65
2013	- -	.443	.443		

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 347,725 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '12: residential, 37%; commercial, 18%; cogeneration and electric generation, 21%; industrial, 24%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 700 employees. Off./dir. control 1.0% of common shares; BlackRock Inc., 7.6% (3/13 proxy). Chrmn. & CEO: Edward Graham. Inc.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Telephone: 609-561-9000. Internet: www.sjindustries.com.

South Jersey Industries reported modest top-line growth and a solid share-net advance for the second quarter. Utility South Jersey Gas posted a solid bottom-line increase for the period, thanks to customer growth and investments made under accelerated infrastructure programs. The Retail Energy segment benefited from the strong performance of Marina Energy. However, results were less favorable at the Wholesale Energy line, due to difficult market conditions.

South Jersey Gas ought to generate healthy performance going forward. Natural gas remains the fuel of choice within its service territory. The utility should further gain from customer interest in converting from other sources of fuel. Spending on infrastructure projects under the Accelerated Infrastructure Replacement Program will improve service quality and allow the utility to earn a good return on these investments.

Marina Energy will likely continue to drive performance at the Retail Energy business. Marina should further benefit as new retail projects come on line. Such projects are highly profitable, and demand remains strong. Marina is primarily focused on the development of Combined Heat and Power projects, benefiting from their utility-like annuity income streams. It is also selectively adding solar projects to its portfolio.

The Wholesale Energy business may well continue to experience challenges related to lower storage and trading margins on its term provider contracts. However, several actions will likely help improve performance from 2014 onward. These include restructuring storage and transportation contracts, increasing core marketing volumes, and adding fuel-management contracts for large-scale generation facilities.

This issue offers some appeal for conservative, income-oriented investors. South Jersey earns favorable marks for Safety, Price Stability, and Earnings Predictability, and the stock offers a solid dividend yield. Nevertheless, SJI shares are neutrally ranked for year-ahead relative price performance, and total return potential appears somewhat limited from the recent quotation.

Michael Napoli, CFA *September 6, 2013*

(A) Based on GAAP egs. through 2006, economic egs. thereafter. GAAP EPS: '07, $2.10; '08, $2.58; '09, $1.94; '10, $2.22; '11, $2.97; '12, $2.97. Excl. nonrecur. gain (loss): '01, $0.13; '08, $0.31; '09, ($0.44); '10, ($0.47); '11, $0.08; '12, ($0.06). Earnings may not sum due to rounding. Next egs. report due in November. (B) Div'ds paid early April, July, Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. reg. assets. In 2012: $352.7 mill., $11.14 per shr. (D) In mill., adj. for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	80
Earnings Predictability	90

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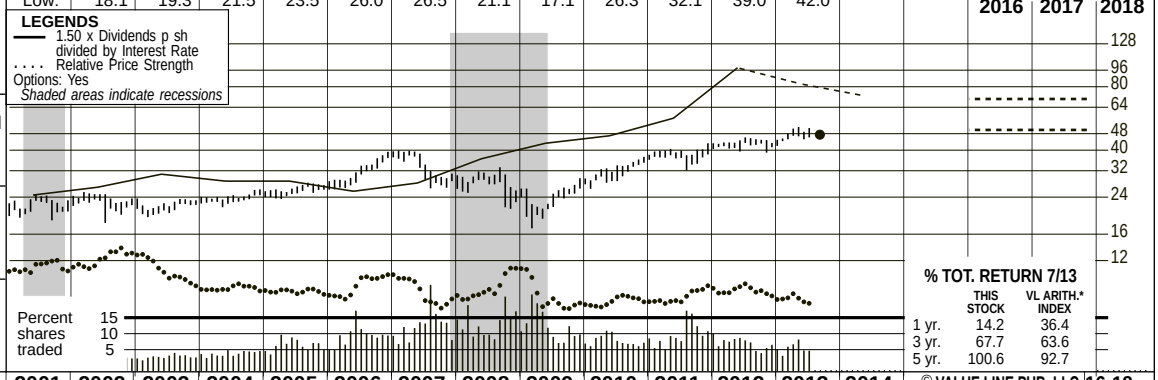
SOUTHWEST GAS NYSE-SWX

RECENT PRICE 47.38 | P/E RATIO 14.5 (Trailing: 14.8 Median: 16.0) | RELATIVE P/E RATIO 0.85 | DIV'D YLD 2.8% | VALUE LINE x. 3.8

TIMELINESS 3 Lowered 11/16/12
SAFETY 3 Lowered 1/4/91
TECHNICAL 3 Lowered 8/9/13
BETA .75 (1.00 = Market)

High:	25.3	23.6	26.2	28.1	39.4	39.9	33.3	29.5	37.3	43.2	46.1	51.5
Low:	18.1	19.3	21.5	23.5	26.0	26.5	21.1	17.1	26.3	32.1	39.0	42.0

Target Price Range 2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+50%)	13%
Low	50	(+5%)	5%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	1	0	0	0	0	0	0
Options	0	0	1	0	0	7	1	0	0
to Sell	0	0	4	1	0	7	1	1	2

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	78	95	89
to Sell	68	66	74
Hld's(000)	34487	35168	35299

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	14.2	36.4
3 yr.	67.7	63.6
5 yr.	100.6	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.28	48.53	42.00	40.18	41.07	41.77	**41.30**	**42.70**	Revenues per sh	**50.00**
3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.97	6.21	5.76	6.16	6.46	6.81	7.73	**8.20**	**8.55**	"Cash Flow" per sh	**9.60**
.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.39	1.94	2.27	2.43	2.86	**3.20**	**3.40**	Earnings per sh A	**4.00**
.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	.95	1.00	1.06	1.18	**1.32**	**1.40**	Div'ds Decl'd per sh B■†	**1.64**
6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.79	4.81	4.73	8.29	8.57	**6.40**	**7.30**	Cap'l Spending per sh	**9.60**
14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.49	24.44	25.62	26.66	28.39	**30.85**	**32.30**	Book Value per sh	**36.00**
27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.19	45.09	45.56	45.96	46.15	**47.00**	**48.00**	Common Shs Outst'g C	**50.00**
24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	12.2	14.0	15.7	15.0	*Bold figures are*		Avg Ann'l P/E Ratio	**15.0**
1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	.81	.89	.98	.95	*Value Line*		Relative P/E Ratio	**1.00**
4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	4.0%	3.2%	2.8%	2.8%	*estimates*		Avg Ann'l Div'd Yield	**2.7%**

CAPITAL STRUCTURE as of 6/30/13
Total Debt $1267.3 mill. **Due in 5 Yrs** $204.0 mill.
LT Debt $1256.3 mill. **LT Interest** $60.0 mill.
(Total interest coverage: 3.2x) (48% of Cap'l)
Leases, Uncapitalized Annual rentals $7.0 mill.
Pension Assets-12/12 $645.0 mill. **Oblig.** $962.5 mill.
Pfd Stock None

Common Stock 46,336,769 shs. as of 7/29/13

MARKET CAP: $2.2 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
1231.0	1477.1	1714.3	2024.7	2152.1	2144.7	1893.8	1830.4	1887.2	1927.8	**1940**	**2050**	Revenues ($mill)	**2500**
38.5	58.9	48.1	80.5	83.2	61.0	87.5	103.9	112.3	133.3	**150**	**165**	Net Profit ($mill)	**200**
30.5%	34.8%	29.7%	37.3%	36.5%	40.1%	34.0%	34.7%	36.2%	36.2%	**36.0%**	**35.0%**	Income Tax Rate	**35.0%**
3.1%	4.0%	2.8%	4.0%	3.9%	2.8%	4.6%	5.7%	6.0%	6.9%	**7.7%**	**8.0%**	Net Profit Margin	**8.0%**
66.0%	64.2%	63.8%	60.6%	58.1%	55.3%	53.5%	49.1%	43.2%	49.2%	**47.5%**	**47.5%**	Long-Term Debt Ratio	**48.5%**
34.0%	35.8%	36.2%	39.4%	41.9%	44.7%	46.5%	50.9%	56.8%	50.8%	**52.5%**	**52.5%**	Common Equity Ratio	**51.5%**
1851.6	1968.6	2076.0	2287.8	2349.7	2323.3	2371.4	2291.7	2155.9	2579	**2750**	**2950**	Total Capital ($mill)	**3500**
2175.7	2336.0	2489.1	2668.1	2845.3	2983.3	3034.5	3072.4	3218.9	3343.8	**3425**	**3500**	Net Plant ($mill)	**3750**
4.2%	5.0%	4.3%	5.5%	5.5%	4.5%	5.4%	6.1%	6.4%	6.5%	**6.5%**	**7.0%**	Return on Total Cap'l	**7.0%**
6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	8.9%	9.2%	10.2%	**10.5%**	**10.5%**	Return on Shr. Equity	**11.0%**
6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	8.9%	9.2%	10.2%	**10.5%**	**10.5%**	Return on Com Equity	**11.0%**
1.7%	4.3%	2.2%	5.2%	4.8%	2.1%	4.1%	5.1%	5.3%	6.0%	**6.0%**	**6.5%**	Retained to Com Eq	**6.5%**
72%	49%	65%	42%	44%	63%	48%	43%	43%	41%	**41%**	**41%**	All Div'ds to Net Prof	**41%**

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	21.9	25.5	17.7
Other	439.7	432.9	288.1
Current Assets	461.6	458.4	305.8
Accts Payable	186.8	155.7	105.2
Debt Due	322.6	50.1	11.0
Other	338.2	329.3	258.5
Current Liab.	847.6	535.1	374.7
Fix. Chg. Cov.	359%	399%	453%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	1.5%	-1.5%	*3.5%*
"Cash Flow"	3.5%	3.0%	*5.5%*
Earnings	6.0%	6.5%	*8.0%*
Dividends	2.0%	4.0%	*7.0%*
Book Value	4.5%	5.0%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	668.8	385.8	307.7	468.1	1830.4
2011	628.4	388.5	352.6	517.7	1887.2
2012	657.6	409.8	371.8	488.6	1927.8
2013	613.5	411.6	**380**	**534.9**	**1940**
2014	**650**	**430**	**410**	**560**	**2050**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1.42	d.02	d.11	.98	2.27
2011	1.48	.09	d.34	1.19	2.43
2012	1.70	d.08	d.09	1.34	2.86
2013	1.73	.22	**d.10**	**1.35**	**3.20**
2014	**1.80**	**.25**	**d.05**	**1.40**	**3.40**

Cal-endar	QUARTERLY DIVIDENDS PAID B■† Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.225	.238	.238	.238	.94
2010	.238	.250	.250	.250	.99
2011	.250	.265	.265	.265	1.05
2012	.265	.295	.295	.295	1.15
2013	.295	.33	.33		

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.9 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2012 margin mix: residential and small commercial, 85%; large commercial and industrial, 4%; transportation, 11%. Total throughput: 2.1 billion therms. Sold PriMerit Bank, 7/96. Has 6,015 employees. Off. & Dir. own 1.5% of common stock; BlackRock Inc., 8.2%; GAMCO Investors, Inc., 7.5%; T. Rowe Price Associates, Inc., 6.7% (3/13 Proxy). Chairman: Michael J. Melarkey. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89193. Telephone: 702-876-7237. Internet: www.swgas.com.

Southwest Gas posted healthy results in its most recent financial period. The top line advanced slightly, helped by relatively modest customer growth and rate relief in California and Nevada. Even more importantly, operating expenses declined somewhat, and the bottom-line picture was much rosier. Share earnings of $0.22 came in well above the $0.08-per-share loss generated in the second quarter of 2012. Construction services subsidiary NPL contributed $8.1 million to earnings in the quarter, a significant turnaround from the prior-year period. Meanwhile, the natural gas segment reported stable operating results, and benefited from lower interest expense thanks to refinancing and early debt redemptions.

Solid performance will probably continue going forward. The company should further benefit from fairly modest customer growth in the coming quarters. NPL will likely experience healthy demand, given the need to replace aging infrastructure. Moreover, efforts to control costs ought to support earnings. Even so, bottom-line comparisons may prove somewhat tougher in the third and fourth quarters. Overall, we anticipate a modest top-line advance and a nice share-net increase for full-year 2013. Growth will probably continue from 2014 onward.

The company has filed a general rate case application with the California Public Utilities Commission. It is requesting an $11.6 million increase. Hearings are expected to occur in the current quarter, with the new rates proposed to be effective in January of 2014.

Investors ought to be mindful of several caveats. The company will likely continue to incur greater operating costs as it expands its reach. Moreover, insufficient, or lagging, rate relief may hurt performance at the core utility business.

This equity is neutrally ranked for year-ahead relative price performance. Southwest Gas earns good marks for Price Stability and Earnings Predictability. However, the dividend yield is below average for a utility. The equity is not a standout for total return potential, either. All things considered, subscribers may find more-attractive choices within the utility industry.

Michael Napoli, CFA *September 6, 2013*

(A) Based on avg. shares outstand. thru. '97, then diluted. Excl. nonrec. gains (losses): '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Earnings may not sum due to rounding. Next egs. report due early November. (B) Dividends historically paid early March, June, September, and December. ■† Div'd reinvestment and stock purchase plan avail. (C) In millions.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	95
Earnings Predictability	75

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UIL HOLDINGS NYSE-UIL

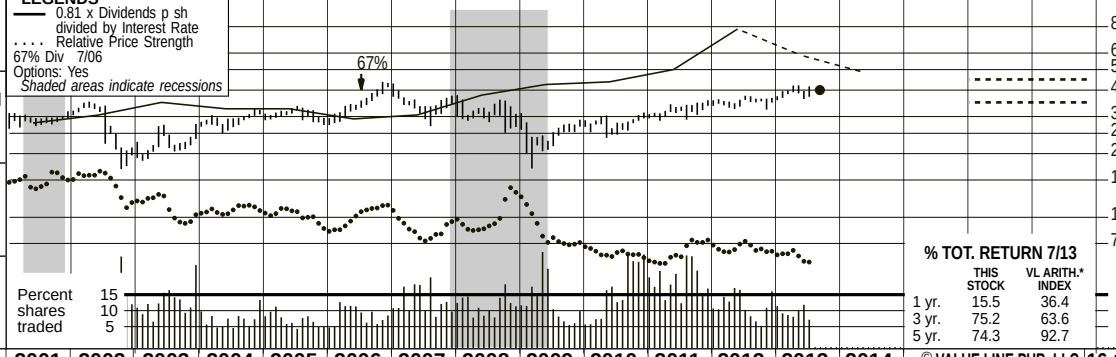
RECENT PRICE **40.04** | P/E RATIO **17.9** (Trailing: 18.0 / Median: 18.0) | RELATIVE P/E RATIO **1.02** | DIV'D YLD **4.3%** | VALUE LINE ... x. 3.8

TIMELINESS 2 Raised 7/19/13
SAFETY 2 Raised 2/29/08
TECHNICAL 3 Lowered 8/16/13
BETA .75 (1.00 = Market)

High:	35.3	27.6	32.8	33.7	43.8	43.0	37.8	31.2	31.3	35.8	37.7	42.1
Low:	16.9	18.5	25.1	27.4	27.4	27.0	25.1	17.0	23.8	28.6	32.3	35.9

Target Price Range 2016 | 2017 | 2018

LEGENDS
— 0.81 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
67% Div 7/06
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+10%)	7%
Low	35	(-15%)	1%

Insider Decisions

	S	O	N	D	J	F	M	A	M
to Buy	0	0	1	1	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	1	0	0	1	0	1

Institutional Decisions

	3Q2012	4Q2012	1Q2013
to Buy	70	72	86
to Sell	74	69	59
Hld's(000)	29562	31172	32005

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	15.5	36.4
3 yr.	75.2	63.6
5 yr.	74.3	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
30.64	29.34	29.01	37.54	46.15	47.55	40.39	45.87	49.88	34.03	39.23	37.69	29.91	19.75	31.01	29.22	*30.90*	*31.95*	Revenues per sh	*36.25*
5.40	5.34	4.67	5.53	6.61	5.89	4.69	4.37	4.13	4.65	5.48	5.93	5.09	3.65	5.33	5.65	*5.45*	*5.65*	"Cash Flow" per sh	*5.85*
1.96	1.80	2.23	2.56	2.53	1.85	1.24	1.54	1.30	1.86	1.87	1.89	1.94	1.99	1.95	2.02	*2.20*	*2.40*	Earnings per sh A	*2.55*
1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	1.73	*1.73*	*1.73*	Div'd Decl'd per sh B ■	*1.73*
1.44	1.63	1.48	2.31	2.01	2.41	2.19	2.04	2.25	3.09	9.92	8.57	4.12	4.03	6.48	5.67	*5.10*	*5.10*	Cap'l Spending per sh	*5.00*
18.94	19.05	19.55	20.42	21.25	20.28	20.65	22.84	22.39	18.53	18.55	18.85	19.15	21.31	21.61	21.95	*22.55*	*24.90*	Book Value per sh C	*28.45*
23.18	23.39	23.44	23.46	23.53	23.79	23.86	24.01	24.32	24.86	25.03	25.17	29.98	50.51	50.65	50.87	*51.00*	*51.00*	Common Shs Outst'g E	*51.00*
10.1	16.3	12.6	10.8	11.5	15.0	18.0	18.7	23.5	18.7	18.4	16.7	12.7	14.0	16.5	17.4	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.58	.85	.72	.70	.59	.82	1.03	.99	1.25	1.01	.98	1.01	.85	.89	1.04	1.11	*Value Line*		Relative P/E Ratio	*1.05*
8.8%	5.9%	6.2%	6.2%	5.9%	6.2%	7.7%	6.0%	5.7%	5.0%	5.0%	5.5%	7.0%	6.2%	5.4%	4.9%	*estimates*		Avg Ann'l Div'd Yield	*4.2%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $1789 mill. **Due in 5 Yrs.** $346.0 mill.
LT Debt $1598 mill. **LT Interest** $75.0 mill.
(LT interest earned: 3.0x)
Leases, Uncapitalized: Ann. rentals $4.6 mill.

Pension Assets-12/12 $625 mill. **Oblig.** $951 mill.

Pfd Stock None

Common Stock 50,712,507 shs.
as of 8/1/13

MARKET CAP: $2.0 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
963.7	1101.3	1213.1	846.0	982.0	948.7	896.6	997.7	1570.4	1486.5	*1575*	*1630*	Revenues ($mill)	*1850*
29.5	36.9	31.4	45.4	46.7	48.1	54.3	70.3	99.7	103.7	*110*	*120*	Net Profit ($mill)	*130*
53.1%	45.4%	44.1%	31.2%	39.5%	42.2%	38.0%	38.6%	38.5%	41.9%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
8.5%	1.1%	9.0%	8.0%	8.3%	8.3%	10.0%	26.3%	12.1%	10.0%	*10.0%*	*10.0%*	AFUDC % to Net Profit	*10.0%*
50.1%	47.2%	47.2%	47.0%	50.8%	53.6%	54.0%	58.4%	58.6%	58.9%	*57.0%*	*56.0%*	Long-Term Debt Ratio	*54.5%*
49.9%	52.8%	52.8%	53.0%	49.2%	46.4%	46.0%	41.6%	41.4%	41.1%	*43.0%*	*44.0%*	Common Equity Ratio	*45.5%*
988.2	1039.6	1031.5	869.2	943.6	1023.6	1247.7	2587.9	2642.7	2716.9	*2700*	*2900*	Total Capital ($mill)	*3200*
548.8	563.9	592.1	647.0	878.4	1073.6	1153.0	2327.5	2570.4	2787.4	*2850*	*2950*	Net Plant ($mill)	*3250*
4.3%	4.5%	4.1%	6.5%	6.2%	6.1%	5.8%	3.7%	5.2%	5.4%	*5.5%*	*5.5%*	Return on Total Cap'l	*5.5%*
6.0%	6.7%	5.8%	9.9%	10.1%	10.1%	9.5%	6.5%	9.1%	9.3%	*9.5%*	*9.5%*	Return on Shr. Equity	*9.0%*
6.0%	6.7%	5.8%	9.9%	10.1%	10.1%	9.5%	6.5%	9.1%	9.3%	*9.5%*	*9.5%*	Return on Com Equity D	*9.0%*
NMF	NMF	NMF	NMF	3.1%	1.0%	1.2%	1.7%	1.1%	1.5%	*2.0%*	*2.5%*	Retained to Com Eq	*3.0%*
NMF	112%	NMF	117%	70%	90%	88%	74%	88%	84%	*80%*	*74%*	All Div'ds to Net Prof	*68%*

ELECTRIC OPERATING STATISTICS

	2010	2011	2012
% Change Retail Sales (KWH)	+4.4	-2.8	-2.6
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (¢)	6.3	6.4	7.1
Capacity at Peak (Mw)	NA	NA	NA
Peak Load, Summer (Mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr-end)	-.1	Nil	+.2
Fixed Charge Cov. (%)	281	230	249

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	-5.0%	-8.5%	*5.5%*
"Cash Flow"	-2.0%	.5%	*3.0%*
Earnings	-1.5%	3.5%	*4.0%*
Dividends	- -	- -	*Nil*
Book Value	.5%	2.0%	*4.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	220.3	207.1	236.3	334.0	997.7
2011	561.1	314.0	321.4	373.9	1570.4
2012	458.3	283.5	323.8	420.9	1486.5
2013	548.0	319.1	*320*	*387.9*	*1575*
2014	*570*	*310*	*350*	*400*	*1630*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.53	.48	.63	.35	1.99
2011	1.02	.28	.24	.41	1.95
2012	.92	.23	.31	.56	2.02
2013	1.01	.35	*.30*	*.54*	*2.20*
2014	*1.05*	*.30*	*.40*	*.65*	*2.40*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.432	.432	.432	.432	1.73
2010	.432	.432	.432	.432	1.73
2011	.432	.432	.432	.432	1.73
2012	.432	.432	.432	.432	1.73
2013	.432	.432			

BUSINESS: UIL Holdings, through its subsidiaries, operates as one of the largest regulated utility companies in Connecticut. Business consists of electric distribution/transmission operations of The United Illuminating Company and natural gas transportation/distribution operations of The Southern Connecticut Gas Company, The Connecticut Natural Gas Company, and The Berkshire Gas Company. Revenue distribution by class: residential, 46%; commercial, 28%; industrial, 4%; other, 22%. Fuel costs: 35% of revenues; O&M costs, 24%. Has 1,865 employees as of 12/12. President & Chief Executive Officer: James P. Torgerson. Inc.: CT. Address: 157 Church Street, P.O. Box 1564, New Haven, CT. 06506-0901. Telephone: 203-499-2000. Internet: www.uil.com.

UIL Holdings performed well in the second quarter. The Connecticut-based utility reported earnings of $0.35 a share in the period, versus $0.23 in the comparable year-ago quarter. Improvement was driven by more-favorable weather patterns, a larger base for the transmission rate base, and the impact of natural gas conversions. We are maintaining our 2013 earnings estimate at $2.20 a share, representing year-over-year growth of 9%.

Regulators issued a draft decision in United Illuminating's rate case. On July 30th, the Connecticut Public Utilities Regulatory Authority (PURA) released its draft decision for UI's pending electric rate case. The draft order, which could be subject to change before the final order is issued in mid-August, recommends a $21.1 million rate increase in year one, and a $15.9 million increase in year two. It's based on a 9.15% return on equity and 50% equity ratio. Indeed, we view the draft order as somewhat of a disappointment, given that UI's original request called for increases of $65 million in year one, and $26 million in year two, based on a 10.25% return on equity and 50% equity ratio. While we were optimistic that regulatory conditions had been improving in the state, the unfavorable draft order once again proves that Connecticut is among the more challenging environments for utilities. The order is expected to be finalized at PURA's meeting on August 14th (just as this Issue was going to press).

The gas utilities will continue to be a key focus area. Through the end of the second quarter, UIL had converted 7,749 households to gas, putting it well ahead of its year-end target of 12,200 conversions. Management further indicated it added a little over 1,300 in July, upping the total to about 9,000. Its 2014 conversion target stands at 15,315, and its expects 55,000 over the 2014-2016 time frame.

The stock has been raised a notch for Timeliness to 2 (Above Average). In our view, these shares remain an attractive holding for investors seeking to add a low-risk income play to their portfolios. UIL holds above-average scores for Safety (2) and Financial Strength (B++). Its 4.3% yield ranks favorably compared to the utility industry's 3.8% mean.

Michael Ratty *August 23, 2013*

(A) EPS basic. Excl. nonrecur. gains (losses): '00, 4¢; '03, (26¢); '04, $2.14; '06, ($5.07); '10, (47¢). Next egs. report due early Nov. (B) Div'ds historically paid in early March, June, Sept., and Dec. ■ Div'd reinvest. plan avail. (C) Incl. deferred charges. In '12: $380.1 mill. or $7.47/sh. (D) Rate base: orig. cost. Rate allowed on common equity in '09: 8.75%. Earned on average common equity in '12: 9.3%. Regul. Clim.: Below Average. (E) In millions. Adjusted for stock dividend.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	65
Earnings Predictability	90

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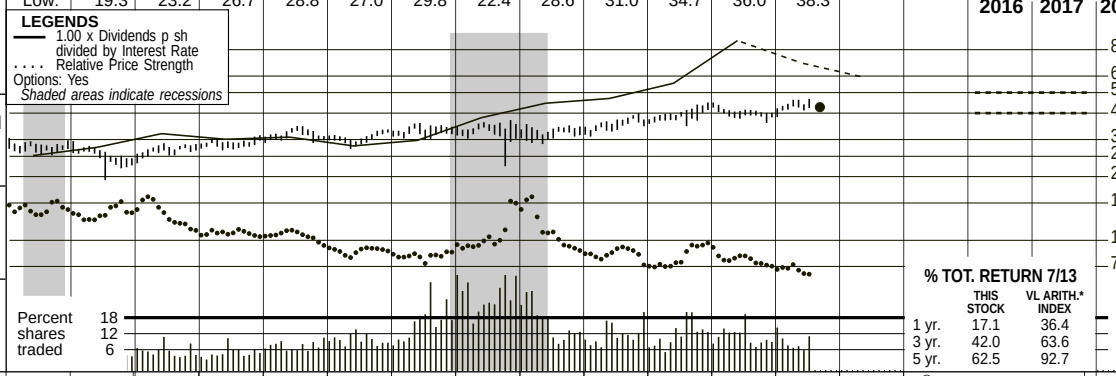
WGL HOLDINGS NYSE-WGL

RECENT PRICE **42.68** | P/E RATIO **16.4** (Trailing: 15.5 / Median: 15.0) | RELATIVE P/E RATIO **0.96** | DIV'D YLD **3.9%** | VALUE LINE x. 3.8

TIMELINESS 3 Raised 8/9/13
SAFETY 1 Raised 4/2/93
TECHNICAL 3 Lowered 8/9/13
BETA .65 (1.00 = Market)

High:	29.5	28.8	31.4	34.8	33.6	35.9	37.1	35.5	40.0	45.0	45.0	47.0
Low:	19.3	23.2	26.7	28.8	27.0	29.8	22.4	28.6	31.0	34.7	36.0	38.3

Target Price Range
2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+15%)	8%
Low	40	(-5%)	3%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	1	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	2	0	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	84	79	86
to Sell	87	89	87
Hld's(000)	31947	31484	31428

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	17.1	36.4
3 yr.	42.0	63.6
5 yr.	62.5	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.65	53.98	53.60	53.75	47.09	48.30	49.50	Revenues per sh A	54.10
3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.84	3.89	4.34	4.44	4.11	4.01	4.60	4.45	4.55	"Cash Flow" per sh	4.85
1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.09	2.44	2.53	2.27	2.25	2.68	2.55	2.65	Earnings per sh B	2.95
1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	1.47	1.50	1.55	1.59	1.66	1.71	Div'ds Decl'd per sh C■	1.83
3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	2.70	2.77	2.57	3.94	5.85	4.85	4.80	Cap'l Spending per sh	4.80
13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.86	19.83	20.99	21.89	22.82	23.49	24.75	25.60	26.60	Book Value per sh D	29.80
43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.92	50.14	50.54	51.20	51.50	51.75	52.00	Common Shs Outst'g E	52.00
12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	13.7	12.6	15.1	17.0	15.3	Bold figures are		Avg Ann'l P/E Ratio	15.0
.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.83	.82	.84	.96	1.07	.99	Value Line		Relative P/E Ratio	1.00
5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	4.6%	4.4%	4.1%	4.3%	estimates		Avg Ann'l Div'd Yield	4.1%

CAPITAL STRUCTURE as of 6/30/13
Total Debt $753.7 mill. **Due in 5 Yrs** $112.0 mill.
LT Debt $552.7 mill. **LT Interest** $36.4 mill.
(LT interest earned: 6.2x; total interest coverage: 5.7x)
Pension Assets-9/12 $1,108.9 mill. **Oblig.** $1,417.2 mill.
Preferred Stock $28.2 mill. **Pfd. Div'd** $1.3 mill.

Common Stock 51,740,676 shs. **as of 7/31/13**

MARKET CAP: $2.2 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	2706.9	2708.9	2751.5	2425.3	2500	2575	Revenues ($mill) A	2815
112.3	98.0	104.8	96.0	102.9	122.9	128.7	115.0	115.5	138.3	130	140	Net Profit ($mill)	155
38.0%	38.2%	37.4%	39.0%	39.1%	37.1%	39.1%	38.7%	42.4%	39.0%	39.0%	39.0%	Income Tax Rate	39.0%
5.4%	4.7%	4.8%	3.6%	3.9%	4.7%	4.8%	4.2%	4.2%	5.7%	5.3%	5.4%	Net Profit Margin	5.5%
43.8%	40.9%	39.5%	37.8%	37.9%	35.9%	33.3%	33.4%	32.3%	31.0%	30.5%	30.0%	Long-Term Debt Ratio	28.0%
54.3%	57.2%	58.6%	60.4%	60.3%	62.4%	65.0%	65.0%	66.2%	67.5%	68.0%	70.0%	Common Equity Ratio	70.5%
1454.9	1443.6	1478.1	1526.1	1625.4	1679.5	1687.7	1774.4	1818.1	1886.9	1945	2010	Total Capital ($mill)	2175
1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	2269.1	2346.2	2489.9	2667.4	2855	3060	Net Plant ($mill)	3765
9.1%	8.2%	8.5%	7.6%	7.6%	8.5%	8.8%	7.6%	7.5%	8.3%	8.0%	8.0%	Return on Total Cap'l	8.0%
13.7%	11.5%	11.7%	10.1%	10.2%	11.4%	11.4%	9.7%	9.4%	10.9%	10.0%	10.0%	Return on Shr. Equity	10.0%
14.0%	11.7%	12.0%	10.3%	10.4%	11.6%	11.6%	9.9%	9.5%	11.0%	10.0%	10.0%	Return on Com Equity	10.0%
6.2%	4.1%	4.6%	3.2%	3.5%	5.0%	5.0%	3.3%	3.4%	4.3%	3.5%	3.5%	Retained to Com Eq	4.0%
56%	65%	62%	69%	66%	57%	57%	67%	64%	59%	65%	64%	All Div'ds to Net Prof	61%

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	4.3	10.3	7.8
Other	720.4	822.5	798.5
Current Assets	724.7	832.8	806.3
Accts Payable	279.4	270.4	297.8
Debt Due	116.5	247.7	201.0
Other	180.8	238.9	235.9
Current Liab.	576.7	757.0	734.7
Fix. Chg. Cov.	535%	535%	535%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	6.0%	0.5%	1.0%
"Cash Flow"	3.5%	1.5%	2.5%
Earnings	4.0%	3.0%	3.5%
Dividends	2.0%	3.0%	3.0%
Book Value	4.0%	4.5%	4.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	727.4	1056	459.7	465.1	2708.9
2011	795.9	1017	490.3	448.1	2751.5
2012	727.7	839.5	438.3	419.8	2425.3
2013	686.7	891.4	478.1	443.8	2500
2014	705	910	495	465	2575

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	1.01	1.64	d.07	d.29	2.27
2011	1.02	1.53	d.03	d.27	2.25
2012	1.13	1.58	.08	d.11	2.68
2013	1.14	1.75	d.03	d.31	2.55
2014	1.18	1.77	d.02	d.28	2.65

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.36	.37	.37	.37	1.47
2010	.37	.378	.378	.378	1.50
2011	.378	.39	.39	.39	1.55
2012	.39	.40	.40	.40	1.59
2013	.40	.42	.42		

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident'l and comm'l users (1,094,109 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. State Street Global owns 9.3% of common stock; Off./dir. less than 1% (1/13 proxy). Chrmn. & CEO: Terry D. McCallister. Inc.: D.C. and VA. Addr.: 101 Const. Ave., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings posted mixed financial results for the June period. Indeed, the top line advanced roughly 9% when compared to the prior-year period. This was supported by increases in utility and non-utility volumes of 10.3% and 8.3%, respectively. The regulated utility division benefited from customer growth and recently approved rate cases. Meanwhile, the retail-energy marketing, commercial energy systems, and wholesale energy solution segments all logged lower contributions to the bottom line. On balance, these factors offset the positive gains at the regulated utility unit. Combined, WGL's earnings fell into negative territory, to a deficit of $0.03 a share. Nonetheless, this was relatively in line with our previous expectation of negative $0.04 for the third quarter.

Consequently, we have left our fiscal 2013 (ends September 30th) annual earnings estimate unchanged at $2.55 a share. This represents a share-net decline of almost 5%. This ought to be supported by good gains at all of WGL's operating segments, which have been logging higher year-over-year contributions to the top and bottom lines, save for the most recent quarter, which is always a cyclically slow period. The main drag on this year's performance is the wholesale energy solutions division, which reflects compressed storage spreads and higher operation and maintenance expenses due to new storage arrangements and consulting fees related to the investment in the Constitution Pipeline.

The company's overall financial position is in good shape at the moment. Despite its cash reserves declining almost 25% during the first nine months of this year, WGL still has almost $8 million in cash on hand. At the same time, the long-term debt burden declined 6%, and now represents a modest 29% of the capital structure.

These high-quality shares may appeal to income-seeking investors. They offer a slightly higher dividend yield than the industry as a whole. However, the stock has almost doubled in the past five years and, at this point, WGL is trading inside our Target Price Range, thus limiting its upside potential for the pull to late-decade.

Bryan J. Fong *September 6, 2013*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢); '08, (14¢) discontinued operations: '06, (15¢). Qtly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late Oct. (C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '12: $610.8 million, $11.93/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	95

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PGL Ex. 3.13

Comparable Earnings Approach

Using Non-Utility Companies with
Timeliness of 2, 3 & 4; Safety Rank of 1, 2 & 3; Financial Strength of B, B+, B++ & A;
Price Stability of 95 to 100; Betas of .60 to .75; and Technical Rank of 3 & 4

Company	Industry	Timeliness Rank	Safety Rank	Financial Strength	Price Stability	Beta	Technical Rank
AmerisourceBergen	MEDICNON	3	1	A	95	0.70	4
Berkley (W.R.)	INSPRPTY	3	2	B++	95	0.65	4
Brown & Brown	FINSERV	3	2	A	95	0.75	3
Capitol Fed. Fin'l	THRIFT	2	3	B+	95	0.60	3
Clorox Co.	HOUSEPRD	4	2	B++	100	0.60	3
ConAgra Foods	FOODPROC	4	1	A	100	0.65	3
DaVita HealthCare	MEDSERV	2	2	B++	95	0.70	3
Erie Indemnity	INSPRPTY	4	2	B++	100	0.70	3
Haemonetics Corp.	MEDICNON	2	2	B++	95	0.65	3
Hershey Co.	FOODPROC	4	2	B++	100	0.60	3
Kellogg	FOODPROC	3	1	A	100	0.60	3
Kroger Co.	GROCERY	2	2	B++	95	0.60	3
Laboratory Corp.	MEDSERV	2	1	A	100	0.70	3
Molson Coors Brewing	BEVERAGE	2	2	B++	95	0.65	3
Northwest Bancshares	THRIFT	3	3	B+	95	0.70	4
Philip Morris Int'l	TOBACCO	3	2	B++	95	0.75	3
RLI Corp.	INSPRPTY	3	2	B++	95	0.75	3
Silgan Holdings	PACKAGE	3	3	B+	95	0.70	3
Stericycle Inc.	ENVIRONM	3	2	B++	95	0.70	3
Verisk Analytics	INFOSER	3	2	B+	100	0.60	4
Waste Connections	ENVIRONM	3	3	B+	95	0.75	3
Weis Markets	GROCERY	3	1	A	95	0.65	3
Average		3	2	B++	97	0.67	3
Gas Group	Average	3	2	B++	99	0.69	3

Source of Information: Value Line Investment Survey for Windows, November 2013

PGL Ex. 3.13

Comparable Earnings Approach
Five -Year Average Historical Earned Returns
for Years 2008-2012 and
Projected 3-5 Year Returns

Company	2008	2009	2010	2011	2012	Average	Projected 2016-18
AmerisourceBergen	17.3%	18.8%	21.6%	24.6%	28.8%	22.2%	32.0%
Berkley (W.R.)	16.5%	10.2%	11.4%	7.7%	8.8%	10.9%	11.0%
Brown & Brown	13.4%	11.2%	10.7%	10.0%	10.2%	11.1%	12.5%
Capitol Fed. Fin'l	5.8%	7.0%	7.1%	3.3%	4.1%	5.5%	5.0%
Clorox Co.	-	-	NMF	NMF	NMF	-	NMF
ConAgra Foods	9.7%	14.7%	15.8%	16.2%	17.3%	14.7%	18.5%
DaVita HealthCare	19.2%	19.8%	22.8%	22.5%	16.3%	20.1%	21.5%
Erie Indemnity	18.0%	12.0%	17.8%	21.4%	24.9%	18.8%	23.5%
Haemonetics Corp.	11.9%	12.5%	12.2%	10.7%	11.6%	11.8%	12.5%
Hershey Co.	135.3%	69.3%	65.1%	76.4%	71.4%	83.5%	46.0%
Kellogg	79.3%	53.3%	57.8%	69.9%	53.6%	62.8%	30.5%
Kroger Co.	24.1%	23.2%	21.1%	30.0%	33.8%	26.4%	22.5%
Laboratory Corp.	30.4%	25.3%	23.7%	25.8%	24.4%	25.9%	20.5%
Molson Coors Brewing	8.6%	10.0%	8.6%	8.8%	5.5%	8.3%	8.5%
Northwest Bancshares	7.8%	2.5%	4.4%	5.6%	5.6%	5.2%	7.5%
Philip Morris Int'l	91.9%	111.0%	207.0%	NMF	NMF	136.6%	NMF
RLI Corp.	15.3%	12.2%	13.9%	14.7%	10.9%	13.4%	8.5%
Silgan Holdings	25.1%	23.2%	26.1%	29.4%	20.1%	24.8%	19.0%
Stericycle Inc.	22.8%	21.1%	20.4%	20.2%	18.7%	20.6%	14.5%
Verisk Analytics	-	-	-	-	-	-	29.0%
Waste Connections	8.2%	8.7%	10.5%	12.1%	9.3%	9.8%	12.5%
Weis Markets	7.1%	9.1%	9.4%	10.1%	10.4%	9.2%	9.0%
Average						27.1%	18.2%
Average (excluding companies with values >20%)						10.0%	10.6%

PGL Ex. 3.13

Group of Delivery Companies

Ticker	Company	Timeliness Rank	Safety Rank	Financial Strength	Price Stability	Beta	Techincal Rank
GAS	AGL Resources, Inc.	2	1	A	100	0.75	3
ATO	Atmos Energy Corp.	3	2	B++	100	0.70	3
ED	Consolidated Edison	3	1	A+	100	0.60	3
LG	Laclede Group, Inc.	4	2	B++	100	0.60	3
NJR	New Jersey Resources Corp.	2	1	A	100	0.70	3
NU	Northeast Utilities	2	2	B++	100	0.75	4
NWN	Northwest Natural Gas	3	1	A	100	0.60	3
POM	PEPCO Holdings	2	3	B	95	0.75	3
PNY	Piedmont Natural Gas Co.	3	2	B++	100	0.70	3
SJI	South Jersey Industries, Inc.	3	2	B++	100	0.65	4
SWX	Southwest Gas Corporation	3	3	B+	100	0.75	3
UIL	UIL Holdings	2	2	B++	95	0.75	3
WGL	WGL Holdings, Inc.	3	1	A	100	0.65	3
	Average	3	2	B++	99	0.69	3
	Range						
	High	4	3	A	100	0.75	4
	Low	2	1	B	95	0.60	3

Source of Information: Value Line Investment Survey, August 23, 2013 and September 6, 2013

AMERISOURCE NYSE-ABC

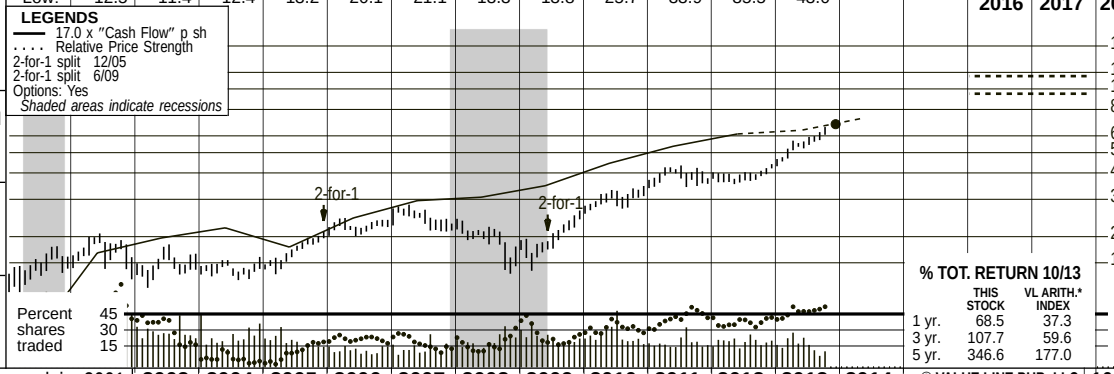
RECENT PRICE **68.29** | P/E RATIO **19.6** (Trailing: 22.0 / Median: 15.0) | RELATIVE P/E RATIO **1.09** | DIV'D YLD **1.4%** | VALUE LINE

TIMELINESS 3 Lowered 5/24/13
SAFETY 1 Raised 2/22/13
TECHNICAL 4 Lowered 10/25/13
BETA .70 (1.00 = Market)

High:	20.7	18.4	16.0	21.1	24.5	28.3	24.3	26.6	34.7	43.5	44.0	68.4
Low:	12.5	11.4	12.4	13.2	20.1	21.1	13.3	13.8	25.7	33.9	35.5	43.0

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 17.0 x "Cash Flow" p sh
.... Relative Price Strength
2-for-1 split 12/05
2-for-1 split 6/09
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	115	(+70%)	15%
Low	95	(+40%)	10%

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	0	1	2	4	0	1
to Sell	1	0	0	0	3	5	4	0	1

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	201	226	239
to Sell	261	266	282
Hld's(000)	209148	206829	203547

% TOT. RETURN 10/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	68.5	37.3
3 yr.	107.7	59.6
5 yr.	346.6	177.0

AmerisourceBergen was formed in 2001 by the merger of AmeriSource and Bergen Brunswig. Prior to that, AmeriSource was formed to acquire Alco Health Services Corp. in a $545 million leveraged buyout of that company in 1988. In April of 1995 the company issued 6.6 million shares at an offering price of $5.25 a share. That offering was led by Donaldson, Lufkin & Jenrette. A subsequent offering of 4.8 million shares was made in May of '96 at $8.75 a share.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
101.52	116.23	119.92	147.52	183.58	216.10	243.16	282.09	310.51	337.57	*373.40*	*489.25*	Sales per sh A	*558.15*
1.16	1.29	1.05	1.44	1.74	1.81	2.05	2.62	3.15	3.61	*3.75*	*4.35*	"Cash Flow" per sh	*6.00*
.99	1.02	.83	1.13	1.32	1.44	1.72	2.22	2.54	2.79	3.14	*3.65*	Earnings per sh A B	*5.30*
.03	.03	.03	.05	.10	.15	.24	.34	.46	.60	.87	*.94*	Div'ds Decl'd per sh C	*1.04*
.20	.45	.49	.29	.35	.44	.51	.67	.65	.70	*.95*	*.95*	Cap'l Spending per sh	*.80*
8.93	10.32	10.26	10.78	9.23	8.67	9.43	10.69	11.10	10.43	*10.85*	*11.90*	Book Value per sh	*17.20*
448.55	420.47	417.04	384.18	335.92	312.44	288.08	276.35	258.34	235.48	*235.00*	*233.00*	Common Shs Outst'g D	*215.00*
15.2	14.1	19.0	18.9	18.7	14.7	10.4	12.7	14.7	14.0	16.0		Avg Ann'l P/E Ratio	*19.5*
.87	.74	1.01	1.02	.99	.88	.69	.81	.92	.90	.89		Relative P/E Ratio	*1.30*
.2%	.2%	.2%	.2%	.4%	.7%	1.3%	1.2%	1.2%	1.6%	1.7%		Avg Ann'l Div'd Yield	*.5%*
45537	48871	50013	56673	61669	67519	70052	77954	80217	79490	87959	*114000*	Sales ($mill) A	*120000*
2.1%	2.0%	1.5%	1.5%	1.5%	1.4%	1.4%	1.5%	1.7%	1.8%	*1.5%*	*1.5%*	Operating Margin	*1.6%*
71.0	75.8	81.2	86.0	91.2	95.9	78.9	86.5	108.3	141.1	*155*	*165*	Depreciation ($mill)	*155*
449.2	468.4	356.7	468.0	493.8	469.1	511.9	636.7	706.6	708.2	*730*	*850*	Net Profit ($mill)	*1140*
39.2%	38.4%	37.8%	36.8%	37.1%	38.4%	37.9%	38.0%	37.5%	39.1%	*39.5%*	*39.5%*	Income Tax Rate	*39.5%*
1.0%	1.0%	.7%	.8%	.8%	.7%	.7%	.8%	.9%	.9%	*.8%*	*.7%*	Net Profit Margin	*1.0%*
2602.4	2191.5	1935.6	1751.2	857.3	502.2	474.2	842.1	362.5	d236.3	*350*	*550*	Working Cap'l ($mill)	*950*
1722.7	1157.1	951.5	1093.9	1227.3	1187.4	1176.9	1343.2	972.9	1446.8	*1350*	*1150*	Long-Term Debt ($mill)	*500*
4005.3	4339.0	4280.4	4141.2	3099.7	2710.0	2716.5	2954.3	2866.9	2456.7	*2550*	*2775*	Shr. Equity ($mill)	*3700*
9.1%	9.5%	7.4%	9.1%	11.8%	12.9%	13.9%	15.7%	19.4%	19.4%	*18.5%*	*21.5%*	Return on Total Cap'l	*28.0%*
11.2%	10.8%	8.3%	11.3%	15.9%	17.3%	18.8%	21.6%	24.6%	28.8%	*28.5%*	*30.0%*	Return on Shr. Equity	*32.0%*
10.9%	10.5%	8.1%	10.8%	14.7%	15.5%	16.5%	18.5%	20.5%	23.4%	*28.5%*	*30.0%*	Retained to Com Eq	*32.0%*
2%	2%	3%	4%	8%	10%	12%	14%	17%	19%	*27%*	*26%*	All Div'ds to Net Prof	*20%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $1396.4 mill. **Due in 5 Yrs** $550.8 mill.
LT Debt $1396.4 mill. **LT Interest** $43.0 mill.

(Total interest coverage: 15.2x) (37% of Cap'l)

Leases, Uncapitalized $56.7 mill.

Pension Assets-9/12 $158.4 mill. **Oblig.** $166.2 mill.
Pfd Stock None
Common Stock 230,903,118 shs.

MARKET CAP: $15.8 billion (Large Cap)

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	1826.0	1066.6	1567.6
Receivables	3837.2	3938.6	4585.5
Inventory (LIFO)	5466.5	5689.1	5895.1
Other	87.9	292.9	90.9
Current Assets	11217.6	10978.2	12139.1
Accts Payable	9202.1	9630.1	11009.2
Other	1653.0	1584.4	1432.4
Current Liab.	10855.1	11214.5	12441.6

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	17.5%	15.5%	*11.0%*
"Cash Flow"	17.0%	17.0%	*12.0%*
Earnings	15.0%	18.0%	*14.0%*
Dividends	- -	51.5%	*13.0%*
Book Value	7.5%	1.5%	*8.0%*

Fiscal Year Ends	QUARTERLY SALES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	19335	19300	19602	19715	77954
2011	19888	19760	20162	20407	80217
2012	20311	20010	19714	19453	79489
2013	21606	20523	21907	24469	87959
2014	*27650*	*27425*	*28210*	*30715*	*114000*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2010	.52	.63	.57	.50	2.22
2011	.57	.77	.66	.54	2.54
2012	.61	.80	.70	.65	2.79
2013	.74	.87	.71	.79	3.14
2014	*.77*	*.99*	*.94*	*.95*	*3.65*

Cal-endar	QUARTERLY DIVIDENDS PAID C Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.05	.05	.06	.08	.24
2010	.08	.08	.08	.10	.34
2011	.10	.115	.115	.13	.46
2012	.13	.13	.13	.21	.60
2013	.21	.21	.21	.235	

BUSINESS: AmerisourceBergen was created by the merger of AmeriSource Health and Bergen Brunswig. The company is a full-service wholesale distributor of pharmaceutical products and related health-care services in the U.S. It operates in two segments: Pharmaceutical Distribution and PharMerica, its international pharmacy. Acquired Gulf Dist. Inc. and Diabetic Shoppe, Inc., in '96; Walker Drug in '97; C.D. Smith in July '99. 2012 depreciation rate: 10.4%. Vanguard Group Inc. owns 6.7% of common; Officers and directors, 1.0% (1/13 Proxy). Has about 14,500 employees. Incorporated: DE. President & CEO: Steven H. Collis. Address: 1300 Morris Drive, Suite 100, Chesterbrook, PA 19087. Telephone: 610-727-7000. Internet: www.amerisourcebergen.com.

After a record-setting performance in fiscal 2013 (year ended September 30th), AmerisourceBergen seems poised for more good news this year. The company closed out the year with share net of $3.14, a 13% improvement on the year-ago tally, on an 11% top-line advance. Sales growth was driven by strong demand reported by both AmerisourceBergen Drug Corp. and AmerisourceBergen Specialty Group. And although operating margins came under a bit of pressure (the result of an increase in operating expenses and a shift in customer mix to lower-margin business), a reduced share count provided a needed counterbalance. And the recently inked long-term relationship with Walgreen Co. and Alliance Boots GmbH certainly augurs well for the company's prospects during the current year. All told, we have ratcheted up our fiscal 2014 share-net estimate by a nickel, to $3.65, on sales of roughly $114 billion.

The investment community has definitely taken notice of the company's good fortune. Notably, ABC stock is up approximately 16% in value since our August review and is once again testing new highs.

Management is certainly putting AmerisourceBergen's cash to good use. During the December quarter, the board of directors upped the quarterly dividend by 12%, bringing the annual payout to $0.94 a share. What's more, in August, the board authorized a new $750 million share-repurchase program, which came on the heels of the November, 2012 buyback authorization. And the company has earmarked approximately $500 million toward share repurchases this year, which will certainly help bolster AmerisourceBergen's earnings over the long haul.

Conservative investors looking to commit funds through the latter years of this decade are likely to find this equity rather appealing. Despite the aforementioned jump in its value, AmerisourceBergen stock's 3- to 5-year appreciation potential is still well above that of the average issue under *Value Line* review. What's more, the issue carries our Highest (1) Safety rank and an A Financial Strength ranking, making it a recommended selection for risk-averse accounts.

Kenneth A. Nugent *November 22, 2013*

(A) Fiscal year ends Sept. 30th. (B) Diluted earnings. Excludes n/r (losses)/gains: '01, ($0.21); '02, ($0.13); '03, ($0.07); '04, ($0.07); '05, ($0.33); '06, ($0.09); '07, $0.09; '10, $0.06. Next egs. report due late Jan. Eps may not tally due to rounding. (C) Dividend historically paid in early March, June, September, and Dec. (D) In millions, adjusted for stock splits.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	100
Earnings Predictability	100

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BERKLEY (W.R.) NYSE-WRB

RECENT PRICE 41.08 | P/E RATIO 13.9 (Trailing: 15.3 Median: 10.0) | RELATIVE P/E RATIO 0.82 | DIV'D YLD 1.0% | VALUE LINE

TIMELINESS 3 Raised 8/2/13
SAFETY 2 Raised 6/17/11
TECHNICAL 3 Raised 9/13/13
BETA .65 (1.00 = Market)

High:	12.1	16.4	21.1	32.9	40.9	35.1	31.3	31.1	28.8	36.1	40.4	45.6
Low:	8.9	10.8	15.5	20.6	30.6	25.2	16.6	18.6	23.9	26.5	33.3	38.0

2016-18 PROJECTIONS

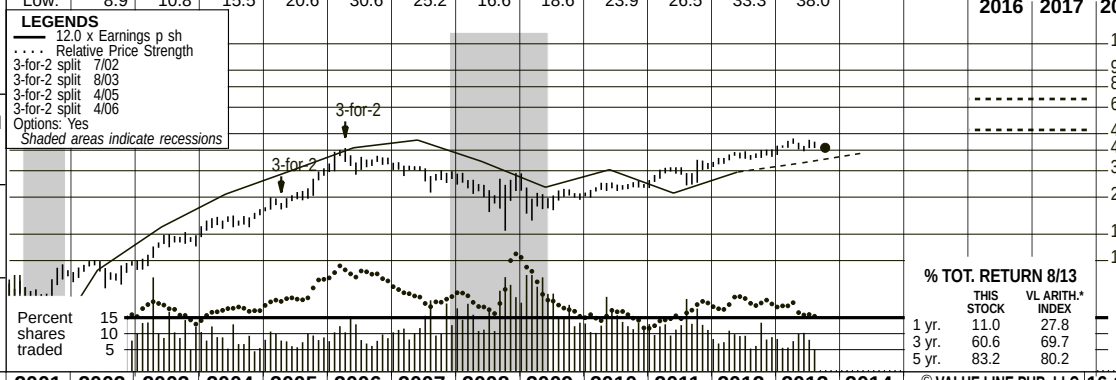
	Price	Gain	Ann'l Total Return
High	70	(+70%)	15%
Low	50	(+20%)	6%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	1	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	2	0	0	0	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	133	110	138
to Sell	137	157	144
Hld's(000)	99508	98903	97266



Target Price Range 2016 | 2017 | 2018

% TOT. RETURN 8/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	11.0	27.8
3 yr.	60.6	69.7
5 yr.	83.2	80.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
7.43	9.53	10.91	11.48	9.99	12.09	17.21	21.42	23.32	24.34	25.86	26.57	24.31	27.20	30.26	34.36	38.45	41.85	P/C Prem Earned per sh	50.00
1.33	1.51	1.47	1.62	1.16	1.01	1.12	1.54	2.11	3.04	3.73	3.33	3.53	3.82	3.83	4.31	4.75	5.50	Investment Inc per sh	7.00
2.52	d1.43	d2.13	d1.54	d2.16	d.05	.79	1.34	1.68	2.91	3.22	2.07	1.41	1.49	.52	.99	1.35	1.65	Underwriting Inc per sh	3.50
.54	.35	d.21	.27	d.61	.90	1.44	2.07	2.65	3.43	3.73	2.95	2.23	2.70	2.09	2.63	2.90	3.25	Earnings per sh A	5.00
.08	.09	.10	.10	.10	.10	.12	.13	.13	.15	.20	.23	.24	.27	.31	.35	.38	.40	Div'ds Decl'd per sh B	.50
5.67	5.69	4.56	5.17	5.54	7.16	8.95	11.13	13.42	17.30	19.80	18.87	22.97	26.26	29.20	31.87	34.05	36.30	Book Value per sh	46.15
149.69	134.18	129.68	129.89	168.28	186.38	187.96	189.61	191.26	192.77	180.32	161.47	156.55	141.01	137.52	136.02	135.00	135.00	Common Shs Outst'g C	130.00
130%	136%	108%	96%	158%	150%	158%	166%	184%	206%	159%	140%	104%	101%	107%	117%			Price to Book Value	130%
13.6	22.3	- -	18.1	- -	12.0	9.8	8.9	9.3	10.4	8.4	9.0	10.7	9.8	14.9	14.2	Bold figures are		Avg Ann'l P/E Ratio	12.0
.78	1.16	- -	1.18	- -	.66	.56	.47	.50	.56	.45	.54	.71	.62	.93	.91	Value Line		Relative P/E Ratio	.80
1.1%	1.2%	2.1%	2.1%	1.2%	1.0%	.8%	.7%	.5%	.4%	.6%	.9%	1.0%	1.0%	1.0%	.9%	estimates		Avg Ann'l Div'd Yield	.8%

CAPITAL STRUCTURE as of 3/31/13
Total Debt $1936.5 mill. **Due in 5 Yrs** $545.0 mill.
LT Debt $1693.3 mill. **LT Interest** $106 mill.
(28% of Cap'l)

Leases, Uncapitalized $38.7 million
No Defined Benefit Pension Plan
Pfd Stock None
Common Stock 136,036,887 shs.
as of 4/30/13

MARKET CAP: $5.6 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
3234.6	4061.1	4460.9	4692.6	4663.7	4289.6	3805.8	3835.6	4160.9	4673.5	5190	5650	P/C Premiums Earned	6500
63.4%	63.0%	62.4%	61.0%	59.6%	62.2%	61.4%	60.2%	63.9%	63.1%	63.0%	63.0%	Loss to Prem Earned	62.0%
28.2%	30.7%	30.5%	27.0%	28.0%	30.0%	32.8%	34.3%	34.4%	34.0%	33.5%	33.0%	Expense to Prem Writ	31.0%
8.4%	6.2%	7.2%	12.0%	12.4%	7.8%	5.8%	5.5%	1.7%	2.9%	3.5%	4.0%	Underwriting Margin	7.0%
29.4%	29.6%	29.1%	28.9%	29.3%	26.2%	4.0%	26.1%	21.5%	22.1%	25.0%	25.0%	Income Tax Rate	25.0%
285.7	412.0	531.1	693.7	733.9	503.7	367.0	421.1	308.3	382.9	390	440	Net Profit ($mill)	650
4.3%	4.1%	4.3%	5.5%	6.1%	4.8%	4.2%	4.1%	4.2%	4.3%	4.2%	4.5%	Inv Inc/Total Inv	5.5%
9335	11451	13896	15656	16832	16121	17329	17529	18488	20156	21500	22750	Total Assets ($mill)	25500
1682.6	2109.7	2567.1	3335.2	3569.8	3046.3	3596.1	3702.9	4015.9	4335.5	4600	4900	Shr. Equity ($mill)	6000
17.0%	19.5%	20.7%	20.8%	20.6%	16.5%	10.2%	11.4%	7.7%	8.8%	8.5%	9.0%	Return on Shr. Equity	11.0%
15.7%	18.4%	19.9%	19.9%	19.5%	15.0%	9.4%	10.0%	6.6%	7.7%	7.5%	8.0%	Retained to Com Eq	10.0%
8%	6%	4%	4%	5%	9%	8%	12%	14%	13%	13%	12%	All Div'ds to Net Prof	10%

FINANCIAL POSITION ($MILL.)	2011	2012	3/31/13
Bonds	11312.0	11944.0	11665.1
Stocks	443.4	376.0	399.4
Other	6723.3	7835.9	8056.1
Total Assets	18487.7	20155.9	20120.6
Unearned Prems	2189.6	2474.8	2636.0
Reserves	9337.1	9751.1	9809.8
Other	2945.1	3594.5	3264.2
Total Liab'ties	14471.8	15820.4	15710.0

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Premium Inc	10.5%	4.5%	8.5%
Invest Income	12.0%	6.0%	10.0%
Earnings	29.5%	-5.5%	12.5%
Dividends	11.5%	14.0%	8.5%
Book Value	17.0%	11.5%	8.0%

Cal-endar	NET PREMIUMS EARNED ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	930.6	948.1	967.3	990.0	3836
2011	982.7	1017.2	1055.8	1105.3	4161
2012	1099.7	1147.4	1186.5	1240.4	4674
2013	1232.1	1282.5	1325	1350.4	5190
2014	1375	1400	1425	1450	5650

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.70	.65	.67	.68	2.70
2011	.66	.46	.44	.53	2.09
2012	.73	.65	.61	.64	2.63
2013	.74	.70	.69	.77	2.90
2014	.80	.82	.75	.88	3.25

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.06	.06	.06	.06	.24
2010	.06	.06	.07	.07	.26
2011	.07	.07	.08	.08	.30
2012	.08	.09	.09	.09	.35
2013	.09	.09	.10		

BUSINESS: W.R. Berkley Corporation is an insurance holding company, operating in regional property/casualty insurance, reinsurance, int'l insurance, specialty insurance, and alternative insurance. Regional P/C operations are concentrated in the southern and midwestern United States. Specialty and alternative insurance businesses are conducted nationally. 2012 written premium breakdown: 20% Regional ops., 32% Specialty ops., 16% Alternative insurance, 9% Reinsurance, 15% International, and 8% Other. Has about 7,410 employees. Officers & directors own 21.0% of common (4/13 Proxy). President, Chairman & CEO: William Berkley. Incorporated: Delaware. Address: 475 Steamboat Road, Greenwich, CT 06830. Telephone: 203-629-3000. Internet: www.wrbc.com.

W.R. Berkley's string of positive share-net comparisons continued in the June interim. Operating share net, which excludes capital gains and losses from investments, came in at $0.70, an 8% improvement from the year-earlier tally and represented the sixth-consecutive period of favorable profit comparisons. Net premiums earned climbed 11.8%, largely thanks to average rate increases of 6.5% on policyholder renewals, along with new business wins. This helped to counteract a slightly worse, though still profitable, combined ratio of 96.6%. This implies that the company made $3.40 in pretax profit for every $100 in policies insured.

We believe the good times will continue, at least through 2014, barring an overage of catastrophes. The broader insurance market appears to be in the midst of an upswing, as attractive capacity conditions have resulted in rate hikes across many product lines. What's more, primary insurers are retaining a larger percentage of their policies instead of ceding to reinsurers, reflecting the high cost of secondary insurance and their attractive margins. This should help counteract continued pressure on net investment income. This item was down 11% in the June quarter, reflecting low reinvestment yields on fixed-income securities. While interest rates have climbed in recent weeks, we believe income from investments will be constrained for a few more quarters.

Berkley appears to be well positioned to take advantage of probable strengthening conditions in the P/C insurance market 3 to 5 years hence. The balance sheet is solid, and the insurer appears adequately reserved. The underwriting margin should improve by 2016-2018, reflecting management's solid underwriting discipline, with a focus on pricing, along with policy terms and conditions, both of which contribute to overall margins. Investment income should ultimately perk up, as the Federal Reserve Bank winds down its economic stimulus actions.

These shares are a middling choice for both the short- and long-term horizon. A modest dividend does little to sweeten the pot.

Alan G. House *September 13, 2013*

(A) Diluted earnings per share. Excl. nonrecurr. gains/(losses): '98, (3¢); '99, (10¢); '01, (2¢); '02, 8¢; '04, 21¢; '06, 3¢; '07, 5¢; '08, ($1.30); '09, (37¢); '10, 20¢; '11, 62¢; '12, 93¢. Incl. real. loss: '01, 2¢; '04, 1¢. Next earnings report due early Nov.
(B) Div'ds. historically paid in early Jan., April, July, and Oct. Paid special div'd. of $1.00/share on 12/31/12.
(C) In mill., adj. for splits.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	75
Earnings Predictability	75

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BROWN & BROWN NYSE-BRO

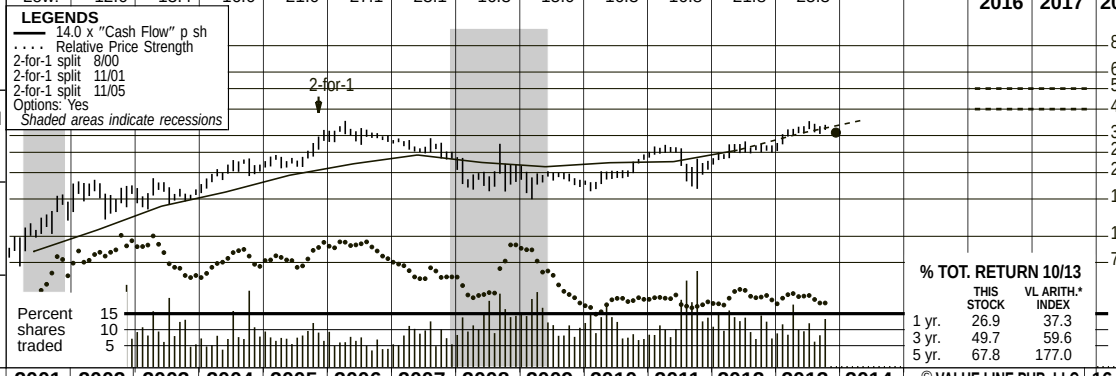
RECENT PRICE **31.01** | P/E RATIO **19.8** (Trailing: 21.4 / Median: 20.0) | RELATIVE P/E RATIO **1.07** | DIV'D YLD **1.3%** | VALUE LINE

TIMELINESS 3 Lowered 7/12/13
SAFETY 1 Raised 11/15/13
TECHNICAL 3 Lowered 6/7/13
BETA .75 (1.00 = Market)

High:	18.5	18.8	23.4	31.9	35.3	29.2	27.4	21.5	24.4	27.1	28.2	35.1
Low:	12.0	13.4	16.0	21.0	27.1	23.1	16.3	15.0	16.3	16.8	21.8	25.3

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 14.0 x "Cash Flow" p sh
.... Relative Price Strength
2-for-1 split 8/00
2-for-1 split 11/01
2-for-1 split 11/05
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+60%)	*14%*
Low	40	(+30%)	*8%*

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	1	0	0	0	0	0	0
Options	7	0	0	1	0	0	1	0	0
to Sell	3	0	1	6	0	0	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	117	106	124
to Sell	99	112	100
Hld's(000)	101332	103168	102259

% TOT. RETURN 10/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	26.9	37.3
3 yr.	49.7	59.6
5 yr.	67.8	177.0

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
1.23	1.42	1.61	1.80	2.89	3.34	4.02	4.68	5.64	6.27	6.82	6.91	6.81	6.82	7.07	8.34	*9.70*	*10.90*	Revenues per sh	*14.60*
.26	.30	.36	.40	.60	.77	.99	1.16	1.39	1.57	1.74	1.60	1.52	1.59	1.61	1.83	*2.20*	*2.55*	"Cash Flow" per sh	*3.55*
.19	.22	.25	.29	.43	.61	.80	.93	1.08	1.24	1.35	1.17	1.08	1.12	1.13	1.26	*1.52*	*1.80*	Earnings per sh A	*2.60*
.04	.05	.06	.07	.08	.10	.12	.15	.17	.21	.25	.29	.30	.31	.33	.35	*.37*	*.41*	Div'ds Decl'd per sh B	*.48*
.03	.32	.05	.04	.09	.05	.12	.07	.10	.11	.22	.10	.08	.07	.10	.17	*.20*	*.20*	Cap'l Spending per sh	*.25*
.74	.78	.94	1.04	1.39	2.87	3.63	4.51	5.48	6.64	7.80	8.77	9.64	10.55	11.47	12.56	*14.20*	*15.40*	Book Value per sh D	*21.25*
104.86	107.98	109.76	116.73	126.39	136.36	137.12	138.32	139.38	140.02	140.67	141.54	142.08	142.80	143.35	143.88	*141.00*	*141.00*	Common Shs Outst'g C	*140.00*
15.3	20.8	17.8	21.4	26.2	25.7	20.0	22.0	22.3	24.4	19.5	16.6	17.4	17.7	20.5	20.1	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
.88	1.08	1.01	1.39	1.34	1.40	1.14	1.16	1.19	1.32	1.04	1.00	1.16	1.13	1.29	1.29	*Value Line*		Relative P/E Ratio	*1.20*
1.6%	1.1%	1.3%	1.1%	.7%	.6%	.8%	.7%	.7%	.7%	1.0%	1.5%	1.6%	1.6%	1.4%	1.4%	*estimates*		Avg Ann'l Div'd Yield	*1.0%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $450.0 mill. **Due in 5 Yrs** $443.0 mill.
LT Debt $450.0 mill. **LT Interest** $16.1 mill.
(19% of Cap'l)
Leases, Uncapitalized: Annual rentals $39.8 mill.

No Defined Benefit Pension Plan

Pfd Stock None

Common Stock 144,899,681 shs.
as of 7/31/13

MARKET CAP: $4.5 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
551.0	646.9	785.8	878.0	959.7	977.6	967.9	973.5	1013.5	1200.0	*1370*	*1540*	Revenues ($mill)	*2060*
37.3%	37.9%	38.4%	38.9%	39.4%	35.5%	34.3%	35.6%	34.7%	33.3%	*34.0%*	*35.0%*	Operating Margin	*37.0%*
25.7	31.1	43.3	47.8	53.2	59.9	63.1	65.9	67.1	78.9	*90.0*	*100*	Depreciation ($mill)	*132*
110.3	128.8	150.6	172.4	191.0	166.1	153.3	161.8	164.0	184.0	*215*	*255*	Net Profit ($mill)	*370*
37.5%	37.7%	38.3%	38.5%	38.7%	39.0%	39.8%	39.2%	39.4%	39.6%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
20.0%	19.9%	19.2%	19.6%	19.9%	17.0%	15.8%	16.6%	16.2%	15.3%	*15.7%*	*16.6%*	Net Profit Margin	*18.0%*
42.0	174.9	37.0	57.5	31.3	.4	134.7	182.6	226.5	191.7	*150*	*200*	Working Cap'l ($mill)	*500*
41.1	227.1	214.2	226.3	227.7	253.6	250.2	250.1	250.0	450.0	*380*	*380*	Long-Term Debt ($mill)	*350*
498.0	624.3	764.3	929.3	1097.5	1241.7	1369.9	1506.3	1644.0	1807.3	*2000*	*2200*	Shr. Equity ($mill)	*3000*
20.8%	15.6%	16.1%	15.5%	14.9%	11.6%	9.9%	9.6%	9.0%	8.5%	*9.5%*	*10.0%*	Return on Total Cap'l	*11.0%*
22.2%	20.6%	19.7%	18.5%	17.4%	13.4%	11.2%	10.7%	10.0%	10.2%	*11.0%*	*11.5%*	Return on Shr. Equity	*12.5%*
18.8%	17.4%	16.6%	15.4%	14.2%	10.1%	8.1%	7.8%	7.1%	7.4%	*8.0%*	*9.0%*	Retained to Com Eq	*10.0%*
15%	16%	16%	17%	18%	24%	28%	28%	28%	27%	*24%*	*23%*	All Div'ds to Net Prof	*18%*

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	424.5	392.6	608.2
Receivables	240.2	302.7	310.5
Other	43.4	64.2	53.9
Current Assets	708.1	759.5	972.6
Accts Payable	379.5	488.1	554.6
Debt Due	1.2	.1	- -
Other	100.9	79.6	107.2
Current Liab.	481.6	567.8	661.8

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	10.5%	3.5%	*12.0%*
"Cash Flow"	11.0%	1.5%	*13.5%*
Earnings	10.0%	-1.0%	*14.0%*
Dividends	15.0%	9.5%	*6.5%*
Book Value	20.5%	11.5%	*10.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2010	252.3	243.7	247.6	229.9	973.5
2011	262.2	246.8	260.4	244.1	1013.5
2012	302.5	290.9	303.8	302.8	1200.0
2013	335.0	325.8	359.3	*349.9*	*1370*
2014	*380*	*375*	*400*	*385*	*1540*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2010	.31	.29	.31	.21	1.12
2011	.32	.26	.30	.25	1.13
2012	.34	.29	.34	.29	1.26
2013	.41	.36	.39	*.36*	*1.52*
2014	*.46*	*.43*	*.47*	*.44*	*1.80*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.075	.075	.075	.078	.30
2010	.078	.078	.078	.08	.31
2011	.08	.08	.08	.085	.33
2012	.085	.085	.085	.09	.35
2013	.09	.09	.09	.10	

BUSINESS: Brown & Brown operates an insurance brokerage firm that markets property/casualty products and services to commercial, professional, and individual customers. The company's property insurance protects against physical damage to property and the resultant interruption of business caused by firestorm, windstorm, or other perils. Casualty insurance relates to legal liabilities, workers' compensation, commercial and private automobile insurance, and fidelity and surety insurance. Has about 6,440 empls. Off./dir. own 18.2% of stock (includes J. Hyatt Brown, 14.8%) (4/13 Proxy). Chairman and acting CEO: J. Hyatt Brown. Inc. Fl. Address: 220 South Ridgewood Ave., Daytona Beach, FL 32114. Telephone: 386-252-9601. Internet: www.bbinsurance.com.

Brown & Brown's third-quarter results were in line with our expectations. Share earnings climbed 15% from a year earlier to $0.39, boosted by an 18% increase in the top line. Notably, organic growth was a healthy 7%, with gains coming from all four of the company's operating segments. Contributions from recent takeovers, a strengthening property/casualty pricing environment, and an increase in contingent commissions also helped to fuel the bottom-line advance.

The momentum should continue to build in 2014. On a down note, challenges in coastal markets, particularly Florida, greater competition, and an uptick in stock-based compensation expenses will probably weigh down results. That said, an ongoing increase in commissions and fees, and higher demand for commercial insurance ought to aid in lifting earnings. Greater contributions from acquired entities and controlled expense management are added pluses.

We believe takeovers will remain a key component of Brown & Brown's long-term growth strategy. Compared to the historical average, it has been a slow year in regard to purchases, with only two deals so far. Even so, the company continues to reap benefits from the early 2012 acquisition of Arrowhead, on which it spent roughly $400 million. As time progresses, we expect more small bolt-on takeovers, given the importance of these transactions on expanding Brown's book of business.

We project annual share-net growth of 10%–15% over the next 3 to 5 years. Rising commissions and fees ought to help the top line increase approximately 10% a year over this time frame. Brown's aggressive acquisition strategy will likely support these gains. However, softness in the pricing environment and industrywide underwritings have the potential to keep annual internal volume growth in the mid-single-digit range.

These neutrally ranked shares have pulled back a bit over the past three months, even as the broader markets have charged forward. We believe that after a strong run-up in the stock price earlier in the year, some investors decided to take their profits.

Randy Shrikishun *November 15, 2013*

(A) Diluted earnings. Next earnings report due mid-January.
(B) Dividends historically paid in mid-February, May, August, and November.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In '12: $2278.0 million, $15.83 a share.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	55
Earnings Predictability	95

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CAPITOL FEDERAL NDQ-CFFN

RECENT PRICE **12.47** | P/E RATIO **24.0** (Trailing: 26.0 / Median: 43.0) | RELATIVE P/E RATIO **1.33** | DIV'D YLD **2.4%** | VALUE LINE

TIMELINESS 2 Raised 9/13/13
SAFETY 3 Lowered 1/14/11
TECHNICAL 3 Raised 4/27/12
BETA .60 (1.00 = Market)

High:	12.9	16.8	17.5	16.5	17.2	17.9	22.8	20.2	17.0	12.7	12.3	12.9
Low:	8.9	12.3	12.9	14.4	13.9	12.9	12.2	12.5	10.2	10.3	11.2	11.6

Target Price Range
2016 | 2017 | 2018

2016-18 PROJECTIONS

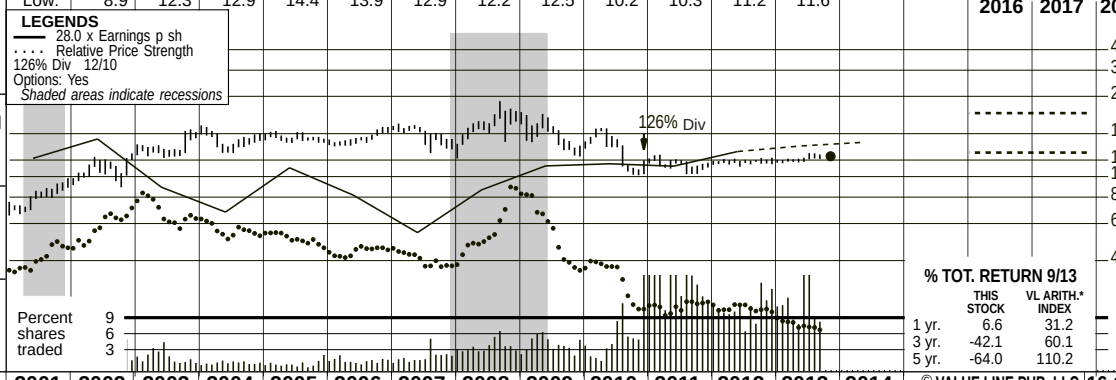
	Price	Gain	Ann'l Total Return
High	20	(+60%)	16%
Low	13	(+5%)	5%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	1	0	1	2	0	1
Options	0	5	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	77	72	80
to Sell	81	91	84
Hld's(000)	107787	106888	106817



% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	6.6	31.2
3 yr.	-42.1	60.1
5 yr.	-64.0	110.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
- -	- -	30.76	41.58	42.53	45.57	42.76	44.18	45.28	43.60	39.93	45.05	45.23	40.37	53.68	57.30	59.50	60.75	Mortgage Loans per sh	65.00
- -	- -	18.82	20.88	23.55	26.38	25.51	24.64	23.55	23.27	23.34	23.40	25.21	26.19	26.84	29.29	31.45	32.40	Savings Deposits per sh	36.50
- -	- -	.17	.40	.44	.54	.32	.24	.39	.29	.19	.31	.40	.41	.40	.47	.50	.52	Earnings per sh A B	.60
- -	- -	.09	.19	.25	.33	.40	.88	.88	.88	.88	.88	.88	.88	.30	.30	.30	.30	Div'ds Decl'd per sh C	.40
- -	- -	5.05	5.20	5.76	5.93	5.88	4.97	5.14	5.15	5.16	5.20	5.61	5.74	11.58	11.63	11.10	11.30	Book Value per sh	12.10
- -	- -	207.16	189.51	182.02	166.50	166.11	167.49	168.16	167.59	168.10	167.69	167.74	167.50	167.50	155.38	147.00	145.00	Common Shs Outst'g D	140.00
- -	- -	25.6	11.9	16.9	19.2	40.0	61.1	39.0	50.8	NMF	53.1	43.3	34.6	28.3	24.7	23.0		Avg Ann'l P/E Ratio	28.0
- -	- -	1.46	.77	.87	1.05	2.28	3.23	2.08	2.74	NMF	3.20	2.88	2.20	1.78	1.58	1.35		Relative P/E Ratio	1.85
- -	- -	2.0%	3.9%	3.4%	3.2%	3.1%	6.0%	5.8%	6.0%	5.4%	5.4%	5.1%	6.2%	2.6%	2.6%	2.6%		Avg Ann'l Div'd Yield	2.4%

CAPITAL STRUCTURE as of 6/30/13

Borrowings $2901.5 mill. (64% of Cap'l)

Other LT Debt None

No Defined Benefit Pension Plan

Pfd Stock None

Common Stock 147,841,368 shs.
as of 7/24/13
MARKET CAP: $1.8 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
484.7	408.4	423.5	435.7	435.5	440.8	441.4	408.5	371.9	352.3	325	335	Gross Income ($mill)	400
67.4%	65.8%	57.7%	65.2%	70.1%	62.8%	53.5%	50.1%	47.9%	40.6%	37.0%	38.0%	Int Cost to Gross Inc	43.0%
52.0	40.3	65.1	48.1	32.3	51.0	66.3	67.8	64.4	74.5	72.0	76.0	Net Profit ($mill)	85.0
39.0%	39.7%	38.3%	38.9%	39.0%	36.4%	37.0%	35.6%	33.0%	35.8%	34.0%	34.0%	Income Tax Rate	34.0%
10.7%	9.9%	15.4%	11.0%	7.4%	11.6%	15.0%	16.6%	17.3%	21.2%	22.2%	23.4%	Net Profit Margin	21.3%
8582.5	8541.0	8409.7	8199.1	7675.9	8055.2	8403.7	8487.1	9450.8	9378.3	9250	9300	Total Assets ($mill)	9600
3200.0	3449.4	3426.5	3268.7	2732.2	2447.1	2392.6	2376.0	2379.5	2530.3	2500	2500	FHLB Advances ($mill)	2550
976.4	832.4	865.1	863.2	867.6	871.2	941.3	962.0	1939.5	1806.5	1630	1640	Shr. Equity ($mill)	1695
- -	- -	- -	- -	- -	- -	- -	- -	930.0	1528.2	1350	1500	New Loan Volume ($mill)	1800
- -	- -	- -	- -	- -	- -	- -	- -	.4%	.7%	.5%	.5%	Problem Assets to Lns	.3%
11.4%	9.7%	10.3%	10.5%	11.3%	10.8%	11.2%	11.3%	20.5%	19.3%	17.5%	17.5%	Shr. Eq. to Total Assets	17.5%
15.0%	17.9%	17.4%	16.7%	17.8%	18.6%	21.2%	22.0%	35.6%	25.9%	29.0%	27.0%	G&A Exp to Gross Inc	25.0%
.61%	.47%	.77%	.59%	.42%	.63%	.79%	.80%	.68%	.79%	.80%	.80%	Return on Total Assets	.90%
5.3%	4.8%	7.5%	5.6%	3.7%	5.8%	7.0%	7.1%	3.3%	4.1%	4.5%	4.5%	Return on Shr. Equity	5.0%

EARNINGS FACTORS

Margin (%)	2011	2012	9 mos. 6/30/13
Earning Asset Yield	3.77	3.50	3.34
Cost of Funds	2.35	1.52	1.64
Yield-Cost Margin	1.42	1.98	1.70

Net Changes ($mill.)	2011	2012	9 mos. 6/30/13
Loans	-18.5	458.3	184.5
Deposits	108.9	55.5	77.8
FHLB Advances & Other Borrowing	-122.5	-179.1	6.2

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Mortgage Lns	1.5%	3.5%	4.5%
Savings Dep	1.5%	3.0%	5.0%
Earnings	-.5%	8.0%	6.0%
Dividends	7.0%	-11.0%	NMF
Book Value	5.5%	13.5%	4.0%

Fiscal Year Ends	SAVINGS DEPOSITS ($ mill.) A Dec.31	Mar. 31	Jun. 30	Sep. 30	Full Fiscal Year
2010	4227	4319	4374	4386	
2011	4682	4711	4559	4495	
2012	4501	4657	4592	4550	
2013	4582	4694	4628	4625	
2014	4650	4670	4685	4700	

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar. 31	Jun. 30	Sep. 30	Full Fiscal Year
2010	.11	.09	.11	.10	.41
2011	.09	.10	.10	.10	.40
2012	.12	.12	.12	.11	.47
2013	.12	.12	.13	.13	.50
2014	.13	.13	.13	.13	.52

Cal-endar	QUARTERLY DIVIDENDS PAID C Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.221	.221	.221	.221	.88
2010	.221	.221	.221	.221	.88
2011	.075	.075	.075	.075	.30
2012	.075	.075	.075	.075	.30
2013	.075	.075	.075		

BUSINESS: Capitol Federal Financial, Inc. is the holding company for Capitol Federal Savings Bank. It has 46 branches (36 traditional and 10 in-store locations), mainly in Kansas, where it is one of the leading one- to four family residential lenders. The bank serves the Topeka, Kansas City, Wichita, Lawrence, Manhattan, Emporia, and Salina areas. Also has a position in Missouri. Allowance for loan losses was 28% of nonperforming loans at 9/30/12. Loans at 9/30/12: 97% real estate; 3% consumer. Has about 750 employees. American Century owns 10.2% of stock; CapFed ESOP, 6.4%; T.Rowe Price, 5.8%; officers & directors, 2.4% (1/13 proxy). Chairman and CEO: John B. Dicus. Inc.: MD. Address: 700 Kansas Ave. Topeka, KS 66603. Tel.: 785-235-1341. www.capfed.com.

Capitol Federal likely eked out a modest share-net gain for the fiscal year that ended September 30th. Detailed results are due out at the close of the month, but we figure a reduced share count was the main reason for the advance, since net income was tracking a bit lower. As a result, the buyback of more than seven million shares through the first nine months of the financial year looks to have achieved a measurable goal.

Recent share repurchases appear to be less aggressive. That may be as the stock price is somewhat higher than when the buybacks were made. A share price closer to $12, or below, seems to be nearer the target range. As a result, unless the stock retreats a bit, we are not looking for as much in the way of stock repurchases in the new fiscal year.

Most of the inching forward in 2014 earnings per share we estimate is owing to reduced costs. The midwestern lender has indicated that $7.5 million in salaries and benefits expenses incurred in 2013 will not be recurring. After taxes, that should equate to a couple of extra pennies in share profits.

Meantime, internal growth is measured, but credit quality is a bright spot. Securities sales have kept asset growth at bay lately. However, loan balances, mostly in the single-family residential category (largely in Kansas and Missouri) were up 3%, year over year, at last count. Elsewhere, the level of nonperforming assets is extremely low, and early-stage delinquencies are dwindling.

There is an expectation that Capitol Federal will continue to pay out special dividends. The company has paid out extra dividends in nine out of the past 11 years, and that strategy may well be extended. Before the end of the calendar year, the bank has committed to paying out 100% of fiscal 2013's earnings. That could translate into an extra dividend of $0.18-$0.20 a share, assuming nothing unusual happens. The potential for added cash distributions, combined with the stock's stable nature, may fit the bill for certain investors.

The shares have moved up a notch in Timeliness to 2 (Above Average), but don't stand out for the long term.

Robert Mitkowski, Jr. *October 11, 2013*

(A) Fiscal year ends September 30th.
(B) Diluted earnings. Excludes nonrecurring charges: '04, $0.90; '11, $0.16. Earnings may not sum due to rounding. Next earnings report due October 30.
(C) Dividends paid in mid-Feb., May, Aug., and Nov. Excludes special dividends: '12, $0.70; '11, $0.70; '10; $0.13, '09; $0.13, '08; $0.05, '06; $0.04, '05; $0.13, '03; $0.36, '02; $0.54.
(D) In millions.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	20
Earnings Predictability	70

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CLOROX CO. NYSE-CLX

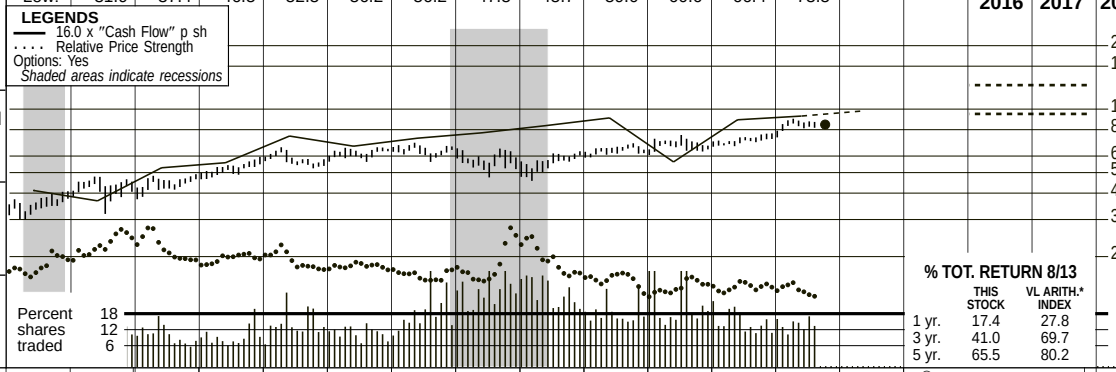
RECENT PRICE **84.45** | P/E RATIO **18.9** (Trailing: 19.6 / Median: 19.0) | RELATIVE P/E RATIO **1.06** | DIV'D YLD **3.4%** | VALUE LINE

TIMELINESS 4 Lowered 8/23/13
SAFETY 2 Lowered 4/14/00
TECHNICAL 3 Lowered 9/27/13
BETA .60 (1.00 = Market)

High:	47.9	49.2	59.4	66.0	66.0	69.4	65.3	63.1	69.0	75.4	76.7	90.1
Low:	31.9	37.4	46.5	52.5	56.2	56.2	47.5	45.7	59.0	60.6	66.4	73.5

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 16.0 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	130	(+55%)	*14%*
Low	95	(+10%)	*7%*

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	1	0	0	0	0	0	0	0
Options	1	1	1	5	0	2	6	0	2
to Sell	3	3	3	8	2	2	6	2	2

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	266	292	271
to Sell	267	268	277
Hld's(000)	91630	91306	93541

% TOT. RETURN 8/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	17.4	27.8
3 yr.	41.0	69.7
5 yr.	65.5	80.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
12.27	13.32	17.01	17.35	16.49	18.21	19.39	20.30	28.93	30.69	32.05	38.20	39.16	39.88	39.91	42.20	43.13	*45.10*	Sales per sh A	*52.80*
1.82	2.12	2.52	2.64	2.57	2.30	3.30	3.49	4.66	4.17	4.55	4.82	5.22	5.68	3.51	5.56	5.80	*6.15*	"Cash Flow" per sh	*8.15*
1.21	1.41	1.63	1.75	1.63	1.37	2.33	2.55	2.88	2.89	3.23	3.24	3.81	4.24	2.07	4.10	4.31	*4.60*	Earnings per sh B	*6.30*
.58	.64	.72	.80	.84	.84	.88	1.08	1.10	1.14	1.31	1.66	1.88	2.05	2.25	2.44	2.63	*2.88*	Div'ds Decl'd per sh C■	*3.40*
.46	.48	.75	.67	.81	.79	.96	.81	1.00	1.19	.97	1.23	1.42	1.46	1.74	1.48	1.49	*1.45*	Cap'l Spending per sh	*2.00*
5.02	5.27	6.67	7.62	8.03	6.07	5.69	7.23	d3.65	d1.03	1.13	d2.68	d1.26	.60	d.66	d1.04	1.12	*.80*	Book Value per sh D	*6.60*
206.33	205.74	235.31	235.36	236.69	223.01	213.68	212.99	151.68	151.30	151.26	138.04	139.16	138.76	131.07	129.56	130.37	*128.00*	Common Shs Outst'g E	*125.00*
22.4	27.5	33.2	25.0	22.6	29.6	18.2	18.8	19.8	20.1	19.7	18.5	14.5	14.4	31.9	16.7	18.2		Avg Ann'l P/E Ratio	*18.0*
1.29	1.43	1.89	1.63	1.16	1.62	1.04	.99	1.05	1.09	1.05	1.11	.97	.92	2.00	1.05	1.06		Relative P/E Ratio	*1.20*
2.1%	1.7%	1.3%	1.8%	2.3%	2.1%	2.1%	2.3%	1.9%	2.0%	2.1%	2.8%	3.4%	3.4%	3.4%	3.6%	3.4%		Avg Ann'l Div'd Yield	*3.0%*

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
4144.0	4324.0	4388.0	4644.0	4847.0	5273.0	5450.0	5534.0	5231.0	5468.0	5623.0	*5770*	Sales ($mill) A	*6600*
25.2%	24.7%	23.0%	20.8%	21.8%	20.7%	22.2%	23.1%	20.9%	19.8%	20.6%	*20.5%*	Operating Margin	*24.5%*
191.0	197.0	190.0	188.0	192.0	205.0	190.0	185.0	173.0	178.0	182.0	*185*	Depreciation ($mill)	*210*
514.0	546.0	517.0	443.0	496.0	461.0	537.0	603.0	287.0	543.0	574.0	*600*	Net Profit ($mill)	*810*
35.9%	35.0%	29.1%	32.2%	33.2%	33.5%	33.8%	34.8%	49.0%	31.4%	32.7%	*34.5%*	Income Tax Rate	*34.0%*
12.4%	12.6%	11.8%	9.5%	10.2%	8.7%	9.9%	10.9%	5.5%	9.9%	10.2%	*10.4%*	Net Profit Margin	*12.3%*
d500.0	d225.0	d258.0	d123.0	d395.0	d412.0	d757.0	d523.0	d86.0	d685.0	286.0	*100*	Working Cap'l ($mill)	*100*
495.0	475.0	2122.0	1966.0	1462.0	2720.0	2151.0	2124.0	2125.0	1571.0	2170.0	*2100*	Long-Term Debt ($mill)	*1200*
1215.0	1540.0	d553.0	d156.0	171.0	d370.0	d175.0	83.0	d86.0	d135.0	146.0	*100*	Shr. Equity ($mill)	*825*
30.7%	27.8%	35.2%	27.3%	33.6%	22.5%	30.0%	29.8%	16.8%	40.6%	27.0%	*29.5%*	Return on Total Cap'l	*41.0%*
42.3%	35.5%	- -	- -	NMF	- -	- -	NMF	NMF	NMF	NMF	*NMF*	Return on Shr. Equity	*NMF*
26.4%	20.6%	- -	- -	NMF	- -	- -	NMF	NMF	NMF	NMF	*NMF*	Retained to Com Eq	*46.0%*
38%	42%	39%	39%	37%	49%	48%	47%	106%	58%	58%	*63%*	All Div'ds to Net Prof	*54%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $2372 mill. **Due in 5 Yrs** $1477 mill.
LT Debt $2170 mill. **LT Interest** $103 mill.
(Total interest coverage: 8.0x)
(94% of Cap'l)
Leases, Uncapitalized Annual rentals $45 mill.
Pension Assets-6/13 $408 mill. **Oblig.** $612 mill.
Pfd Stock None

Common Stock 130,429,805 shs.
as of 7/31/13

MARKET CAP: $11.0 billion (Large Cap)

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	259.0	267.0	299.0
Receivables	525.0	576.0	580.0
Inventory (LIFO)	382.0	384.0	394.0
Other	113.0	149.0	147.0
Current Assets	1279.0	1376.0	1420.0
Accts Payable	423.0	412.0	413.0
Debt Due	459.0	1150.0	202.0
Other	483.0	499.0	519.0
Current Liab.	1365.0	2061.0	1134.0

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '16-'18
Sales	9.0%	4.5%	*5.0%*
"Cash Flow"	6.0%	2.0%	*10.5%*
Earnings	7.0%	2.5%	*12.5%*
Dividends	11.0%	12.0%	*7.0%*
Book Value	- -	- -	*NMF*

Fiscal Year Ends	QUARTERLY SALES ($ mill.) A Sep.30	Dec.31	Mar.31	Jun.30	Full Fiscal Year
2010	1372	1279	1366	1517	5534.0
2011	1266	1179	1304	1482	5231.0
2012	1305	1221	1401	1541	5468.0
2013	1338	1325	1413	1547	5623.0
2014	*1350*	*1320*	*1465*	*1635*	*5770*

Fiscal Year Ends	EARNINGS PER SHARE A B Sep.30	Dec.31	Mar.31	Jun.30	Full Fiscal Year
2010	1.11	.77	1.16	1.20	4.24
2011	.98	d1.17	1.02	1.26	2.07
2012	.98	.79	1.02	1.32	4.10
2013	1.01	.93	1.00	1.37	4.31
2014	*1.00*	*.95*	*1.14*	*1.51*	*4.60*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.46	.46	.50	.50	1.92
2010	.50	.50	.55	.55	2.10
2011	.55	.55	.60	.60	2.30
2012	.60	.60	.64	.64	2.48
2013	.64	.64	.71		

BUSINESS: The Clorox Co. operates in four segments. Cleaning consists of laundry, home care, and professional products (32% of '13 sales and 38% of pretax income). Lifestyle consists of food products, water filtration systems and filters, and personal care lines (16%, 23%). Household consists of charcoal, cat litter, plastic bags, wraps and containers (31%, 30%). International (22%, 9%). Largest products: liquid bleach 14%, trash bags, 13%, and charcoal 10.%. Acq'd First Brands (1/99), Burt's Bees (11/07). Has 8,400 empls. Officers & directors own 2.7% of common stock; Three institutions 18.3%. (9/12 proxy). Chairman and CEO.: Donald R. Knauss. Inc.: CA. Add.: 1221 Broadway, Oakland, CA 94612. Telephone: 510-271-7000. Internet: www.clorox.com.

We continue to expect Clorox will earn $4.60 a share in fiscal 2014 (began July 1st.). We estimate sales growth toward the low end of the company's 2% to 4% target. Results should be helped by product innovation, estimated at 3% (matching 2013's level) and cost savings. The latter is anticipated to benefit margins by 150 basis points. Category growth is likely to fall between a flat showing and a 1% improvement. On the negative side are uncertainties in some Latin American markets, foreign currency pressures, and commodity inflation (notably resin costs).

Fiscal 2014 will likely be a tale of two halves. Contributing to the probable minimal first-half sales growth are challenging comparisons to roughly 5.5% sales growth a year ago, heightened pressure on laundry additives and disinfecting wipes, and foreign currency declines. Gross margin pressures include higher commodity costs and the Argentina/Venezuela challenges. The second half will benefit from significant product introductions and some foreign pricing improvement.

International business is a mixed bag. Overseas markets accounted for 22% of fiscal 2013 sales. Roughly one-third of this total comes from developed markets, which provide stability to the foreign portfolio. Another third mostly comes from developing markets, e.g., Chile, Peru, and Mexico, which are growing at double-digit rates on a local-currency basis. The remainder comes from Argentina and Venezuela where continued price controls and high inflation are likely to trim share earnings by $0.05-$0.10.

Innovation is a key for the company. New products have consistently added at least two percentage points (and frequently three percentage points) to incremental growth. The increase doesn't include price hikes. Note: New items are primarily introduced in the March quarter.

These shares now have a Below-Average Timeliness rank (4) for year-ahead performance. Yet, Clorox has many attributes that would appeal to existing long-term shareholders. These include the number-one or two market position in nearly 90% of its brands. Also, Clorox has raised its dividend for 36 straight years.

Jerome H. Kaplan *September 27, 2013*

(A) Fscl. yr. ends June 30. (B) Based on avg. shrs. outstndg. though '97; dil. thereafter. Excl. nonrecur. gain (loss): '99, ($0.60); '00, ($0.11); '01, ($0.16); '03, ($0.10); '04, $0.01. Incl. nonrecur. impairment loss '11, ($1.85). Earnings may not sum due to rounding and/or changes in share count. Next earnings report due early November. (C) Div'd historically paid in mid-Feb., May, Aug., Nov. ■ Div'd reinvest. plan available. (D) Incl. intang. At 6/30/13: $1732 mill. $13.29/sh. (E) In mill., adj. for stk. split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	55

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CONAGRA FOODS INC. NYSE-CAG

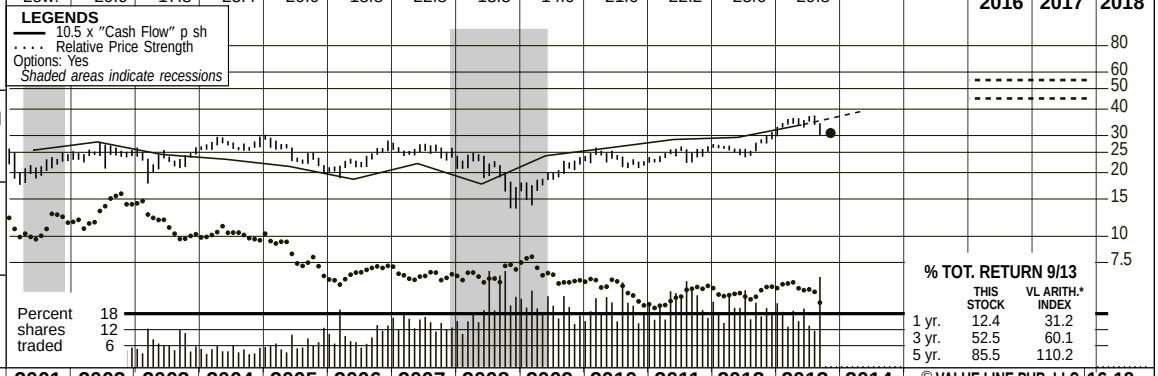
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
30.77	14.0	(Trailing: 14.7 Median: 16.0)	0.77	3.2%	VALUE LINE

TIMELINESS 4 Lowered 9/20/13
SAFETY 1 Raised 5/1/09
TECHNICAL 3 Raised 9/20/13
BETA .65 (1.00 = Market)

High:	27.7	26.4	29.7	30.2	28.3	27.7	24.9	23.7	26.3	26.7	31.1	37.3
Low:	20.9	17.8	25.4	20.0	18.8	22.8	13.5	14.0	21.0	22.2	23.6	29.8

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 10.5 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+80%)	*18%*
Low	45	(+45%)	*13%*

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	5	1	1	0	4	0	0	10	1
to Sell	4	1	1	0	4	0	0	8	1

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	274	293	255
to Sell	248	250	290
Hld's(000)	283664	289538	292758

% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	12.4	31.2
3 yr.	52.5	60.1
5 yr.	85.5	110.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
53.35	51.95	52.22	53.22	51.87	52.41	37.48	27.92	28.12	22.67	24.56	23.96	28.83	27.31	29.97	32.54	36.93	*40.80*	Sales per sh A	*45.20*
2.29	2.34	2.54	2.67	2.43	2.67	2.33	2.21	2.04	1.78	2.10	1.68	2.29	2.50	2.73	2.80	3.21	*3.75*	"Cash Flow" per sh	*4.80*
1.34	1.36	1.46	1.67	1.33	1.47	1.58	1.50	1.35	1.15	1.35	1.06	1.52	1.74	1.75	1.84	2.16	*2.30*	Earnings per sh A B	*3.25*
.53	.61	.69	.79	.88	.93	.98	1.03	1.07	1.09	.72	.75	.76	.79	.89	.95	.99	*1.00*	Div'ds Decl'd per sh C ■	*1.45*
1.49	1.24	1.41	1.13	1.07	1.01	.74	.68	.88	.52	.87	.93	1.00	1.09	1.14	.83	1.09	*1.55*	Cap'l Spending per sh	*1.70*
5.49	6.06	6.18	6.21	7.60	8.17	8.73	9.30	9.38	9.10	9.36	11.02	10.69	11.13	11.45	10.89	12.55	*13.90*	Book Value per sh D	*18.15*
449.92	458.93	470.99	476.97	524.28	527.14	529.34	520.13	518.10	510.86	489.78	484.37	441.66	442.27	410.49	407.61	419.47	*423.00*	Common Shs Outst'g E	*415.00*
18.7	23.9	19.8	13.5	16.0	15.6	15.3	16.7	20.2	19.4	18.2	22.8	12.0	12.8	13.2	13.9	13.8		Avg Ann'l P/E Ratio	*15.0*
1.08	1.24	1.13	.88	.82	.85	.87	.88	1.08	1.05	.97	1.37	.80	.81	.83	.88	.79		Relative P/E Ratio	*1.00*
2.1%	1.9%	2.4%	3.5%	4.1%	4.1%	4.1%	4.1%	3.9%	4.9%	2.9%	3.1%	4.2%	3.5%	3.9%	3.7%	3.3%		Avg Ann'l Div'd Yield	*2.8%*

19839	14522	14567	11579	12028	11606	12731	12079	12303	13263	15491	*17250*	Sales ($mill) A	*18700*
9.6%	11.9%	11.4%	10.2%	13.1%	10.7%	11.9%	13.3%	13.8%	11.3%	12.9%	*14.0%*	Operating Margin	*15.5%*
391.9	352.3	350.9	311.2	346.0	296.7	318.9	326.8	360.9	371.8	445.2	*595*	Depreciation ($mill)	*625*
840.1	796.0	704.7	596.1	683.8	518.7	691.8	778.6	760.4	769.0	901.1	*990*	Net Profit ($mill)	*1375*
34.2%	30.9%	39.2%	32.4%	36.4%	32.6%	33.6%	32.4%	36.6%	21.1%	31.4%	*34.0%*	Income Tax Rate	*34.0%*
4.2%	5.5%	4.8%	5.1%	5.7%	4.5%	5.4%	6.4%	6.2%	5.8%	5.8%	*5.7%*	Net Profit Margin	*7.3%*
2256.2	2143.3	2135.1	1825.5	2325.1	2430.7	1761.9	1923.9	1773.7	993.6	978.5	*800*	Working Cap'l ($mill)	*1275*
5395.2	5280.7	4349.1	3154.8	3420.0	3386.9	3461.3	3226.4	2870.3	2858.6	8886.9	*7925*	Long-Term Debt ($mill)	*6250*
4621.7	4839.5	4859.4	4650.0	4582.9	5337.4	4720.9	4923.9	4701.5	4439.5	5264.4	*5875*	Shr. Equity ($mill)	*7530*
10.0%	9.5%	9.2%	9.6%	10.2%	7.4%	10.1%	11.1%	11.6%	12.0%	7.4%	*8.5%*	Return on Total Cap'l	*11.0%*
18.2%	16.4%	14.5%	12.8%	14.9%	9.7%	14.7%	15.8%	16.2%	17.3%	17.1%	*17.0%*	Return on Shr. Equity	*18.5%*
7.2%	5.4%	3.2%	.7%	6.9%	2.9%	7.3%	8.8%	8.2%	8.6%	9.5%	*9.5%*	Retained to Com Eq	*10.0%*
61%	67%	78%	95%	54%	70%	50%	45%	49%	51%	44%	*43%*	All Div'ds to Net Prof	*45%*

CAPITAL STRUCTURE as of 8/25/13
Total Debt $9.7 bill. **Due in 5 Yrs** $2.3 bill.
LT Debt $8.8 bill. **LT Interest** $400.0 mill.
(Total interest coverage: 4.5X) (62% of Cap'l)

Leases, Uncapitalized Annual rentals $93.0 mill.
Pension Assets-5/13 $3.3 bill. **Oblig.** $3.8 bill.

Pfd Stock None
Common Stock 421,879,680 shs.
as of 8/25/13
MARKET CAP: $13.0 billion (Large Cap)

CURRENT POSITION ($MILL.)	2012	2013	8/25/13
Cash Assets	103.0	183.9	194.2
Receivables	924.8	1286.2	1246.1
Inventory (FIFO)	1869.6	2394.1	2549.8
Other	321.4	515.6	467.3
Current Assets	3218.8	4379.8	4457.4
Accts Payable	1190.3	1501.6	1552.0
Debt Due	78.1	702.9	867.6
Other	956.8	1196.8	1043.7
Current Liab.	2225.2	3401.3	3463.3

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '11-'13 to '16-'18
Sales	-3.5%	7.0%	*6.5%*
"Cash Flow"	1.5%	9.5%	*10.5%*
Earnings	3.0%	10.0%	*11.0%*
Dividends	- -	2.0%	*9.0%*
Book Value	3.5%	3.5%	*9.5%*

Fiscal Year Ends	QUARTERLY SALES ($ mill.)A Aug.Per	Nov.Per	Feb.Per	May Per	Full Fiscal Year
2010	2886	3100	3031	3062	12079
2011	2804	3148	3141	3210	12303
2012	3072	3404	3373	3414	13263
2013	3312	3735	3850	4594	15491
2014	4202	*4550*	*4200*	*4298*	*17250*

Fiscal Year Ends	EARNINGS PER SHARE A B Aug.Per	Nov.Per	Feb.Per	May Per	Full Fiscal Year
2010	.37	.54	.44	.39	1.74
2011	.34	.45	.50	.46	1.75
2012	.31	.49	.53	.51	1.84
2013	.44	.57	.55	.60	2.16
2014	.37	*.55*	*.68*	*.70*	*2.30*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.19	.19	.19	.20	.77
2010	.20	.20	.20	.23	.83
2011	.23	.23	.23	.24	.93
2012	.24	.24	.24	.25	.97
2013	.25	.25	.25		

BUSINESS: ConAgra Foods, Inc. is a leading packaged food company serving grocery retailers, as well as restaurants and other foodservice establishments. Popular consumer brands include *Chef Boyardee*, *Healthy Choice*, *Orville Redenbacher*, *Slim Jim*, *Reddi-wip*, *Hebrew National*, *Egg Beaters*, and *Hunt's*. It operates through four divisions: Consumer Foods, Commercial Foods, Ralcorp Food Group, and Ralcorp Frozen Bakery Products. Sold its trading and merchandising business, 5/08. Acquired Ralcorp Holdings 1/13. Has 34,840 employees. Off./dir. own 2.1% of common stock; State Street Corp., 5.6%; BlackRock, 5.4% (9/13 proxy). CEO & Pres.: Gary Rodkin. Inc.: DE. Addr.: One ConAgra Drive, Omaha, NE 68102-5001. Tel.: 402-240-4000. Internet: www.conagrafoods.com.

ConAgra Foods shares have given some ground since our late-July report. The investment community's disappointing reaction to ConAgra's weak fiscal first-quarter (ended July 31st) performance likely prompted the recent selling.

The food processor did not get off to the start it wanted in fiscal 2014. In addition to the sluggishness of the private-label offerings (many of which were acquired in the Ralcorp deal this past February), ConAgra's branded products have struggled. Nowhere is this more noticeable than in the Consumer Foods segment. During the fiscal first quarter, the company's largest segment witnessed lower volumes (down 3%) due to category and customer challenges. Fierce competition and subsequent competitive pricing weighed on results. This was evident in the company's decision to shift a good deal of investment spending to promotions to help win back some lost market share. Meanwhile, ConAgra's Commercial Foods division also witnessed an erosion in profits due to troubles at its Lamb Weston potato business. Based on these factors, we have lowered our fiscal 2014 share-net estimate by $0.15, to $2.30. (Investors should note that the full-year earnings forecast includes an accretion of roughly $0.25 a share from the Ralcorp operations.)

Speaking of Ralcorp, many of the problems that the company faced as a stand-alone entity have continued under the ConAgra umbrella. Sales and profits have declined amid a difficult consumer foods market. Too, ConAgra leveraged its balance sheet to finance the hefty purchase of Ralcorp. The added debt load has raised the company's interest expense considerably, which could penalize the bottom line going forward if operating conditions continue to suffer. That said, we do like the long-term potential of the combination, as it makes ConAgra one of the prime players in the private-label consumer foods market.

ConAgra Foods stock is untimely. However, the recent pullback in price does present a nice entry point for investors with a longer-term horizon. Further, this high-quality issue is a nice option for conservative accounts stressing income.

William G. Ferguson *October 25, 2013*

(A) FY ends last Sun. in May. **(B)** Dil. egs. Excl. n/r items: '97, d3¢; '98, d3¢; '99, d71¢; '00, d81¢; '01, d9¢; '03; d12¢; '04, d2¢ '05, d8¢; '06, d25¢; '09, d10¢; '10, d7¢; '11, 15¢; '13, d31¢; '14 Q1, d4¢. Disc. items: '05, d4¢; '06, 23¢; '07, 16¢; '08, 84¢; '09, 73¢.; '10, d5¢; '11, d2¢; '12, d72¢; '14 Q1, 1¢. Next egs. rprt. due mid-December. Egs. may not sum due to change in shr. count. **(C)** Div'ds paid in Mar., June, Sept., Dec. ■ Div'd reinv. plan. **(D)** Incl. intang. In FY 2013: $11.87 billion or *$28.47* a share. **(E)** In mill.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	85

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DAVITA HEALTH INC. NYSE-DVA

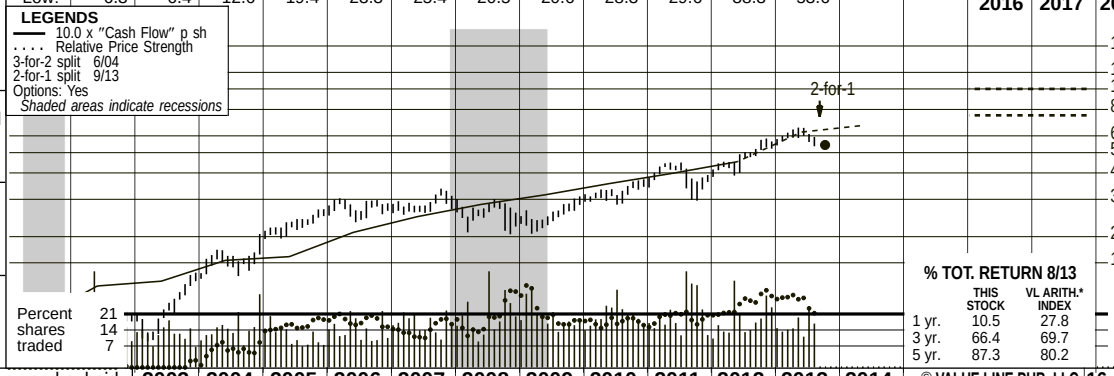
RECENT PRICE **54.30** | P/E RATIO **14.0** (Trailing: 15.7 / Median: 15.0) | RELATIVE P/E RATIO **0.82** | DIV'D YLD **Nil** | VALUE LINE

TIMELINESS 2 Raised 8/30/13
SAFETY 2 Raised 3/15/13
TECHNICAL 2 Raised 9/13/13
BETA .70 (1.00 = Market)

High:	8.8	13.5	20.5	27.0	30.3	33.7	30.1	31.0	37.3	44.9	58.3	65.7
Low:	6.3	6.4	12.6	19.4	23.3	25.4	20.5	20.6	28.3	29.6	38.3	53.6

Target Price Range
2016 | 2017 | 2018

LEGENDS
—— 10.0 x "Cash Flow" p sh
. . . . Relative Price Strength
3-for-2 split 6/04
2-for-1 split 9/13
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	100	(+85%)	*16%*
Low	75	(+40%)	*9%*

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	1	1	1	1	1	1	0	0	0
Options	0	6	6	2	2	6	1	6	0
to Sell	0	6	5	3	2	6	2	8	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	203	221	195
to Sell	190	185	210
Hld's(000)	181322	179592	186682

% TOT. RETURN 8/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	10.5	27.8
3 yr.	66.4	69.7
5 yr.	87.3	80.2

DaVita, previously a wholly owned subsidiary of Tenet Healthcare Corp., went public in 8/94 through the sale of 6 mill. sh. at $15.50 ea. DLJ was the lead underwriter. After merging with RTC in a stock-for-stock transaction in 1998, the company became the second largest provider of dialysis services in the United States. After purchasing HealthCare Partners for $4.4 billion in late 2012, the company changed its name to Davita Healthcare Partners.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
10.42	11.66	14.59	23.26	24.51	27.24	29.60	33.58	37.28	38.80	*54.40*	*57.40*	Revenues per sh	*72.70*
1.23	1.54	1.60	2.09	2.49	2.84	3.16	3.57	4.00	4.52	*6.25*	*6.75*	"Cash Flow" per sh	*9.25*
.84	1.06	1.07	1.26	1.59	1.77	2.03	2.19	2.50	3.13	*3.80*	*4.15*	Earnings per sh A	*5.85*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	Div'ds Decl'd per sh	*Nil*
.52	.65	.79	1.25	1.27	1.53	1.33	1.43	2.14	2.61	*2.70*	*2.80*	Cap'l Spending per sh	*3.15*
1.59	2.65	4.17	5.94	8.06	9.40	10.34	10.30	11.43	17.84	*20.25*	*22.05*	Book Value per sh B	*28.40*
193.51	197.13	203.87	209.80	214.80	207.80	206.40	192.00	187.28	211.00	*212.50*	*213.00*	Common Shs Outst'g C	*220.00*
11.2	14.7	21.4	21.8	17.8	14.8	12.5	14.9	15.6	15.2	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
.64	.78	1.14	1.18	.94	.89	.83	.95	.98	.97	*Value Line*		Relative P/E Ratio	*1.00*
--	--	--	--	--	--	--	--	--	--	*estimates*		Avg Ann'l Div'd Yield	*Nil*
2016.4	2298.6	2973.9	4880.7	5264.2	5660.2	6108.8	6447.4	6982.2	8186.3	*11560*	*12225*	Revenues ($mill)	*15990*
28.3%	27.8%	26.4%	17.9%	18.8%	21.8%	21.7%	21.6%	20.2%	21.2%	*22.5%*	*23.2%*	Operating Margin	*25.5%*
74.7	86.7	119.7	173.3	193.5	216.9	229.0	234.4	266.6	342.0	*515*	*555*	Depreciation ($mill)	*750*
163.2	217.3	207.4	265.6	340.9	374.2	422.7	451.0	481.6	612.6	*810*	*885*	Net Profit ($mill)	*1285*
40.8%	39.1%	37.4%	39.2%	39.2%	38.6%	36.7%	35.3%	35.4%	35.5%	*37.0%*	*37.0%*	Income Tax Rate	*39.5%*
8.1%	9.5%	7.0%	5.4%	6.5%	6.6%	6.9%	7.0%	6.9%	7.5%	*7.0%*	*7.2%*	Net Profit Margin	*8.0%*
242.3	427.0	664.7	597.3	889.8	965.2	1255.6	1698.5	1128.5	860.6	*975*	*1050*	Working Cap'l ($mill)	*1500*
1117.0	1322.5	4085.4	3730.4	3683.9	3622.4	3532.2	4233.9	4417.6	8326.5	*8100*	*7800*	Long-Term Debt ($mill)	*6800*
306.9	523.1	850.6	1245.9	1732.3	1952.5	2135.1	1978.4	2141.1	3763.1	*4300*	*4700*	Shr. Equity ($mill)	*6250*
13.8%	13.2%	5.0%	8.1%	8.7%	8.7%	9.1%	8.7%	9.1%	6.2%	*8.5%*	*9.0%*	Return on Total Cap'l	*11.5%*
53.2%	41.5%	24.4%	21.3%	19.7%	19.2%	19.8%	22.8%	22.5%	16.3%	*19.0%*	*19.0%*	Return on Shr. Equity	*21.5%*
53.2%	41.5%	24.4%	21.3%	19.7%	19.2%	19.8%	22.8%	22.5%	16.3%	*19.0%*	*19.0%*	Retained to Com Eq	*21.5%*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	All Div'ds to Net Prof	*Nil*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $8476.6 mill. **Due in 5 Yrs** $2500.0 mill.
LT Debt $8234.3 mill. **LT Interest** $455.0 mill.
(66% of Cap'l)

Leases, Uncap.: Annual rentals $258.3 mill.
No Defined Benefit Pension Plan

Pfd Stock None

Common Stock 212,600,000 shs.

MARKET CAP: $11.5 billion (Large Cap)

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	411.2	540.9	624.6
Receivables	1195.1	1421.3	1445.1
Inventory (FIFO)	75.7	78.1	78.0
Other	599.6	838.5	984.1
Current Assets	2281.6	2878.8	3131.8
Accts Payable	289.7	414.1	320.1
Debt Due	87.3	227.8	242.3
Other	776.1	1376.3	1652.5
Current Liab.	1153.1	2018.2	2214.9

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	17.0%	12.0%	*12.0%*
"Cash Flow"	17.0%	14.5%	*15.0%*
Earnings	22.0%	15.0%	*15.0%*
Dividends	--	--	*Nil*
Book Value	26.5%	17.0%	*13.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.)D Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2010	1559	1586	1651	1649	6447.4
2011	1603	1708	1807	1862	6982.2
2012	1849	1913	1945	2477	8186.3
2013	2830	2872	*2930*	*2929*	*11560*
2014	*3010*	*3020*	*3070*	*3125*	*12225*

Cal-endar	EARNINGS PER SHARE A D Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2010	.52	.53	.58	.56	2.19
2011	.48	.51	.73	.78	2.50
2012	.76	.75	.78	.84	3.13
2013	.92	.92	*.96*	*1.00*	*3.80*
2014	*1.00*	*1.00*	*1.05*	*1.10*	*4.15*

Cal-endar	QUARTERLY DIVIDENDS PAID Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	NO CASH DIVIDENDS BEING PAID				
2010					
2011					
2012					
2013					

BUSINESS: DaVita HealthCare Partners Inc. provides dialysis services for over 153,000 patients with chronic kidney failure through 1,954 outpatient facilities and hospitals for inpatient treatment in the U.S. It offers ancillary services, including lab/pharmacy services, physician network management, pre- and post-transplant services, vascular access management, and clinical research programs. Purchased Healthcare Partners 11/12. Avg. dialysis rev./treatment, $332. '12 reimbursement: Medicare, 59%; Medicaid, 5%; other gov. 2%, Commercial 34%. Berkshire Hathaway owns 12.9% of common; Vanguard, 5.2%; Offs. and dirs., 2.6% (4/13 proxy). Chrmn./CEO: Kent J. Thiry. Inc.: DE. Addr.: 1551 Wewatta St., Denver, CO 80202. Tel.: 303-405-2100. Web: www.davita.com.

DaVita pushed up the date for its two-for-one stock split. Originally, the dialysis provider planned on making this move on September 23rd. But, in late August, it was disclosed that the transaction would occur on September 6th, with the shares trading for the first time on a post-split basis on September 9th. No particular reason was given for the alteration, though, since the initial announcement, the market had begun to take a noticeable downturn with regard to sentiment. The split puts the number of shares outstanding at about 212.5 million presently, and this figure is already factored in, to our earnings presentation.

After an elongated surge, these shares now look to be taking a breather. Make no mistake, we continue to think this is a well-run company with a bright future. Regardless, DVA's quotation soared to an all-time high in the early days of summer when strong performance, a Warren Buffett investment, and an investor shift into medical services stocks fueled a run-up. Since then, profit-taking and a jittery overall market have led the stock to dip more than 10% since our June review.

We continue to call for an annual earnings advance in the vicinity of 20% for this year. Dialysis patient growth remains stout, and cost synergies are still being rung out from DVA's most recent acquisitions. The June quarter was exactly in line with our estimates and predictability for the balance of the year is elevated. DVA provides a service that cannot be skipped or delayed in almost all cases, so it is not experiencing any of the admissions problems that some others in the healthcare field are going through. The company's future looks bright, as well. Even if reimbursement cuts surface, that scenario would push lesser players out of the business, thus boosting DaVita's market share.

These good-quality shares are more of a buy than they were a few months back. They are ranked to outpace the broader market indices in the coming six to 12 months. However, appreciation aspirations three to five years hence have been vastly reduced by the rise that began last year.

Erik M. Manning *September 13, 2013*

(A) Diluted egs. Excludes nonrecurring gains/(losses): '04, 3¢; '06, 11¢; '07, 19¢; '10, 22¢. Excl. extraord. gains/(losses): '03, (9¢). Next egs. rpt. due late October. (B) Incl. intang., in 2012: $11.1 bill., $56.62/share. (C) In mill., adj. for stock split and div'd. (D) Qtrly. eps. or revs. may not sum to total due to rounding or change in shares outstanding.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	95
Earnings Predictability	95

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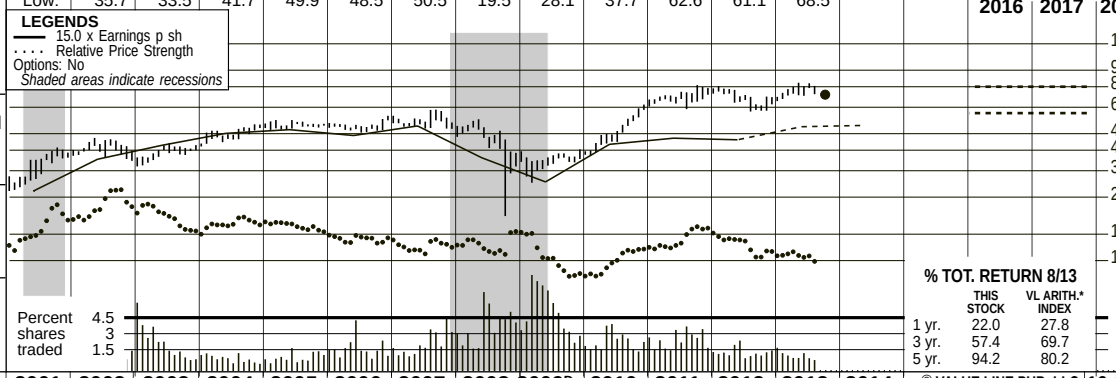
ERIE INDEMNITY NDQ-ERIE

RECENT PRICE **73.44** | P/E RATIO **20.4** (Trailing: 24.2 Median: 17.0) | RELATIVE P/E RATIO **1.20** | DIV'D YLD **3.2%** | VALUE LINE

TIMELINESS 4 Lowered 8/16/13
SAFETY 2 Raised 6/22/07
TECHNICAL 4 Lowered 9/6/13
BETA .70 (1.00 = Market)

High:	45.8	43.3	53.0	55.7	58.3	62.3	56.2	40.3	65.9	81.4	80.6	83.6
Low:	35.7	33.5	41.7	49.9	48.5	50.5	19.5	28.1	37.7	62.6	61.1	68.5

Target Price Range
2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	80	(+10%)	6%
Low	60	(-20%)	-1%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	1	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	1	0	1	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	49	52	48
to Sell	57	49	58
Hld's(000)	13929	14147	14218

% TOT. RETURN 8/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	22.0	27.8
3 yr.	57.4	69.7
5 yr.	94.2	80.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009D	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
9.34	9.97	10.92	12.08	12.82	15.73	17.44	19.09	20.27	21.37	23.34	23.14	83.11	97.70	100.79	117.55	*132.60*	*134.80*	Revenues per sh D	*177.80*
.55	.58	.68	.83	.78	.87	.91	.97	1.01	.97	.99	.86	.70	.68	.71	.85	*.95*	*1.05*	Investment Inc per sh	*1.25*
d.03	.01	d.05	d.16	d.32	d.42	d.20	.12	.41	.38	.61	.41	2.70	2.36	d6.05	8.23	*9.30*	*12.15*	Underwriting Inc per sh	*19.55*
1.59	1.81	1.95	2.12	1.71	2.42	2.81	3.21	3.34	3.13	3.48	2.46	1.89	2.85	3.04	2.97	*3.45*	*3.50*	Earnings per sh AD	*4.60*
.38	.44	.48	.56	.61	.68	.76	.97	1.34	1.46	1.64	1.77	1.83	1.96	2.10	2.25	*2.37*	*2.37*	Div'ds Decl'd per sh BE	*2.60*
8.05	9.77	10.71	12.16	13.55	15.42	18.16	20.11	20.90	20.13	19.71	15.44	17.62	18.22	16.32	13.69	*16.95*	*18.60*	Book Value per sh	*21.90*
67.03	67.04	65.13	64.06	63.84	64.04	64.09	63.00	61.17	57.71	53.34	51.29	51.20	50.05	47.86	46.89	*46.00*	*46.00*	Common Shs Outst'g C	*45.00*
387%	295%	270%	241%	248%	263%	216%	239%	252%	259%	279%	298%	204%	270%	438%	515%	*Bold figures are*		Price to Book Value	*315%*
19.6	16.0	14.8	13.8	19.6	16.8	13.9	15.0	15.8	16.7	15.8	18.7	19.0	17.2	23.5	23.7	*Value Line*		Avg Ann'l P/E Ratio	*15.0*
1.13	.83	.84	.90	1.00	.92	.79	.79	.84	.90	.84	1.13	1.27	1.09	1.47	1.50	*estimates*		Relative P/E Ratio	*1.00*
1.2%	1.5%	1.7%	1.9%	1.8%	1.7%	1.9%	2.0%	2.5%	2.8%	3.0%	3.8%	5.1%	4.0%	2.9%	3.2%			Avg Ann'l Div'd Yield	*3.8%*

CAPITAL STRUCTURE as of 6/30/13

Total Debt None

Leases, Uncapitalized Annual rentals $7.0 mill.
Pension Assets-12/12 $411.0 mill. **Oblig.** $612.0 mill.

Pfd Stock None

Common Stock 46,676,287 shs.

MARKET CAP: $3.4 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
1117.5	1202.6	1240.2	1233.0	1244.8	1187.1	4255.0	4890.0	4824.0	5512.0	*6100*	*6200*	Revenues ($mill) D	*8000*
79.8%	73.6%	65.0%	65.4%	60.7%	66.1%	70.5%	72.7%	81.7%	67.0%	*67.0%*	*66.0%*	Loss to Prem Earned	*65.0%*
26.7%	22.7%	23.2%	24.4%	23.6%	23.7%	25.9%	24.3%	24.3%	26.0%	*26.0%*	*25.0%*	Expense to Prem Writ	*24.0%*
-6.5%	3.7%	11.7%	10.3%	15.8%	10.1%	3.6%	3.0%	-6.0%	7.0%	*7.0%*	*9.0%*	Underwriting Margin	*11.0%*
34.7%	32.2%	32.9%	33.2%	32.1%	33.7%	14.9%	33.9%	25.7%	32.0%	*32.0%*	*32.0%*	Income Tax Rate	*32.0%*
199.7	226.4	231.1	204.0	216.3	142.7	108.0	162.0	167.0	160.0	*180*	*185*	Net Profit ($mill)	*230*
4.9%	4.6%	4.4%	4.2%	4.3%	4.6%	.8%	1.0%	.7%	4.0%	*4.0%*	*4.5%*	Inv Inc/Total Inv	*4.5%*
2755	2980	3101	3039	2879	2613	13287	14344	14348	15441	*16000*	*16500*	Total Assets ($mill) D	*21000*
1164.2	1266.9	1278.6	1161.8	1051.3	791.9	902.0	912.0	781.0	642.0	*780*	*855*	Shr. Equity ($mill)	*985*
17.2%	17.9%	18.1%	17.6%	20.6%	18.0%	12.0%	17.8%	21.4%	24.9%	*23.0%*	*21.5%*	Return on Shr. Equity	*23.5%*
12.9%	13.5%	11.7%	10.2%	11.9%	6.4%	1.7%	7.0%	8.3%	8.5%	*9.0%*	*9.0%*	Retained to Com Eq	*11.5%*
25%	24%	35%	42%	42%	65%	86%	60%	61%	66%	*61%*	*59%*	All Div'ds to Net Prof	*51%*

FINANCIAL POSITION ($MILL.)	2011	2012	6/30/13
Bonds	7840.0	8159.0	8163.0
Stocks	2924.0	3417.0	3741.0
Other	3584.0	3865.0	3975.0
Total Assets	14348.0	15441.0	15879.0
Unearned Premium	3849.0	4073.0	4292.0
Reserves	3499.0	3598.0	3668.0
Other	6219.0	7128.0	7272.0
Total Liab'ties	13567.0	14799.0	15232.0

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Premium Inc D	45.0%	87.5%	*12.5%*
Invest Income	16.5%	29.0%	*-23.5%*
Earnings	3.0%	-4.5%	*7.5%*
Dividends	13.5%	9.5%	*3.5%*
Book Value	3.5%	-3.0%	*5.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.)D Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1216.0	916.0	1357.0	1401.0	4890.0
2011	1365.0	1245.0	796.0	1418.0	4824.0
2012	1520.0	1160.0	1460.0	1372.0	5512.0
2013	1571.0	1426.0	*1424*	*1679*	*6100*
2014	*1675*	*1475*	*1375*	*1675*	*6200*

Cal-endar	EARNINGS PER SHARE AD Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.77	.89	.88	.31	2.85
2011	.77	.87	.93	.47	3.04
2012	.67	.80	.96	.54	2.97
2013	.69	.84	*1.06*	*.86*	*3.45*
2014	*.84*	*.99*	*.93*	*.74*	*3.50*

Cal-endar	QUARTERLY DIVIDENDS PAID BE Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.45	.45	.45	.45	1.80
2010	.48	.48	.48	.48	1.92
2011	.515	.515	.515	.515	2.06
2012	.5525	.5525	.5525	1.145E	2.80
2013	- -	.5925	.5925		

BUSINESS: Erie Indemnity Company, a management service company, provides sales, underwriting, and policy issuance services to the policy holders of Erie Indemnity Exchange. It offers property/casualty insurance, as well as underwrites personal and commercial insurance products. Its products in the personal lines include private passenger automobile and homeowners'; and those in commercial include multi peril, automobile, and workers' compensation. Has about 4,400 employees. Dirs. & off. have 6.7% of voting power; H.O. Hirt Trusts, 92.1% (4/13 Proxy). Chrmn.: Thomas B. Hagen. Pres. & CEO: Terrence W. Cavanaugh. Inc.: PA. Address: 100 Erie Insurance Place, Erie, PA 16530. Telephone: 814-870-2000. Internet: www.erie-insurance.com.

Erie Indemnity Company has not missed a beat this year. The primary drivers behind its solid performance remain rising average annual prices and swelling customer retention rates. In addition, new policies-in-force continue to trek upward. Furthermore, a larger agent base and firmer demand for its property & casualty lines of business have been a boon to the top and bottom lines. Thus, we have left our 2013 and 2014 share-net calls of $3.45 and $3.50, respectively, unchanged at this juncture.

New technology platforms ought to aid the company's growth plans. It recently launched ErieSecure Home, which enables agents to provide prospective clients with combined personal auto and homeowners insurance quotes within minutes over the Internet. Too, Erie has opened a state-of-the-art facility specializing in claims training and Web-based consulting. These actions should further bolster its customer retention levels, market share, and cross-selling opportunities over future quarters.

It appears the insurer will likely escape a number of natural catastrophes relatively unscathed. Indeed, Erie seems to have sidestepped much of the expensive fallout stemming from both Hurricane Sandy and a host of damaging tornadoes that swept across the United States in recent months. These events have allowed for a combined ratio below 100%, signaling an underwriting profit. Moreover, earlier severe weather systems ought to enable the company to take advantage of healthier pricing conditions and a lower expense ratio.

These shares are now an untimely selection for the year-ahead time frame. In addition, this issue already trades within the Target Price Range we foresee to 2016-2018, resulting in lackluster capital appreciation potential during that span. That said, the stock still has some fine qualities. It scores solid marks for Safety (2) and Price Stability (100). Also, income-oriented accounts should take note of ERIE's well-covered, above-average dividend yield. All told, the insurer's solid long-term prospects may ultimately prove our projections conservative, if the stock continues to trade at a relatively high P/E.

Kenneth DeFranco, Jr. September 13, 2013

(A) Dil. egs. May not sum due to change in share count. Next egs. rpt. early November.
(B) Dividends historically paid in mid-January, April, July, and October.
(C) In millions.
(D) Due to adoption of FASB ASC 810, results are reported on a consolidated basis beginning in 2009. Previous results are not comparable.
(E) Includes an extra payment of $0.5925 paid on 12/21/12. Special cash dividend of $2.00 paid on 12/21/12.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	65

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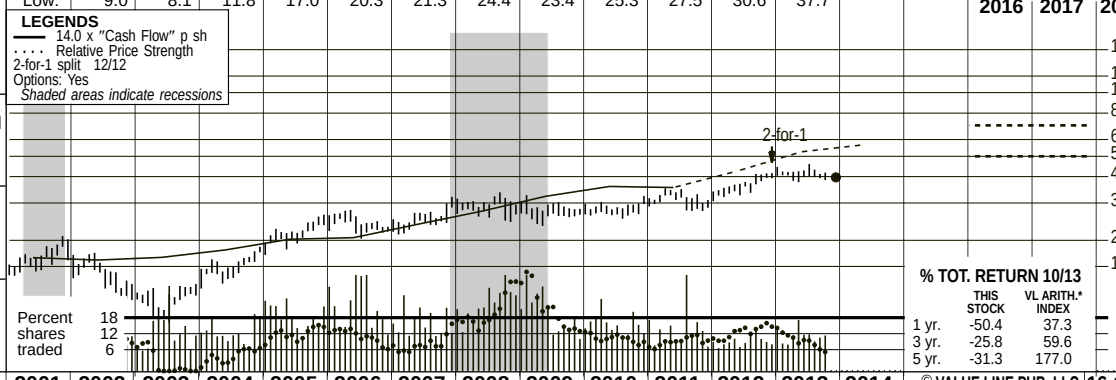
HAEMONETICS CORP. NYSE-HAE

RECENT PRICE **39.72** | P/E RATIO **17.2** (Trailing: 18.9 / Median: 22.0) | RELATIVE P/E RATIO **0.96** | DIV'D YLD **Nil** | VALUE LINE

TIMELINESS 2 Raised 9/20/13
SAFETY 2 Raised 11/28/08
TECHNICAL 3 Lowered 9/20/13
BETA .65 (1.00 = Market)

High:	17.4	12.4	18.6	26.4	27.9	32.1	33.7	32.7	32.4	35.2	41.6	45.9
Low:	9.0	8.1	11.8	17.0	20.3	21.3	24.4	23.4	25.3	27.5	30.6	37.7

Target Price Range
2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+75%)	15%
Low	50	(+25%)	6%

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	7	0	0	0	0
Options	3	4	2	2	3	4	3	2	1
to Sell	3	4	3	2	3	4	3	2	1

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	84	86	105
to Sell	96	101	93
Hld's(000)	53239	52708	52778

% TOT. RETURN 10/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-50.4	37.3
3 yr.	-25.8	59.6
5 yr.	-31.3	177.0

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
5.40	5.24	5.50	5.70	6.24	7.01	7.26	7.33	7.82	8.48	10.05	11.67	12.69	13.19	14.38	17.48	18.45	19.80	Sales per sh A	25.25
.74	.85	.99	1.04	1.18	1.15	1.19	1.28	1.44	1.47	1.70	1.96	2.31	2.57	2.54	3.06	3.75	4.10	"Cash Flow" per sh	4.95
.31	.39	.48	.57	.65	.54	.60	.76	.95	.92	1.05	1.23	1.43	1.64	1.52	1.71	2.35	2.50	Earnings per sh B	3.10
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	Nil	Nil	Div'ds Decl'd per sh	Nil
.38	.42	.46	.43	.42	.28	.28	.33	.63	.76	1.12	1.10	1.11	.91	1.05	1.22	1.05	1.25	Cap'l Spending per sh	1.25
3.68	4.12	4.08	4.18	4.62	4.64	5.58	6.78	8.23	9.04	9.62	10.54	11.66	13.37	14.48	15.07	17.40	19.30	Book Value per sh C	25.80
52.96	53.89	50.55	51.56	51.28	48.08	50.16	52.36	53.66	53.03	51.39	51.24	50.88	51.32	50.60	51.03	51.75	50.50	Common Shs Outst'g D	47.50
27.2	23.1	21.4	21.8	25.7	23.6	19.3	21.8	24.1	25.8	25.4	23.5	19.1	17.6	20.9	22.6	Bold figures are		Avg Ann'l P/E Ratio	19.5
1.57	1.20	1.22	1.42	1.32	1.29	1.10	1.15	1.28	1.39	1.35	1.41	1.27	1.12	1.31	1.44	Value Line		Relative P/E Ratio	1.30
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	estimates		Avg Ann'l Div'd Yield	Nil
						364.2	383.6	419.7	449.6	516.4	597.9	645.4	676.7	727.8	892.0	955	1000	Sales ($mill) A	1200
						20.9%	22.8%	23.3%	20.9%	20.8%	21.6%	23.3%	24.4%	21.5%	21.9%	26.0%	25.5%	Operating Margin	25.0%
						30.1	27.6	25.2	27.5	31.2	36.5	43.2	48.1	50.0	66.6	75.0	77.0	Depreciation ($mill)	85.0
						29.3	39.6	52.2	50.5	56.2	64.0	74.2	83.8	78.4	89.5	120	130	Net Profit ($mill)	150
						36.0%	33.8%	35.1%	33.5%	32.4%	30.4%	29.3%	28.1%	26.9%	26.8%	26.0%	27.0%	Income Tax Rate	30.0%
						8.0%	10.3%	12.4%	11.2%	10.9%	10.7%	11.5%	12.4%	10.8%	10.0%	12.6%	13.0%	Net Profit Margin	12.5%
						185.7	255.7	330.3	321.7	261.7	289.5	249.6	340.1	396.4	416.9	500	575	Working Cap'l ($mill)	725
						25.4	19.2	13.0	6.7	6.0	5.3	4.6	4.0	2.9	456.9	400	375	Long-Term Debt ($mill)	200
						279.7	355.1	441.7	479.6	494.2	539.9	593.1	686.1	732.6	769.2	900	975	Shr. Equity ($mill)	1225
						9.9%	10.8%	11.6%	10.4%	11.3%	11.7%	12.5%	12.1%	10.7%	7.5%	9.5%	10.0%	Return on Total Cap'l	10.5%
						10.5%	11.2%	11.8%	10.5%	11.4%	11.9%	12.5%	12.2%	10.7%	11.6%	13.5%	13.5%	Return on Shr. Equity	12.5%
						10.5%	11.2%	11.8%	10.5%	11.4%	11.9%	12.5%	12.2%	10.7%	11.6%	13.5%	13.5%	Retained to Com Eq	12.5%
						--	--	--	--	--	--	--	--	--	--	Nil	Nil	All Div'ds to Net Prof	Nil

CAPITAL STRUCTURE as of 9/28/13
Total Debt $464.4 mill. **Due in 5 Yrs** $464.4 mill.
LT Debt $420.7 mill. **LT Interest** $10.1 mill.
(33% of Cap'l)

Leases Uncapitalized: Annual rentals $6.2 million
Pension Assets-3/12 $18.2 mill. **Oblig.** $27.2 mill.

Pfd Stock None
Common Stock 51,528,003 shares
(adjusted for 11/12 2-for-1 split)

MARKET CAP: $2.0 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2011	2012	9/28/13
Cash Assets	228.9	179.1	159.1
Receivables	135.5	170.1	162.1
Inventory (FIFO)	117.2	183.8	205.3
Other	45.5	64.0	65.6
Current Assets	527.1	597.0	592.1
Accts Payable	35.4	49.9	45.4
Debt Due	.9	23.2	43.7
Other	94.4	107.0	109.1
Current Liab.	130.7	180.1	198.2

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	9.0%	11.5%	9.5%
"Cash Flow"	9.0%	12.0%	10.0%
Earnings	11.0%	11.0%	11.0%
Dividends	--	--	--
Book Value	12.5%	10.0%	10.0%

Fiscal Year Begins	QUARTERLY SALES ($ mill.) A Jun.Per	Sep.Per	Dec.Per	Mar.Per	Full Fiscal Year
2010	163.1	166.8	176.8	170.0	676.7
2011	170.6	179.3	191.2	186.7	727.8
2012	175.5	219.2	247.4	249.9	892.0
2013	219.5	235.8	249.7	250	955
2014	225	245	260	270	1000

Fiscal Year Begins	EARNINGS PER SHARE A B Jun.Per	Sep.Per	Dec.Per	Mar.Per	Full Fiscal Year
2010	.37	.40	.45	.42	1.64
2011	.33	.36	.43	.40	1.52
2012	.28	.45	.50	.48	1.71
2013	.46	.66	.61	.62	2.35
2014	.50	.70	.65	.65	2.50

Cal-endar	QUARTERLY DIVIDENDS PAID Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009					
2010					
2011	NO CASH DIVIDENDS BEING PAID				
2012					
2013					

BUSINESS: Haemonetics Corporation is a global healthcare company dedicated to providing innovative blood management solutions. It has a comprehensive portfolio of integrated devices, information management, and consulting services that allows it to offer tailored solutions for each facet of the blood supply chain, helping to improve clinical outcomes and reduce costs for blood and plasma collectors, hospitals, and patients around the world. Has 2,337 employees (as of 5/12). Neuberger Berman owns 12.7% of common; BlackRock, 7.4%, officers & and directors, 2.9% (6/12 proxy). Chairman: Brad Nutter. President & CEO: Brian Concannon. Incorporated: MA. Address: 400 Wood Road, Braintree, MA 02184. Tel: 781-848-7100. Internet: www.haemonetics.com.

Haemonetics managed to post tremendous second-quarter (fiscal year ends March 31, 2014) earnings growth, despite disappointing sales. Indeed, the company reported a 47% advance in share earnings, while sales increased a less-than-expected 8%, far below the breakneck pace we became accustomed to following the August 2012 acquisition of Pall Corp.'s transfusion business. Tougher comparisons were largely to blame after the deal was anniversaried. Margin improvement picked up the slack, with EBITDA increasing approximately 200 basis points, thanks to cost-containment measures.

Fiscal second-half earnings growth is likely to remain in the 20% range. Although difficult year-before comparisons and a still-tough demand environment will probably continue to limit top-line success, the more recent purchase of Hemerus Medical's SOLX collections systems ought to fuel some upside. Meanwhile, we look for margin expansion to lead the way. Management is doing a better-than-expected job with the Pall marriage, and is likely to complete the integration ahead of schedule. We've tacked a dime onto our full-year fiscal 2013 earnings estimate and now look for the company to earn $2.35 a share, a 37% advance compared to the year-earlier figure.

We look for further margin expansion to shoulder more of the load next year and drive a double-digit bottom-line gain. Management plans on reducing the cost structure by more than $20 million in fiscal 2014, with that number reaching the $40 million-$45 million mark by 2017. That said, we do think that margins will begin to contract a bit further out as lower-margined business becomes a bigger piece of the puzzle.

This stock has some good investment merits. First, it is an Above Average selection according to our momentum-driven Timeliness ranking system. That said, it still has plenty of room to run, in our opinion, and offers above-average 3- to 5-year price appreciation potential. Plus, it is favorably ranked for nearly every stability indicator, including its Safety (2 Above Average), adding to its appeal on a risk-adjusted basis.

Andre J. Costanza *November 22, 2013*

(A) Fiscal year ends on the Saturday closest to March 31st of the next calendar year.
(B) Diluted EPS. May not add due to rounding. Excl. nonrecur. gain/(losses) '97, (78¢); '99, (12¢); '00, (43¢); '01, (9¢); '02, 3¢; '05, 31¢; '06, (3¢); '07, (8¢); '08, (9¢); '09 (31¢); '10, (8¢); '11, (23¢); '12, (97¢); '13, (95¢). Next egs. report due late January.
(C) Includes intangibles. In '12: $594.9 million, $11.66 a share.
(D) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	75
Earnings Predictability	95

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HERSHEY CO. (THE) NYSE-HSY

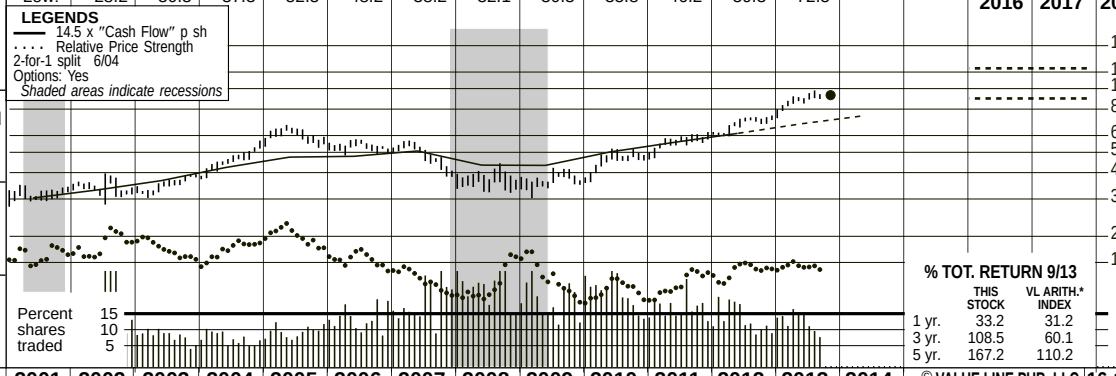
RECENT PRICE **93.23** | P/E RATIO **24.5** (Trailing: 27.3 / Median: 21.0) | RELATIVE P/E RATIO **1.35** | DIV'D YLD **2.1%** | VALUE LINE

TIMELINESS 4 Lowered 9/27/13
SAFETY 2 Lowered 11/2/07
TECHNICAL 3 Raised 9/13/13
BETA .60 (1.00 = Market)

High:	39.7	39.3	56.8	67.4	57.7	56.8	44.3	42.3	52.1	62.3	74.7	98.0
Low:	28.2	30.3	37.3	52.5	48.2	38.2	32.1	30.3	35.8	46.2	59.3	72.5

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 14.5 x "Cash Flow" p sh
.... Relative Price Strength
2-for-1 split 6/04
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	125	(+35%)	*10%*
Low	90	(-5%)	*2%*

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	1	3	0	2	1	2	2	2
to Sell	1	2	3	0	2	2	2	2	2

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	234	233	212
to Sell	242	247	270
Hld's(000)	118401	122394	123604

% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	33.2	31.2
3 yr.	108.5	60.1
5 yr.	167.2	110.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
15.05	15.49	14.34	15.49	16.80	15.35	16.11	17.96	20.11	21.47	21.79	22.61	23.24	24.95	26.96	29.65	*31.90*	*34.15*	Sales per sh A	*40.75*
1.71	1.72	1.66	1.86	2.10	2.29	2.53	2.92	3.27	3.30	3.49	3.00	2.99	3.45	3.83	4.24	*4.70*	*5.15*	"Cash Flow" per sh	*6.80*
1.12	1.15	1.05	1.20	1.37	1.59	1.80	2.06	2.28	2.34	2.08	1.88	2.17	2.55	2.82	3.24	*3.70*	*4.10*	Earnings per sh AB	*5.65*
.42	.46	.50	.54	.58	.63	.73	.84	.93	1.05	1.14	1.19	1.19	1.28	1.38	1.56	*1.81*	*1.94*	Div'ds Decl'd per sh ■C	*2.84*
.61	.56	.42	.51	.59	.54	.92	.79	.81	.86	.90	1.25	.64	.89	1.54	1.24	*1.35*	*1.60*	Cap'l Spending per sh	*2.30*
2.98	3.64	3.97	4.31	4.23	5.11	4.94	4.42	4.25	2.97	2.61	1.40	3.16	3.97	3.76	4.63	*5.70*	*7.05*	Book Value per sh D	*12.55*
285.86	286.29	276.92	272.56	271.28	268.44	259.06	246.59	240.52	230.26	227.05	227.04	228.00	227.30	225.52	224.09	*222.50*	*221.00*	Common Shs Outst'g E	*216.50*
24.1	29.6	26.3	20.7	23.0	21.3	19.6	22.3	26.2	22.7	23.2	19.5	16.9	17.9	19.8	20.9	*Bold figures are*		Avg Ann'l P/E Ratio	*19.0*
1.39	1.54	1.50	1.35	1.18	1.16	1.12	1.18	1.40	1.23	1.23	1.17	1.13	1.14	1.24	1.34	*Value Line*		Relative P/E Ratio	*1.25*
1.6%	1.4%	1.8%	2.2%	1.8%	1.9%	2.1%	1.8%	1.6%	2.0%	2.4%	3.2%	3.2%	2.8%	2.5%	2.3%	*estimates*		Avg Ann'l Div'd Yield	*2.6%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $1896.9 mill. **Due in 5 Yrs** $1010.0 mill.
LT Debt $1794.5 mill. **LT Interest** $105.0 mill.
(LT interest earned: 13.7x; Total interest coverage: 12.9x) (62% of Cap'l)
Leases, Uncapitalized Annual rentals $13.7 mil.
Pension Assets-12/12 $1.0 billion **Oblig.** $1.2 billion
Pfd Stock None
Common Stock 223,192,313 shs.
Incl. 60,628,572 Class B shs. (10 votes per sh.)
as of 7/19/13
MARKET CAP: $20.8 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
4172.6	4429.2	4836.0	4944.2	4946.7	5132.8	5298.7	5671.0	6080.0	6644.0	*7100*	*7550*	Sales ($mill) A	*8825*
23.8%	24.7%	24.8%	24.1%	23.9%	19.9%	19.7%	21.2%	21.4%	21.7%	*22.5%*	*23.0%*	Operating Margin	*26.0%*
180.6	189.7	218.0	199.9	310.9	249.5	182.4	197.1	215.8	210.0	*210*	*215*	Depreciation ($mill)	*230*
474.7	529.8	567.3	559.1	481.8	430.5	499.4	587.7	648.7	740.0	*835*	*920*	Net Profit ($mill)	*1245*
36.7%	36.6%	36.4%	36.2%	36.0%	36.0%	35.2%	35.2%	34.8%	34.7%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
11.4%	12.0%	11.7%	11.3%	9.7%	8.4%	9.4%	10.4%	10.7%	11.1%	*11.8%*	*12.2%*	Net Profit Margin	*14.1%*
545.8	d103.0	d109.3	d35.7	d192.2	74.8	474.8	706.4	872.8	642.4	*1055*	*1160*	Working Cap'l ($mill)	*1490*
968.5	690.6	942.8	1248.1	1280.0	1506.0	1502.7	1541.8	1748.5	1531.0	*1800*	*1750*	Long-Term Debt ($mill)	*1600*
1279.9	1089.3	1021.1	683.4	592.9	318.2	720.5	902.3	849.0	1036.7	*1270*	*1560*	Shr. Equity ($mill)	*2715*
22.6%	31.6%	30.6%	30.8%	27.9%	26.0%	24.5%	25.9%	26.6%	30.6%	*29.0%*	*29.5%*	Return on Total Cap'l	*30.5%*
37.1%	48.6%	55.6%	81.8%	81.3%	135.3%	69.3%	65.1%	76.4%	71.4%	*65.5%*	*59.0%*	Return on Shr. Equity	*46.0%*
22.7%	29.7%	33.9%	47.4%	38.7%	52.7%	32.8%	33.7%	40.6%	38.5%	*34.0%*	*31.5%*	Retained to Com Eq	*23.0%*
39%	39%	39%	42%	52%	61%	53%	48%	47%	46%	*48%*	*47%*	All Div'ds to Net Prof	*49%*

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	693.7	728.3	568.4
Receivables	399.5	461.4	366.3
Inventory (LIFO)	649.0	633.3	779.0
Other	304.4	290.5	285.2
Current Assets	2046.6	2113.5	1998.9
Accts Payable	420.0	442.0	413.1
Debt Due	139.7	375.9	102.4
Other	614.1	653.2	568.7
Current Liab.	1173.8	1471.1	1084.2

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	5.5%	5.0%	*7.0%*
"Cash Flow"	6.5%	3.0%	*10.0%*
Earnings	7.5%	5.0%	*12.0%*
Dividends	9.0%	6.0%	*12.5%*
Book Value	-1.0%	4.5%	*20.5%*

Cal-endar	QUARTERLY SALES ($ mill.) A Mar.Per	Jun.Per	Sep.Per	Dec.31	Full Year
2010	1407	1233	1547	1482	5671
2011	1564	1325	1624	1567	6080
2012	1732	1414	1747	1751	6644
2013	1827	1509	*1880*	*1884*	*7100*
2014	*1950*	*1600*	*2000*	*2000*	*7550*

Cal-endar	EARNINGS PER SHARE A B Mar.Per	Jun.Per	Sep.Per	Dec.31	Full Year
2010	.64	.51	.79	.61	2.55
2011	.72	.56	.84	.70	2.82
2012	.96	.66	.87	.74	3.24
2013	1.09	.72	*1.00*	*.89*	*3.70*
2014	*1.20*	*.85*	*1.10*	*.95*	*4.10*

Cal-endar	QUARTERLY DIVIDENDS PAID ■ C Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.2975	.2975	.2975	.2975	1.19
2010	.32	.32	.32	.32	1.28
2011	.345	.345	.345	.345	1.38
2012	.38	.38	.38	.42	1.56
2013	.42	.42	.485		

BUSINESS: The Hershey Company is the largest U.S. producer of chocolate and nonchocolate confectionery products. (Major brands: *Hershey's, Reese's, Kisses, Cadbury, Ice Breakers, Kit Kat, Jolly Rancher, Twizzlers, Good 'n' Plenty, Heath, Mounds,* and *Milk Duds.*) Sold majority of pasta operations, 1/99. Advertising costs, 7.2% of '12 sales. Foreign operations accounted for 16.1% of total 2012 sales. Has approximately 12,100 full-time employees. Hershey Trust Company owns 7.7% of common stock & 99.9% of Class B stock; Officers & Directors, less than 1.0% (3/13 proxy). Chairman: James E. Nevels. CEO and President: John P. Bilbrey. Inc.: DE. Address: 100 Crystal A Drive, Hershey, PA 17033. Telephone: 717-534-4200. Internet: www.hersheys.com.

Shares of Hershey have gained quite a bit of ground since the start of 2013. This is likely due to the healthy top- and bottom-line growth the company has posted thus far this year, which seems to have given investor confidence a boost. And Hershey will probably continue to perform well through the end of 2013, as demand trends in the confectionery market appear stable. In fact, we think the company will report a nearly 8% advance in sales in the third quarter, with a close-to-15% jump in earnings per share. *Results were scheduled to be released shortly after we went to press with this Issue.*

We are raising our full-year sales and share-net estimates by $50 million and a nickel, respectively, to $7.1 billion and $3.70. Steady demand for Hershey's established brands, coupled with additional product launches, should drive a top-line advance of around 7% in 2013. This is in accordance with management's guidance. And even with input costs on the rise, the bottom line should increase about 14% this year, given the strong sales growth we are anticipating.

Next year should be another good one for Hershey. Even with an already dominant position in the confectionery market, Hershey's brand loyalty appears to be strengthening, both at home and abroad. This, coupled with favorable consumer trends toward sweets, ought to drive further growth next year. In fact, we look for sales to increase another 6% in 2014, with an almost 11% advance in earnings, to $4.10 a share.

Long-term prospects remain bright. Sales will probably grow at an around 5% annual clip over the 2016-2018 time frame, given the company's strong market position and the likelihood that trends in its end markets will remain positive. This should lead to double-digit advances in earnings per share over the long haul.

These shares have dropped one notch in Timeliness, to 4 (Below Average). Too, it appears as though the stock's run earlier this year has discounted much of the earnings growth we are expecting in the years ahead. However, HSY shares remain a fairly conservative vehicle, and the company will likely continue to raise its quarterly dividend.

Kathryn M. Drew *October 25, 2013*

(A) Years end Dec. 31; quarters end Sun. on or following end of 13th, 26th, & 39th weeks of year. **(B)** Diluted egs. Excl. nonrecurring gains (losses): '98, 2¢; '99, 58¢; '00, 1¢; '01, (62¢); '02, (8¢); '03, (6¢); '04, 24¢; '05, (29¢); '07, ($1.15); '08, (52¢); '09, (27¢); '10, (34¢); '11, (8¢); '12, (35¢). Egs. may not sum due to rounding. Next egs report due late Jan. **(C)** Div'ds historically paid mid-March, June, Sept., Dec. ■ Div'd reinvestment plan avail. **(D)** Incl. intangibles. In 2012: $802.7 mill., $3.58/share. **(E)** In mill., adj. for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	90

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KELLOGG CO. NYSE-K

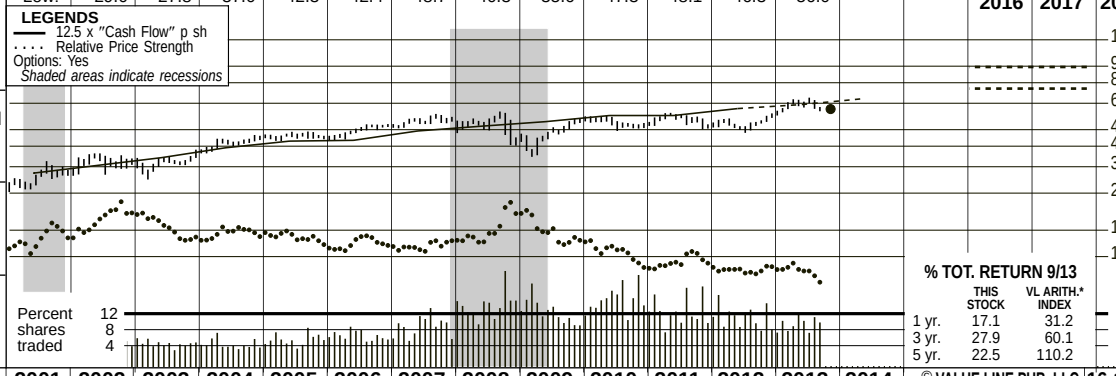
RECENT PRICE **59.99** | P/E RATIO **15.5** (Trailing: 17.2 / Median: 17.0) | RELATIVE P/E RATIO **0.86** | DIV'D YLD **3.1%** | VALUE LINE

TIMELINESS 3 Lowered 9/13/13
SAFETY 1 Raised 1/30/09
TECHNICAL 3 Raised 9/13/13
BETA .60 (1.00 = Market)

High:	37.0	38.6	45.3	47.0	50.9	56.9	58.5	54.1	56.0	57.7	57.2	68.0
Low:	29.0	27.8	37.0	42.3	42.4	48.7	40.3	35.6	47.3	48.1	46.3	56.0

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 12.5 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	95	(+60%)	*15%*
Low	75	(+25%)	*9%*

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	6	0	0	3	0	0	0
to Sell	1	1	7	1	1	3	1	1	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	249	270	237
to Sell	289	232	257
Hld's(000)	360149	290214	293000

% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	17.1	31.2
3 yr.	27.9	60.1
5 yr.	22.5	110.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
16.47	16.70	17.23	17.15	21.77	20.36	21.51	23.28	25.11	27.42	30.19	33.58	32.97	33.91	36.94	39.30	*40.85*	*43.10*	Sales per sh	*51.45*
2.39	2.04	2.21	2.32	2.39	2.60	2.83	3.15	3.39	3.41	3.78	3.99	4.18	4.48	4.48	4.83	*5.05*	*5.40*	"Cash Flow" per sh	*6.80*
1.70	1.35	1.50	1.61	1.31	1.73	1.93	2.16	2.36	2.51	2.76	2.99	3.16	3.30	3.38	3.37	*3.75*	*4.05*	Earnings per sh A	*5.15*
.87	.92	.96	1.00	1.01	1.01	1.01	1.01	1.06	1.14	1.20	1.30	1.43	1.56	1.67	1.74	*1.80*	*1.84*	Div'ds Decl'd per sh B ■	*2.25*
.75	.92	.66	.57	.68	.62	.60	.67	.92	1.14	1.21	1.21	.99	1.30	1.66	1.48	*1.60*	*1.70*	Cap'l Spending per sh	*1.60*
2.40	2.20	2.01	2.21	2.14	2.19	3.52	5.47	5.63	5.20	6.48	3.79	5.96	5.90	4.93	6.70	*8.30*	*9.70*	Book Value per sh C	*17.15*
414.82	405.00	405.46	405.64	406.61	407.85	409.70	413.02	405.33	397.70	390.05	381.86	381.38	365.60	357.30	361.27	*362.50*	*355.00*	Common Shs Outst'g D	*345.00*
24.0	28.6	23.8	16.1	21.8	19.5	17.3	19.2	18.9	18.9	19.0	17.0	14.5	15.7	15.8	15.3	*Bold figures are*		Avg Ann'l P/E Ratio	*16.5*
1.38	1.49	1.36	1.05	1.12	1.07	.99	1.01	1.01	1.02	1.01	1.02	.97	1.00	.99	.98	*Value Line*		Relative P/E Ratio	*1.10*
2.1%	2.4%	2.7%	3.9%	3.5%	3.0%	3.0%	2.4%	2.4%	2.4%	2.3%	2.6%	3.1%	3.0%	3.1%	3.4%	*estimates*		Avg Ann'l Div'd Yield	*2.6%*

CAPITAL STRUCTURE as of 6/29/13

Total Debt $7766 mill. **Due in 5 Yrs** $4160 mill.
LT Debt $6337 mill. **LT Interest** $240 mill.
(Total interest coverage: 9.1x)
(71% of Cap'l)
Pension Assets-12/12 $4.37 bill. **Oblig.** $5.14 bill.

Pfd Stock None
Common Stock 362,440,126 shs.
as of 7/26/13

MARKET CAP: $21.7 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
8811.5	9613.9	10177	10907	11776	12822	12575	12397	13198	14197	*14800*	*15300*	Sales ($mill)	*17750*
21.8%	21.8%	21.0%	19.4%	19.0%	18.2%	19.0%	19.2%	17.8%	16.7%	*18.0%*	*18.0%*	Operating Margin	*19.0%*
372.8	410.0	391.8	352.7	372.0	375.0	384.0	392.0	369.0	448.0	*455*	*465*	Depreciation ($mill)	*550*
787.1	890.6	980.4	1004.1	1103.0	1148.0	1212.0	1247.0	1231.0	1297.2	*1375*	*1460*	Net Profit ($mill)	*1795*
32.7%	34.8%	31.2%	31.7%	28.7%	29.7%	28.3%	28.8%	29.0%	22.7%	*30.0%*	*30.0%*	Income Tax Rate	*30.0%*
8.9%	9.3%	9.6%	9.2%	9.4%	9.0%	9.6%	10.1%	9.3%	9.1%	*9.3%*	*9.5%*	Net Profit Margin	*10.1%*
d968.8	d724.2	d966.3	d1593	d1327	d1031	270.0	d269.0	d286.0	d1143	*d600*	*d985*	Working Cap'l ($mill)	*575*
4265.4	3892.6	3702.6	3053.0	3270.0	4068.0	4835.0	4908.0	5037.0	6082.0	*6250*	*5750*	Long-Term Debt ($mill)	*5500*
1443.2	2257.2	2283.7	2069.0	2526.0	1448.0	2272.0	2158.0	1760.0	2419.0	*3000*	*3450*	Shr. Equity ($mill)	*5915*
16.6%	16.5%	18.1%	21.8%	21.3%	23.1%	19.1%	19.9%	20.1%	16.8%	*16.5%*	*17.5%*	Return on Total Cap'l	*17.0%*
54.5%	39.5%	42.9%	48.5%	43.7%	79.3%	53.3%	57.8%	69.9%	53.6%	*46.0%*	*42.5%*	Return on Shr. Equity	*30.5%*
26.0%	21.0%	23.9%	26.8%	24.9%	45.1%	29.3%	30.7%	35.6%	27.9%	*24.0%*	*23.0%*	Retained to Com Eq	*17.0%*
52%	47%	44%	45%	43%	43%	45%	47%	49%	48%	*48%*	*45%*	All Div'ds to Net Prof	*44%*

CURRENT POSITION ($MILL.)	2011	2012	6/29/13
Cash Assets	460	281	262
Receivables	1188	1454	1512
Inventory (Avg Cst)	1132	1365	1274
Other	247	280	359
Current Assets	3027	3380	3407
Accts Payable	1189	1402	1364
Debt Due	995	1820	1429
Other	1129	1301	1176
Current Liab.	3313	4523	3969

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	6.5%	6.0%	*6.0%*
"Cash Flow"	6.5%	5.5%	*6.5%*
Earnings	8.0%	5.5%	*7.5%*
Dividends	5.0%	8.0%	*5.0%*
Book Value	10.5%	- -	*19.5%*

Cal-endar	QUARTERLY SALES ($ mill.) Mar.Per	Jun.Per	Sep.Per	Dec.Per	Full Year
2010	3318	3062	3157	2860	12397
2011	3485	3386	3312	3015	13198
2012	3440	3474	3720	3563	14197
2013	3861	3714	*3725*	*3500*	*14800*
2014	*3975*	*3850*	*3850*	*3625*	*15300*

Cal-endar	EARNINGS PER SHARE A Mar.Per	Jun.Per	Sep.Per	Dec.Per	Full Year
2010	1.09	.79	.90	.51	3.30
2011	1.00	.94	.80	.64	3.38
2012	.95	.93	.82	.67	3.37
2013	.99	1.00	*.90*	*.86*	*3.75*
2014	*1.10*	*1.05*	*.99*	*.91*	*4.05*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.34	.34	.375	.375	1.43
2010	.375	.375	.405	.405	1.56
2011	.405	.405	.43	.43	1.67
2012	.43	.43	.44	.44	1.74
2013	.44	.44	.46		

BUSINESS: Kellogg Company, the world's largest manufacturer of ready-to-eat cereals, also produces convenience foods, including cookies, crackers, frozen waffles, toaster pastries, and snack bars. Brand names include: *Kellogg's*, *Keebler*, *Pringles*, *All-Bran*, *Frosted Flakes*, *Rice Krispies*, *Frosted Mini-Wheats*, *Special K*, *Froot Loops*, *Nutri-Grain*, *Apple Jacks*, *Raisin Bran*, and *Pop-Tarts*. Foreign operations: 37% of sales in 2012, 37% of operating profit. Adv. costs: 7.9% of sales. Acquired Keebler, 3/01; Pringles, 5/12. Has about 31,000 emplys. W.K. Kellogg Foundation controls 21.9% of common (3/13 proxy). Chrmn.: James Jenness. CEO & Pres.: John Bryant. Inc.: DE. Addr.: One Kellogg Square, Battle Creek, MI 49016-3599. Tel.: 269-961-2000. Internet: www.kelloggs.com.

Kellogg continues to face its share of challenges. Most notably in the ready-to-eat (RTE) cereal category, the company faces stiff competition from rival General Mills and several other smaller private-label manufacturers. It also is dealing with weakening overall cereal dynamics. Specifically, consumers have other options to start the day, including microwave breakfast sandwiches, oatmeal, and Greek yogurts. Consequently, cereal volumes have been soft of late (K's morning foods sales excluding acquisitions fell 3.3% in June period) and are not likely to improve markedly over the next six to 12 months.

The RTE cereal business is not the only area of concern for Kellogg. Indeed, internal snacks sales fell 3.2% year over year last quarter, as both cookie and cracker volumes declined. The company's international business has not been anything to write home about, either. The June period marked the fifth time in the last six quarters that volumes declined in Latin America, while conditions in Europe remain challenging amid the economic problems in the euro zone. Thus,

We are lowering our 2013 and 2014 share-net estimates. In addition to the aforementioned volume concerns both here and abroad, the company is still in the midst of integrating the Pringles business and is aggressively launching other breakfast options that require significant advertising and media support. All in all, many near-term notable bottom-line catalysts do not seem in the picture.

The long-term potential of the Pringles business is intriguing. The 2012 acquisition opens new avenues to boost the snacks business. Plus, Kellogg plans to use Pringles' extensive international distribution channels to expand its offerings of cereal and snacks products. However, Kellogg did use a lot of debt to finance the Pringles deal and until that load is pared considerably, its near-term flexibility may be a bit limited.

For the reasons noted above, Kellogg shares are not an ideal option for momentum investors. However, this stock should appeal to conservative, income-oriented accounts with its above-average dividend yield and the company's strong cash flow-generating capability.

William G. Ferguson *October 25, 2013*

(A) Based on diluted shares. Excludes nonrecurring gains (losses): '97, ($0.38); '98, ($0.12); '99, ($0.67); '00, ($0.16); '01, ($0.14), '02, $0.02; '12, ($0.09); '13 Q1; ($0.18). Quarterly earnings may not sum to total due to a change in the share count. Next earnings report due early November. **(B)** Dividends historically paid mid-Mar, June, Sept., and Dec. ■ Div'd reinvestment plan available. **(C)** Includes intangibles. In '12: $7.412 billion, $20.52/sh. **(D)** In millions.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	55
Earnings Predictability	100

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THE KROGER CO. NYSE-KR

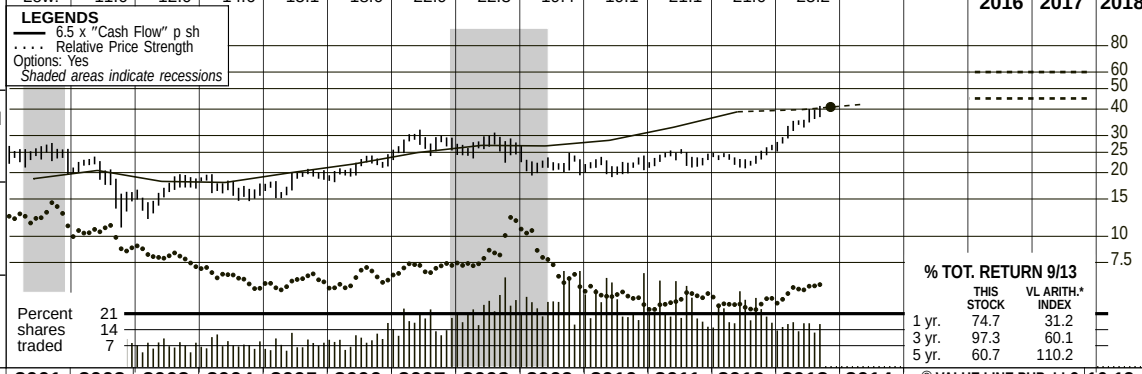
RECENT PRICE **41.01** | P/E RATIO **14.4** (Trailing: 14.3 / Median: 14.0) | RELATIVE P/E RATIO **0.80** | DIV'D YLD **1.7%** | VALUE LINE

TIMELINESS 2 Lowered 9/20/13
SAFETY 2 Raised 8/1/08
TECHNICAL 3 Raised 9/13/13
BETA .60 (1.00 = Market)

High:	23.8	19.7	19.7	20.9	24.5	31.9	31.0	26.9	24.1	25.8	27.1	41.7
Low:	11.0	12.0	14.6	15.1	18.0	22.9	22.3	19.4	19.1	21.1	21.0	25.2

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 6.5 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+45%)	*11%*
Low	45	(+10%)	*4%*

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	6	0	0	6	2	0	0	7	0
to Sell	5	0	0	8	4	0	0	9	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	204	218	243
to Sell	275	258	268
Hld's(000)	416763	416449	423334

% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	74.7	31.2
3 yr.	97.3	60.1
5 yr.	60.7	110.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
52.10	54.88	54.31	60.12	63.02	68.28	72.40	77.52	83.75	93.77	105.94	117.10	119.52	132.56	161.10	188.23	*192.70*	*203.45*	Sales per sh A	*239.60*
1.62	1.88	2.31	2.62	2.88	3.15	2.80	2.77	3.07	3.39	3.83	4.15	4.12	4.38	5.05	5.98	*6.10*	*6.50*	"Cash Flow" per sh	*7.85*
.85	1.02	1.13	1.34	1.48	1.65	1.16	1.03	1.31	1.54	1.69	1.90	1.73	1.74	2.00	2.63	*2.80*	*3.05*	Earnings per sh B	*3.85*
--	--	--	--	--	--	--	--	--	.26	.30	.36	.37	.40	.44	.53	*.63*	*.69*	Div'ds Decl'd per sh C	*1.00*
d1.54	d.75	3.21	3.79	4.41	5.08	5.40	4.86	6.07	6.98	7.41	7.98	7.53	8.54	7.10	8.18	*10.10*	*11.80*	Book Value per sh	*17.45*
509.94	513.92	835.00	815.00	795.00	758.00	743.00	728.00	723.00	705.00	663.00	649.00	642.00	620.00	561.00	514.00	*512.50*	*505.00*	Common Shs Outst'g D	*480.00*
17.2	23.1	22.4	15.8	16.2	11.3	14.3	16.3	14.0	14.1	16.4	14.1	12.5	12.4	11.8	9.1	*Bold figures are*		Avg Ann'l P/E Ratio	*13.5*
.99	1.20	1.28	1.03	.83	.62	.82	.86	.75	.76	.87	.85	.83	.79	.74	.58	*Value Line*		Relative P/E Ratio	*.90*
--	--	--	--	--	--	--	--	--	1.2%	1.1%	1.3%	1.7%	1.9%	1.9%	2.2%	*estimates*		Avg Ann'l Div'd Yield	*1.9%*

CAPITAL STRUCTURE as of 8/17/13
Total Debt $7892 mill. **Due in 5 Yrs** $4600 mill.
LT Debt $7158 mill. **LT Interest** $450.0 mill.
(Includes $278.0 mill. in capital leases.)
(Total interest coverage: 6.3x)
(60% of Cap'l)
Leases, Uncapitalized Annual rentals $707.0 mill.

Pension Assets-1/13 $2.7 bill. **Oblig.** $3.7 bill.

Pfd Stock None

Common Stock 516,000,000 shares

MARKET CAP: $21.2 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
53791	56434	60553	66111	70235	76000	76733	82189	90374	96751	*98750*	*102750*	Sales ($mill) A	*115000*
26.3%	25.3%	24.8%	24.2%	23.4%	22.9%	23.2%	22.2%	20.9%	20.6%	*21.0%*	*21.0%*	Gross Margin	*21.0%*
6.0%	5.3%	5.4%	5.3%	5.2%	5.1%	4.9%	4.6%	4.3%	4.4%	*4.4%*	*4.4%*	Operating Margin	*4.5%*
3679	3667	3636	3567	3571	3550	3532	3605	3574	3538	*3550*	*3575*	Number of Stores	*3650*
873.0	759.0	958.0	1115.0	1181.0	1249.0	1122.0	1116.0	1192.8	1423.0	*1445*	*1560*	Net Profit ($mill)	*1885*
37.5%	36.2%	37.2%	36.2%	35.4%	36.5%	35.8%	34.7%	33.9%	34.4%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
1.6%	1.3%	1.6%	1.7%	1.7%	1.6%	1.5%	1.4%	1.3%	1.5%	*1.5%*	*1.5%*	Net Profit Margin	*1.6%*
33.0	90.0	d249.0	d826.0	d1575	d423.0	d264.0	d449.0	d1780	d3098	*d2750*	*d2800*	Working Cap'l ($mill)	*d2700*
8116.0	7900.0	6678.0	6154.0	6529.0	7505.0	7477.0	7304.0	6850.0	6145.0	*6200*	*6100*	Long-Term Debt ($mill)	*5800*
4011.0	3540.0	4390.0	4923.0	4914.0	5176.0	4832.0	5296.0	3981.0	4207.0	*5165*	*5960*	Shr. Equity ($mill)	*8370*
9.6%	9.0%	10.9%	12.0%	12.1%	11.5%	11.0%	10.5%	13.0%	15.6%	*14.5%*	*14.5%*	Return on Total Cap'l	*14.5%*
21.8%	21.4%	21.8%	22.6%	24.0%	24.1%	23.2%	21.1%	30.0%	33.8%	*28.0%*	*26.0%*	Return on Shr. Equity	*22.5%*
21.8%	21.4%	21.8%	19.8%	19.9%	19.7%	18.3%	16.4%	23.5%	27.5%	*21.5%*	*20.0%*	Retained to Com Eq	*16.5%*
--	--	--	13%	17%	18%	21%	22%	22%	19%	*23%*	*23%*	All Div'ds to Net Prof	*26%*

CURRENT POSITION ($MILL.)	2011	2012	8/17/13
Cash Assets	188	238	440
Receivables	949	1052	942
Inventory (LIFO)	5114	5146	4954
Other	1074	1523	1182
Current Assets	7325	7959	7518
Accts Payable	4329	4524	4620
Debt Due	1315	2734	734
Other	3461	3799	4000
Current Liab.	9105	11057	9354

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	9.5%	11.0%	*7.0%*
"Cash Flow"	6.0%	8.5%	*7.5%*
Earnings	3.5%	7.0%	*10.5%*
Dividends	--	19.5%	*14.0%*
Book Value	6.0%	3.0%	*14.0%*

Fiscal Year Begins	QUARTERLY SALES ($ mill.) A May Per	Aug.Per	Oct.Per	Jan.Per	Full Fiscal Year
2010	24779	18788	18694	19928	82189
2011	27461	20913	20594	21406	90374
2012	29065	21726	21807	24153	96751
2013	30043	22722	*22600*	*23385*	*98750*
2014	*31500*	*23250*	*23500*	*24500*	*102750*

Fiscal Year Begins	EARNINGS PER SHARE AB May Per	Aug.Per	Oct.Per	Jan.Per	Full Fiscal Year
2010	.58	.41	.32	.44	1.74
2011	.70	.47	.33	.50	2.00
2012	.78	.51	.46	.88	2.63
2013	.92	.60	*.53*	*.75*	*2.80*
2014	*.97*	*.66*	*.61*	*.81*	*3.05*

Cal-endar	QUARTERLY DIVIDENDS PAID C Mar.31	June30	Sep.30	Dec.31	Full Year
2009	.09	.09	.09	.095	.365
2010	.095	.095	.095	.105	.390
2011	.105	.105	.105	.115	.430
2012	.115	.115	.115	.15	.495
2013	.15	.15	.15	.165	

BUSINESS: The Kroger Company is the nation's largest grocery store operator (by sales), with about 2,425 supermarkets, multi-department stores, and warehouse stores in the Midwest, South, and West (#1 or #2 share in 38 of its 44 major markets). Also operates about 786 convenience stores and 328 fine jewelry stores. Manufactures and processes private label goods at 37 plants. Acquired Fred Meyer, 5/99. Average food store size: 60,000 sq. ft. Has about 343,000 employees. 2012 depreciation rate: 5.6%. Officers & directors own about 1.4% of stock; BlackRock, 6.0%; Kroger savings plan, 5.5% (5/13 proxy). Chairman & CEO: David Dillon. Incorporated: Ohio. Address: 1014 Vine Street, Cincinnati, OH 45202. Telephone: 513-762-4000. Internet: www.kroger.com.

Kroger continues to deliver steady sales growth at its stores. Identical-store sales, excluding fuel, rose 3.3% in both the May and August periods, and management expects similar gains over the balance of fiscal 2013. (Year ends February 1, 2014.) Consistent with the retailer's long-term strategy, lower prices are helping to drive these increases, but the modest drag on margins of late has been more than offset by lower SG&A expenses as a percentage of revenues.

Weak January-quarter comparisons shouldn't be a cause for alarm. Fiscal 2012's final period was one week longer than the upcoming one and also got a boost from a sizable LIFO credit, versus the more typical charge that is incorporated into our 2013 estimate. Absent these factors, we expect results over the balance of this fiscal year and into the new one to be fairly consistent with management's long-term target of delivering 8%-11% annual earnings growth.

Harris Teeter should make a nice addition to the fold. The proposed $2.5 billion acquisition ought to be modestly accretive to share earnings in the first year ($0.06-$0.09), while adding about $4.5 billion to annual revenues and expanding Kroger's presence in markets around the Southeast and Mid-Atlantic. (Consistent with *Value Line* practice, we will wait until the transaction is finalized before adjusting our estimates.)

Debt reduction has become a bigger priority. The company will finance the HT deal with debt, and then look to deleverage with the objective of retaining its investment-grade credit rating. Kroger looks to be scaling back its share-repurchase activity in anticipation of this, though it again raised the dividend in time for its early December payout, as has been the retailer's custom in recent years.

The market has warmed up to Kroger stock. Despite rising earnings, this equity traded sideways for much of the current bull market, before roaring ahead nearly 70% over the past year. Given this, momentum-oriented investors will clearly want to take a closer look here. And these timely shares appear to offer worthwhile total return potential to 2016-2018, particularly for more-conservative accounts.

Robert M. Greene *October 25, 2013*

(A) Fiscal year ends on the Sat. closest to Jan. 31st of following year. Interim periods: 16, 12, 12, 12 wks. (B) Diluted egs. Excl. nonrecurring gain / (losses): '98, (33¢); '99, (39¢); '00, (30¢); '01, (22¢); '02, (13¢); '03, (74¢); '09, ($1.62); '11, ($0.99); '12, 14¢. Excl. extra. (losses): '96, (1¢); '97, (12¢); '98, (15¢). Quart. egs. may not add due to changes in shares out. Next egs. report due December 5th. (C) Dividends historically paid on the 1st of March, June, September, and December. (D) In millions.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	65
Earnings Predictability	90

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LAB. CORP. AMER. NYSE-LH

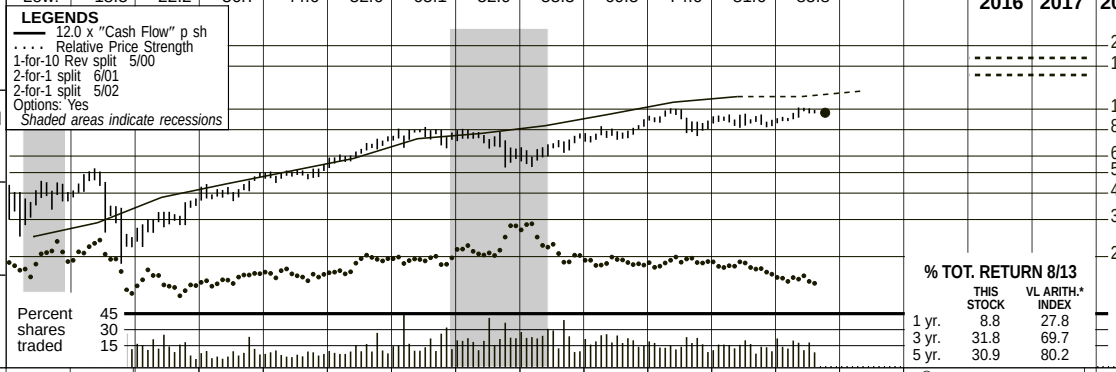
RECENT PRICE **96.04** | P/E RATIO **13.4** (Trailing: 14.0 / Median: 15.0) | RELATIVE P/E RATIO **0.79** | DIV'D YLD **Nil** | VALUE LINE

TIMELINESS 3 Raised 6/21/13
SAFETY 1 Raised 12/19/08
TECHNICAL 2 Raised 9/6/13
BETA .70 (1.00 = Market)

High:	52.4	37.7	50.0	55.0	74.3	82.3	80.8	76.7	89.5	100.9	95.3	101.7
Low:	18.5	22.2	36.7	44.6	52.6	65.1	52.9	53.3	69.5	74.6	81.6	85.8

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 12.0 x "Cash Flow" p sh
.... Relative Price Strength
1-for-10 Rev split 5/00
2-for-1 split 6/01
2-for-1 split 5/02
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	175	(+80%)	*16%*
Low	145	(+50%)	*11%*

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	3	6	2
to Sell	0	0	0	0	0	0	3	6	2

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	200	236	204
to Sell	271	239	268
Hld's(000)	91291	94426	94436

% TOT. RETURN 8/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	8.8	27.8
3 yr.	31.8	69.7
5 yr.	30.9	80.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
30.74	32.18	32.97	13.76	15.59	16.97	20.51	22.65	26.31	29.38	36.65	41.60	44.84	50.04	56.67	60.91	***64.40***	***65.90***	Sales per sh	***74.15***
1.48	1.62	1.93	1.40	2.07	2.41	3.19	3.68	4.24	4.87	6.03	6.40	6.96	7.89	8.98	9.60	***9.55***	***10.20***	"Cash Flow" per sh	***13.55***
d.28	d.05	.30	.83	1.34	1.84	2.23	2.58	2.80	3.32	4.18	4.60	4.89	5.55	6.37	6.82	***7.05***	***7.60***	Earnings per sh A	***10.60***
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	***Nil***	***Nil***	Div'ds Decl'd per sh	***Nil***
.70	1.17	1.35	.40	.62	.50	.58	.70	.74	.95	1.28	1.45	1.10	1.26	1.49	1.87	***1.95***	***2.00***	Cap'l Spending per sh	***2.10***
2.61	3.08	3.41	6.29	7.69	10.91	13.23	14.68	14.91	16.18	15.54	15.59	20.12	24.66	25.60	29.19	***32.20***	***36.10***	Book Value per sh C	***52.20***
49.42	50.11	51.52	139.48	141.11	147.74	143.33	136.20	126.50	122.20	111.00	108.30	104.70	100.00	97.80	93.10	***90.00***	***90.00***	Common Shs Outst'g B	***90.00***
--	--	21.1	26.2	28.1	20.0	13.6	16.2	17.6	19.0	18.0	15.4	13.4	13.9	14.0	13.0	*Bold figures are*		Avg Ann'l P/E Ratio	***15.0***
--	--	1.20	1.70	1.44	1.09	.78	.86	.94	1.03	.96	.93	.89	.88	.88	.86	*Value Line*		Relative P/E Ratio	***1.00***
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	*estimates*		Avg Ann'l Div'd Yield	***Nil***

CAPITAL STRUCTURE as of 6/30/13
Total Debt $2509.9 mill. **Due in 5 Yrs** $1650 mill.
LT Debt $2390.0 mill. **LT Interest** $130.0 mill.
(47% of Capital)

Leases, Uncapitalized Annual rentals $166.9 mill.
Pension Assets-12/12 $256.8 mill. **Oblig.** $380.7 mill.

Preferred Stock None
Common Stock 90,100,000 shares
MARKET CAP: $8.7 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
2939.4	3084.8	3327.6	3590.8	4068.2	4505.2	4694.7	5003.9	5542.3	5671.4	***5795***	***5930***	Sales ($mill)	***6675***
24.1%	25.3%	25.1%	24.1%	25.7%	25.8%	25.4%	25.3%	22.8%	23.0%	***23.2%***	***23.4%***	Operating Margin	***25.5%***
135.6	138.8	149.8	155.0	162.8	179.7	195.1	203.6	231.4	229.8	***225***	***235***	Depreciation ($mill)	***265***
321.0	363.0	386.2	439.6	506.9	513.1	533.5	585.6	646.7	664.3	***635***	***685***	Net Profit ($mill)	***955***
40.6%	41.0%	39.7%	40.1%	40.6%	39.9%	37.2%	37.6%	36.0%	37.0%	***37.0%***	***37.0%***	Income Tax Rate	***37.0%***
10.9%	11.8%	11.6%	12.2%	12.5%	11.4%	11.4%	11.7%	11.7%	11.7%	***11.0%***	***11.6%***	Net Profit Margin	***14.3%***
d99.7	439.2	d185.8	d43.9	d30.4	485.9	d82.8	23.3	287.4	363.3	***575***	***650***	Working Cap'l ($mill)	***800***
356.3	889.3	604.5	603.0	1077.5	1600.5	977.2	1826.7	2085.5	2175.0	***2300***	***2200***	Long-Term Debt ($mill)	***1850***
1895.9	1999.3	1885.7	1977.1	1725.3	1688.3	2106.1	2466.3	2503.5	2717.4	***2900***	***3250***	Shr. Equity ($mill)	***4700***
15.2%	13.2%	16.2%	17.9%	19.1%	16.6%	18.3%	14.3%	14.9%	14.8%	***13.5%***	***13.5%***	Return on Total Cap'l	***15.5%***
16.9%	18.2%	20.5%	22.2%	29.4%	30.4%	25.3%	23.7%	25.8%	24.4%	***22.0%***	***21.0%***	Return on Shr. Equity	***20.5%***
16.9%	18.2%	20.5%	22.2%	29.4%	30.4%	25.3%	23.7%	25.8%	24.4%	***22.0%***	***21.0%***	Retained to Com Eq	***20.5%***
--	--	--	--	--	--	--	--	--	--	***Nil***	***Nil***	All Div'ds to Net Prof	***Nil***

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	159.3	466.8	111.3
Receivables	699.8	718.5	815.7
Inventory	110.8	121.0	126.4
Other	114.9	85.5	94.6
Current Assets	1084.8	1391.8	1148.0
Accts Payable	257.8	236.9	253.4
Debt Due	135.5	480.0	119.9
Other	404.1	311.6	281.8
Current Liab.	797.4	1028.5	655.1

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '16-'18
Sales	9.5%	14.0%	*5.0%*
"Cash Flow"	16.0%	13.5%	*8.5%*
Earnings	21.0%	14.0%	*9.5%*
Dividends	--	--	*Nil*
Book Value	15.0%	9.0%	*13.0%*

Cal-endar	QUARTERLY SALES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1193	1238	1276	1295	5003.9
2011	1368	1403	1404	1366	5542.3
2012	1423	1423	1419	1405	5671.4
2013	1441	1468	***1450***	***1436***	***5795***
2014	***1475***	***1500***	***1485***	***1470***	***5930***

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	1.30	1.46	1.47	1.34	5.55
2011	1.52	1.64	1.61	1.56	6.37
2012	1.74	1.77	1.76	1.55	6.82
2013	1.74	1.80	***1.80***	***1.71***	***7.05***
2014	***1.87***	***1.94***	***1.90***	***1.89***	***7.60***

Cal-endar	QUARTERLY DIVIDENDS PAID Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	NO CASH DIVIDENDS BEING PAID				
2010					
2011					
2012					
2013					

BUSINESS: Laboratory Corporation of America Hldgs. is one of the nation's largest independent clinical laboratory companies. It provides a full range of clinical and anatomical tests to individual physicians, managed-care organizations, hospitals, clinics, and long-term care facilities. Also offers substance-abuse tests. At 12/31/12, it had 50 full-service laboratories and over 1,800 service sites. Medicare and Medicaid account for roughly 16.2% of volume. Has over 34,000 employees. Harris Associates owns 7.3% of common; BlackRock, 5.1%; Vanguard, 6.1%; T. Rowe Price, 5.8%; Officers & directors own 2.0% (4/13 proxy). Chairman, President & CEO: David P. King. Inc.: DE. Address: 358 S. Main St., Burlington, NC 27215. Tel.: 336-229-1127. Internet: www.labcorp.com.

Laboratory Corporation of America is bucking some industry trends. When you get down to brass tacks, LH is simply executing better than its competitors. The company has been able to drive revenue growth while maintaining price stability even with government reimbursement levels taking a turn for the worse. Testing volumes were up 1.4% in the June interim while its peers put up negative comparisons. Yes, gains of this nature are not stellar by any means, but given the current landscape in the testing field, the showing becomes more impressive. Doctors' visits are down, meaning testing has slid in tandem. Still, we think earnings can climb to $7.05 in 2013. This figure represents a 3% annual incline. Again, this amount will not bowl anyone over, yet many companies in the lab arena would be happy to just be in the black.

Acquisitions are bolstering the top line during these troubled times. Patients are waiting for the rollout of the Affordable Care Act in 2014 to see the positive effects the reform will have on their medical expenses. In the meantime, business at the company's testing facilities have been humdrum, to say the least. Management wisely purchased the toxicology concern MEDTOX, which has given volumes a shot in the arm, pun intended. With hiring on the rise across much of America, screening for drugs of abuse among new employees is up. Also, esoteric screens, which bring in wider profit margins, rose 3.5% in the most recent three-month period.

Competition from hospitals is an ongoing headwind. Hospital-based labs have 55% of the testing market in the United States. Independent labs have 41%, with the duopoly of LH and Quest Diagnostic consuming the lion's share of that amount. Recently, hospitals have been purchasing physician practices and taking any testing under that roof (in the past they would be sent out to a lab), into their facilities. This should end when the consolidation trend does, but is still worth keeping an eye on.

Solid appreciation potential three to five years hence makes these neutrally ranked shares a decent long-term selection from this price point.

Erik M. Manning *September 13, 2013*

(A) Based on average shares outstanding thru '96, diluted thereafter. Excludes nonrecurring items: '97, d$2.38; '98, 55¢; '00, d3¢; '01, d6¢; '02, d7¢; '05, d9¢; '06, d8¢; '07, d25¢; '08, d56¢; '09, 9¢; '10, d26¢; '11, d$1.26; '12, d11¢. Figures may not sum due to rounding. Next earnings report due mid-October.
(B) In millions, adjusted for stock splits.
(C) Includes intangibles. In '12: $4569.4 mill., $49.08/sh.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	100

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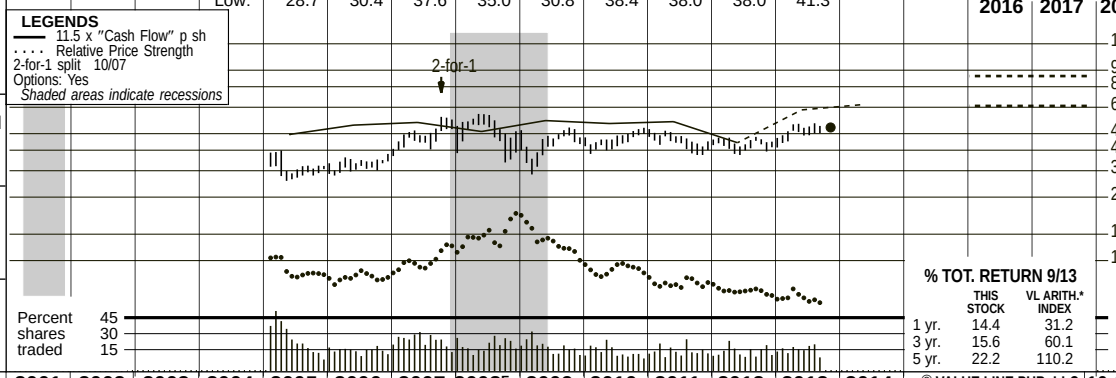
MOLSON COORS NYSE-TAP

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
51.27	12.9	(Trailing: 16.4 Median: NMF)	0.71	2.5%	VALUE LINE

TIMELINESS **2** Raised 8/16/13
SAFETY **2** Raised 7/30/10
TECHNICAL **3** Lowered 10/4/13
BETA .65 (1.00 = Market)

High:	40.0	38.5	57.7	59.5	51.3	51.1	50.4	46.3	53.8		
Low:	28.7	30.4	37.6	35.0	30.8	38.4	38.0	38.0	41.3		

Target Price Range
2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	90	(+75%)	17%
Low	65	(+25%)	9%

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	2	1	6	1	0	2
to Sell	1	0	1	2	1	5	0	0	3

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	219	197	186
to Sell	189	205	215
Hld's(000)	127471	132637	131847

% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	14.4	31.2
3 yr.	15.6	60.1
5 yr.	22.2	110.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008F	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
- -	- -	- -	- -	- -	- -	- -	- -	32.14	33.00	34.25	25.98	16.29	17.42	18.75	20.72	**22.65**	**23.35**	Sales per sh A	**25.50**
- -	- -	- -	- -	- -	- -	- -	- -	4.14	4.58	4.72	4.28	4.81	4.65	4.75	3.785	**5.40**	**5.75**	"Cash Flow" per sh	**6.65**
- -	- -	- -	- -	- -	- -	- -	- -	1.98	2.16	2.80	2.77	3.81	3.56	3.62	2.43	**3.80**	**4.15**	Earnings per sh A B	**4.90**
- -	- -	- -	- -	- -	- -	- -	- -	.64	.64	.64	.76	.92	1.08	1.24	1.28	**1.40**	**1.40**	Div'ds Decl'd per sh C	**1.64**
- -	- -	- -	- -	- -	- -	- -	- -	2.37	2.52	2.37	1.25	.67	.95	1.26	1.18	**1.30**	**1.30**	Cap'l Spending per sh	**1.45**
- -	- -	- -	- -	- -	- -	- -	- -	31.08	32.85	39.55	32.54	38.04	41.75	40.79	42.15	**45.25**	**47.90**	Book Value per sh D	**56.80**
- -	- -	- -	- -	- -	- -	- -	- -	171.34	177.11	180.75	183.80	186.10	186.80	187.50	189.00	**190.00**	**190.50**	Common Shs Outst'g E	**192.00**
- -	- -	- -	- -	- -	- -	- -	- -	16.6	15.9	16.8	18.0	11.3	12.6	12.2	17.5	*Bold figures are*		Avg Ann'l P/E Ratio	**16.0**
- -	- -	- -	- -	- -	- -	- -	- -	.88	.86	.89	1.08	.75	.80	.77	1.12	*Value Line*		Relative P/E Ratio	**1.05**
- -	- -	- -	- -	- -	- -	- -	- -	1.9%	1.9%	1.4%	1.5%	2.1%	2.4%	2.8%	3.0%	*estimates*		Avg Ann'l Div'd Yield	**2.1%**
						- -	- -	5506.9	5845.0	6190.6	4774.3	3032.4	3254.4	3515.7	3916.5	**4300**	**4450**	Sales ($mill) A	**4900**
						- -	- -	17.4%	17.4%	17.8%	18.3%	19.5%	19.4%	18.9%	18.1%	**21.0%**	**22.0%**	Operating Margin	**24.0%**
						- -	- -	392.8	438.4	345.8	273.4	187.4	202.3	217.1	272.7	**325**	**330**	Depreciation ($mill)	**360**
						- -	- -	316.1	373.6	507.4	512.6	707.4	666.9	674.0	441.59	**695**	**765**	Net Profit ($mill)	**915**
						- -	- -	25.0%	17.5%	20.1%	20.2%	1.1%	15.8%	12.8%	26.1%	**15.0%**	**17.0%**	Income Tax Rate	**20.0%**
						- -	- -	5.7%	6.4%	8.2%	10.7%	23.3%	20.5%	19.2%	11.3%	**16.2%**	**17.2%**	Net Profit Margin	**18.7%**
						- -	- -	d768.4	d341.7	41.2	121.0	181.9	887.0	840.8	d850.7	**d965**	**d855**	Working Cap'l ($mill)	**d560**
						- -	- -	2136.7	2129.8	2260.6	1831.7	1412.7	1959.6	1914.9	3422.5	**2400**	**2150**	Long-Term Debt ($mill)	**1900**
						- -	- -	5324.7	5817.4	7149.4	5980.3	7079.6	7798.8	7647.9	7966.9	**8600**	**9125**	Shr. Equity ($mill)	**10900**
						- -	- -	5.1%	5.6%	6.1%	7.2%	8.9%	7.4%	7.7%	4.7%	**6.5%**	**7.0%**	Return on Total Cap'l	**7.0%**
						- -	- -	5.9%	6.4%	7.1%	8.6%	10.0%	8.6%	8.8%	5.5%	**8.0%**	**8.5%**	Return on Shr. Equity	**8.5%**
						- -	- -	3.7%	4.2%	5.3%	5.9%	7.5%	5.9%	5.8%	2.6%	**5.0%**	**5.5%**	Retained to Com Eq	**5.5%**
						- -	- -	38%	34%	26%	31%	24%	31%	34%	54%	**38%**	**35%**	All Div'ds to Net Prof	**35%**

CAPITAL STRUCTURE as of 6/29/13
Total Debt $3168.2 mill. **Due in 5 Yrs** $3074 mill.

LT Debt $1895.8 mill. **LT Interest** $115 mill.
(Total interest coverage: 4.0x) (30% of Cap'l)
Leases, Uncapitalized: Annual rentals $35.0 mill.
Pension Liability: N/A

Common Stock 183,454,757 shs.
(includes 2,566,894 shares of Class A shares, 22,033,324 of exch. shares) **as of 8/1/13.**

MARKET CAP: $9.4 billion (Large Cap)

CURRENT POSITION ($MILL.)	2011	2012	6/29/13
Cash Assets	1078.9	624.0	801.6
Receivables	726.0	753.4	693.4
Inventory (FIFO)	207.2	213.9	265.4
Other	105.9	156.7	310.9
Current Assets	2118.0	1778.0	2071.3
Accts Payable	301.2	427.0	1363.1
Debt Due	46.9	1245.6	1272.4
Other	929.1	926.1	284.4
Current Liab.	1277.2	2598.7	2919.9

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	- -	-10.5%	5.0%
"Cash Flow"	- -	-.5%	7.0%
Earnings	- -	7.0%	7.5%
Dividends	- -	13.5%	5.5%
Book Value	- -	4.0%	5.5%

Cal-endar	QUARTERLY SALES ($ mill.)A Mar.Per	Jun.Per	Sep.Per	Dec.Per	Full Year
2010	661	883	875	835	3254
2011	691	934	954	937	3516
2012	691	999	1196	1030	3916
2013	829	1178	**1225**	**1068**	**4300**
2014	**850**	**1225**	**1275**	**1100**	**4450**

Cal-endar	EARNINGS PER SHARE A B Mar.Per	Jun.Per	Sep.Per	Dec.Per	Full Year
2010	.37	1.25	1.28	.66	3.56
2011	.44	1.19	1.05	.95	3.63
2012	.44	.57	1.09	.33	2.43
2013	.20	1.50	**1.40**	**.70**	**3.80**
2014	**.38**	**1.55**	**1.50**	**.72**	**4.15**

Cal-endar	QUARTERLY DIVIDENDS PAID C Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.20	.24	.24	.24	.92
2010	.24	.28	.28	.28	1.08
2011	.28	.32	.32	.32	1.24
2012	.32	.32	.32	.32	1.28
2013	.32	.32	.32		

BUSINESS: Molson Coors Brewing Company, which was created by the February 2005 merger of Molson and Adolph Coors Company, is the fifth-largest brewer in the world. The company's brands include *Coors Light*, *Molson Canadian*, *Carling*, *Blue Moon*, *Coors & Killian's Irish Red*. Sold interest in Kaiser, '06. Began a domestic joint venture (MillerCoors) with SABMiller, 7/08. Acquired StarBev, 6/12. Has approximately 18,700 employees and 28 breweries worldwide. Officers & Directors own 13.4% of common stock; The Vanguard Group, 5.0% (4/13 proxy). Chairman: Peter H. Coors. President and Chief Executive Officer: Peter Swinburn. Inc.: Colorado. Address: 1225 17th Street, Denver, Colorado 80202. Telephone: 303-279-6565. Internet: www.molsoncoors.com.

Molson Coors earnings will likely rebound strongly this year from last year's depressed results. (Note that last year's share net was weighed down by some one-time charges.) The StarBev assets, acquired in mid-2012, ought to continue to perform well. Furthermore, the company's cost-cutting efforts should help the bottom line post good results for the duration of the year. All told, sales should be about $4.3 billion and earnings will likely come in around $3.80 a share for the full year. For 2014, the top and bottom lines will probably advance at a single-digit clip. However,

The operating environment remains difficult. Weak demand for beer has pressured volumes, as consumers continue to spend cautiously in North America and Europe. Looking ahead, the company expects its core markets to remain soft. Accordingly, the brewer is searching for new ways to bolster sales. Most notably, the company is focusing on increasing its marketing efforts amid these tough times. We think this is prudent, as it appears some of Molson Coors' brands are underperforming and would benefit from a marketing push.

The company announced plans to retire some debt. It looks to repay a convertible note for 500 million euros that was part of its StarBev acquisition. Molson Coors also announced a cash payment for any residual convertible senior notes that were due on July 30th. All told, it appears the balance sheet is improving. The company will probably continue to strengthen its finances for the foreseeable future.

The long-term outlook remains promising. Business conditions ought to pick up over the coming years, and recent expansion efforts, particularly in Eastern Europe, should help drive sales and earnings higher in the years ahead.

This equity is up one notch to 2 (Above Average) for Timeliness. Thus, momentum-based accounts may want to consider shares of TAP. Too, we expect Molson Coors to continue to raise its payout over the long term, and this issue offers above-average total return potential over the 3- to 5-year pull. Consequently, we suggest long-term investors also consider this stock.

Richard J. Gallagher *October 25, 2013*

(A) Excludes excise taxes. Fiscal year ends last Sunday in December. (B) Based on diluted shares. Next earnings report due early November. (C) Dividends usually paid in mid-March, June, September, and December. (D) Includes intangibles. '12: $9,687.9 mill., $51.26/sh. (E) In millions, adjusted for split. Includes exchangeable shares. (F) Sales exclude U.S. operations starting in the September period of 2008 due to the MillerCoors venture.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	40
Earnings Predictability	75

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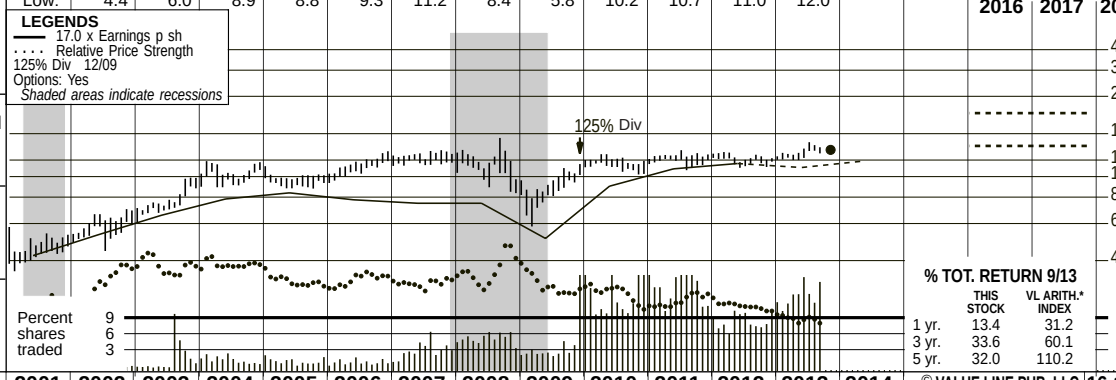
NORTHWEST BANC. NDQ-NWBI

RECENT PRICE **13.39** | P/E RATIO **20.6** (Trailing: 20.0 Median: 22.0) | RELATIVE P/E RATIO **1.14** | DIV'D YLD **3.9%** | VALUE LINE

TIMELINESS 4 Lowered 8/2/13
SAFETY 3 New 1/16/09
TECHNICAL 2 Raised 9/27/13
BETA .70 (1.00 = Market)

High:	7.0	9.9	11.9	11.2	13.2	13.3	15.3	11.5	12.8	13.4	13.1	14.6
Low:	4.4	6.0	8.9	8.8	9.3	11.2	8.4	5.8	10.2	10.7	11.0	12.0

Target Price Range
2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	20	(+50%)	15%
Low	14	(+5%)	6%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	1	0	0	0	0	0	1	0	0
Options	0	0	0	1	1	1	2	1	2
to Sell	0	1	1	0	0	0	2	1	1

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	56	75	70
to Sell	75	57	66
Hld's(000)	59209	59307	59375

% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	13.4	31.2
3 yr.	33.6	60.1
5 yr.	32.0	110.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
17.38	21.00	24.72	28.06	31.50	33.06	38.71	42.40	43.68	44.80	48.74	53.95	53.89	52.73	58.59	61.76	**62.25**	**66.25**	Mortgage Loans per sh	**74.25**
15.60	19.19	23.12	27.09	30.60	33.58	39.73	43.42	45.35	47.68	50.70	46.17	50.83	52.26	59.29	61.55	**61.75**	**65.00**	Savings Deposits per sh	**69.00**
.18	.20	.19	.25	.25	.31	.39	.46	.49	.46	.44	.44	.30	.53	.64	.68	**.65**	**.70**	Earnings per sh A	**1.00**
.07	.07	.07	.07	.07	.11	.14	.18	.21	.33	.37	.39	.39	.40	.43	.60	**.50**	**.54**	Div'ds Decl'd per sh B■†	**.66**
1.89	2.07	2.19	2.33	2.58	2.92	3.33	4.63	5.09	5.37	5.61	5.62	11.90	11.85	11.85	12.05	**12.25**	**12.35**	Book Value per sh C	**13.20**
105.19	105.39	106.55	106.56	106.71	106.99	107.31	107.91	114.40	112.57	109.31	109.13	110.64	110.30	97.49	93.65	**93.50**	**90.00**	Common Shs Outst'g D	**90.00**
16.2	31.6	24.9	13.7	15.7	16.7	16.8	20.1	20.1	24.5	27.7	25.5	29.8	21.7	19.0	17.8	*Bold figures are*		Avg Ann'l P/E Ratio	**17.0**
.93	1.64	1.42	.89	.80	.91	.96	1.06	1.07	1.32	1.47	1.53	1.98	1.38	1.19	1.14	*Value Line*		Relative P/E Ratio	**1.15**
2.4%	1.1%	1.5%	2.0%	1.8%	2.1%	2.2%	1.9%	2.1%	2.9%	3.1%	3.5%	4.4%	3.5%	3.5%	5.0%	*estimates*		Avg Ann'l Div'd Yield	**3.9%**

CAPITAL STRUCTURE as of 6/30/13

ST Borrowings $857.3 mill. (41% Debt + Equity)

LT Debt $103.1 mill. (5% Debt + Equity)

Leases, Uncapitalized Annual rentals $3.9 mill.

Pension Assets-12/12 $115.5 mill. **Oblig.** $129.8 mill.

Common Stock 94,093,857 shs. **as of 8/1/13**

MARKET CAP: $1.3 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
302.4	316.4	353.8	414.6	439.1	427.4	417.8	431.0	418.2	396.9	**375**	**385**	Gross Income ($mill)	**460**
45.5%	39.5%	39.0%	46.1%	48.1%	39.6%	32.5%	26.2%	22.2%	18.9%	**16.5%**	**17.0%**	Int Cost to Gross Inc	**28.0%**
41.7	50.5	55.8	51.5	49.1	48.2	32.7	57.5	64.2	63.6	**59.0**	**63.0**	Net Profit ($mill)	**90.0**
28.5%	28.5%	29.0%	27.7%	26.2%	26.0%	17.7%	29.0%	29.5%	29.3%	**29.5%**	**30.0%**	Income Tax Rate	**30.0%**
13.8%	16.0%	15.8%	12.4%	11.2%	11.3%	7.8%	13.3%	15.3%	16.0%	**15.7%**	**16.4%**	Net Profit Margin	**19.6%**
5222.4	5778.6	6330.5	6527.8	6663.5	6930.2	8025.3	8148.2	7957.7	7942.6	**8000**	**8200**	Total Assets ($mill)	**9200**
430.0	413.0	377.8	392.8	339.1	826.0	782.2	745.7	695.6	695.5	**700**	**800**	FHLB Advances ($mill)	**1500**
356.9	500.0	582.2	604.6	612.9	613.8	1316.5	1307.5	1154.9	1128.5	**1145**	**1110**	Shr. Equity ($mill)	**1190**
- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	**NMF**	**NMF**	New Loan Volume ($mill)	**NMF**
- -	- -	- -	- -	- -	1.2%	2.3%	3.1%	3.3%	3.0%	**2.3%**	**2.1%**	Problem Assets to Lns	**1.5%**
6.8%	8.7%	9.2%	9.3%	9.2%	8.9%	16.4%	16.0%	14.5%	14.2%	**14.5%**	**13.5%**	Shr. Eq. to Total Assets	**13.0%**
28.9%	29.4%	32.3%	31.4%	31.2%	38.8%	44.0%	45.6%	47.9%	51.8%	**55.0%**	**55.0%**	G&A Exp to Gross Inc	**50.0%**
.80%	.87%	.88%	.79%	.74%	.70%	.41%	.71%	.81%	.80%	**.75%**	**.75%**	Return on Total Assets	**1.00%**
11.7%	10.1%	9.6%	8.5%	8.0%	7.8%	2.5%	4.4%	5.6%	5.6%	**5.0%**	**5.5%**	Return on Shr. Equity	**7.5%**

EARNINGS FACTORS

MARGIN (%)	2011	2012	6 mos. 6/30/13
Earning Asset Yield	4.91	4.66	4.38
Cost of Funds	1.52	1.25	1.06
Yield-Cost Margin	3.39	3.41	3.32

NET CHANGES ($mill)	2011	2012	6 mos. 6/30/13
Loans & Securities	-103.7	72.6	33.1
Deposits	16.0	-15.7	65.9
Borrowed Funds	-63.4	32.1	-2.7

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Mortgage Lns	6.5%	5.0%	4.5%
Savings Dep	6.5%	4.0%	3.0%
Earnings	8.5%	6.0%	8.5%
Dividends	19.0%	9.5%	5.5%
Book Value	16.5%	17.5%	1.5%

Cal-endar	DEPOSITS ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31
2010	5693	5729	5769	5764
2011	5820	5819	5813	5780
2012	5870	5806	5825	5765
2013	5800	5783	**5750**	**5775**
2014	**5800**	**5815**	**5825**	**5850**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.12	.15	.14	.12	.53
2011	.16	.15	.17	.16	.64
2012	.16	.17	.17	.18	.68
2013	.17	.15	**.16**	**.17**	**.65**
2014	**.17**	**.17**	**.18**	**.18**	**.70**

Cal-endar	QUARTERLY DIVIDENDS PAID B■† Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.098	.098	.098	.098	.39
2010	.10	.10	.10	.10	.40
2011	.10	.11	.11	.11	.43
2012	.12	.12	.12	.24	.60
2013	- -	.24	.13		

BUSINESS: Northwest Bancshares, Inc. is the holding company for Northwest Savings Bank. Has 165 banking locations, mainly in Pennsylvania, but also some in western New York, Maryland, and eastern Ohio. A subsidiary operates 52 consumer finance offices in PA. Loans at 12/31/12 were 42.0% residential; 27.9% commercial real estate; 18.6% home equity; 7.5% commercial business; and 4.0% consumer. At 12/31/12, allowance for loan losses was 61% of nonperforming loans. Has 2,220 employees. BlackRock owns 8.2% of stock; Vanguard, 6.1%; Wellington Mngt, 5.4%; Capital World, 5.2%; Officers & directors, 3.2% (3/13 Proxy). Chairman & CEO: William J. Wagner. Inc.: MD. Address: 100 Liberty St., Warren, PA 16365. Tel.: 814-726-2140. www.northwestsavingsbank.com.

Northwest Bancshares profits look to be headed slightly lower in 2013. Earnings per share hit a bump in the road at midyear, owing to the writedown of a foreclosed property and added ATM replacement expense. The good news is that those items probably won't recur. Still, we have reduced our 2013 share-net estimate by $0.05, to $0.65.

The lender still saw fit to raise the quarterly dividend by a penny a share. The regular payout was lifted by 8%, beginning in August. The stock's yield of nearly 4% is well above the average of around 3% for the thrifts under our coverage. Dividend growth should be steady, and there is also the possibility that Northwest Bancshares will declare another extra cash distribution, as it did earlier in 2013. An additional $0.12 a share was paid in the June quarter.

Growth is proving hard to come by. Prospects for expansion from within have always been modest at the bank, which operates in a region that over time has seen industry leave for lower-wage domains. There was some anticipation that drilling activity in the nearby Marcellus Shale might spark lending activity, but that hasn't panned out in a big way. As a result, loan balances have largely been moving sideways, with little indication of a major pickup soon. That, in turn, translates into a slow-moving bottom line. Historically, Northwest has made occasional acquisitions to boost prospects but, lately, that hasn't been happening, either.

Profits should inch back up in 2014. We figure modest amounts of loan growth, margin expansion, and credit-quality improvement will equate to a 7%-8% earnings-per-share advance in 2014. In particular, the company seems due to benefit from reductions in its loan loss provision. That would be consistent with the broader industry trend. Longer term, bottom-line inroads will likely continue to be modest, absent acquisitions.

The shares, now ranked 4 (Below Average) for Timeliness, have some appeal for the income-oriented. A high equity-to-assets ratio provides the stock with more stability than most issues, as well. For certain investors, that may make this a decent selection to park some cash.

Robert Mitkowski, Jr. *October 11, 2013*

(A) Diluted earnings. Next earnings report due late October.
(B) Dividends historically paid mid-February, May, August, and November. Note: Five dividend declarations in 2012. ■Dividend Reinvestment Plan available. †Share purchase plan available without broker (must be enrolled in Dividend Reinvestment Plan).
(C) Intangibles of $178.0 mill. at 12/12, or $1.90 a share.
(D) In millions, adjusted for stock split.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	55
Earnings Predictability	70

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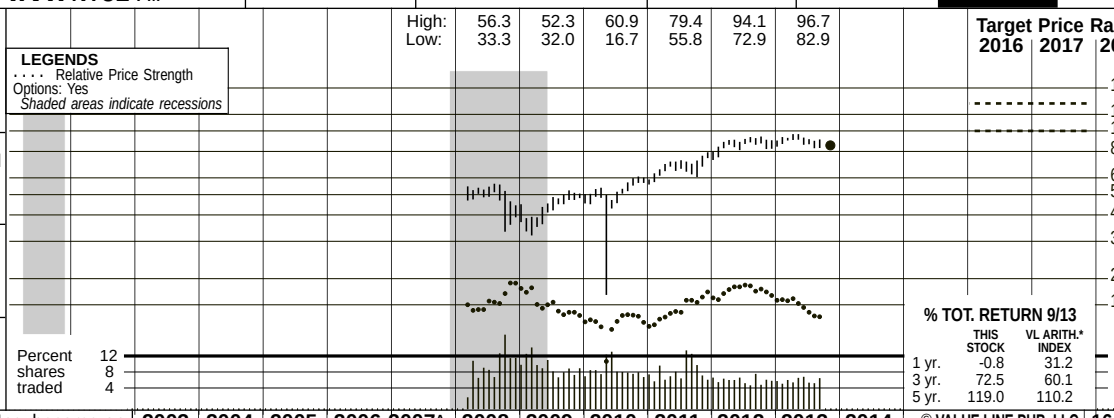
PHILIP MORRIS INT. NYSE-PM

RECENT PRICE **85.50** | P/E RATIO **14.3** (Trailing: 16.6 Median: NMF) | RELATIVE P/E RATIO **0.79** | DIV'D YLD **4.4%** | VALUE LINE

TIMELINESS 3 Raised 9/13/13
SAFETY 2 Raised 7/30/10
TECHNICAL 3 Lowered 10/11/13
BETA .75 (1.00 = Market)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
High:	56.3	52.3	60.9	79.4	94.1	96.7				
Low:	33.3	32.0	16.7	55.8	72.9	82.9				

Target Price Range 2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	135	(+60%)	15%
Low	100	(+15%)	8%

Insider Decisions

NOT REPORTED

U.S. Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	531	578	554
to Sell	672	602	628
Hld's(000)	1148537	1131431	1141546

% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-0.8	31.2
3 yr.	72.5	60.1
5 yr.	119.0	110.2

Philip Morris International, Inc. became an independent publicly held company when it was spun off from parent company, Altria Group on March 28, 2008. The spinoff was instituted in order to separate Altria's domestic and international businesses. All Altria's shareholders of record as of March 19, 2008 received one share of PM for every share of MO they owned.

2003	2004	2005	2006	2007A	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
- -	- -	- -	- -	- -	31.76	32.90	37.58	44.24	46.80	*50.20*	*53.15*	Revenues per sh	*61.90*
- -	- -	- -	- -	- -	3.86	3.81	4.55	5.55	5.86	*6.45*	*7.20*	"Cash Flow" per sh	*8.50*
- -	- -	- -	- -	- -	3.32	3.24	3.92	4.85	5.17	*5.75*	*6.50*	Earnings per sh B	*7.80*
- -	- -	- -	- -	- -	1.00	2.24	2.44	2.82	3.24	*3.49*	*3.84*	Div'ds Decl'd per sh C■	*4.20*
- -	- -	- -	- -	- -	.55	.38	.40	.52	.64	*.65*	*.70*	Cap'l Spending per sh	*.75*
- -	- -	- -	- -	- -	3.74	3.03	1.95	.13	d2.10	*d.60*	*.65*	Book Value per sh D	*4.15*
- -	- -	- -	- -	- -	2003.9	1887.2	1801.8	1725.9	1653.6	*1615.0*	*1540.0*	Common Shs Outst'g E	*1480.0*
- -	- -	- -	- -	- -	14.7	13.4	13.2	13.8	16.7	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
- -	- -	- -	- -	- -	.88	.89	.84	.87	1.07	*Value Line*		Relative P/E Ratio	*1.00*
- -	- -	- -	- -	- -	2.0%	5.1%	4.7%	4.2%	3.8%	*estimates*		Avg Ann'l Div'd Yield	*4.1%*
- -	- -	- -	48260	55096	63640	62080	67713	76346	77393	*82000*	*85000*	Revenues ($mill)	*97500*
- -	- -	- -	18.1%	17.8%	17.6%	16.3%	16.7%	17.7%	18.1%	*19.0%*	*20.5%*	Operating Margin	*21.0%*
- -	- -	- -	658.0	748.0	842.0	853.0	932.0	993.0	898.0	*950*	*1000*	Depreciation ($mill)	*1150*
- -	- -	- -	6146.0	6026.0	6890.0	6342.0	7259.0	8591.0	8800.0	*9550*	*10550*	Net Profit ($mill)	*12250*
- -	- -	- -	22.2%	28.9%	28.0%	29.1%	27.4%	29.1%	29.5%	*32.0%*	*33.5%*	Income Tax Rate	*36.0%*
- -	- -	- -	12.7%	10.9%	10.8%	10.2%	10.7%	11.3%	11.4%	*11.6%*	*12.4%*	Net Profit Margin	*12.6%*
- -	- -	- -	4936.0	6501.0	4795.0	3504.0	952.0	62.0	d426.0	*d50*	*200*	Working Cap'l ($mill)	*900*
- -	- -	- -	2222.0	5578.0	11377	13672	13370	14828	17639	*20500*	*18000*	Long-Term Debt ($mill)	*15000*
- -	- -	- -	14267	15401	7500.0	5716.0	3506.0	229.0	d3476	*d1000*	*1000*	Shr. Equity ($mill)	*6500*
- -	- -	- -	37.3%	28.7%	37.3%	33.7%	45.3%	59.4%	65.2%	*51.0%*	*57.5%*	Return on Total Cap'l	*58.5%*
- -	- -	- -	43.1%	39.1%	91.9%	111.0%	207.0%	NMF	NMF	*NMF*	*NMF*	Return on Shr. Equity	*NMF*
- -	- -	- -	43.1%	39.1%	64.4%	35.3%	80.9%	NMF	NMF	*NMF*	*NMF*	Retained to Com Eq	*NMF*
- -	- -	- -	- -	- -	30%	68%	61%	63%	54%	*60%*	*58%*	All Div'ds to Net Prof	*54%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $22815 mil. **Due in 5 Yrs** $8931 mil.
LT Debt $21559 mil. **LT Interest** $859 mil.
(Total interest coverage, 15.7x) (124% of Cap'l)

Pfd Stock None
Pension Assets $5.9 bill. **Oblig.** $6.0 bill.

Common Stock 1,618,547,859 shares
as of 7/31/13

MARKET CAP: $138 billion (Large Cap)

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	2550	2983	3586
Receivables	3201	3589	3964
Inventory (FIFO)	8120	8949	8217
Other	988	1069	988
Current Assets	14859	16590	16755
Accts Payable	1031	1103	1045
Debt Due	2206	2781	1256
Other	11560	13132	12405
Current Liab.	14797	17016	14706

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	- -	- -	*6.5%*
"Cash Flow"	- -	- -	*8.0%*
Earnings	- -	- -	*9.0%*
Dividends	- -	- -	*7.0%*
Book Value	- -	- -	*NMF*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	15587	17383	16936	17807	67713
2011	16530	20234	20706	18876	76346
2012	18022	20037	19592	19742	77393
2013	18530	20483	20629	*22358*	*82000*
2014	*19750*	*22000*	*21000*	*22250*	*85000*

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.90	1.07	.99	.96	3.92
2011	1.06	1.35	1.35	1.08	4.85
2012	1.25	1.35	1.32	1.25	5.17
2013	1.28	1.30	1.44	*1.73*	*5.75*
2014	*1.50*	*1.75*	*1.65*	*1.60*	*6.50*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.54	.54	.58	.58	2.24
2010	.58	.58	.64	.64	2.44
2011	.64	.64	.77	.77	2.82
2012	.77	.77	.85	.85	3.24
2013	.85	.85	.85	.94	

BUSINESS: Philip Morris International, Inc. manufactures, sells, and distributes a wide range of tobacco products in markets outside the United States. The company's operations are based in Lausanne, Switzerland. Brands include *Marlboro, Philip Morris, Chesterfield,* and *Parliament*. 2012 operating profit breakdown: European Union, 29.6%; Eastern Europe, Middle East and Africa, 26.3%, Asia, 36.7%, North America, 7.4%. Has 55 factories and 78,100 employees in various international markets. Officers & directors own less than 1% of stock; Capital Research, 6.5%; BlackRock, Inc., 5.6%. (5/13 Proxy). Chairman: Louis C. Camilleri. Chief Executive Officer: Andre Calantzopoulos. Inc.: VA. Address: 120 Park Avenue, New York, NY 10017. Tel: 917-663-2233. Internet: www.pmi.com.

Philip Morris International continues to outperform expectations. The tobacco conglomerate has fared admirably in growing its earnings and cash flow while operating across a variety of developed and emerging economies. In the coming year, the company is set to return roughly $6 billion in dividends and $6 billion through repurchases to shareholders, while expanding share earnings by 11%. Looking further, we think the company possesses the ability to weather regulatory headwinds in Japan, Russia, and elsewhere while also keeping its investors happy. Actually, the company has increased its dividend 104% since spinning off from Altria in 2008.

The near-term earnings picture is bright. Despite a weaker-than-expected top line in the most recently reported period, Philip Morris will likely bounce back during the balance of 2013. Confronted with waning sales in some Asian and European territories, PM, we believe, will deliver 20%-25% share-profit year-over-year growth in the second half.

Its geographically diverse presence insulates Philip Morris from over-exposure to regulatory impediments. The company aggressively pursues new growth opportunities in burgeoning markets, like West Africa or Southeast Asia. This allows for a quick contingency plan when a major market like the United Kingdom or Russia makes headway on implementing stringent bans on smoking and marketing. On the other hand, operating in a variety of foreign markets also leaves the company considerably vulnerable to onerous currency headwinds. Over the past few months, the relative strength of the U.S. dollar has lent itself to this very effect.

At its recent trading price, Philip Morris stock is well suited for income-oriented holding accounts. The neutrally ranked PM equity offers average 3- to 5-year capital appreciation potential. Still, the stock has dipped 6% in price since our July report, and a further ebb would turn the issue into an attractive long-term capital recovery play. PM's hearty and oft-increasing dividend payout and aforementioned share buybacks contribute to its total return appeal.

Robert L. Harrington *October 25, 2013*

(A) Pro forma data before January 1, 2008. (B) Diluted earnings. Qtly totals may not sum due to changes in share count. Next earnings report due late October. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Includes intangibles. At 12/31/12: $13,519 mil. ($8.18 per share). (E) In millions.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	80
Earnings Predictability	100

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RLI CORP. NYSE-RLI

RECENT PRICE **79.13** | P/E RATIO **18.5** (Trailing: 18.8 / Median: 12.0) | RELATIVE P/E RATIO **1.09** | DIV'D YLD **1.7%** | VALUE LINE

TIMELINESS 4 Lowered 7/5/13
SAFETY 2 Raised 6/28/02
TECHNICAL 3 Raised 8/23/13
BETA .75 (1.00 = Market)

High:	30.2	38.2	43.7	56.5	57.5	61.5	72.1	62.0	62.0	74.4	75.0	86.4
Low:	22.2	24.5	33.0	40.0	44.8	50.8	44.0	42.5	49.7	50.9	61.9	64.5

Target Price Range 2016 | 2017 | 2018

2016-18 PROJECTIONS

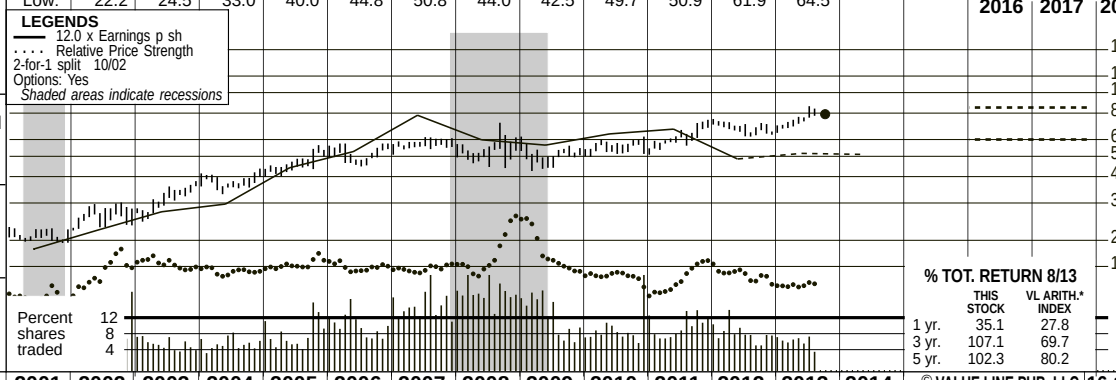
	Price	Gain	Ann'l Total Return
High	85	(+5%)	4%
Low	60	(-25%)	-4%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	0	0	0	0	0	3	0
to Sell	0	1	1	0	0	0	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	71	75	66
to Sell	60	58	69
Hld's(000)	17039	17278	17537



% TOT. RETURN 8/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	35.1	27.8
3 yr.	107.1	69.7
5 yr.	102.3	80.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
6.57	6.84	9.89	11.81	13.77	14.10	18.42	20.20	19.23	21.85	24.58	24.62	23.14	23.53	25.44	27.12	**30.50**	**39.00**	P/C Prem Earned per sh	**56.25**
1.14	1.15	1.32	1.48	1.62	1.53	1.75	2.14	2.41	2.94	3.56	3.68	3.17	3.19	3.01	2.77	**2.50**	**2.80**	Investment Inc per sh	**4.50**
.80	.81	.87	.62	.39	.63	1.48	1.58	2.69	3.77	7.04	3.88	4.09	4.54	5.56	2.98	**4.25**	**5.05**	Underwriting Inc per sh	**8.75**
1.33	1.33	1.54	1.45	1.51	1.86	2.27	2.47	3.67	4.38	6.52	4.99	4.70	5.31	5.60	4.04	**4.30**	**4.25**	Earnings per sh A	**6.00**
.24	.26	.28	.30	.32	.34	.40	.51	.63	.75	.87	.97	1.08	1.14	1.19	1.26	**1.34**	**1.38**	Div'ds Decl'd per sh B■	**1.45**
12.35	14.13	14.84	16.66	16.92	18.50	22.02	24.64	27.12	31.16	34.95	32.98	39.14	37.75	38.69	37.45	**39.30**	**44.00**	Book Value per sh	**68.75**
21.59	20.81	19.75	19.61	19.83	24.68	25.17	25.32	25.55	24.27	22.16	21.47	21.26	20.96	21.16	21.26	**21.00**	**20.00**	Common Shs Outst'g C	**16.00**
122%	138%	113%	107%	124%	141%	143%	154%	170%	166%	163%	163%	130%	146%	159%	182%			Price to Book Value	**105%**
11.3	14.7	10.9	12.3	13.9	14.0	13.8	15.4	12.5	11.8	8.8	10.8	10.8	10.4	11.0	16.9	*Bold figures are*		Avg Ann'l P/E Ratio	**12.0**
.65	.76	.62	.80	.71	.76	.79	.81	.67	.64	.47	.65	.72	.66	.69	1.08	*Value Line*		Relative P/E Ratio	**.80**
1.6%	1.3%	1.6%	1.7%	1.5%	1.3%	1.3%	1.3%	1.4%	1.5%	1.5%	1.8%	2.1%	2.1%	1.9%	1.8%	*estimates*		Avg Ann'l Div'd Yield	**2.1%**

CAPITAL STRUCTURE as of 6/30/13
Total Debt $100.0 mill. **Due in 5 Yrs** $32.0 mill.
(11% of Cap'l)
Leases, Uncapitalized Annual rentals $4.7 million

No Defined Benefit Pension Plan

Pfd Stock None

Common Stock 21,347,721 shs.
as of 7/12/13
MARKET CAP: $1.7 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
463.6	511.3	491.3	530.3	544.5	528.8	492.0	493.4	538.5	576.6	**640**	**780**	P/C Premiums Earned	**900**
60.2%	59.9%	51.1%	48.4%	35.1%	46.7%	41.3%	40.8%	37.2%	47.1%	**44.0%**	**46.0%**	Loss to Prem Earned	**50.0%**
31.8%	32.3%	34.9%	34.3%	36.3%	37.5%	41.0%	39.9%	41.0%	41.9%	**42.0%**	**41.0%**	Expense to Prem Writ	**36.0%**
8.1%	7.8%	14.0%	17.3%	28.6%	15.8%	17.7%	19.3%	21.8%	11.0%	**14.0%**	**13.0%**	Underwriting Margin	**14.0%**
23.4%	21.0%	26.1%	32.7%	27.0%	30.6%	31.0%	31.7%	27.6%	19.7%	**31.0%**	**30.0%**	Income Tax Rate	**30.0%**
58.6	64.4	96.9	109.8	166.7	108.6	101.7	110.2	120.3	87.1	**90.0**	**85.0**	Net Profit ($mill)	**95.0**
3.4%	3.6%	3.7%	4.1%	4.8%	5.2%	4.4%	3.8%	3.5%	3.3%	**3.3%**	**3.5%**	Inv Inc/Total Inv	**5.0%**
2134	2469	2736	2771	2627	2419	2539	2515	2695	2645	**2800**	**3075**	Total Assets ($mill)	**4000**
554.1	623.7	692.9	756.3	774.4	708.2	832.3	791.4	818.9	796.4	**825**	**880**	Shr. Equity ($mill)	**1100**
10.6%	10.3%	14.0%	14.5%	21.5%	15.3%	12.2%	13.9%	14.7%	10.9%	**11.0%**	**9.5%**	Return on Shr. Equity	**8.5%**
8.9%	8.4%	11.8%	12.1%	18.9%	12.4%	9.5%	10.1%	11.6%	7.6%	**7.5%**	**6.5%**	Retained to Com Eq	**6.5%**
16%	19%	16%	16%	12%	19%	22%	27%	21%	31%	**31%**	**32%**	All Div'ds to Net Prof	**24%**

FINANCIAL POSITION ($MILL.)	2011	2012	6/30/13
Bonds	1406.6	1390.3	1400.2
Stocks	388.7	375.8	416.8
Other	899.9	878.5	858.7
Total Assets	2695.2	2644.6	2675.7
Unearned Prems	341.3	369.3	429.9
Reserves	1150.7	1158.5	1111.5
Other	384.3	320.5	309.6
Total Liab'ties	1876.3	1848.3	1851.0

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Premium Inc	6.5%	3.0%	*14.0%*
Invest Income	7.0%	- -	*7.0%*
Earnings	12.0%	.5%	*3.0%*
Dividends	14.0%	10.0%	*3.5%*
Book Value	8.0%	4.0%	*10.5%*

Cal-endar	NET PREMIUMS EARNED ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	116.3	121.8	128.3	127.0	493.4
2011	116.1	130.8	146.6	145.0	538.5
2012	137.3	141.6	149.9	147.8	576.6
2013	144.2	154.6	**165**	**176.2**	**640**
2014	**180**	**190**	**200**	**210**	**780**

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.94	1.52	1.19	1.66	5.31
2011	1.11	1.91	1.23	1.35	5.60
2012	.96	1.17	1.02	.89	4.04
2013	1.04	1.27	**.96**	**1.03**	**4.30**
2014	**1.02**	**1.11**	**1.05**	**1.07**	**4.25**

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.26	.27	.27	.27	1.07
2010	.28	.28	.29	.29	1.14
2011	.29	.30	.30	.30	1.19
2012	.30	.32	.32	.32	1.26
2013	.32	.34	.34		

BUSINESS: RLI Corp., through its subsidiaries RLI Insurance and Mt. Hawley, writes multiple lines of insurance on an admitted basis in all 50 states. Also underwrites specialty property and casualty insurance on an admitted basis and excess and surplus business on a non-admitted basis. Underwrites earthquake risks (in California). Other companies in the group include: Replacement Lens, Inc.; License Express Services, Inc. Has 841 employees. State Street owns 10.1% of common stock; Neuberger Berman, 9.1%; Kayne Anderson Rudnick, 7.6%; BlackRock, 7.0%; off. & dir., 5.9%. (3/13 proxy). President, Chairman, and CEO: Jonathan E. Michael. Incorporated: Illinois. Address: 9025 North Lindbergh Drive, Peoria, Illinois 61615. Telephone: 309-692-1000. Internet: www.rlicorp.com.

RLI Corp. registered strong bottom-line gains during the June quarter. Earnings from operations, which exclude capital gains and losses from the investment portfolio, climbed 8.5% relative to the year-ago figure. We attribute the relative outperformance to a 130-basis-point improvement in the combined ratio (the sum of the loss and expense ratios), during the period. This item came in at 83.4%, which is markedly better than the industry average and implies the company generated $16.60 in pretax income for every $100 in policies insured. Net premiums earned also climbed 9.2% compared to 2012, thanks to rate increases across many segments. These positive factors helped to counteract sluggish net investment income comparisons (down 13.3%), resulting from depressed reinvestment yields on bonds.

We look for a slight decline in share net next year, though we believe this requires an explanation. Catastrophe losses industrywide have been relatively low thus far in 2013, and RLI has been no exception. We don't believe this trend is sustainable longer term, and therefore expect an increase in the loss ratio in 2014. Investors should keep in mind that the U.S. hurricane season begins on June 1st and runs through November 30th, so this could result in increased catastrophes during that period. Investment income should rebound moderately next year, assuming that interest rates trend higher.

We expect earnings to approach $6.00 a share by 2016-2018. We look for the economy to continue to rebound going forward, which should enable the company to continue to raise rates. RLI's underwriting margin should remain profitable, barring an overage of catastrophes, thanks to management's stringent standards.

These shares are now ranked to be market laggards in the year ahead. This reflects the stock's unexciting relative performance in recent months. Moreover, RLI stock now trades at the upper end of our 3- to 5-year Target Price Range. We look for the insurer's price-to-book ratio to contract toward the industry average over that time frame. Investors can find more enticing values in the insurance industry at present.

Alan G. House *September 13, 2013*

(A) Dil. egs. Excludes cap. gains and losses beginning in 2002. Excludes extraordinary gain; '01, 8¢. Excludes nonrecurring (charges)/gains: '02, (11¢); '06, 89¢; '07, 39¢; '08, ($1.39); '09, ($0.38); '10, 69¢; '11, 49¢; 12, 75¢. Next egs. report due early Nov.
(B) Div'ds. historically paid in mid-March, June, Sept., and Dec. ■ Div'd. reinvestment plan available. Excludes special dividend of $7.00/share paid on 12/29/10; $5.00/share paid 12/20/11; $5.00/share paid 12/20/12.
(C) In mill., adj. for stock splits.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	85
Earnings Predictability	70

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SILGAN HOLDINGS NDQ-SLGN

RECENT PRICE 47.31 | P/E RATIO 14.9 (Trailing: 18.6 Median: 14.0) | RELATIVE P/E RATIO 0.84 | DIV'D YLD 1.2% | VALUE LINE

TIMELINESS 2 Raised 8/23/13
SAFETY 3 Raised 10/6/06
TECHNICAL 2 Raised 9/13/13
BETA .70 (1.00 = Market)

High:	10.9	11.0	15.5	18.8	22.3	30.6	29.1	29.5	36.9	46.8	45.1	50.5
Low:	4.5	4.8	9.6	12.6	16.9	21.2	18.2	21.6	25.8	33.7	37.7	41.8

2016-18 PROJECTIONS

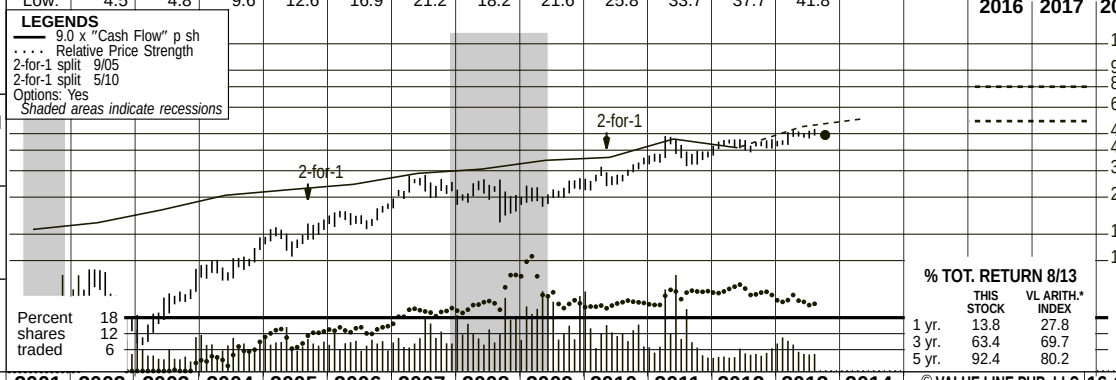
	Price	Gain	Ann'l Total Return
High	80	(+70%)	15%
Low	55	(+15%)	5%

Insider Decisions

	N	D	J	F	M	A	M	J	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	1	3	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	88	90	89
to Sell	93	117	95
Hld's(000)	47162	43122	43188



Target Price Range 2016 | 2017 | 2018

% TOT. RETURN 8/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	13.8	27.8
3 yr.	63.4	69.7
5 yr.	92.4	80.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
20.03	23.81	26.46	26.51	27.18	27.27	31.63	32.72	33.48	35.48	38.72	41.04	40.05	43.96	50.13	51.85	*60.55*	*63.50*	Sales per sh	*71.65*
1.55	1.65	1.85	1.76	1.88	2.02	2.32	2.73	2.90	3.06	3.45	3.62	3.98	4.12	5.03	4.57	*5.75*	*6.30*	"Cash Flow" per sh	*7.40*
.69	.60	.67	.49	.53	.71	.80	1.13	1.26	1.37	1.61	1.72	2.07	1.89	2.75	2.17	*3.00*	*3.40*	Earnings per sh A	*4.15*
--	--	--	--	--	--	--	.11	.20	.24	.32	.34	.38	.42	.44	.48	*.56*	*.62*	Div'ds Decl'd per sh B	*.75*
.82	1.18	1.25	1.26	1.30	1.63	1.45	1.39	1.20	1.62	2.05	1.62	1.30	1.51	2.47	1.72	*2.25*	*2.45*	Cap'l Spending per sh	*3.00*
d.89	d.78	d.69	d.29	.21	.87	1.65	2.80	3.67	4.88	6.63	6.90	8.96	7.92	9.40	10.89	*11.20*	*13.35*	Book Value per sh C	*21.95*
75.45	73.03	70.19	70.81	71.41	72.92	73.09	73.98	74.54	75.18	75.48	76.05	76.57	69.88	70.00	69.20	*62.00*	*61.00*	Common Shs Outst'g D	*60.00*
12.0	11.9	7.2	5.2	8.2	10.7	9.0	10.2	12.6	14.2	16.4	14.4	12.1	16.2	14.1	19.7	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.69	.62	.41	.34	.42	.58	.51	.54	.67	.77	.87	.87	.81	1.03	.88	1.26	*Value Line*		Relative P/E Ratio	*1.05*
--	--	--	--	--	--	--	1.0%	1.3%	1.2%	1.2%	1.4%	1.5%	1.4%	1.1%	1.1%	*estimates*		Avg Ann'l Div'd Yield	*1.1%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $1878.3 mill. **Due in 5 Yrs** $1163 mill.
LT Debt $1258.8 mill. **LT Interest** $45.0 mill.
(LT Int. earned: 5.2x; Total Int. Coverage: 4.6x)
(70% of Cap'l)
Leases, Uncapitalized: Annual rentals $32.6 mill.

Pension Assets-12/12 $633.3 mill.
Oblig. $672.4 mill.
Pfd Stock None
Common Stock 63,400,783 shs.
as of 7/31/13

MARKET CAP: $3.0 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
2312.2	2420.4	2495.6	2667.5	2923.0	3121.0	3066.8	3071.5	3509.2	3588.3	*3755*	*3875*	Sales ($mill)	*4300*
12.4%	13.1%	13.2%	13.4%	13.8%	13.5%	14.5%	14.6%	14.8%	13.9%	*13.5%*	*14.0%*	Operating Margin	*15.0%*
110.7	118.5	121.2	126.2	138.0	144.0	145.3	142.9	158.8	165.0	*170*	*175*	Depreciation ($mill)	*195*
58.6	83.2	94.7	104.0	122.8	131.6	159.4	144.6	193.2	151.3	*185*	*210*	Net Profit ($mill)	*245*
40.0%	41.2%	39.1%	33.0%	36.5%	35.7%	35.6%	34.8%	33.4%	32.4%	*34.0%*	*34.0%*	Income Tax Rate	*34.0%*
2.5%	3.4%	3.8%	3.9%	4.2%	4.2%	5.2%	4.7%	5.5%	4.2%	*4.9%*	*5.4%*	Net Profit Margin	*5.7%*
194.5	211.5	200.3	284.8	280.3	282.4	489.9	440.4	738.2	675.9	*500*	*545*	Working Cap'l ($mill)	*585*
953.9	819.9	699.5	929.2	879.6	726.0	773.3	890.7	1288.5	1416.0	*1350*	*1350*	Long-Term Debt ($mill)	*1300*
120.8	207.4	273.4	366.5	500.1	524.6	685.8	553.6	658.0	753.6	*695*	*815*	Shr. Equity ($mill)	*1320*
8.7%	10.5%	11.9%	10.2%	11.0%	12.5%	12.6%	11.8%	11.3%	8.2%	*9.0%*	*9.5%*	Return on Total Cap'l	*9.5%*
48.5%	40.1%	34.6%	28.4%	24.6%	25.1%	23.2%	26.1%	29.4%	20.1%	*27.0%*	*25.5%*	Return on Shr. Equity	*19.0%*
48.5%	36.1%	29.2%	23.5%	19.7%	20.1%	19.0%	20.4%	24.6%	15.6%	*22.0%*	*21.0%*	Retained to Com Eq	*15.5%*
--	10%	16%	17%	20%	20%	18%	22%	16%	22%	*19%*	*18%*	All Div'ds to Net Prof	*18%*

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	397.1	465.6	113.2
Receivables	339.9	326.7	448.6
Inventory (LIFO)	554.1	515.9	721.0
Other	42.6	70.3	63.6
Current Assets	1333.7	1378.5	1346.4
Accts Payable	319.3	62.1	61.8
Debt Due	87.8	255.3	619.5
Other	188.4	385.2	331.9
Current Liab.	595.5	702.6	1013.2

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	6.0%	6.5%	*6.5%*
"Cash Flow"	9.5%	8.0%	*8.5%*
Earnings	14.5%	10.0%	*10.5%*
Dividends	--	12.0%	*9.0%*
Book Value	43.0%	13.0%	*15.0%*

Cal-endar	QUARTERLY SALES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2010	664.0	693.8	1002.1	711.6	3071.5
2011	703.1	822.2	1148.0	835.9	3509.2
2012	768.4	821.6	1139.5	858.8	3588.3
2013	795.7	880.0	*1200*	*879.3*	*3755*
2014	*815*	*900*	*1235*	*925*	*3875*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2010	.35	.48	.84	.22	1.89
2011	.37	.73	1.12	.53	2.75
2012	.47	.15	1.13	.42	2.17
2013	.38	.62	*1.32*	*.68*	*3.00*
2014	*.55*	*.75*	*1.40*	*.70*	*3.40*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.095	.095	.095	.095	.38
2010	.105	.105	.105	.105	.42
2011	.11	.11	.11	.11	.44
2012	.12	.12	.12	.12	.48
2013	.14	.14	.14		

BUSINESS: Silgan Holdings, Inc. manufactures consumer goods packaging products. It produces steel and aluminum containers for human and pet food; metal, composite, and plastic vaccum closures for food and beverage products; and custom designed plastic containers, tubes and closures for a variety of end markets. The company operates 81 manufacturing facilities. Has around 9,000 employees. Offs & dirs own 30.9% of outstanding common shares; FMR LLC and related parties, 8.4%; JPMorgan Chase & Co., 10.0%; Wellington, 5.8% (4/13 Proxy). Pres. & CEO: Anthony J. Allott. Co-chairmen: R. Philip Silver & D. Greg Horrigan. Inc: DE. Add: 4 Landmark Square, Suite 400, Stamford, CT 06901. Telephone: 203-975-7110. Internet: www.silganholdings.com.

Silgan Holdings should post good results in the September period. Strong metal food container volumes, thanks to a good food harvest, should offset recent challenges in Venezuela. (The supply of steel in that country has been constrained, which limited production at Silgan's operations there.) Thus, we estimate sales of $1.2 billion and earnings of $1.32 a share in the key September period.

The bottom-line momentum ought to continue in the coming months. Food can volumes should remain healthy for the duration of the year. What's more, the difficulties in the Venezuelan market appear to be behind the company. Moreover, the plastics business will likely continue to improve. Therefore, both the top and bottom lines should easily top their prior-year tallies in the fourth quarter. For the full year, sales of nearly $3.8 billion and earnings of $3.00 a share would represent an impressive performance, given the aforementioned challenges.

Silgan purchased Portola Packaging. It paid $266 million in cash and debt for the manufacturer. The acquisition bolsters SLGN's presence in the European plastic closure market, which offers attractive business prospects. Looking ahead, we would not be surprised to see Silgan make another purchase in the near term.

The company refinanced debt. The packager sold new senior notes under more-favorable terms to retire some of its existing debt in an effort to improve its financial flexibility.

Longer term, we envision earnings reaching the $4.15-a-share level by 2016-2018. Silgan has shifted its focus toward higher-return projects. This more selective approach to capital deployment ought to benefit long-term profits. Also, the Plastics business should strengthen due to improved market conditions and the aforementioned acquisition. All told, we project share net may well advance at a double-digit clip in the years ahead.

These shares are timely. Thus, near-term investors may want to consider this issue. However, we suggest investors with a long-term view look elsewhere. At the current quotation, this stock does not stand out for capital appreciation potential over the 3- to 5-year pull.

Richard J. Gallagher September 27, 2013

(A) Diluted earnings. Excludes nonrecurring items, net: '02, 2¢; '03, (23¢); '04, 2¢; '05, (9¢); '11 20¢. May not sum due to rounding. Next earnings report due late October.
(B) Dividends historically paid mid-Mar, mid-June, mid-Sept, mid-Dec.
(C) Includes Intangibles. In '12: $682.8 million, $6.87/share.
(D) In millions, adj. for splits.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	95
Earnings Predictability	80

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STERICYCLE INC. NDQ-SRCL

RECENT PRICE 115.50 | P/E RATIO 30.3 (Trailing: 32.8 Median: 28.0) | RELATIVE P/E RATIO 1.76 | DIV'D YLD Nil | VALUE LINE

TIMELINESS 4 Lowered 8/23/13
SAFETY 2 Raised 9/2/11
TECHNICAL 4 Lowered 8/30/13
BETA .70 (1.00 = Market)

High:	20.3	26.0	26.6	31.8	38.2	62.6	66.1	58.3	82.2	95.7	96.0	119.6
Low:	12.5	16.0	20.8	21.4	28.3	36.5	46.4	44.4	50.6	73.1	75.8	93.2

Target Price Range 2016 | 2017 | 2018

2016-18 PROJECTIONS

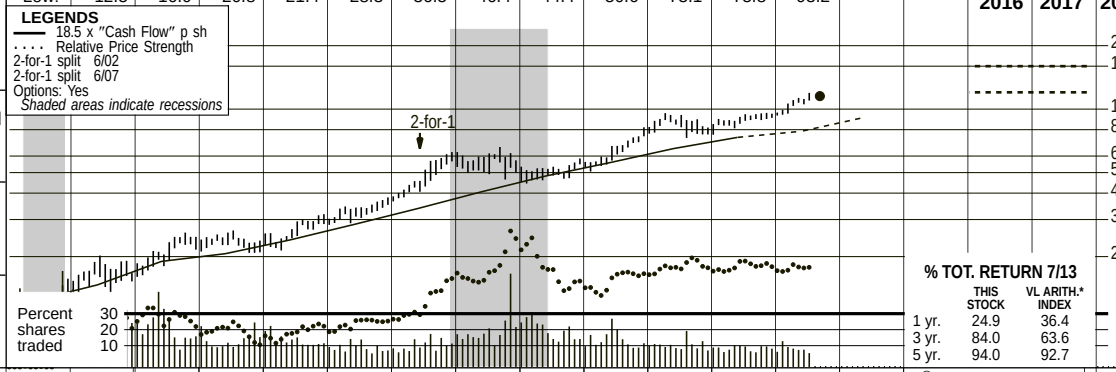
	Price	Gain	Ann'l Total Return
High	160	(+40%)	9%
Low	120	(+5%)	1%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	6	3	0	2	0	4	0	1
to Sell	0	6	2	0	3	2	6	0	3

Institutional Decisions

	3Q2012	4Q2012	1Q2013
to Buy	216	213	228
to Sell	175	212	199
Hld's(000)	78027	76926	76295



% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	24.9	36.4
3 yr.	84.0	63.6
5 yr.	94.0	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
1.10	1.53	2.26	5.32	4.84	4.97	5.60	5.77	6.90	8.92	10.67	12.71	13.90	16.89	19.79	22.25	*24.95*	*27.35*	Revenues per sh	*34.50*
.11	.22	.38	.67	.67	.79	1.03	1.12	1.30	1.53	1.83	2.20	2.61	3.02	3.51	3.98	*4.25*	*4.95*	"Cash Flow" per sh	*6.60*
.04	.14	.20	.22	.29	.55	.72	.85	1.04	1.21	1.43	1.73	2.09	2.53	2.84	3.30	*3.70*	*4.15*	Earnings per sh A	*5.65*
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	Div'ds Decl'd per sh	*Nil*
.03	.10	.06	.19	.21	.18	.26	.37	.30	.41	.55	.56	.47	.57	.63	.76	*.75*	*.85*	Cap'l Spending per sh	*1.00*
1.08	1.23	2.01	2.21	3.14	4.00	4.91	5.54	5.91	7.06	8.17	7.86	10.12	12.67	14.49	17.93	*20.70*	*24.95*	Book Value per sh	*39.30*
41.89	43.46	58.66	60.84	74.16	80.77	80.87	89.46	88.30	88.50	87.41	85.25	84.72	85.24	84.70	85.99	*85.00*	*85.00*	Common Shs Outst'g B	*84.00*
NMF	28.6	18.0	27.7	39.1	29.9	29.5	27.8	25.5	27.4	33.1	32.2	24.2	25.1	29.8	27.0	*Bold figures are*		Avg Ann'l P/E Ratio	*25.0*
NMF	1.49	1.03	1.80	2.00	1.63	1.68	1.47	1.36	1.48	1.76	1.94	1.61	1.60	1.87	1.71	*Value Line*		Relative P/E Ratio	*1.65*
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	*estimates*		Avg Ann'l Div'd Yield	*Nil*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $1318.6 mill. **Due in 5 Yrs** $873.0 mill.
LT Debt $1246.2 mill. **LT Interest** $47.0 mill.
(Int. coverage: 9.6x) (43% of Cap'l)
Leases, Uncapitalized: Annual rentals $85.5 mill.

No Defined Benefit Pension Plan

Pfd Stock None

Common Stock 85,890,966 shs.
as of 8/5/13
MARKET CAP: $9.9 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
453.2	516.2	609.5	789.6	932.8	1083.7	1177.7	1439.4	1676.0	1913.2	*2125*	*2325*	Revenues ($mill)	*2900*
31.7%	32.4%	31.1%	29.4%	29.2%	29.1%	31.0%	30.9%	29.3%	26.9%	*28.5%*	*28.5%*	Operating Margin	*29.0%*
17.3	21.8	21.4	27.0	31.1	34.1	40.0	37.0	49.8	54.2	*57.0*	*60.0*	Depreciation ($mill)	*70.0*
65.8	78.2	93.1	108.7	128.5	153.1	180.9	220.1	247.9	288.0	*320*	*360*	Net Profit ($mill)	*485*
39.5%	39.2%	39.1%	39.0%	38.1%	37.6%	37.4%	36.0%	35.0%	35.3%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
14.5%	15.1%	15.3%	13.8%	13.8%	14.1%	15.4%	15.3%	14.8%	15.1%	*15.1%*	*15.5%*	Net Profit Margin	*16.7%*
28.7	32.3	45.2	76.6	60.6	44.8	25.8	60.2	63.7	110.2	*220*	*440*	Working Cap'l ($mill)	*1000*
163.0	190.4	348.8	443.1	613.8	753.8	922.9	1014.2	1284.1	1268.3	*1000*	*800*	Long-Term Debt ($mill)	*300*
428.8	495.4	521.6	625.1	714.1	670.5	857.2	1080.4	1227.3	1541.8	*1760*	*2120*	Shr. Equity ($mill)	*3300*
12.1%	12.2%	11.4%	11.5%	10.9%	11.9%	11.1%	11.4%	10.9%	12.0%	*12.5%*	*13.0%*	Return on Total Cap'l	*14.0%*
15.3%	15.8%	17.8%	17.4%	18.0%	22.8%	21.1%	20.4%	20.2%	18.7%	*18.0%*	*17.0%*	Return on Shr. Equity	*14.5%*
16.6%	15.8%	17.8%	17.4%	18.0%	22.8%	21.1%	20.4%	20.2%	18.7%	*18.0%*	*17.0%*	Retained to Com Eq	*14.5%*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	All Div'ds to Net Prof	*Nil*

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	22.9	31.8	18.4
Receivables	290.4	322.2	361.9
Inventory	--	--	--
Other	77.3	87.3	87.5
Current Assets	390.6	441.3	467.8
Accts Payable	66.6	74.2	88.4
Debt Due	100.5	87.8	72.4
Other	159.8	169.1	153.2
Current Liab.	326.9	331.1	314.0

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	15.0%	18.5%	*10.0%*
"Cash Flow"	18.0%	18.5%	*11.0%*
Earnings	26.5%	19.5%	*12.0%*
Dividends	--	--	*Nil*
Book Value	17.5%	15.0%	*17.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	335.2	347.7	363.0	393.5	1439.4
2011	398.1	410.4	420.9	446.6	1676.0
2012	460.1	469.0	480.5	503.6	1913.2
2013	513.8	526.5	*537*	*547.7*	*2125*
2014	*565*	*570*	*590*	*600*	*2325*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	.57	.62	.65	.69	2.53
2011	.68	.69	.71	.76	2.84
2012	.77	.81	.84	.88	3.30
2013	.88	.93	*.93*	*.96*	*3.70*
2014	*.99*	*1.02*	*1.05*	*1.09*	*4.15*

Cal-endar	QUARTERLY DIVIDENDS PAID Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	NO CASH DIVIDENDS BEING PAID				
2010					
2011					
2012					
2013					

BUSINESS: Stericycle Incorporated is the largest provider of regulated medical waste management services in the United States, as well as the only company in the industry with a national presence. The company provides medical waste collection, transportation, treatment, and disposal to its approximately 485,000 customers in the continental United States, Puerto Rico, Canada, Europe, and Latin America. Has 175 processing centers and 154 transfer sites. Has roughly 11,122 employees. 2012 depreciation rate: 8.3%. Officers and directors own 4.1% of stock (4/13 proxy). Chairman: Jack W. Schuler. President & CEO: Mark C. Miller. Incorporated: Delaware. Addr.: 2816 North Keith Drive, Lake Forest, Illinois 60045. Tel.: 847-367-5910. Internet: www.stericycle.com.

Stericycle stock has been on a tear in 2013. The issue recently hit an all-time high of $119.59 in late July, as consistently strong revenue and earnings growth over the past several quarters, coupled with a promising outlook for the coming periods, have likely propelled the stock price.

Still, we have lowered the equity's Timeliness rank to 4 (Below Average) from 3 (Average), as we expect the shares to cool off a bit versus the broader market's year-ahead performance. SRCL has pulled back slightly in the weeks following the company's second-quarter earnings release. Although Stericycle's results were solid, our impression is that investors have taken profits in an attempt to lock in solid gains, as management essentially held guidance in line with previous expectations. Moreover, while the stock typically commands a premium-to-market average P/E multiple, investors may well err on the side of caution absent any indication of a specific earnings catalyst that would support the presently higher-than-usual ratio. Furthermore, this lofty valuation leaves little room for 3- to 5-year price appreciation.

From a performance standpoint, however, revenue and earnings growth should remain firm. Indeed, Stericycle is poised to benefit from solid across-the-board top- and bottom-line gains. The core business has been strong, thanks to favorable demand for both its small-quantity and large-quantity accounts domestically and abroad. We attribute much of this positive performance to more customers implementing multiple services, including its *StrongPak*, *Steri-Safe*, *Pharma Waste*, and *Sharps* programs. We expect increased regulatory requirements to sustain and drive customer demand for Stericycle's regulated waste and compliance offerings over the long haul. Furthermore, the company's voracious acquisition strategy continues to contribute nicely to the top line, with roughly $100 million in added revenue, year to date. Specifically, we believe the company's strong free-cash-flow generation ought to continue to support its aggressive acquisition model going forward, which should increase market share and global exposure.

Simon R. Shoucair *August 30, 2013*

(A) Diluted earnings. Excludes nonrecurring gains/(losses): '01, 5¢; '02, 8¢, '05, (57¢), '06, (8¢); '07, (12¢); '08, (5¢); '09, (6¢); '10, (14¢); '12, 22¢. Extraordinary loss: '01, 16¢. Next earnings report due late Oct. From 2007 onward our earnings presentation includes acquisition related charges.
(B) In millions, adjusted for splits.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	100
Earnings Predictability	100

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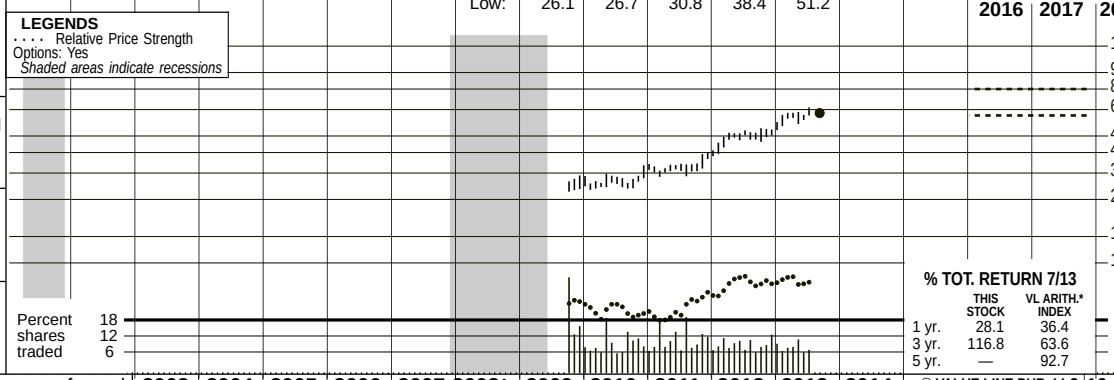
VERISK ANALYTICS NDQ-VRSK

RECENT PRICE 61.69 | P/E RATIO 29.2 (Trailing: 30.7 Median: NMF) | RELATIVE P/E RATIO 1.70 | DIV'D YLD Nil | VALUE LINE

TIMELINESS 3 Lowered 4/5/13
SAFETY 2 Raised 12/2/11
TECHNICAL 3 Lowered 7/19/13
BETA .60 (1.00 = Market)

	2008	2009	2010	2011	2012
High:	31.2	34.9	40.2	52.1	65.6
Low:	26.1	26.7	30.8	38.4	51.2

Target Price Range 2016 | 2017 | 2018



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	80	(+30%)	7%
Low	60	(-5%)	-1%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	2	3	8	3	3	5	2	2	2
to Sell	2	6	9	3	3	6	4	3	2

Institutional Decisions

	3Q2012	4Q2012	1Q2013
to Buy	146	151	141
to Sell	148	157	163
Hld's(000)	152834	156047	158234

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	28.1	36.4
3 yr.	116.8	63.6
5 yr.	—	92.7

Insurance Service Offices Inc. was formed in 1971 as an advisory and rating organization for the Property and Casualty insurance industry to develop programs and help these companies meet state regulatory requirements. In October, 2009, the company, now called Verisk Analytics, completed its IPO by selling 98.0 million shares at $22.00 through a syndicate led by Bank of America Merrill Lynch and Morgan Stanley.

2003	2004	2005	2006	2007	2008A	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
--	--	--	--	--	--	5.70	6.69	8.11	9.15	*10.25*	*11.10*	Revenues per sh A	*15.20*
--	--	--	--	--	--	1.05	1.83	2.20	2.58	*2.90*	*3.20*	"Cash Flow" per sh	*4.40*
--	--	--	--	--	--	.70	1.30	1.63	1.92	*2.05*	*2.35*	Earnings per sh B	*3.40*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	Div'ds Decl'd per sh	*Nil*
--	--	--	--	--	--	.22	.23	.36	.44	*.70*	*.55*	Cap'l Spending per sh	*.60*
--	--	--	--	--	--	d.19	d.67	d.60	1.52	*2.75*	*4.75*	Book Value per sh C	*11.90*
--	--	--	--	--	--	180.05	170.06	164.29	167.73	*168.00*	*168.00*	Common Shs Outst'g D	*160.00*
--	--	--	--	--	--	40.7	22.5	21.0	24.4	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
--	--	--	--	--	--	2.71	1.43	1.32	1.56	*Value Line*		Relative P/E Ratio	*1.35*
--	--	--	--	--	--	--	--	--	--	*estimates*		Avg Ann'l Div'd Yield	*Nil*
--	--	--	--	802.2	893.6	1027.1	1138.3	1331.8	1534.3	*1720*	*1865*	Revenues ($mill)	*2430*
--	--	--	--	41.1%	40.9%	35.4%	44.7%	44.2%	45.4%	*44.5%*	*45.0%*	Operating Margin	*44.5%*
--	--	--	--	58.1	54.8	61.8	68.1	78.6	104.2	*135*	*135*	Depreciation ($mill)	*155*
--	--	--	--	154.4	159.9	126.6	242.6	282.8	329.1	*350*	*405*	Net Profit ($mill)	*555*
--	--	--	--	40.0%	43.2%	52.1%	40.4%	38.6%	36.6%	*37.5%*	*38.0%*	Income Tax Rate	*38.0%*
--	--	--	--	19.2%	17.9%	12.3%	21.3%	21.2%	21.5%	*20.3%*	*21.7%*	Net Profit Margin	*22.8%*
--	--	--	--	d165.3	d336.0	d74.9	d480.5	104.0	d194.8	*20.0*	*100*	Working Cap'l ($mill)	*240*
--	--	--	--	403.2	450.4	527.5	401.8	1100.3	1266.2	*1100*	*1100*	Long-Term Debt ($mill)	*800*
--	--	--	--	d24.5	d260.3	d34.9	d114.4	d98.5	255.6	*460*	*800*	Shr. Equity ($mill)	*1900*
--	--	--	--	43.6%	NMF	28.9%	NMF	30.9%	23.6%	*25.0%*	*23.0%*	Return on Total Cap'l	*21.5%*
--	--	--	--	--	--	--	--	--	--	*NMF*	*NMF*	Return on Shr. Equity	*29.0%*
--	--	--	--	--	--	--	--	--	--	*NMF*	*NMF*	Retained to Com Eq	*29.0%*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	All Div'ds to Net Prof	*Nil*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $1404.8 mill. **Due in 5 Yrs** $417.0 mill.
LT Debt $1266.9 mill. **LT Interest** $75.0 mill.
(Total interest coverage: 8.4x) (78% of Cap'l)

Leases, Uncapitalized Annual rentals $32.2 mill.
Pension Assets-12/12 $421.1 mill.
Oblig. $460.5 mill.

Pfd Stock None

Common Stock 167,915,445 shs.
as of 7/26/13

MARKET CAP: $10.4 billion (Large Cap)

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	196.7	94.7	176.8
Receivables	153.3	178.4	186.5
Inventory (FIFO)	--	--	--
Other	103.7	117.5	130.3
Current Assets	453.7	390.6	493.6
Accts Payable	163.0	187.6	157.9
Debt Due	5.6	195.3	137.9
Other	181.1	202.5	289.3
Current Liab.	349.7	585.4	585.1

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	--	--	*11.5%*
"Cash Flow"	--	--	*12.0%*
Earnings	--	--	*13.0%*
Dividends	--	--	*Nil*
Book Value	--	--	*NMF*

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2010	276.1	281.7	287.3	293.2	1138.3
2011	312.8	327.3	340.1	351.6	1331.8
2012	346.5	373.2	398.9	415.7	1534.3
2013	403.3	421.3	*444.4*	*451*	*1720*
2014	*440*	*455*	*480*	*490*	*1865*

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun. 30	Sep.30	Dec.31	Full Year
2010	.29	.31	.34	.36	1.30
2011	.37	.38	.41	.47	1.63
2012	.44	.43	.48	.57	1.92
2013	.47	.49	*.54*	*.55*	*2.05*
2014	*.53*	*.55*	*.62*	*.65*	*2.35*

Cal-endar	QUARTERLY DIVIDENDS PAID Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009					
2010	NO CASH DIVIDENDS BEING PAID				
2011					
2012					
2013					

BUSINESS: Verisk Analytics, Inc. provides information about risk. It offers risk assessment services (38% of 2012 revenues) for U.S. property and casualty insurers. Decision Analytics (62%) helps customers understand and manage risks such as loss protection, fraud detection and prevention, and loss quantification. Key industries served are property and casualty insurance, reinsurance, mortgage, healthcare, supply chain and government. Has 6,495 employees. Officers and directors own 4.7% of Class A stock; Company ESOP, 10.2%; Morgan Stanley, 5.3% (4/13 proxy). Non-Exec. Chairman: Frank J. Coyne. CEO and Pres. Scott G. Stephenson. Inc.: DE. Address: 545 Washington Blvd., Jersey City, N.J. 07310. Tel.: 201-469-2000. Internet: www.verisk.com.

We're looking for Verisk's share net to fall in the $2.05 to $2.10 range this year. The earnings improvement will likely be led by the healthcare group, which will probably show a 20% top-line gain in 2013 (and also in 2014). Furthermore, the company is winning sizable contracts with major existing and new customers. Verisk also has favorable results in both the risk assessment and decision analytics segments tied to the insurance industry,

Argus has good growth potential. This operation serves as a trusted neutral intermediary for the credit card industry, using a contributory data model to create analytics that are deeply embedded in the customers process. (Verisk plays a similar role for property and casualty insurers.) Argus is likely to realize mid-teens growth this year (to over $70 million in revenues), with future gains also coming from international expansion and partnering opportunities.

Significant investments are being made in several sectors. These include catastrophe modeling, a unified healthcare platform, aerial imagery, and supply chain analytics.

The company's financial executives are keeping busy. During the second quarter, the company paid down $45 million of debt. (Subsequently, another $100 million was repaid.) At June 30th, the company's debt to pro forma EBITDA ratio was 1.9 times, just under management's 2.0 target. Verisk is willing to go above that level if the appropriate significant acquisition becomes available. (The company recently passed on some major deals.) Small acquisitions, though, are likely. In the meantime, the company will continue to repurchase shares. It spent $116 million in the second quarter. More repurchases are likely since $300 million was added to the buyback authorization, now totaling $307 million.

Like many information service companies, Verisk is not on the bargain counter. Among its favorable characteristics are strong positions in its customers' key decision-making processes, a good acquisition record, and robust profit margins. But we would become more constructive about investing in Verisk if the shares pulled back 15% in price.

Jerome H. Kaplan *August 30, 2013*

(A) Pro-Forma figures prior to 2009. (B) Diluted earnings. Based on GAAP. Next earnings report due early November.
(C) Incl. intangibles as of 12/31/12: $1.77 billion, or $10.54/sh. (D) In millions.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	NMF

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WASTE CONNECTIONS NYSE-WCN

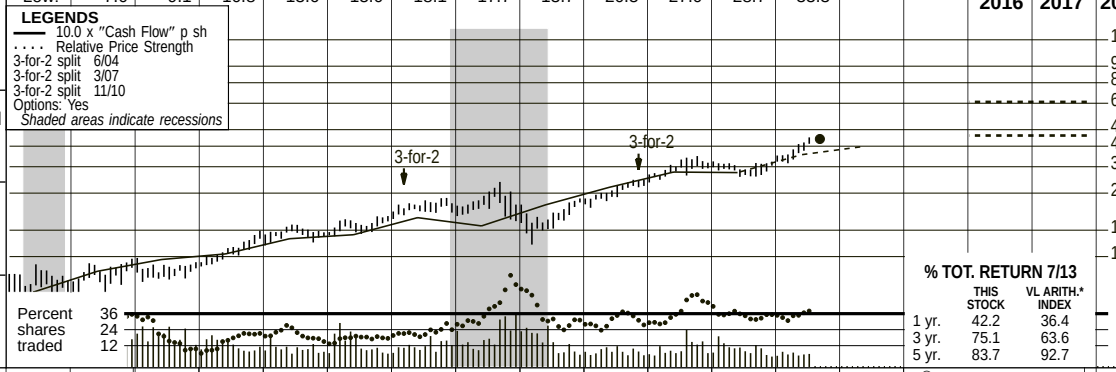
RECENT PRICE **43.35** | P/E RATIO **25.4** (Trailing: 28.0 / Median: 21.0) | RELATIVE P/E RATIO **1.48** | DIV'D YLD **1.0%** | VALUE LINE

TIMELINESS 3 Raised 9/14/12
SAFETY 3 New 6/15/01
TECHNICAL 4 Lowered 8/9/13
BETA .75 (1.00 = Market)

High:	11.7	11.8	15.9	17.0	18.7	22.8	27.2	22.7	27.8	35.9	33.9	44.2
Low:	7.0	9.1	10.8	13.6	15.0	18.1	17.7	13.7	20.5	27.0	28.7	33.3

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 10.0 x "Cash Flow" p sh
.... Relative Price Strength
3-for-2 split 6/04
3-for-2 split 3/07
3-for-2 split 11/10
Options: Yes
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	65	(+50%)	12%
Low	45	(+5%)	3%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	2	2	1	0	0	0	0	0	0
to Sell	3	6	1	0	3	3	2	5	0

Institutional Decisions

	3Q2012	4Q2012	1Q2013
to Buy	109	96	95
to Sell	106	116	110
Hld's(000)	112137	114586	112785

% TOT. RETURN 7/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	42.2	36.4
3 yr.	75.1	63.6
5 yr.	83.7	92.7

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
- -	1.70	2.56	3.41	4.09	5.27	5.82	5.88	7.00	8.05	9.53	8.76	10.11	11.58	13.57	13.51	*15.60*	*16.90*	Revenues per sh	*21.60*
- -	.21	.42	.64	.82	1.02	1.16	1.24	1.46	1.53	1.84	1.68	2.11	2.56	3.02	3.00	*3.65*	*4.00*	"Cash Flow" per sh	*5.30*
- -	.07	.23	.36	.42	.58	.64	.71	.79	.77	.95	.97	.98	1.24	1.48	1.44	*1.65*	*1.90*	Earnings per sh A	*2.75*
- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	.08	.32	.37	*.40*	*.44*	Div'ds Decl'd per sh B	*.60*
- -	.20	.26	.28	.43	.60	.73	.66	.95	.94	1.23	.95	1.09	1.18	1.28	1.25	*1.35*	*1.40*	Cap'l Spending per sh	*1.55*
- -	1.92	3.07	3.74	4.11	4.77	5.56	6.61	6.97	7.19	7.71	10.48	11.48	11.99	12.58	15.27	*16.35*	*17.95*	Book Value per sh	*21.60*
- -	31.84	71.23	89.37	92.55	94.66	96.75	107.11	103.09	102.40	100.58	119.76	117.90	113.95	110.91	123.02	*123.70*	*122.50*	Common Shs Outst'g C	*118.00*
- -	NMF	28.0	15.2	21.4	16.9	16.0	18.1	19.5	22.1	21.6	22.2	19.0	19.7	21.2	21.9	*Bold figures are*		Avg Ann'l P/E Ratio	*20.0*
- -	NMF	1.60	.99	1.10	.92	.91	.96	1.04	1.19	1.15	1.34	1.27	1.25	1.33	1.40	*Value Line*		Relative P/E Ratio	*1.35*
- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	.3%	1.0%	1.2%	*estimates*		Avg Ann'l Div'd Yield	*1.1%*

CAPITAL STRUCTURE as of 6/30/13
Total Debt $2088.2 mill. **Due in 5 Yrs** $1750 mill.
LT Debt $2020.4 mill. **LT Interest** $100.0 mill.
(Total interest coverage: 6.4x) (53% of Cap'l)

Leases, Uncapitalized: Annual rentals $19.1 mill.
No Defined Pension Benefit Plan

Pfd Stock None

Common Stock 123,419,000 shs.

MARKET CAP: $5.4 billion (Large Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
563.5	629.4	721.9	824.4	958.5	1049.6	1191.4	1319.8	1505.4	1661.6	*1930*	*2070*	Revenues ($mill)	*2550*
34.1%	33.4%	32.2%	30.0%	30.5%	29.6%	30.5%	31.9%	32.3%	32.1%	*32.3%*	*32.7%*	Operating Margin	*33.5%*
47.3	55.4	64.8	74.9	85.6	97.4	130.8	147.5	167.1	193.6	*245*	*255*	Depreciation ($mill)	*300*
65.3	77.2	85.8	81.3	99.1	103.5	117.9	143.8	168.1	175.4	*205*	*235*	Net Profit ($mill)	*325*
36.3%	36.2%	35.2%	37.8%	37.7%	37.1%	37.4%	38.6%	38.5%	39.0%	*39.0%*	*39.0%*	Income Tax Rate	*39.0%*
11.6%	12.3%	11.9%	9.9%	10.3%	9.9%	9.9%	10.9%	11.2%	10.6%	*10.6%*	*11.4%*	Net Profit Margin	*12.7%*
d15.1	d12.8	d25.6	10.3	d24.8	213.7	d45.0	d37.9	d34.8	d55.1	*d75.0*	*d25.0*	Working Cap'l ($mill)	*100*
601.9	489.3	586.1	637.3	719.5	830.8	867.6	910.0	1172.8	2205.0	*2000*	*1950*	Long-Term Debt ($mill)	*1800*
537.5	707.5	718.2	736.5	775.2	1254.7	1353.8	1366.1	1394.9	1878.2	*2025*	*2200*	Shr. Equity ($mill)	*2550*
7.1%	7.4%	7.5%	7.0%	7.7%	5.9%	6.2%	7.2%	7.4%	4.9%	*6.5%*	*7.0%*	Return on Total Cap'l	*8.5%*
12.2%	10.9%	11.9%	11.0%	12.8%	8.2%	8.7%	10.5%	12.1%	9.3%	*10.0%*	*10.5%*	Return on Shr. Equity	*12.5%*
12.2%	10.9%	11.9%	11.0%	12.8%	8.2%	8.7%	9.9%	9.5%	7.0%	*7.5%*	*8.0%*	Retained to Com Eq	*10.0%*
- -	- -	- -	- -	- -	- -	- -	6%	21%	25%	*24%*	*23%*	All Div'ds to Net Prof	*22%*

CURRENT POSITION ($MILL.)	2011	2012	6/30/13
Cash Assets	12.6	23.2	16.2
Receivables	176.3	235.8	240.6
Other	60.4	103.5	75.9
Current Assets	249.3	362.5	332.7
Accts Payable	95.1	130.3	130.5
Debt Due	18.1	46.5	67.8
Other	170.9	240.8	245.1
Current Liab.	284.1	417.6	443.4

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Revenues	11.5%	9.5%	*9.0%*
"Cash Flow"	13.0%	12.0%	*11.0%*
Earnings	12.0%	10.5%	*12.0%*
Dividends	- -	- -	*NMF*
Book Value	12.0%	12.5%	*8.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2010	307.5	330.5	345.8	336.0	1319.8
2011	331.5	390.2	404.0	379.7	1505.4
2012	376.4	410.8	425.6	448.8	1661.6
2013	449.9	489.4	*500*	*490.7*	*1930*
2014	*485*	*515*	*540*	*530*	*2070*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2010	.25	.32	.35	.32	1.24
2011	.32	.39	.42	.35	1.48
2012	.31	.36	.40	.37	1.44
2013	.34	.42	*.46*	*.43*	*1.65*
2014	*.40*	*.46*	*.53*	*.51*	*1.90*

Cal-endar	QUARTERLY DIVIDENDS PAID Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	- -	- -	- -	- -	- -
2010	- -	- -	- -	.075	.075
2011	.075	.075	.075	.09	.315
2012	.09	.09	.09	.10	.37
2013	.10	.10	.10		

BUSINESS: Waste Connections, Inc. provides solid waste management services (collection, transfer, disposal, and recycling) to about two million commercial, industrial, and residential customers. The company currently provides services, mainly in secondary markets, in 29 western and southern states, plus New York and Alaska. It operates about 140 collection operations, 45 active landfills, 60 transfer stations, and 40 recycling facilities. Generates about 55% of revs. from exclusive markets. Has about 6,600 employees. Offs./dirs. own 0.6% of the stock (3/13 proxy). Chairman and CEO: Ronald J. Mittelstaedt. Inc.: DE. Address: 1001 Woodloch Forest Dr., Waterway Plaza 2, Suite 400, The Woodlands, TX 77380. Telephone: 832-442-2200. Internet: www.wasteconnections.com.

Contributions from acquisitions accounted for most of Waste Connections' 19% revenue gain, year to year, in the first half of 2013. Acquisition expenditures of $1.6 billion in 2012 mainly covered the $1.3 billion purchase of R360 in October. They were funded with additional debt and proceeds from the sale of 12 million WCN shares. That company provides oil field waste treatment, recovery, and disposal services in several of the most active producing areas in the U.S. Net of interest expense and the impact of the stock issue, share net was boosted modestly in the first half of 2013 by the addition of R360 and, to a much lesser extent, by a waste-collection operation in Alaska purchased in March, 2012.

Despite some headwinds, waste volumes in the second quarter exceeded the prior-year level. This development was a reversal of a multiyear downtrend. Construction and demolition-debris volumes were well above the June, 2012 level, and prospects for a further rebound in municipal waste streams in the coming quarters are bright. Moreover, core prices were up 2.6%, year to year, in the latest quarter, which is slightly below the average increase over the past four years. The two challenges, which are almost one year old and will soon be "anniversaried", are a breach of a municipal waste collection contract and increased price competition from a landfill operation near Los Angeles that is slated to close later this year.

We look for earnings gains of about 15% in both 2013 and 2014. The probability of rising profits, partly through consolidation synergies from R360, as was the case in the June quarter, is a key factor behind our estimates. Also, share net should soon benefit from improved results at WC's Los Angeles operation. Other positives are the restructuring, now under way, of the company's large recycling operations, other recent efficiency measures, and the likelihood of the resumption of share repurchases in 2014.

This neutrally ranked stock's 45% price increase over the past year was more than twice that of the market averages. At present, though, its appreciation potential to 2016–2018 is subpar,

David R. Cohen *August 30, 2013*

(A) Diluted earnings. Excludes nonrecurring losses: '98, 8¢; '99, 20¢; '00, 4¢; '01, 21¢; '02, 4¢; '04, 7¢; '06, 8¢; '09, 7¢; '10, 7¢; '11, 3¢; '12, 13¢; '13 Q2, 7¢. Excludes nonrecurring gains: '08, 2¢. Excl. loss of discontinued operation: '05, 1¢. Next earnings report due late Oct.
(B) Dividends paid late Feb., May, Aug., Nov.
(C) In millions, adj. for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	100
Earnings Predictability	95

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WEIS MARKETS NYSE-WMK

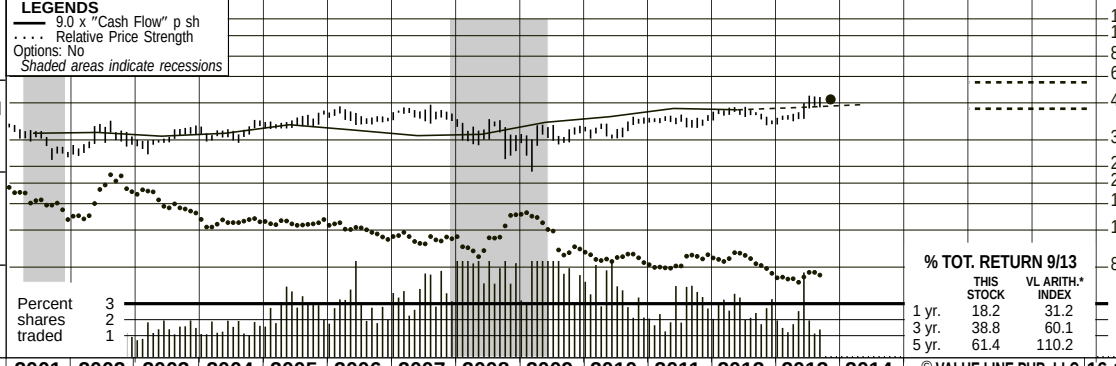
RECENT PRICE **49.88** | P/E RATIO **15.8** (Trailing: 16.0 / Median: 16.0) | RELATIVE P/E RATIO **0.87** | DIV'D YLD **2.4%** | VALUE LINE

TIMELINESS 3 Lowered 9/6/13
SAFETY 1 New 7/27/90
TECHNICAL 2 Raised 10/4/13
BETA .65 (1.00 = Market)

High:	39.5	37.5	39.9	44.2	46.3	47.1	40.3	37.9	41.3	42.2	46.0	51.9
Low:	26.9	27.4	31.0	36.1	37.8	38.2	26.0	22.7	32.6	36.5	37.7	37.9

Target Price Range
2016 | 2017 | 2018

LEGENDS
— 9.0 x "Cash Flow" p sh
.... Relative Price Strength
Options: No
Shaded areas indicate recessions



2016-18 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+20%)	7%
Low	45	(-10%)	Nil

Insider Decisions

	D	J	F	M	A	M	J	J	A
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2012	1Q2013	2Q2013
to Buy	47	41	47
to Sell	38	47	34
Hld's(000)	8413	8400	8270

% TOT. RETURN 9/13

	THIS STOCK	VL ARITH.* INDEX
1 yr.	18.2	31.2
3 yr.	38.8	60.1
5 yr.	61.4	110.2

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	© VALUE LINE PUB. LLC	16-18
43.54	44.72	48.09	49.44	73.09	73.52	75.26	77.60	82.26	83.15	85.98	89.83	93.54	97.42	102.33	100.43	**100.00**	**102.80**	Sales per sh A	**114.80**
2.95	2.91	2.98	3.02	3.83	3.86	3.71	3.83	4.20	3.97	3.73	3.78	4.32	4.59	5.02	4.95	**5.10**	**5.25**	"Cash Flow" per sh	**5.70**
1.90	1.80	1.87	1.81	1.65	2.10	2.01	2.11	2.35	2.07	1.69	1.74	2.33	2.54	2.81	3.07	**3.15**	**3.20**	Earnings per sh AB	**3.50**
.94	.98	1.02	1.06	1.08	1.08	1.10	2.12	1.12	1.16	1.16	1.16	1.16	1.16	2.17	1.20	**1.20**	**1.20**	Div'ds Decl'd per sh C■	**1.30**
20.28	21.33	22.03	22.74	19.31	20.31	21.20	21.15	22.35	23.31	24.04	24.52	25.68	27.07	27.73	29.58	**31.40**	**33.40**	Book Value per sh D	**39.65**
41.77	41.76	41.69	41.69	27.20	27.19	27.14	27.03	27.02	26.99	26.97	26.97	26.90	26.90	26.90	26.90	**27.00**	**27.00**	Common Shs Outst'g E	**27.00**
16.7	19.8	19.8	20.1	19.6	15.4	16.3	16.5	16.5	19.8	25.1	19.9	14.3	14.3	14.1	13.8	*Bold figures are*		Avg Ann'l P/E Ratio	**15.0**
.96	1.03	1.13	1.31	1.00	.84	.93	.87	.88	1.07	1.33	1.20	.95	.91	.88	.88	*Value Line*		Relative P/E Ratio	**1.00**
3.0%	2.8%	2.8%	2.9%	3.3%	3.3%	3.3%	6.1%	2.9%	2.8%	2.7%	3.3%	3.5%	3.2%	5.5%	2.8%	*estimates*		Avg Ann'l Div'd Yield	**2.5%**

CAPITAL STRUCTURE as of 6/29/13
Total Debt None

Leases, Uncapitalized Annual rentals $32.2 mill.

Pension Assets-12/12: None **Oblig.:** $7.7 mill.

Pfd Stock None

Common Stock 26,898,443 shs.

MARKET CAP: $1.3 billion (Mid Cap)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014		16-18
2042.5	2097.7	2222.6	2244.5	2318.6	2422.4	2516.2	2620.4	2752.5	2701.4	**2700**	**2775**	Sales ($mill) A	**3100**
28.5%	28.4%	28.6%	28.9%	28.3%	28.2%	29.1%	29.3%	28.9%	29.4%	**29.5%**	**29.5%**	Gross Margin	**29.5%**
5.7%	5.7%	5.8%	5.9%	5.2%	5.1%	6.0%	6.1%	6.3%	6.6%	**6.5%**	**6.5%**	Operating Margin	**6.5%**
158	157	158	156	155	155	164	164	161	163	**164**	**165**	Number of Stores F	**170**
54.6	57.2	63.4	56.0	45.7	47.0	62.8	68.3	75.6	82.5	**85.0**	**86.0**	Net Profit ($mill)	**95.0**
38.1%	34.7%	36.1%	34.9%	34.4%	33.0%	35.9%	36.4%	35.7%	37.0%	**36.0%**	**36.0%**	Income Tax Rate	**36.0%**
2.7%	2.7%	2.9%	2.5%	2.0%	1.9%	2.5%	2.6%	2.7%	3.1%	**3.1%**	**3.1%**	Net Profit Margin	**3.1%**
162.3	137.9	163.7	147.5	157.4	159.0	173.1	233.4	220.0	229.8	**225**	**200**	Working Cap'l ($mill)	**175**
- -	- -	- -	- -	- -	- -	- -	- -	- -	- -	**Nil**	**Nil**	Long-Term Debt ($mill)	**Nil**
575.4	571.7	603.9	629.2	648.2	661.1	690.8	728.1	745.9	795.7	**850**	**900**	Shr. Equity ($mill)	**1070**
9.5%	10.0%	10.5%	8.9%	7.1%	7.1%	9.1%	9.4%	10.1%	10.4%	**10.0%**	**9.5%**	Return on Total Cap'l	**9.0%**
9.5%	10.0%	10.5%	8.9%	7.1%	7.1%	9.1%	9.4%	10.1%	10.4%	**10.0%**	**9.5%**	Return on Shr. Equity	**9.0%**
4.3%	NMF	5.5%	3.9%	2.2%	2.4%	4.6%	5.1%	2.3%	6.3%	**6.0%**	**6.0%**	Retained to Com Eq	**5.5%**
55%	100%	48%	56%	68%	67%	50%	46%	77%	39%	**38%**	**38%**	All Div'ds to Net Prof	**37%**

CURRENT POSITION ($MILL.)	2011	2012	6/29/13
Cash Assets	126.7	103.9	111.6
Receivables	52.4	53.8	55.2
Inventory (LIFO)	226.2	245.3	234.0
Other	10.3	10.2	16.7
Current Assets	415.6	413.2	417.5
Accts Payable	132.1	126.3	121.4
Other	63.5	57.1	63.8
Current Liab.	195.6	183.4	185.2

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '10-'12 to '16-'18
Sales	4.5%	3.5%	2.5%
"Cash Flow"	3.0%	4.0%	2.5%
Earnings	4.0%	6.5%	3.5%
Dividends	3.5%	5.5%	-2.5%
Book Value	3.0%	4.0%	6.0%

Cal-endar	QUARTERLY SALES ($ mill.) A Mar.Per	Jun.Per	Sep.Per	Dec.Per	Full Year
2010	664.2	653.7	640.0	662.5	2620.4
2011	659.4	676.7	678.6	737.8	2752.5
2012	661.6	677.1	668.4	694.3	2701.4
2013	682.7	662.1	**665**	**690.2**	**2700**
2014	**690**	**690**	**685**	**710**	**2775**

Cal-endar	EARNINGS PER SHARE AB Mar.Per	Jun.Per	Sep.Per	Dec.Per	Full Year
2010	.65	.76	.61	.52	2.54
2011	.69	.77	.63	.72	2.81
2012	.74	.86	.64	.83	3.07
2013	.75	.90	**.66**	**.84**	**3.15**
2014	**.76**	**.88**	**.70**	**.86**	**3.20**

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2009	.29	.29	.29	.29	1.16
2010	.29	.29	.29	.29	1.16
2011	.29	.29	.29	1.30	2.17
2012	.30	.30	.30	.30	1.20
2013	.30	.30	.30		

BUSINESS: Weis Markets, Inc. operates 163 retail food markets (at yearend '12), including both superstores and conventional stores, located in Pennsylvania (124 stores), Maryland (23), New York (11), New Jersey (3), and West Virginia (2). Average store size: 49,000 square feet. Owns about 50% of sites. Sells nat'l brand merchandise plus 2,000 items under its own trademarks. Divested SuperPetz, pet supply chain, in '11-'12. Sold Weis Food Service, 4/00. '12 deprec. rate: 3.2%. Has 17,400 employees. R.F. Weis owns 46.9% of stock; other offs. & dirs., 0.5%; Ellen Wasserman, 6.5% (3/13 proxy). Chairman: Robert F. Weis. Interim CEO: Jonathan H. Weis. Inc.: PA. Address: 1000 South Second Street, Sunbury, PA 17801. Tel.: 570-286-4571. Internet: www.weis.com.

Same-store sales at Weis Markets have taken a noticeable turn for the worse. "Comps" have been lackluster since the start of 2012, but generally stayed in positive territory until the June quarter of this year. The 4.8% decline registered during that period represents the retailer's weakest performance in many years and raises concerns with us that jump-starting sales will necessitate more-aggressive, price-oriented promotions that would put pressure on margins and profits. For now,

The company has managed to keep earnings moving in the right direction. Notably, despite the weak sales trends, June-quarter share net climbed 5%, to $0.90, beating our estimate by $0.03. The retailer attributed the profit advance to increased store-level productivity and improved distribution efficiencies, but the need to halt the recent erosion in sales raises questions about the sustainability of these gains. We are leaving our 2013 and 2014 share-net estimates unchanged at $3.15 and $3.20 while we await the upcoming release of third-quarter results, though we suspect most of the risk in our earnings model is now to the downside.

The food retailer is looking for new leadership. David Hepfinger, who joined the company in 2008, resigned as CEO in September and has been replaced on an interim basis by Jonathan Weis. Mr. Weis has worked for more than two decades in various roles at the supermarket retailer, including the last nine years as vice chairman of the board. (Mr. Weis is the son of Robert Weis, the company's chairman and largest shareholder.)

These shares are an average selection for the year ahead. The recent uptick in merger-and-acquisition activity in the food retailing industry might add some speculative flavor to this stock. Any movement here would undoubtedly require the blessing of Robert Weis, who owns 47% of the company's stock. Absent some development on this front, this equity's above-average yield and high mark for Price Stability will likely appeal to conservative investors, though long-term total return potential appears unexciting at the current valuation.

Robert M. Greene *October 25, 2013*

(A) Fiscal year ends on last Saturday in December. (B) Based on diluted shares outstanding. Excludes nonrecurring gains (losses): '97, (3¢); '98, 20¢; '00, 3¢; '01, (10¢); '02, 7¢; '07, 20¢. Next earnings report due late July. (C) Dividends historically paid in late Feb., May, Aug., and Nov. Includes special div'ds of $1.00/share, 9/3/04 and 11/21/11. ■ Div'd reinvestment plan available. (D) Includes intangibles. At 12/29/12: $38.6 mill., $1.43/share. (E) In mill. (F) Grocery stores only.

Company's Financial Strength	A
Stock's Price Stability	95
Price Growth Persistence	60
Earnings Predictability	80

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Choice among methods of estimating share yield

The search for the growth component in the discounted cash flow model.

David A. Gordon, Myron J. Gordon, and Lawrence I. Gould

The yield at which a share of stock is selling, also called its expected return or required return, is an important statistic in finance. Firms use it in choosing among investment opportunities and financing alternatives, and investors use it in making portfolio decisions. Nevertheless, the yield at which a share is selling is a difficult quantity to measure, which has limited its use in the practice of finance. This paper develops and tests a basis for choice among alternative methods of estimating a share's yield.

A share's yield, like a bond's yield, is the discount rate that equates its expected future payments with its current price. A bond's yield is easy to measure under the common practice of ignoring default risk, as the future payments are then known with certainty. The future payments on a share, however, are dividends and market price, and these payments are uncertain.

The common practice is to represent these future dividend payments with estimates of two numbers: One is the coming dividend, and the other is a growth rate. The latter can be an estimate of the long-run growth rate in the dividend or of the growth rate in price over the coming period. In the latter case, the estimate is called the expected holding-period return (EHPR); in the former case, it is called the discounted cash flow yield (DCFY).[1] In either case, the estimate of a share's yield reduces to the sum of its dividend yield and a future growth rate, with the latter inferred in some way from historical data.

There is a wide variety of acceptable methods for using historical data to estimate future growth. This variation in method is illustrated in the testimony of expert witnesses before public utility commissions on the fair return for a public utility. In these cases, the estimates and the methods used are a matter of public record. Some idea of the various methods can be found in Morin (1984) and Kolbe, Read, and Hall (1984). The performance of alternative estimating methods has been examined in Gordon (1974), Kolbe, Read, and Hall (1984), Brigham, Shome, and Vinson (1985), and Harris (1986).

We have derived our basis for comparing the accuracy of alternative methods for estimating the DCFY on a share from the generally accepted propositions that yield should vary according to risk, and that beta is the best estimate of risk. Hence, the DCFY should vary among shares with beta, and, between two methods for estimating growth, the superior method is the one for which the variation in yield among shares is explained better by the variation in beta among the shares.

First we present simple, plausible, and objective measurement rules for implementing four popular and/or attractive methods for estimating the DCFY. We then describe how sample statistics may be used to judge the accuracy of each method. We also describe how the CAPM model has been used to estimate share yield and explain why we do not compare it with the various DCFY methods. The following section carries out the comparison with samples of utility and industrial shares, and the last section pre-

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sents the conclusions that may be drawn from the findings.

ALTERNATIVE MEASUREMENT RULES FOR A SHARE'S YIELD

Under the DCF method or model for estimating the expected return on a stock, the yield for the jth stock is:

$$DCFY_{jt} = DYD_{jt} + GR_{jt}, \quad (1)$$

where:

$DCFY_{jt}$ = DCF yield on the jth stock at time t,

DYD_{jt} = dividend yield on the jth stock at time t, and

GR_{jt} = long-run growth rate in the dividend on the jth stock that investors expect at time t.

In what follows, we omit the time and firm subscripts on the variables when they are not required. Also, DCFY will refer to the unknown true yield on a share.

The difficult problem in arriving at the DCFY is estimation of the long-run growth rate that investors expect. Four estimates of that quantity are:

EGR = rate of growth in earnings per share over a prior time period, usually the last five years;

DGR = rate of growth in dividend per share over a prior time period, usually the last five years;

FRG = consensus among security analyst forecasts of the growth rate in earnings, over the next five years; and

BRG = an average over the prior five years of the product of the retention rate b and rate of return on common equity r on a stock.

The estimate of share yield that incorporates each of these estimates of growth is denoted KEGR, KDGR, KFRG, and KBRG, respectively.

A case can be made for each of the four methods for estimating growth. KEGR, KDGR, and KBRG have been widely used in public utility testimony and in research on stock valuation models. The rationale for KEGR is the belief that the past growth rate in earnings is the best predictor of future growth in earnings and dividends. The rationale for KDGR is that the future growth rate in dividends is the statistic we want to estimate, and the past dividend record is free of the noise in past earnings.[2] The rationale for KBRG is that all variables will grow at this rate if the firm earns r and retains b. Furthermore, as Gordon and Gould (1980) show, KEGR and KDGR will be biased in one direction or another if r and b have changed over the last five years. As for KFRG, security analysts are professionals employed to forecast future performance; their forecasts are widely accepted by investors. The IBES collection of forecast growth rates of security analysts compiled by Lynch, Jones, and Ryan has increased the popularity of this estimate.

As stated earlier, we may also take the yield on a share as the sum of the dividend yield and the expected rate of growth in price over the coming period. This estimate of a share's yield is widely used in testing the CAPM, with the average HPR over the prior five years commonly used in such empirical work. On the other hand, this estimate of a share's yield varies so widely among firms and over time as to be patently in error as an estimate of share yield.[3]

BASIS OF COMPARISON

To compare the accuracy of the four estimates of the DCFY stated above, we regress the data under each estimate on beta for a sample of shares. If KEGR is the estimate,

$$KEGR_j = \alpha_0 + \alpha_1 BETA_j + \epsilon_j. \quad (2)$$

The rationale for this expression lies in the risk premium theory of share yield, where the share yield is equal to the interest rate plus a risk premium that varies with the share's relative risk. Hence, if BETA is an error-free index of relative risk, α_0 is equal to the interest rate, and α_1 is the risk premium on the market portfolio or standard share.[4]

The higher the correlation between KEGR and BETA, assuming that α_1 is positive, the greater the confidence we may have in KEGR as an estimate of DCFY. We cannot rely solely on the correlation, though, in selecting among the methods for estimating DCFY. Errors in KEGR as a basis for estimating the DCFY on the jth share have random and systematic components. The former is ϵ_j, and its average value can be taken as the root mean square error of the regression (MSE). The larger the root MSE of the regression, the less attractive KEGR is as an estimate of share yield, because the error makes the problem of choice between $KEGR_j$ and $KEGR_j - \epsilon_j$ more acute. (That problem will be discussed shortly.)

The systematic error is the difference between the unknown true yield on the jth share, $DCFY_j$, and the value predicted by Equation (2). There is no obvious measure of the systematic error, as we do not know $DCFY_j$, but sample values of α_0 may provide information on its average value. The difference between α_0 and the interest rate is an indicator of systematic error, because the difference is zero under the risk premium theory. Error in the measurement of BETA biases α_0 upward, but, with the same BETA for each share used in all four regressions, differences in α_0 are indicators of systematic error.[5]

In addition to regression statistics, the sample mean and standard deviation of KEGR is a source of information on its accuracy as a method for the estimation of DCFY. If the mean departs radically from the long-term bond rate, or if the standard deviation indicates an unreasonable range of variation among shares, the accuracy of the method is open to question. Also, the sample mean may be a source of information on the systematic error for a method of estimation. Hence, sample values for the mean, standard deviation, correlation, root MSE, and constant term all contribute to a judgment on a method's accuracy for estimating the DCFY on a share. Unfortunately, there is no simple criterion for choice among the alternatives.

Once a conclusion is reached on the most accurate method for estimating DCFY — say, KEGR — we then have the problem of choice between $KEGR_j$ and $KEGR_j - \epsilon_j$ for the jth share. If the random error in $KEGR_j$ is due to error in its measurement for the jth share, we simply use the value predicted by Equation (2), which is $KEGR_j - \epsilon_j$. On the other hand, KEGR and DCFY may vary among shares with other (omitted) variables as well as BETA, in which case ϵ_j is also due to the omitted variables, and $KEGR_j$ may be the better estimate of DCFY. Unfortunately, we have no basis for choice among these two hypotheses, and the smaller the root MSE the less troublesome the problem of choice between them.

A more favorable tax treatment of capital gains over dividends should make investors prefer capital gains to dividends. As Brennan (1973) has shown, the yield investors require on a share would then vary with the excess of its dividend yield over the interest rate. To recognize this, Equation (2) becomes

$$KEGR_j = \alpha_0 + \alpha_1 BETA_j + \alpha_2 DMI_j + \epsilon_j, \qquad (3)$$

with DMI_j the excess of the dividend yield over the interest rate for the jth firm. Although the tax effect should make α_2 positive, its information in DMI on share risk would tend to make α_2 negative. That is, dividend yield varies inversely with expected growth, and we would find α_2 negative insofar as growth is risky. To the extent that these two influences of the dividend yield offset each other, α_2 will tend toward zero.

The CAPM theory of how expected return varies among shares has been proposed as an alternative to the DCF model for measuring yield. Its value for the jth stock is

$$EHPR_j = INTR + BETA_j[EHPR_m - INTR], \qquad (4)$$

where:

$EHPR_j$ = expected holding-period return on the jth share,

INTR = one-period risk-free interest rate,

$EHPR_m$ = expected holding-period return on the market portfolio.

There is an important difference between this CAPM model of share yield and the DCF model represented by Equation (1). The latter is merely an instrument for measuring share yield: There is nothing in the DCF model that explains the variation in yield among shares. The CAPM, on the other hand, is a theory on why and how yield varies among shares, but one must go outside of the theory to estimate the variables on the right-hand side of Equation (4). Given rules for estimating the variables, EHPR and BETA, empirical work then provides a joint test of the theory and the estimating rules, such as we are carrying out here.[6]

The CAPM nonetheless has been used to estimate share yield in testimony before regulatory commissions by assigning numbers to each of the quantities on the right-hand side of Equation (4). For INTR, a long-term bond yield is sometimes used instead of a one-period rate. BETA is estimated by conventional methods.

The big problem is the expected return on the market portfolio. Here the practice has been to use the average realized risk premium over a period of about fifty years as the estimate of $EHPR_m - INTR$ in Equation (4). Although the implicit assumption is that the risk premium is a constant over time, we would expect the premium to change from one period to the next for various reasons, among them changes in the interest rate, the risk premium on the market portfolio, and the relative taxation of interest and share income. Hence, this estimate of share yield is more or less in error at any particular time, but we have no way of estimating this error and comparing the method with the others.

COMPARATIVE PERFORMANCE

We carried out our empirical work with a sample of 75 large electric and gas utility firms and a sample of 244 firms that includes 169 industrial firms drawn from the S&P 400. We obtained share yield under the four methods for estimating it as of the start of the year for the years 1984, 1985, and 1986.

For the explanatory variables, BETA for each share on each date was obtained by regressing the monthly HPRs for the share on the monthly HPRs for the S&P 500 over the prior five years. DMI for a share is its dividend yield less the interest rate on the one-month Treasury bill at the start of each year. EGR and DGR are the growth rates in earnings and in dividends per share, respectively, over the prior five years as reported on the Value Line Tape. BRG is a weighted

average of the retention growth rates over the prior five years,[7] and FRG is the average of forecast growth rates in earnings over the next five years reported by IBES. The corresponding estimates of share yield were obtained by adding the dividend yield at the start of each year to the estimate of growth.

Table 1 presents the statistics that we obtained with KBRG and KFRG as the estimates of DCFY for the sample of utility shares and of all shares. The means of KBRG for the utility shares seems reasonable, with the interest rate on ten-year government bonds the standard of comparison, the latter being 11.67%, 10.43%, and 9.19% at the start of 1984, 1985, and 1986, respectively.[8] The standard deviations for KBRG are small enough to make its range of variation well within the bounds of reason. The lower means for all shares reveal that the means for industrial shares are below the means for utility shares.[9] This casts doubt on the accuracy of KBRG as a basis for estimating the DCFY on industrial shares, because industrials are riskier than utility shares.

The beta model explains none of the variation in KBRG among utility shares, but the two-factor model is a substantial improvement. The DMI coefficient, α_2, is positive and significant in every year, meaning that the unfavorable tax effect of a high dividend yield dominates the favorable risk effect. The coefficient on BETA is positive and significant in two of the three years. The only disturbing feature of the data is the sharp fall in R^2 and the corresponding rise in the root MSE relative to the standard deviation of KBRG as we go from 1984 to 1986.

The KBRG statistics for all shares are substantially inferior to the utility share statistics. This forces the unhappy conclusion that, for industrial shares, BETA is a poor measure of risk, or KBRG is a poor measure of DCFY, or both.

The KFRG statistics for the utility sample are superior to the KBRG statistics. The means are reasonable under the two criteria of being above the interest rate and moving with it. The range of variation of KFRG suggested by its standard deviations seems reasonable. The statistics for the beta model are a slight improvement on the corresponding statistics for KBRG. Furthermore, the two-factor model does a good job of explaining the variation in KFRG among

TABLE 1

Sample and Regression Statistics for KBRG and KFRG, Utility Shares and All Shares, 1984, 1985, and 1986

	KBRG			KFRG		
	1984	1985	1986	1984	1985	1986
			UTILITY SHARES (75)			
Mean	14.84	14.38	12.93	15.64	14.56	12.93
Standard Deviation	2.51	1.87	1.80	2.26	1.43	1.42
Beta Model α_0	14.26	13.96	13.05	15.14	13.48	12.74
α_1	1.44	1.21	−0.28	1.25	3.09	0.42
t-statistic	(0.97)	(1.12)	(0.19)	(0.93)	(4.14)	(0.37)
Root MSE	2.52	1.87	1.81	2.26	1.29	1.43
R^2	0.013	0.017	0.001	0.012	0.190	0.002
Two-Factor Model α_0	12.45	12.75	12.42	13.30	12.46	11.97
α_1	3.45	2.11	0.11	3.28	3.85	0.89
t-statistic	(3.13)	(2.19)	(0.08)	(3.83)	(6.33)	(0.88)
α_2	0.68	0.45	0.34	0.68	0.38	0.41
t-statistic	(8.22)	(4.88)	(2.81)	(10.73)	(6.52)	(4.65)
Root MSE	1.82	1.63	1.73	1.41	1.03	1.26
R^2	0.491	0.262	0.100	0.620	0.491	0.232
			ALL SHARES (244)			
Mean	12.98	13.19	11.86	16.17	15.87	14.31
Standard Deviation	3.86	3.21	3.52	2.60	2.32	2.30
Beta Model α_0	15.00	14.71	13.90	15.56	14.50	12.57
α_1	−2.47	−1.91	−2.40	0.74	1.72	2.05
t-statistic	(4.23)	(4.15)	(4.25)	(1.83)	(5.29)	(5.70)
Root MSE	3.73	3.10	3.40	2.59	2.20	2.16
R^2	0.069	0.066	0.069	0.014	0.104	0.118
Two-Factor Model α_0	14.34	14.42	13.95	15.40	14.61	12.75
α_1	0.09	−1.18	−2.51	1.37	1.44	1.61
t-statistic	(0.13)	(2.04)	(3.45)	(2.69)	(3.52)	(3.49)
α_2	0.48	0.17	−0.02	0.12	−0.06	−0.10
t-statistic	(6.04)	(2.09)	(0.24)	(2.01)	(1.12)	(1.53)
Root MSE	3.49	3.08	3.41	2.57	2.20	2.16
R^2	0.191	0.083	0.070	0.030	0.108	0.127

utility shares. The R^2s are higher here than for KBRG in every year. Finally, α_2 is positive and significant in every year, and α_1 is not significant only in 1986.

The implicit means of KFRG for the industrial shares seem high but not beyond reason. On the other hand, the regression statistics for the all-shares sample are not good, which leads to the same unhappy conclusion for industrial shares as we reached for KBRG.

Table 2 presents the statistics that we obtained using KEGR and KDGR as estimates of the DCFY on the shares in our samples. Comparison of the regression statistics with those in Table 1 reveals that KEGR and KDGR, particularly the former, fall short by a wide margin of the performance of KBRG and KFRG as estimates of the DCFY on a share.

CONCLUSION

We have compared the accuracy of four methods for estimating the growth component of the discounted cash flow yield on a share: past growth rate in earnings (KEGR), past growth rate in dividends (KDGR), past retention growth rate (KBRG), and forecasts of growth by security analysts (KFRG). Criteria for the comparison were the reasonableness of sample means and standard deviations and the success of beta and dividend yield in explaining the variation in DCF yield among shares. For our sample of utility shares, KFRG performed well, with KBRG, KDGR, and KEGR following in that order, and with KEGR a distant fourth. If we had used past growth in price, it would have been an even more distant fifth. Nevertheless, none of the four estimates of growth performed well under the criteria for a sample that included industrial shares.

Before closing, we have three observations to make. First, the superior performance by KFRG should come as no surprise. All four estimates of growth rely upon past data, but in the case of KFRG a larger body of past data is used, filtered through a group of security analysts who adjust for abnormalities that are not considered relevant for future growth. We assume this is done by any analyst who develops retention growth estimates of yield for a firm. If we had done this for all seventy-five firms in our utility sample, it is likely that the correlations

TABLE 2

Sample and Regression Statistics for KEGR and KDGR, Utility Shares and All Shares, 1984, 1985, and 1986

	KEGR			KDGR		
	1984	1985	1986	1984	1985	1986
			UTILITY SHARES (75)			
Mean	16.16	0.32	14.91	16.49	15.76	14.13
Standard Deviation	3.31	3.47	4.66	3.12	2.41	2.21
Beta Model α_0	15.45	16.18	0.51	15.75	14.53	12.30
α_1	1.75	0.40	−7.87	1.83	3.53	3.99
t-statistic	(0.89)	(0.20)	(2.16)	(0.99)	(2.64)	(2.32)
Root MSE	3.32	3.49	4.55	3.12	2.32	2.15
R^2	0.010	0.001	0.060	0.013	0.087	0.069
Two-Factor Model α_0	14.20	15.83	18.76	14.10	13.56	12.64
α_1	3.13	0.66	−8.03	3.65	4.25	3.78
t-statistic	(1.66)	(0.32)	(2.18)	(2.23)	(3.26)	(2.20)
α_2	0.47	0.13	−0.13	0.61	0.35	−0.18
t-statistic	(3.32)	(0.66)	(0.42)	(5.02)	(2.86)	(1.21)
Root MSE	3.11	3.50	4.58	2.70	2.21	2.14
R^2	0.142	0.007	0.063	0.269	0.180	0.087
			ALL SHARES (244)			
Mean	11.14	9.42	7.88	15.08	13.63	11.35
Standard Deviation	10.67	11.67	11.45	6.08	6.30	6.71
Beta Model α_0	15.96	18.28	19.55	15.15	0.04	15.39
α_1	−5.90	−11.16	−13.70	−0.09	−1.78	−4.74
t-statistic	(3.62)	(7.07)	(8.10)	(0.09)	(1.92)	(4.41)
Root MSE	10.41	10.65	10.18	6.09	6.27	6.47
R^2	0.051	0.171	0.213	0.000	0.015	0.074
Two-Factor Model α_0	14.84	18.01	19.91	14.31	14.11	14.79
α_1	−1.56	−10.49	−14.62	3.17	0.63	−3.25
t-statistic	(0.77)	(5.27)	(6.72)	(2.73)	(0.55)	(2.36)
α_2	0.81	0.15	−0.21	0.61	0.55	0.34
t-statistic	(3.51)	(0.55)	(0.67)	(4.57)	(3.47)	(1.72)
Root MSE	10.18	10.67	10.19	5.86	6.13	6.45
R^2	0.097	0.172	0.215	0.080	0.062	0.085

would have been as good or better than those obtained with the analyst forecasts of growth.

Second, we examined shares and not portfolios, because our objective is to estimate the DCFY for shares and not for portfolios. As common practice in testing the CAPM has been to execute tests on portfolios instead of shares, we classified our population of shares into ten portfolios on the basis of their beta values. Regression statistics were substantially unchanged, except that correlations increased dramatically.

Finally, we must acknowledge that we have no basis for estimating the expected HPR or DCF yield for industrial shares with any confidence. Theories on financial decision-making in industrial corporations that rely on that statistic have a weak empirical foundation.

[1] The EHPR is a one-period return, while the DCFY is a yield to maturity measure. The two may differ in actuality because of measurement problems, but they also may differ in theory. That is, they may differ in the same way that interest rates on bonds of different maturities may differ. See Gordon and Gould (1984a). This source of difference between EHPR and DCFY will be ignored here.

[2] A widely accepted hypothesis is that dividends contain information on earnings, because management sets the dividend to pay out a stable fraction of normal or permanent earnings.

[3] Over a five-year period, there may even be a negative rate of growth in price for a large number of firms. Furthermore, this negative growth rate may be larger in absolute value than the dividend yield, which leads to the conclusion that investors are holding such shares to earn a negative return. The frequency of negative rates of growth in price is reduced as the prior time period used in its calculation increases in length. As that takes place, however, the estimate of the expected return for a firm approaches a constant or a constant plus the dividend yield. The expected return on a share is one statistic for which it is an error to assume that expectations are on average realized.

[4] Equation (2) is similar to the CAPM according to Sharpe, Lintner, and Mossin. They arrived at this expression under very rigorous assumptions. The heuristic risk premium model is adequate for our purposes.

[5] It may be thought that Theil's (1966) decomposition of the difference between the actual and predicted values of a variable can be used here, but in fact that decomposition applies to a different problem. It assumes that the observed (actual) past values of a variable are free of error, and it decomposes the error in a model that is employed to explain the past values. The purpose of Theil's decomposition is to cast light on the possible error in using the model to predict future values of the dependent variable. Our problem is to determine which set of observed values is closest to the true values, with the risk premium theory of share yield and BETA as the source of information on the true values. Theil's method would be appropriate for decomposing the difference between the actual and predicted values of the *realized* holding-period return on a share. The actual values here can be observed without error.

[6] There is an enormous volume of empirical work devoted to discovering whether the theory is true, but this empirical work does not provide useful estimates of the EHPR on a share. To test the truth of Equation (4), the practice has been to regress EHPR on BETA for a sample of firms with the average realized HPR over the prior five or so years used as an estimate of the EHPR. Because of the large error in the realized HPR over a prior time period, as noted earlier, neither the actual values of the dependent variable nor the values predicted by the model are usable as estimates of share yield. See Fama and MacBeth (1973) and Friend, Westerfield, and Granito (1978).

[7] BRG for a year is earnings less dividend divided by the end-of-year book value. The estimate of the expected value as of the start of 1986 is 0.3BRG85 + 0.25BRG84 + 0.20BRG83 + 0.15BRG83 + 0.10BRG82. If any value of BRG was negative, it was set equal to zero.

[8] We expect the yields on shares to be above the risk-free interest rate, but with a high enough interest rate the more favorable tax treatment of shares can reduce the yield below the interest rate. Interest rates were not that high in these years. See Gordon and Gould (1984b).

[9] The statistics reported for all shares and for utility shares were also obtained for industrial shares. All methods of estimation performed so poorly for industrial shares, however, as to suggest no confidence can be placed in any of them. To save space, we do not present statistics for the industrial shares. Whatever we want to know about them can be deduced by comparing the data for all shares and utility shares.

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The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.8 percent, **The Conference Board Coincident Economic Index®** (CEI) increased 0.4 percent and **The Conference Board Lagging Economic Index®** (LAG) remained unchanged in November.

Next month's release will incorporate benchmark revisions to the composite indexes. The indexes are updated throughout the year, but only for the previous six months. Every January, data revisions that fall outside of the moving six-month window are incorporated when the benchmark revision is made and the entire histories of the indexes are recomputed. As a result, the revised indexes and their month-over-month changes will no longer be directly comparable to those issued prior to the benchmark revision. For more information, please visit our website at http://www.conference-board.org/data/bci.cfm or contact indicators@conference-board.org.

- The Conference Board LEI for the U.S. increased for the fifth consecutive month in November. Positive contributions from the yield spread, initial claims for unemployment insurance (inverted), and ISM® new orders more than offset negative contributions from consumer expectations for business conditions and building permits. In the six-month period ending November 2013, the leading economic index increased 3.1 percent (about a 6.4 percent annual rate), faster than the growth of 2.0 percent (about a 4.1 percent annual rate) during the previous six months. In addition, the strengths among the leading indicators have become more widespread.

- The Conference Board CEI for the U.S., a measure of current economic activity, also increased last month. The index rose 1.1 percent (about a 2.3 percent annual rate) between May and November 2013, slightly faster than the growth of 0.9 percent (about a 1.7 percent annual rate) for the previous six months. In addition, the strengths among the coincident indicators have remained very widespread with all components advancing over the past six months. The lagging economic index remained unchanged this month. As a result, the coincident-to-lagging ratio increased in November. Meanwhile, real GDP expanded at a 3.6 percent annual rate in the third quarter of the year, after increasing 2.5 percent (annual rate) in the second quarter.

- The Conference Board LEI for the U.S. continued to increase in November, and the pace of growth has picked up over the past several months. Meanwhile, The Conference Board CEI for the U.S. has also been rising slowly throughout the second half of the year, but its six-month growth rate has been flat since September 2013. Continued improvements in the leading and coincident indexes suggest that the expansion in economic activity will continue, and may even modestly pickup, in the early months of 2014.

LEADING INDICATORS. Eight of the ten indicators that make up The Conference Board LEI for the U.S. increased in November. The positive contributors – beginning with the largest positive contributor – were the interest rate spread, average weekly initial claims for unemployment insurance (inverted), the ISM® new orders index, the Leading Credit Index™ (inverted), stock prices, average weekly

manufacturing hours, manufacturers' new orders for nondefense capital goods excluding aircraft*, and manufacturers' new orders for consumer goods and materials*. The negative contributors – beginning with the largest negative contributor – were average consumer expectations for business conditions and building permits.

The LEI for the U.S. now stands at 98.3 (2004=100). Based on revised data, this index increased 0.1 percent in October and increased 1.0 percent in September. During the six-month span through November, the leading economic index increased 3.1 percent, with eight out of ten components advancing (diffusion index, six-month span equals 80 percent).

COINCIDENT INDICATORS. All four indicators that make up the CEI for the U.S. increased in November. The positive contributors to the index – beginning with the largest positive contributor – were industrial production, employees on nonagricultural payrolls, personal income less transfer payments*, and manufacturing and trade sales*.

The CEI now stands at 107.2 (2004=100). Based on revised data, this index increased 0.1 percent in October and increased 0.3 percent in September. During the six-month period through November, the coincident economic index increased 1.1 percent, with all components advancing (diffusion index, six-month span equals 100 percent).

LAGGING INDICATORS. The lagging economic index stands at 119.9 (2004=100) in November, with two of its seven components advancing. The positive contributors to the index – beginning with the largest positive contributor – were the ratio of consumer installment credit to personal income*and the change in index of labor cost per unit of output, manufacturing*. The negative contributors – beginning with the largest negative contributor – were average duration of unemployment (inverted), commercial and industrial loans outstanding* and the change in CPI for services. The ratio of manufacturing and trade inventories to sales* and the average prime rate charged by banks held steady in November. Based on revised data, the lagging economic index increased 0.3 percent in October and increased 0.6 percent in September.

DATA AVAILABILITY AND NOTES.

The data series used to compute **The Conference Board Leading Economic Index®** (LEI) for the U.S., **The Conference Board Coincident Economic Index®** (CEI) for the U.S. and **The Conference Board Lagging Economic Index®** (LAG) for the U.S. and reported in the tables in this release are those available "as of" 8:30 am ET on December 18, 2013. Some series are estimated as noted below.

* Series in The Conference Board LEI for the U.S. based on our estimates are manufacturers' new orders for consumer goods and materials, and manufacturers' new orders for nondefense capital goods excl. aircraft. Series in The Conference Board CEI for the U.S. that are based on our estimates are personal income less transfer payments and manufacturing and trade sales. Series in The Conference Board LAG for the U.S. that are based on our estimates are manufacturing and trade inventories to sales ratio, the change in labor cost per unit of output, manufacturing, consumer installment credit to income ratio, and the personal consumption expenditure deflator used to deflate commercial and industrial loans outstanding.

The procedure used to estimate the current month's personal consumption expenditure deflator (used in the calculation of commercial and industrial loans outstanding) now incorporates the current month's consumer price index when it is available before the release of The Conference Board LEI for the U.S.

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THE CYCLICAL INDICATOR APPROACH. The composite economic indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. (See page 3 for details.) They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component—primarily because they smooth out some of the volatility of individual components.

Historically, the cyclical turning points in The Conference Board LEI for the U.S. have occurred before those in aggregate economic activity, while the cyclical turning points in The Conference Board CEI for the U.S. have occurred at about the same time as those in aggregate economic activity. The cyclical turning points in The Conference Board LAG for the U.S. generally have occurred after those in aggregate economic activity.

U.S. Composite Economic Indexes: Components and Standardization Factors

Leading Economic Index		Factor
1	Average weekly hours, manufacturing	0.2747
2	Average weekly initial claims for unemployment insurance	0.0340
3	Manufacturers' new orders, consumer goods and materials	0.0815
4	ISM® new orders index	0.1606
5	Manufacturers' new orders, nondefense capital goods excl. aircraft	0.0390
6	Building permits, new private housing units	0.0316
7	Stock prices, 500 common stocks	0.0392
8	*Leading Credit Index*™	0.0829
9	Interest rate spread, 10-year Treasury bonds less federal funds	0.1090
10	Avg. consumer expectations for business conditions	0.1475
Coincident Economic Index		
1	Employees on nonagricultural payrolls	0.4956
2	Personal income less transfer payments	0.2525
3	Industrial production	0.1382
4	Manufacturing and trade sales	0.1137
Lagging Economic Index		
1	Average duration of unemployment	0.0364
2	Inventories to sales ratio, manufacturing and trade	0.1228
3	Labor cost per unit of output, manufacturing	0.0589
4	Average prime rate	0.2865
5	Commercial and industrial loans	0.0953
6	Consumer installment credit to personal income ratio	0.2010
7	Consumer price index for services	0.1991

Notes:
The component factors are inversely related to the standard deviation of the month-to-month changes in each component. They are used to equalize the volatility of the contribution from each component and are "normalized" to sum to 1. When one or more components are missing, the other factors are adjusted proportionately to ensure that the total continues to sum to 1.

These factors were revised effective on the release for January 2013, and all historical values for the three composite economic indexes were revised at this time to reflect the changes. (Under normal circumstances, updates to the leading, coincident, and lagging economic indexes only incorporate revisions to data over the past six months.) The factors for The Conference Board LEI for the U.S. were calculated using 1984-2011 as the sample period for measuring volatility. A separate set of factors for the 1959-1983 period is available upon request. The primary sample period for the coincident and lagging economic indexes was 1959-2011. For additional information on the standardization factors and the index methodology see: "Benchmark Revisions in the Composite Indexes," *Business Cycle Indicators* December 1997 and "Technical Appendix: Calculating the Composite Indexes" *Business Cycle Indicators* December 1996, or the Web site: http://www.conference-board.org/data/bci.cfm

The trend adjustment factor for The Conference Board LEI for the U.S is -0.0676 (over the 1984 – present) and 0.0942 (over the 1959-1983 period), and the trend adjustment factor for The Conference Board LAG for the U.S is 0.1576.

To address the problem of lags in available data, those leading, coincident and lagging indicators that are not available at the time of publication are estimated using statistical imputation. An autoregressive model is used to estimate each unavailable component. The resulting indexes are therefore constructed using real and estimated data, and will be revised as the unavailable data during the time of publication become available. Such revisions are part of the monthly data revisions, now a regular part of the U.S. Business Cycle Indicators program. The main

advantage of this procedure is to utilize in the leading economic index data such as stock prices, interest rate spread, and manufacturing hours that are available sooner than other data on real aspects of the economy such as manufacturers' new orders. Empirical research by The Conference Board suggests that there are real gains in adopting this procedure to make all the indicator series as up-to-date as possible.

NOTICES

The Conference Board Leading Economic Index® (LEI) for the U.S. news release schedule for 2014**:**

Thursday, January 23, 2014	For December 2013 data
Thursday, February 20, 2014	For January 2014 data
Thursday, March 20, 2014	For February 2014 data
Friday, April 18, 2014	For March 2014 data
Thursday, May 22, 2014	For April 2014 data
Thursday, June 19, 2014	For May 2014 data
Friday, July 18, 2014	For Jane 2014 data
Thursday, August 21, 2014	For July 2014 data
Friday, September 19, 2014	For August 2014 data
Thursday, October 23, 2014	For September 2014 data
Thursday, November 20, 2014	For October 2014 data
Thursday, December 18, 2014	For November 2014 data

All releases are at 10:00 AM ET.

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Table 1. Summary of U.S. Composite Economic Indexes

	2013 May		2013 Jun		2013 Jul		2013 Aug		2013 Sep		2013 Oct		2013 Nov	
Leading index	95.3	r	95.3	r	95.8	r	96.4	r	97.4	r	97.5		98.3	p
Percent change	.2	r	.0		.5	r	.6	r	1.0	r	.1	r	.8	p
Diffusion index	60		55		75		85		75		65		80	
Coincident index	106.0		106.1	r	106.1		106.4	r	106.7	r	106.8	r	107.2	p
Percent change	.3		.1	r	.0	r	.3	r	.3	r	.1	r	.4	p
Diffusion index	100		62.5		62.5		100		100		75		100	
Lagging index	118.1	r	118.4		118.6	r	118.8	r	119.5	r	119.9	r	119.9	p
Percent change	.3		.3	r	.2	r	.2	r	.6	r	.3		.0	p
Diffusion index	64.3		64.3		42.9		42.9		78.6		71.4		42.9	
Coincident-lagging ratio	89.8	r	89.6	r	89.5	r	89.6	r	89.3	r	89.1	r	89.4	p

	Nov to May	Dec to Jun	Jan to Jul	Feb to Aug	Mar to Sep	Apr to Oct	May to Nov
Leading index							
Percent change	2.0	1.7	1.8	1.9	3.3	2.5	3.1
Diffusion index	80	65	65	65	90	70	80
Coincident index							
Percent change	0.9	0	1.4	1.0	1.1	1.0	1.1
Diffusion index	100	75	100	100	100	100	100
Lagging index							
Percent change	1.7	1.8	0.6	1.0	1.6	1.8	1.5
Diffusion index	78.6	71.4	35.7	50	64.3	64.3	64.3

p Preliminary. r Revised (noted only for index levels and one-month percent changes). c Corrected.

CALCULATION NOTE: The diffusion indexes measure the proportion of the components that are contributing positively. Components that rise more than 0.05 percent are given a value of 1.0, components that change less than 0.05 percent are given a value of 0.5, and components that fall more than 0.05 percent are given a value of 0.0.

The full history of composite and diffusion indexes is available by subscription on our web site at https://www.conference-board.org/data/bcicountry.cfm?cid=1

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Table 2. Data and Net Contributions for Components of the U.S. Leading Economic Index

Component	2013 May	Jun	Jul	Aug	Sep	Oct	Nov
	U.S. Leading Economic Index component data						
Average workweek, production workers, mfg. (hours)	41.8	41.8	41.7	41.9	41.9 r	41.9	42.0
Average weekly initial claims, state unemployment insurance (thousands)*	352.5	345.6	341.7	328.9 r	304.9	349.6	322.8
Manufacturers' new orders, consumer goods and materials (mil. 1982 dol.)	131,150 r	130,799 r	130,852 r	131,261 r	132,830 r	133,408 r	133,609 **
ISM New Orders Index (percent)	48.8	51.9	58.3	63.2	60.5	60.6	63.6
Manufacturers' new orders, nondefense capital goods excl. aircraft (mil. 1982 dol.)	41969	42394	40923 r	41363 r	40758 r	40452 r	40852 **
Building permits (thous.)	985	918	954	926 r	974 r	1,039 r	1,007
Stock prices, 500 common stocks (c) (index: 1941-43=10)	1,639.84	1,618.77	1,668.68	1,670.09	1,687.17	1,720.03	1,784.37
Leading Credit Index™ (std. dev.[1])*	-0.83 r	-0.68 r	-1.37 r	-1.00 r	-1.54 r	-1.67 r	-1.76
Interest rate spread, 10-year Treasury bonds less federal funds	1.82	2.21	2.49	2.66	2.73	2.53	2.64
Avg. Consumer Expectations for Business Conditions (std. dev.[1])	-0.05 r	0.22 r	0.14 r	0.04 r	-0.05 r	-1.09 r	-0.81
LEADING INDEX (2004=100)	95.3 r	95.3 r	95.8 r	96.4 r	97.4 r	97.5	98.3 p
Percent change from preceding month	0.2 r	0.0	0.5 r	0.6 r	1.0 r	0.1 r	0.8 p
	U.S. Leading Economic Index net contributions						
Average workweek, production workers, mfg.	....	.00	-.07	.13	.00 r	.00	.07
Average weekly initial claims, state unemployment insurance	....	.07	.04	.13	.26	-.46	.27
Manufacturers' new orders, consumer goods and materials	....	-.02 r	.00 r	.03 r	.10 r	.04 r	.01 **
ISM New Orders Index	....	-.07	.06	.16	.10	.11	.17
Manufacturers' new orders, nondefense capital goods excl. aircraft	....	.04	-.14 r	.04 r	-.06	-.03 r	.04 **
Building permits	....	-.22	.12	-.09 r	.16 r	.20 r	-.10
Stock prices, 500 common stocks (c)	....	-.05	.12	.00	.04	.08	.14
Leading Credit Index™	....	.06 r	.11 r	.08 r	.13 r	.14 r	.15
Interest rate spread, 10-year Treasury bonds less federal funds	....	.24	.27	.29	.30	.28	.29
Avg. Consumer Expectations for Business Conditions	....	.03	.02	.01 r	-.01	-.16	-.12

p Preliminary. r Revised. c Corrected.
[1] Standard deviation above or below the mean
* Inverted series; a negative change or value in this component makes a positive contribution to the index.
** Statistical Imputation (See page 3 for more details)
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CALCULATION NOTE: The percent change in the index does not always equal the sum of the net contributions of the individual components (because of rounding effects and base value differences).

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Table 3. Data and Net Contributions for Components of the U.S. Coincident Economic Index and U.S. Lagging Economic Index

Component	2013 May	Jun	Jul	Aug	Sep	Oct	Nov
	U.S. Coincident Economic Index component data						
Employees on nonagricultural payrolls (thousands)	135,688	135,860	135,949 r	136,187 r	136,362 r	136,562 r	136,765
Personal income less transfer payments (ann. rate, bil. chn. 2009 dol.)	10,914 r	10,913 r	10,914 r	10,957 r	10,998 r	10,991 r	11,021 **
Industrial production (index: 2007=100)	98.961 r	99.172 r	99.011 r	99.536 r	100.052 r	100.153 r	101.283
Manufacturing and trade sales (mil. chn. 2009 dol.)	1,135,043 r	1,132,747 r	1,136,843 r	1,138,638 r	1,143,280 r	1,145,822 **	1,148,780 **
COINCIDENT INDEX (2004=100)	106.0	106.1 r	106.1	106.4 r	106.7 r	106.8 r	107.2 p
Percent change from preceding month	0.3	0.1 r	0.0 r	0.3 r	0.3 r	0.1 r	0.4 p
	U.S. Coincident Economic Index net contributions						
Employees on nonagricultural payrolls	....	.06	.03 r	.09 r	.06 r	.07	.07
Personal income less transfer payments	....	.00 r	.00 r	.10 r	.09 r	-.02 r	.07 **
Industrial production	....	.03 r	-.02 r	.07 r	.07 r	.01 r	.15
Manufacturing and trade sales	....	-.02 r	.04 r	.02	.05 r	.03 **	.03 **
	U.S. Lagging Economic Index component data						
Average duration of unemployment (weeks)*	36.9	35.6	36.6	37.0	36.9	36.1	37.2
Ratio, manufacturing and trade inventories to sales (chain 2009 dol.)	1.384	1.388 r	1.388 r	1.391 r	1.392 r	1.393 **	1.393 **
Change in index of labor cost per unit of output, mfg. (6-month percent, ann. rate)	0.6 r	-3.2 r	2.1 r	1.2 r	0.6 r	0.7 **	0.8 **
Average prime rate charged by banks (percent)	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Commercial and industrial loans outstanding (mil. chn. 2009 dol.)	975,482 r	986,086 r	968,984 r	983,447 r	1,020,832 r	1,016,649 r	1,014,212 **
Ratio, consumer installment credit outstanding to personal income (percent)	21.28 r	21.31 r	21.37 r	21.36 r	21.38 r	21.52 r	21.55 **
Change in CPI for services (6-month percent, ann. rate)	2.7	2.6	2.3	2.0	2.2	2.2	2.1
LAGGING INDEX (2004=100)	118.1 r	118.4	118.6 r	118.8 r	119.5 r	119.9 r	119.9 p
Percent change from preceding month	.3	.3 r	.2 r	.2 r	.6 r	.3	.0 p
	U.S. Lagging Economic Index net contributions						
Average duration of unemployment	....	.13	-.10	-.04	.01	.08	-.11
Ratio, manufacturing and trade inventories to sales	....	.04	.00 r	.03 r	.01 r	.01 **	.00 **
Change in index of labor cost per unit of output, mfg.	....	-.22 r	.31 r	-.05 r	-.04 r	.01 **	.01 **
Average prime rate charged by banks	....	.00	.00	.00	.00	.00	.00
Commercial and industrial loans outstanding	....	.10 r	-.17 r	.14 r	.36 r	-.04	-.02 **
Ratio, consumer installment credit outstanding to personal income	....	.03	.06 r	-.01 r	.02 r	.13 r	.03 **
Change in CPI for services	....	-.02	-.06	-.06	.04	.00	-.02

CPI Consumer Price Index. For additional notes see table 2.
* Inverted series; a negative change in this component makes a positive contribution to the index.
** Statistical Imputation (See page 3 for more details)

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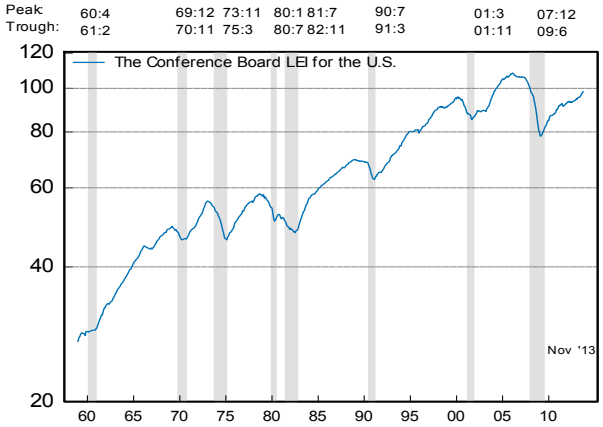
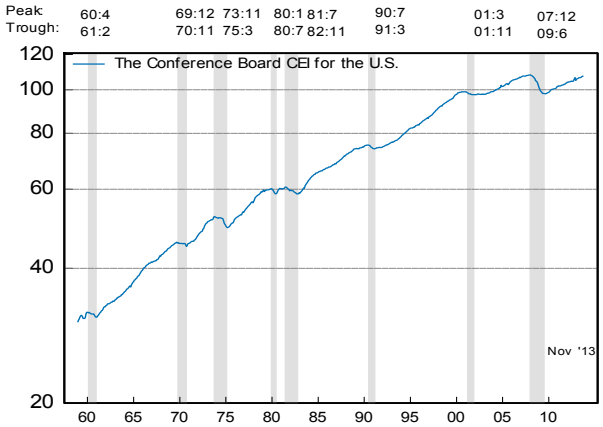
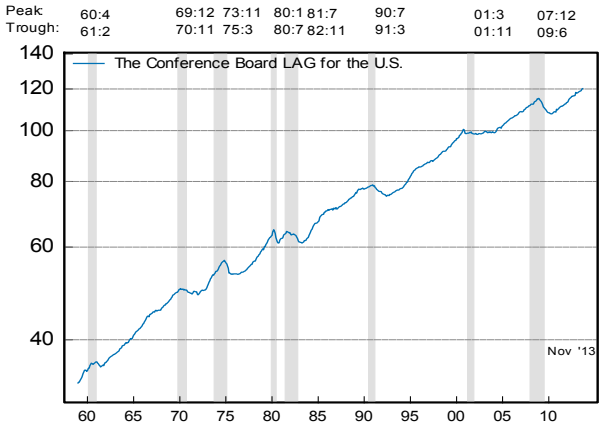
U.S. Composite Economic Indexes (2004=100)







Shaded areas represent recessions as determined by the National Bureau of Economic Research.

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The Effect of the Firm's Capital Structure on the Systematic Risk of Common Stocks

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THE EFFECT OF THE FIRM'S CAPITAL STRUCTURE ON THE SYSTEMATIC RISK OF COMMON STOCKS

ROBERT S. HAMADA*

I. INTRODUCTION

ONLY RECENTLY has there been an interest in relating the issues historically associated with corporation finance to those historically associated with investment and portfolio analyses. In fact, rigorous theoretical attempts in this direction were made only since the capital asset pricing model of Sharpe [13], Lintner [6], and Mossin [11], itself an extension of the Markowitz [7] portfolio theory. This study is one of the first empirical works consciously attempting to show and test the relationships between the two fields. In addition, differences in the observed systematic or nondiversifiable risk of common stocks, β, have never really been analyzed before by investigating some of the underlying differences in the firms.

In the capital asset pricing model, it was demonstrated that the efficient set of portfolios to any individual investor will always be some combination of lending at the risk-free rate and the "market portfolio," or borrowing at the risk-free rate and the "market portfolio." At the same time, the Modigliani and Miller (MM) propositions [9, 10] on the effect of corporate leverage are well known to the students of corporation finance. In order for their propositions to hold, personal leverage is required to be a perfect substitute for corporate leverage. If this is true, then corporate borrowing could substitute for personal borrowing in the capital asset pricing model as well.

Both in the pricing model and the MM theory, borrowing, from whatever source, while maintaining a fixed amount of equity, increases the risk to the investor. Therefore, in the mean-standard deviation version of the capital asset pricing model, the covariance of the asset's rate of return with the market portfolio's rate of return (which measures the nondiversifiable risk of the asset—the proxy β will be used to measure this) should be greater for the stock of a firm with a higher debt-equity ratio than for the stock of another firm in the same risk-class with a lower debt-equity ratio.[1]

This study, then, has a number of purposes. First, we shall attempt to link empirically corporation finance issues with portfolio and security analyses through the effect of a firm's leverage on the systematic risk of its common

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1. This very quick summary of the theoretical relationship between what is known as corporation finance and the modern investment and portfolio analyses centered around the capital asset pricing model is more thoroughly presented in [5], along with the necessary assumptions required for this relationship.

stock. Then, we shall attempt to test the MM theory, or at least provide another piece of evidence on this long-standing controversial issue. This test will not rely on an explicit valuation model, such as the MM study of the electric utility industry [8] and the Brown study of the railroad industry [2]. A procedure using systematic risk measures (β s) has been worked out in this paper for this purpose.

If the MM theory is validated by this procedure, then the final purpose of this study is to demonstrate a method for estimating the cost of capital of individual firms to be used by them for scale-changing or nondiversifying investment projects. The primary component of any firm's cost of capital is the capitalization rate for the firm if the firm had no debt and preferred stock in its capital structure. Since most firms do have fixed commitment obligations, this capitalization rate (we shall call it $E(R_A)$; MM denote it $\rho\tau$) is unobservable. But if the MM theory and the capital asset pricing model are correct, then it is possible to estimate $E(R_A)$ from the systematic risk approach for individual firms, even if these firms are members of a one-firm risk-class.[2]

With this statement of the purposes for this study, we shall, in Section II, discuss the alternative general procedures that are possible for estimating the effect of leverage on systematic risk and select the most feasible ones. The results are presented in Section III. And finally, tests of the MM versus the traditional theories of corporation finance are presented in Section IV.

II. Some Possible Procedures and the Selected Estimating Relationships

There are at least four general procedures that can be used to estimate the effect of the firm's capital structure on the systematic risk of common stocks. The first is the MM valuation model approach. By estimating ρ^τ with an explicit valuation model as they have for the electric utility industry, it is possible to relate this ρ^τ with the use of the capital asset pricing model to a nonleveraged systematic risk measure, ${}_A\beta$. Then the difference between the observed common stock's systematic risk (which we shall denote ${}_B\beta$) and ${}_A\beta$ would be due solely to leverage. But the difficulties of this approach for all firms are many.

The MM valuation model approach requires the specification, in advance, of risk-classes. All firms in a risk-class are then assumed to have the same ρ^τ—the capitalization rate for an all-common equity firm. Unfortunately, there must be enough firms in a risk-class so that a cross-section analysis will yield statistically significant coefficients. There may not be many more risk-classes (with enough observations) now that the electric utility and railroad industries have been studied. In addition, the MM approach requires estimating expected asset earnings and estimating the capitalized growth potential implicit in stock prices. If it is possible to consider growth and expected earnings without having

2. It is, in fact, this last purpose of making applicable and practical some of the implications of the capital asset pricing model for corporation finance issues that provided the initial motivation for this paper. In this context, if one is familiar with the fair rate of return literature for regulated utilities, for example, an industry where debt is so prevalent, adjusting correctly for leverage is not frequently done and can be very critical.

to specify their exact magnitude at a specific point in time, considerable difficulty and possible measurement errors will be avoided.

The second approach is to run a regression between the observed systematic risk of a stock and a number of accounting and leverage variables in an attempt to explain this observed systematic risk. Unfortunately, without a theory, we do not know which variables to include and which variables to exclude and whether the relationship is linear, multiplicative, exponential, curvilinear, etc. Therefore, this method will also not be used.

A third approach is to measure the systematic risk before and after a new debt issue. The difference can then be attributed to the debt issue directly. An attractive feature of this procedure is that a good estimate of the market value of the incremental debt issue can be obtained. A number of disadvantages, unfortunately, are associated with this direct approach. The difference in the systematic risk may be due not only to the additional debt, but also to the reason the debt was issued. It may be used to finance a new investment project, in which case the project's characteristics will also be reflected in the new systematic risk measure. In addition, the new debt issue may have been anticipated by the market if the firm had some long-run target leverage ratio which this issue will help maintain; conversely, the market may not fully consider the new debt issue if it believes the increase in leverage is only temporary. For these reasons, this seemingly attractive procedure will not be employed.

The last approach, which will be used in this study, is to assume the validity of the MM theory from the outset. Then the observed rate of return of a stock can be adjusted to what *it would have been* over the same time period had the firm no debt and preferred stock in its capital structure. The difference between the observed systematic risk, ${}_B\beta$, and the systematic risk for this adjusted rate of return time series, ${}_A\beta$, can be attributed to leverage, if the MM theory is correct. The final step, then, is to test the MM theory.

To discuss this more specifically, consider the following relationship for the dollar return to the common shareholder from period t — 1 to t:

$$(X - I)_t(1 - \tau)_t - p_t + \Delta G_t = d_t + cg_t \tag{1}$$

where X_t represents earnings before taxes, interest, and preferred dividends and is assumed to be unaffected by fixed commitment obligations; I_t represents interest and other fixed charges paid during the period; τ is the corporation income tax rate; p_t is the preferred dividends paid; ΔG_t represents the change in capitalized growth over the period; and d_t and cg_t are common shareholder dividends and capital gains during the period, respectively.

Equation (1) relates the corporation finance types of variables with the market holding period return important to the investors. The first term on the left-hand-side of (1) is profits after taxes and after interest which is the earnings the common and preferred shareholders receive on their investment for the period. Subtracting out p_t leaves us with the earnings the common shareholder would receive from currently-held assets.

To this must be added any change in capitalized growth since we are trying to explain the common shareholder's market holding period dollar return. ΔG_t

must be added for growth firms to the current period's profits from existing assets since capitalized growth opportunities of the firm—future earnings from new assets over and above the firm's cost of capital which are already reflected in the stock price at $(t-1)$—should change over the period and would accrue to the common shareholder. Assuming shareholders at the start of the period estimated these growth opportunities on average correctly, the expected value of ΔG_t would not be zero, but should be positive. For example, consider growth opportunities five years from now which yield more than the going rate of return and are reflected in today's stock price. These growth opportunities will become one year closer to fruition at time t than at time $t-1$ so that their present value would become larger. ΔG_t then represents this increase in the present value of these future opportunities simply because it is now four years away rather than five.[3]

Since the systematic risk of a common stock is:

$$_B\beta = \frac{\text{cov}\,(R_{B_t}, R_{M_t})}{\sigma^2(R_{M_t})} \tag{2}$$

where R_{B_t} is the common shareholder's rate of return and R_{M_t} is the rate of return on the market portfolio, then substitution of (1) into (2) yields:

$$_B\beta = \frac{\text{cov}\left[\dfrac{(X-I)(1-\tau)_t - p_t + \Delta G_t}{S_{B_{t-1}}}, R_{M_t}\right]}{\sigma^2(R_{M_t})} \tag{2a}$$

where $S_{B_{t-1}}$ denotes the market value of the common stock at the beginning of the period.

The systematic risk for the same firm over the same period *if* there were no debt and preferred stock in its capital structure is:

$$_A\beta = \frac{\text{cov}(R_{A_t}, R_{M_t})}{\sigma^2(R_{M_t})}$$

$$= \frac{\text{cov}\left[\dfrac{X(1-\tau)_t + \Delta G_t}{S_{A_{t-1}}}, R_{M_t}\right]}{\sigma^2(R_{M_t})} \tag{3}$$

where R_{A_t} and $S_{A_{t-1}}$ represent the rate of return and the market value, respectively, to the common shareholder if the firm had no debt and preferred stock. From (3), we can obtain:

$$_A\beta S_{A_{t-1}} = \frac{\text{cov}\,[X(1-\tau)_t + \Delta G_t, R_{M_t}]}{\sigma^2(R_{M_t})} \tag{3a}$$

3. Continual awareness of the difficulties of estimating capitalized growth, or changes in growth, especially in conjunction with leverage considerations, for purposes such as valuation or cost of capital is a characteristic common to students of corporation finance. This is the reason for the emphasis on growth in this paper and for presenting a method to neutralize for differences in growth when comparing rates of return.

Next, by expanding and rearranging (2a), we have:

$$_{B}\beta S_{B_{t-1}} = \frac{\text{cov}\,[X(1-\tau)_t + \Delta G_t, R_{M_t}]}{\sigma^2(R_{M_t})} - \frac{\text{cov}\,[I(1-\tau)_t, R_{M_t}]}{\sigma^2(R_{M_t})} - \frac{\text{cov}\,(p_t, R_{M_t})}{\sigma^2(R_{M_t})} \tag{2b}$$

If we assume as an empirical approximation that interest and preferred dividends have negligible covariance with the market, at least relative to the (pure equity) common stock's covariance, then substitution of the LHS of (3a) into the RHS of (2b) yields:[4]

$$_{B}\beta S_{B_{t-1}} = {}_{A}\beta S_{A_{t-1}} \tag{4}$$

or

$$_{A}\beta = \left(\frac{S_B}{S_A}\right)_{t-1} {}_{B}\beta \tag{4a}$$

Because $S_{A_{t-1}}$, the market value of common stock *if* the firm had no debt and preferred stock, is not observable since most firms do have debt and/or preferred stock, a theory is required in order to measure what this quantity *would have been* at t — 1. The MM theory [10] will be employed for this purpose, that is:

$$S_{A_{t-1}} = (V - \tau D)_{t-1}. \tag{5}$$

Equation (5) indicates that if the Federal government tax subsidy for debt financing, τD, where D is the market value of debt, is subtracted from the observed market value of the firm, V_{t-1} (where V_{t-1} is the sum of S_B, D and the observed market value of preferred), then the market value of an unleveraged firm is obtained. Underlying (5) is the assumption that the firm is near its target leverage ratio so that no more or no less debt subsidy is capitalized already into the observed stock price. The conditions under which this MM relationship hold are discussed carefully in [4].

It is at this point that problems in obtaining satisfactory estimates of $_{A}\beta$ develop, since (4) theoretically holds only for the next period. As a practical matter, the accepted, and seemingly acceptable, method of obtaining estimates of a stock's systematic risk, $_{B}\beta$, is to run a least squares regression between a stock's and market portfolio's *historical* rates of return. Using past data for $_{B}\beta$, it is not clear which *period's* ratio of market values to apply in (4a) to estimate the firm's systematic risk, $_{A}\beta$. There would be no problem if the market value ratios of debt to equity and preferred stock to equity remained relatively stable over the past for each firm, but a cursory look at these data reveals that this is not true for the large majority of firms in our sample. Should we use the market value ratio required in (4a) that was observed at the start of our regression period, at the end of our regression period, or some kind of average over the period? In addition, since these different observed ratios will give us different estimates for $_{A}\beta$, it is not clear, without some criterion, how we should select from among the various estimates.

4. This general method of arriving at (4) was suggested by the comments of William Sharpe, one of the discussants of this paper at the annual meeting. A much more cumbersome and less general derivation of (4) was in the earlier version.

It is for this purpose—to obtain a standard—that a more cumbersome and more data demanding approach to obtain estimates of ${}_A\beta$ is suggested. Given the large fluctuations in market leverage ratios, intuitively it would appear that the firm's risk is more stable than the common stock's risk. In that event, a leverage-free rate of return time series for each firm should be derived and the market model applied to this time series directly. In this manner, the beta coefficient would give us a *direct* estimate of ${}_A\beta$ which can then be used as a criterion to determine if any of the market value ratios discussed above can be applied to (4a) successfully.

For this purpose, the "would-have-been" rate of return for the common stock if the firm had no debt and preferred is:

$$R_{A_t} = \frac{X_t(1-\tau)_t + \Delta G_t}{S_{A_{t-1}}}. \tag{6}$$

The numerator of (6) can be rearranged to be:

$$X_t(1-\tau)_t + \Delta G_t \equiv [(X-I)_t(1-\tau)_t - p_t + \Delta G_t] + p_t + I_t(1-\tau)_t.$$

Substituting (1):

$$X_t(1-\tau)_t + \Delta G_t = [d_t + cg_t] + p_t + I_t(1-\tau)_t.$$

Therefore, (6) can be written as:

$$R_{A_t} = \frac{d_t + cg_t + p_t + I_t(1-\tau)_t}{S_{A_{t-1}}}. \tag{7}$$

Since $S_{A_{t-1}}$ is unobservable for the firms with leverage, the MM theory, equation (5), will be employed; then:

$$R_{A_t} = \frac{d_t + cg_t + p_t + I_t(1-\tau)_t}{(V-\tau D)_{t-1}}. \tag{8}$$

The observed rate of return on the common stock is, of course:

$$R_{B_t} = \frac{(X-I)_t(1-\tau)_t - p_t + \Delta G_t}{S_{B_{t-1}}} = \frac{d_t + cg_t}{S_{B_{t-1}}}. \tag{9}$$

Equation (8) is the rate of return to the common shareholder of the same firm and over the same period of time as (9). However, in (8) there are the underlying assumptions that the firm never had any debt and preferred stock and that the MM theory is correct; (9) incorporates the exact amount of debt and preferred stock that the firm actually did have over this time period and no leverage assumption is being made. Both (8) and (9) are now in forms where they can be measured with available data. One can note that it is unnecessary to estimate the change in growth, or earnings from current assets, since these should be captured in the market holding period return, $d_t + cg_t$.

Using CRSP data for (9) and both CRSP and Compustat data for the components of (8), a time series of yearly R_{A_t} and R_{B_t} for $t = 1948$-1967 were derived for 304 different firms. These 304 firms represent an exhaustive sample of the firms with complete data on both tapes for all the years.

A number of "market model" [1, 12] variants were then applied to these data. For each of the 304 firms, the following regressions were run:

$$R_{Ait} = {}_A\alpha_i + {}_A\beta_i R_{Mt} + {}_A\epsilon_{it} \tag{10a}$$

$$R_{Bit} = {}_B\alpha_i + {}_B\beta_i R_{Mt} + {}_B\epsilon_{it} \tag{10b}$$

$$\ln(1 + R_{Ait}) = {}_{AC}\alpha_i + {}_{AC}\beta_i \ln(1 + R_{M_t}) + {}_{AC}\epsilon_{it} \tag{10c}$$

$$\ln(1 + R_{Bit}) = {}_{BC}\alpha_i + {}_{BC}\beta_i \ln(1 + R_{M_t}) + {}_{BC}\epsilon_{it} \tag{10d}$$

$$i = 1, 2, \ldots, 304$$
$$t = 1948\text{-}1967$$

where R_{M_t} is the observed NYSE arithmetic stock market rate of return with dividends reinvested, α_i and β_i are constants for each firm-regression, and the usual conditions are assumed for the properties of the disturbance terms, ϵ_{it}. Equations (10c) and (10d) are the continuously-compounded rate of return versions of (10a) and (10b), respectively.[5]

III. The Results

An abbreviated table of the regression results for each of the four variants, equations (10a)-(10d), summarized across the 304 firms is shown in Table 1.

The first column designated "mean" is the average of the statistic (indicated by the rows) over all 304 firms. Therefore, the mean ${}_A\hat{\alpha}$ of 0.0221 is the intercept term of equation (10a) averaged over 304 different firm-regressions. The second and third columns give the deviation measures indicated, of the 304 point estimates of, say, ${}_A\hat{\alpha}$. The mean standard error of estimate in the last column is the average over 304 firms of the individual standard errors of estimate.

The major conclusion drawn from Table 1 is the following mean β comparisons:

$${}_B\hat{\beta} > {}_A\hat{\beta}, \text{ i.e., } 0.9190 > 0.7030$$
$${}_{BC}\hat{\beta} > {}_{AC}\hat{\beta}, \text{ i.e., } 0.9183 > 0.7263.$$

The directional results of these betas, assuming the validity of the MM theory, are not imperceptible and clearly are not negligible differences from the investor's point of view. This is obtained in spite of all the measurement and data problems associated with estimating a time series of the RHS of (8) for

5. Because the R_{M_t} used in equations (10) is defined as the observed stock market return, and since adjusting for capital structure is the major purpose of this exercise, it was decided that the same four regressions should be replicated on a leverage-adjusted stock market rate of return. The major reason for this additional adjustment is the belief that the rates of return over time and their relationship with the market are more stable when we can abstract from all changes in leverage and get at the underlying risk of all firms.

For the 221 firms (out of the total 304) whose fiscal years coincide with the calendar year, average values for the components of the RHS of (8) were obtained for each year so that R_{M_t} could be adjusted in the same way as for the individual firms—a yearly time series of stock market rates of return, if all the firms on the NYSE had no debt and no preferred in their capital structure, was derived. The results, when using this adjusted market portfolio rate of return time series, were not very different from the results of equations (10), and so will not be reported here separately.

TABLE 1
SUMMARY RESULTS OVER 304 FIRMS OF EQUATIONS (10a)-(10d)

	Mean	Mean Absolute Deviation*	Standard Deviation	Mean Standard Error of Estimate
${}_{A}\hat{\alpha}$	0.0221	0.0431	0.0537	0.0558
${}_{A}\hat{\beta}$	0.7030	0.2660	0.3485	0.2130
${}_{A}\hat{R}^2$	0.3799	0.1577	0.1896	
${}_{A}\hat{\rho}$	0.0314			
${}_{B}\hat{\alpha}$	0.0187	0.0571	0.0714	0.0720
${}_{B}\hat{\beta}$	0.9190	0.3550	0.4478	0.2746
${}_{B}\hat{R}^2$	0.3864	0.1578	0.1905	
${}_{B}\hat{\rho}$	0.0281			
${}_{AC}\hat{\alpha}$	0.0058	0.0427	0.0535	0.0461
${}_{AC}\hat{\beta}$	0.7263	0.2700	0.3442	0.2081
${}_{AC}\hat{R}^2$	0.3933	0.1586	0.1909	
${}_{AC}\hat{\rho}$	0.0268			
${}_{BC}\hat{\alpha}$	−0.0052	0.0580	0.0729	0.0574
${}_{BC}\hat{\beta}$	0.9183	0.3426	0.4216	0.2591
${}_{BC}\hat{R}^2$	0.4012	0.1602	0.1922	
${}_{BC}\hat{\rho}$	0.0262			

* Defined as: $\dfrac{\sum_{i=1}^{N} |x_i - \bar{x}|}{N}$, where $N = 304$. $\hat{\rho}$ = first order serial correlation coefficient.

each firm. One of the reasons for the "traditional" theory position on leverage is precisely this point—that small and reasonable amounts of leverage cannot be discerned by the market. In fact, if the MM theory is correct, leverage has explained as much as, roughly, 21 to 24 per cent of the value of the mean β.

We can also note that if the covariance between the asset and market rates of return, as well as the market variance, was constant over time, then the systematic risk from the market model is related to the expected rate of return by the capital asset pricing model. That is:

$$E(R_{A_t}) = R_{F_t} + {}_{A}\beta[E(R_{M_t}) - R_{F_t}] \tag{11a}$$

$$E(R_{B_t}) = R_{F_t} + {}_{B}\beta[E(R_{M_t}) - R_{F_t}] \tag{11b}$$

Equation (11a) indicates the relationship between the expected rate of return for the common stock shareholder of a debt-free and preferred-free firm, to the systematic risk, ${}_{A}\beta$, as obtained in regressions (10a) or (10c). The LHS of (11a) is the important $\rho\tau$ for the MM cost of capital. The MM theory [9, 10] also predicts that shareholder expected yield must be higher (for the same real firm) when the firm has debt than when it does not. Financial risk is greater, therefore, shareholders require more expected return. Thus, $E(R_{B_t})$ must be greater than $E(R_{A_t})$. In order for this MM prediction to be true, from (11a) and (11b) it can be observed that ${}_{B}\beta$ must be greater than ${}_{A}\beta$, which is what we obtained.

Using the results underlying Table 1, namely the firm and stock betas, as the

criterion for selecting among the possible observed market value ratios that can be used, if any, for (4), the following cross-section regressions were run:

$$({}_B\beta)_i = a_1 + b_1 \left(\frac{S_A}{S_B} {}_A\beta \right)_i + u_{1i} \qquad i = 1, 2, \ldots, 102 \qquad (12a)$$

$$({}_{BC}\beta)_i = a_2 + b_2 \left(\frac{S_A}{S_B} {}_{AC}\beta \right)_i + u_{2i} \qquad i = 1, 2, \ldots, 102 \qquad (12b)$$

$$({}_A\beta)_i = a_3 + b_3 \left(\frac{S_B}{S_A} {}_B\beta \right)_i + u_{3i} \qquad i = 1, 2, \ldots, 102 \qquad (13a)$$

$$({}_{AC}\beta)_i = a_4 + b_4 \left(\frac{S_B}{S_A} {}_{BC}\beta \right)_i + u_{4i} \qquad i = 1, 2, \ldots, 102 \qquad (13b)$$

Because the preferred stock market values were not as reliable as debt, only the 102 firms (out of 304) that did not have preferred in any of the years were used. The test for the adequacy of this alternative approach, equation (4), to adjust the systematic risk of common stocks for the underlying firm's capital structure, is whether the intercept term, a, is equal to zero, and the slope coefficient, b, is equal to one in the above regressions (as well as, of course, a high R^2)—these requirements are implied by (4). The results of this test would also indicate whether future "market model" studies that only use common stock rates of return without adjusting, or even noting, for the firm's debt-equity ratio will be adequate. The total firm's systematic risk may be stable (as long as the firm stays in the same risk-class), whereas the common stock's systematic risk may not be stable merely because of unanticipated capital structure changes—the data underlying Table 3 indicate that there were very few firms which did not have major changes in their capital structure over the twenty years studied.

The results of these regressions, when using the average S_A and average S_B over the twenty years for each firm, are shown in the first column panel of Table 2. These regressions were then replicated twice, first using the December 31, 1947 values of S_{A_i} and S_{B_i} instead of the twenty-year average for each firm, and then substituting the December 31, 1966 values of S_{A_i} and S_{B_i} for the 1947 values. These results are in the second and third panels of Table 2.[6]

From the first panel of Table 2, it appears that this alternative approach via (4a) for adjusting the systematic risk for the firm's leverage is quite

6. The point should be made that we are not merely regressing a variable on itself in (12) and (13). (12a) and (12b) can be interpreted as correlating the ${}_B\beta_i$ obtained from (10b) and (10d)—the LHS variable in (12a) and (12b)—against the ${}_B\beta_i$ obtained from rearranging (4)—the RHS variable in (12a) and (12b)—to determine whether the use of (4) is as good a means of obtaining ${}_B\beta_i$ as the direct way via the equations (10). We would be regressing a variable on itself only if the ${}_A\beta_i$ were calculated using (4a), and then the ${}_A\beta_i$ thus obtained, inserted into (12a) and (12b).

Instead, we are obtaining ${}_A\beta_i$ using the MM model in *each* of the twenty years so that a leverage-adjusted 20 year time series of R_{A_i} is derived. Of course, if there were no data nor measurement problems, and if the debt-to-equity ratio were perfectly stable over this twenty year period for each firm, then we should obtain perfect correlation in (12a) and (12b), with $a = 0$ and $b = 1$, as (4) would be an identity.

TABLE 2

RESULTS FOR THE EQUATIONS (12a), (12b), (13a), AND (13b)*

	Using 20-Year Average for $\left(\frac{S_A}{S_B}\right)_i$			Using 1947 Value for $\left(\frac{S_A}{S_B}\right)_i$			Using 1966 Value for $\left(\frac{S_A}{S_B}\right)_i$		
	a	b	R^2	a	b	R^2	a	b	R^2
Eq. (12a)	−0.022 (0.021)	1.062 (0.021)	0.962	0.150 (0.048)	0.842 (0.045)	0.781	0.085 (0.041)	0.905 (0.038)	0.849
	constant suppressed	1.042 (0.009)	0.962	constant suppressed	0.966 (0.021)	0.781	constant suppressed	0.976 (0.017)	0.849
Eq. (12b)	−0.003 (0.013)	1.016 (0.013)	0.984	0.159 (0.047)	0.816 (0.044)	0.773	0.124 (0.037)	0.843 (0.034)	0.859
	constant suppressed	1.014 (0.005)	0.984	constant suppressed	0.952 (0.019)	0.773	constant suppressed	0.947 (0.015)	0.859

	Using 20-Year Average for $\left(\frac{S_B}{S_A}\right)_i$			Using 1947 Value for $\left(\frac{S_B}{S_A}\right)_i$			Using 1966 Value for $\left(\frac{S_B}{S_A}\right)_i$		
	a	b	R^2	a	b	R^2	a	b	R^2
Eq. (13a)	0.030 (0.016)	0.931 (0.017)	0.969	0.112 (0.028)	0.843 (0.030)	0.888	0.080 (0.027)	0.898 (0.030)	0.902
	constant suppressed	0.960 (0.007)	0.969	constant suppressed	0.948 (0.015)	0.888	constant suppressed	0.976 (0.014)	0.902
Eq. (13b)	0.007 (0.010)	0.979 (0.011)	0.988	0.119 (0.026)	0.852 (0.028)	0.902	0.063 (0.026)	0.942 (0.029)	0.911
	constant suppressed	1.004 (0.012)	0.911	constant suppressed	0.967 (0.013)	0.902	constant suppressed	1.005 (0.012)	0.911

* Standard error in parentheses.

satisfactory (at least with respect to our sample of firms and years) only if long-run averages of S_A and S_B are used. The second and third panels indicate that the equations (8) and (10) procedure is markedly superior when only one year's market value ratio is used as the adjustment factor. The annual debt-to-equity ratio is much too unstable for this latter procedure.

Thus, when forecasting systematic risk is the primary objective—for example, for portfolio decisions or for estimating the firm's cost of capital to apply to prospective projects—a long-run forecasted leverage adjustment is required. Assuming the firm's risk is more stable than the common stock's risk,[7] and if there is some reason to believe that a better forecast of the firm's future leverage can be obtained than using simply a past year's (or an average of past years') leverage, it should be possible to improve the usual extrapolation forecast of a stock's systematic risk by forecasting the total firm's systematic risk first, and then using the independent leverage estimate as an adjustment.

IV. Tests of the MM vs. Traditional Theories of Corporation Finance

To determine if the difference, ${}_B\beta - {}_A\beta$, found in this study is indeed the correct effect of leverage, some confirmation of the MM theory (since it was assumed to be correct up to this point) from the systematic risk approach is needed. Since a direct test by this approach seems impossible, an indirect, inferential test is suggested.

The MM theory [9, 10] predicts that for firms in the same risk-class, the capitalization rate if all the firms were financed with only common equity, $E(R_A)$, would be the same—regardless of the actual amount of debt and preferred each individual firm had. This would imply, from (11a), that if $E(R_A)$ must be the same for all firms in a risk-class, so must ${}_A\beta$. And if these firms had different ratios of fixed commitment obligations to common equity, this difference in financial risk would cause their observed ${}_B\beta$s to be different.

The major competing theory of corporation finance is what is now known as the "traditional theory," which has contrary implications. This theory predicts that the capitalization rate for common equity, $E(R_B)$, (sometimes called the required or expected stock yield, or expected earnings-price ratio) is constant, as debt is increased, up to some critical leverage point (this point being a function of gambler's ruin and bankruptcy costs).[8] The clear implication of this constant, horizontal, equity yield (or their initial downward sloping cost of capital curve) is that changes in market or covariability risk are assumed not to be discernible to the shareholders as debt is increased. Then the traditional theory is saying that the ${}_B\beta$s, a measure of this covariability risk, would be the same for all firms in a given risk-class irregardless of differences in leverage, as long as the critical leverage point is not reached.

Since there will always be unavoidable errors in estimating the β's of indi-

7. A faint, but possible, empirical indication of this point may be obtained from Table 1. The ratio of the mean point estimate to the mean standard error of estimate is less for the firm β than for the stock β in both the discrete and continuously compounded cases.

8. This interpretation of the traditional theory can be found in [9, especially their figure 2, page 275, and their equation (13) and footnote 24 where reference is made to Durand and Graham and Dodd].

TABLE 3

INDUSTRY MARKET VALUE RATIOS OF PREFERRED STOCK (P) AND DEBT (D) TO COMMON STOCK (S)

Industry Number	Industry	Number of Firms		P/S		D/S		$\frac{P+D}{S}$	
20	Food and Kindred Products	30	Mean*	0.22		0.81		1.04	
			ROM**	0.00	1.18	0.00	3.55	0.00	4.13
			ROCR***	0.00	2.52	0.00	8.10	0.00	10.01
28	Chemicals and Allied Products	30	Mean	0.07		0.25		0.33	
			ROM	0.00	0.51	0.00	0.90	0.00	1.20
			ROCR	0.00	1.54	0.00	2.07	0.00	2.92
29	Petroleum and Coal Products	18	Mean	0.06		0.22		0.27	
			ROM	0.00	0.26	0.00	0.55	0.03	0.57
			ROCR	0.00	0.83	0.00	1.54	0.00	2.30
33	Primary Metals	21	Mean	0.14		0.54		0.68	
			ROM	0.00	1.31	0.00	1.95	0.00	3.04
			ROCR	0.00	4.69	0.00	6.20	0.00	7.49
35	Machinery, except Electrical	28	Mean	0.07		0.33		0.40	
			ROM	0.00	0.49	0.00	1.92	0.00	2.32
			ROCR	0.00	1.28	0.00	6.92	0.00	7.62

TABLE 3 (*Continued*)

Industry Number	Industry	Number of Firms		P/S		D/S		$\frac{P+D}{S}$	
36	Electrical Machinery & Equipment	13	Mean	0.06		0.35		0.41	
			ROM	0.00	0.29	0.00	1.31	0.01	1.33
			ROCR	0.00	1.13	0.00	2.53	0.00	2.53
37	Transportation Equipment	24	Mean	0.08		0.38		0.47	
			ROM	0.00	0.54	0.00	0.93	0.00	1.32
			ROCR	0.00	2.33	0.00	3.76	0.00	6.09
49	Utilities	27	Mean	0.25		1.03		1.28	
			ROM	0.00	0.53	0.49	2.64	0.52	3.12
			ROCR	0.00	3.12	0.12	16.40	0.12	19.52
53	Dep't Stores, Order Houses & Vending Mach. Operators	17	Mean	0.13		0.49		0.62	
			ROM	0.00	0.38	0.01	1.52	0.01	1.87
			ROCR	0.00	1.09	0.00	3.19	0.00	3.66

* "Mean" refers to the average ratio over 20 years and over all firms in the industry.
** "Range of Means" (ROM) refers to the lowest firm's mean (over 20 years) ratio and the highest firm's mean (over 20 years) ratio in the industry.
*** "Range of Company Ranges" (ROCR) refers to the lowest and highest ratio in the industry, regardless of the year.

vidual firms and in specifying a risk-class, we would not expect to find a set of firms with identical systematic risk. But by specifying reasonable a priori risk-classes, if the individual firms had closer or less scattered ${}_A\beta$s than ${}_B\beta$s, then this would support the MM theory and contradict the traditional theory. If, instead, the ${}_B\beta$s were not discernibly more diverse than the ${}_A\beta$s, and the leverage ratio differed considerably among firms, then this would indicate support for the traditional theory.[9]

In order to test this implication, risk-classes must be first specified. The SEC two-digit industry classification was used for this purpose. Requiring enough firms for statistical reasons in any given industry, nine risk-classes were specified that had at least 13 firms; these nine classes are listed in Table 3 with their various leverage ratios.[10] It is clear from this table that our first requirement is met—that there is a considerable range of leverage ratios among firms in a risk-class and also over the twenty-year period.

Three tests will be performed to distinguish between the MM and traditional theories. The first is simply to calculate the standard deviation of the unbiased β estimates in a risk-class. The second is a chi-square test of the distribution of β's in an industry compared to the distribution of the β's in the total sample. Finally, an analysis of variance test on the estimated variance of the β's between industries, as opposed to within industries, is performed. In all tests, only the point estimate of β (which should be unbiased) for each stock and firm is used.[11]

The first test is reported in Table 4. If we compare the standard deviation of ${}_{AC}\beta$ with the standard deviation of ${}_{BC}\beta$ by industries (or risk-classes), we can note that $\sigma({}_{AC}\beta)$ is less than $\sigma({}_{BC}\beta)$ for eight out of the nine classes. The probability of obtaining this is only 0.0195, given a 50% probability that $\sigma({}_{AC}\beta)$ can be larger or smaller than $\sigma({}_{BC}\beta)$. These results indicate that the systematic risk of the firms in a given risk-class, if they were all financed only with common equity, is much less diverse than their observed stock's systematic risk. This supports the MM theory, at least in contrast to the traditional theory.[12]

9. The traditional theory also implies that $E(R_A)$ is equal to $E(R_B)$ for all firms. Unfortunately, we do not have a functional relationship between these traditional theory capitalization rates and the measured βs of this study. Clearly, since the ${}_A\beta$s were obtained assuming the validity of the MM theory, they would not be applicable for the traditional theory. In fact, no relationship between the ${}_A\beta$ and ${}_B\beta$ for a given firm, or for firms in a given risk-class, can be specified as was done for the capitalization rates.

10. The tenth largest industry had only eight firms. For our purpose of testing the uniformity of firm βs relative to stock βs within a risk-class, the use of the two-digit industry classification as a proxy does not seem as critical as, for instance, its use for the purpose of performing an MM valuation model study [8] wherein the ρ^τ must be pre-specified to be exactly the same for all firms in the industry.

11. Since these βs are estimated in the market model regressions with error, precise testing should incorporate the errors in the β estimation. Unfortunately, to do this is extremely difficult and more importantly, requires the normality assumption for the market model disturbance term. Since there is considerable evidence that is contrary to this required assumption [see 3], our tests will ignore the β measurement error entirely. But ignoring this is partially corrected in our first and third tests since means and variances of these point estimate βs must be calculated, and this procedure will "average out" the individual measurement errors by the factor 1/N.

12. Of course, there could always be another theory, as yet not formulated, which could be even

TABLE 4
MEAN AND STANDARD DEVIATION OF INDUSTRY β'S

Industry Number	Industry	Number of Firms		$_A\beta$	$_B\beta$	$_{AC}\beta$	$_{BC}\beta$
20	Food & Kindred Products	30	Mean β	0.515	0.815	0.528	0.806
			σ(β)	0.232	0.448	0.227	0.424
28	Chemicals & Allied Products	30	Mean β	0.747	0.928	0.785	0.946
			σ(β)	0.237	0.391	0.216	0.329
29	Petroleum & Coal Products	18	Mean β	0.633	0.747	0.656	0.756
			σ(β)	0.144	0.188	0.148	0.176
33	Primary Metals	21	Mean β	1.036	1.399	1.106	1.436
			σ(β)	0.223	0.272	0.197	0.268
35	Machinery, except Electrical	28	Mean β	0.878	1.037	0.917	1.068
			σ(β)	0.262	0.240	0.271	0.259
36	Electrical Machinery and Equipment	13	Mean β	0.940	1.234	0.951	1.164
			σ(β)	0.320	0.505	0.283	0.363
37	Transportation Equipment	24	Mean β	0.860	1.062	0.875	1.048
			σ(β)	0.225	0.313	0.225	0.289
49	Utilities	27	Mean β	0.160	0.255	0.166	0.254
			σ(β)	0.086	0.133	0.098	0.147
53	Department Stores, etc.	17	Mean β	0.652	0.901	0.692	0.923
			σ(β)	0.187	0.282	0.198	0.279

Our second test, the chi-square test, requires us to rank our 300 $_A\beta$s into ten equal categories, each with 30 $_A\beta$s (four miscellaneous firms were taken out randomly). By noting the value of the highest and lowest $_A\beta$ for each of the ten categories, a distribution of the number of $_A\beta$s in each category, by risk-class, can be obtained. This was then repeated for the other three betas. To test whether the distribution for each of the four β's and for each of the risk-classes follows the expected uniform distribution, a chi-square test was performed.[13]

Even with just casual inspection of these distributions of the betas by risk-class, it is clear that two industries, primary metals and utilities, are so highly skewed that they greatly exaggerate our results.[14] Eliminating these

more strongly supported than the MM theory. If we compare $\sigma(_A\beta)$ to $\sigma(_B\beta)$ by risk-classes in Table 4, precisely the same results are obtained as those reported above for the continuously-compounded betas.

13. By risk-classes, seven of the nine chi-square values of $_A\beta$ are larger than those of $_B\beta$, as are eight out of nine for the continuously-compounded betas. This would occur by chance with probabilities of 0.0898 and 0.0195, respectively, if there were a 50% chance that either the firm or stock chi-square value could be larger. Nevertheless, if we inspect the individual chi-square values by risk-class, we note that most of them are large so that the probabilities of obtaining these values are highly unlikely. For all four βs, the distributions for most of the risk-classes are nonuniform.

14. Primary metals have extremely large betas; utilities have extremely small betas.

two industries, and also two miscellaneous firms so that an even 250 firms are in the sample, new upper and lower values of the β's were obtained for each of the ten class intervals and for each of the four β's.

In Table 5, the chi-square values are presented; for the total of all risk-classes, the probability of obtaining a chi-square value less than 120.63 is over 99.95% (for $_A\beta$), whereas the probability of obtaining a chi-square value less than 99.75 is between 99.5% and 99.9% (for $_B\beta$). More sharply contrasting results are obtained when $_{AC}\beta$ is compared to $_{BC}\beta$. For $_{AC}\beta$, the probability of obtaining less than 128.47 is over 99.95%, whereas for $_{BC}\beta$, the probability of obtaining less than 78.65 is only 90.0%. By abstracting from financial risk, the underlying systematic risk is much less scattered when grouped into risk-classes than when leverage is assumed not to affect the systematic risk. The null hypothesis that the β's in a risk-class come from the same distribution as all β's is rejected for $_{AC}\beta$, but not for $_{BC}\beta$ (at the 90% level). Although this, in itself, does not tell us *how* a risk-class differs from the total market, an inspection of the distributions of the betas by risk-class underlying Table 5 does indicate more clustering of the $_{AC}\beta$s than the $_{BC}\beta$s so that the MM theory is again favored over the traditional theory.

The analysis of variance test is our last comparison of the implications of the two theories. The ratio of the estimated variance between industries to the estimated variance within the industries (the F-statistic) when the seven

TABLE 5
CHI-SQUARE RESULTS FOR ALL β'S AND ALL INDUSTRIES
(EXCEPT UTILITIES AND PRIMARY METALS)

Industry		$_A\beta$	$_B\beta$	$_{AC}\beta$	$_{BC}\beta$
Food and Kindred	Chi-Square	18.67	11.33	26.00	9.33
	$P\{\chi^2 < \}$* =	95-97.5%	70-75%	99.5-99.9%	50-60%
Chemicals	Chi-Square	9.33	10.67	12.00	7.33
	$P\{\chi^2 < \}$ =	50-60%	60-70%	75-80%	30-40%
Petroleum	Chi-Square	17.56	25.33	18.67	22.00
	$P\{\chi^2 < \}$ =	95-97.5%	99.5-99.9%	95-97.5%	99-99.5%
Machinery	Chi-Square	19.14	12.00	24.86	9.14
	$P\{\chi^2 < \}$ =	97.5-98%	75-80%	99.5-99.9%	50-60%
Electrical Machinery	Chi-Square	13.92	7.77	12.38	9.31
	$P\{\chi^2 < \}$ =	80-90%	40-50%	80-90%	50-60%
Transportation Equipment	Chi-Square	15.17	16.83	13.50	6.83
	$P\{\chi^2 < \}$ =	90-95%	90-95%	80-90%	30-40%
Dep't Stores	Chi-Square	14.18	3.59	14.18	3.59
	$P\{\chi^2 < \}$ =	80-90%	5-10%	80-90%	5-10%
Miscellaneous	Chi-Square	12.67	12.22	6.89	11.11
	$P\{\chi^2 < \}$ =	80-90%	80-90%	30-40%	70-75%
Total	Chi-Square	120.63	99.75	128.47	78.65
	$P\{\chi^2 < \}$ =	over 99.95%	99.5-99.90%	over 99.95%	90.0%

* Example: $P\{\chi^2 < 18.67\} = 95\text{-}97.5\%$ for 9 degrees of freedom.

industries are considered (again, the two obviously skewed industries, primary metals and utilities, were eliminated) is less for ${}_{B}\beta$ ($F = 3.90$) than for ${}_{A}\beta$ ($F = 9.99$), and less for ${}_{BC}\beta$ ($F = 4.18$) than for ${}_{AC}\beta$ ($F = 10.83$). The probability of obtaining these F-statistics for ${}_{A}\beta$ and ${}_{AC}\beta$ is less than 0.001, but for ${}_{B}\beta$ and ${}_{BC}\beta$ greater than or equal to 0.001. These results are consistent with the results obtained from our two previous tests. The MM theory is more compatible with the data than the traditional theory.[15]

V. Conclusions

This study attempted to tie together some of the notions associated with the field of corporation finance with those associated with security and portfolio analyses. Specifically, if the MM corporate tax leverage propositions are correct, then approximately 21 to 24% of the observed systematic risk of common stocks (when averaged over 304 firms) can be explained merely by the added financial risk taken on by the underlying firm with its use of debt and preferred stock. Corporate leverage does count considerably.

To determine whether the MM theory is correct, a number of tests on a contrasting implication of the MM and "traditional" theories of corporation finance were performed. The data confirmed MM's position, at least vis-à-vis our interpretation of the traditional theory's position. This should provide another piece of evidence on this controversial topic.

Finally, if the MM theory and the capital asset pricing model are correct, and if the adjustments made in equations (8) or (4a) result in accurate measures of the systematic risk of a leverage-free firm, the possibility is greater, without resorting to a fullblown risk-class study of the type MM did for the electric utility industry [8], of estimating the cost of capital for individual firms.

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15. All of our tests, it should be emphasized, although consistent, are only inferential. Aside from assuming that the two-digit SEC industry classification is a good proxy for risk-classes and that the errors in estimating the individual βs can be safely ignored, the tests rely on the two theories exhausting all the reasonable theories on leverage. But there is always the use of another line of reasoning. If the results of the MM electric utility study [8] are correct, and if these results can be generalized to all firms and to all risk-classes, then it can be claimed that the MM theory is universally valid. Then our result in Section III does indicate the correct effect of the firm's capital structure on the systematic risk of common stocks.

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Fundamentals of Financial Management

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Costs of Capital for Projects of Differing Riskiness. As noted in Chapter 11, care must be taken to assign different risk-adjusted discount rates to capital budgeting projects of differing degrees of riskiness.

Capital Structure Weights. In this chapter we have simply taken as given the target capital structure and used this target to obtain the weights used to calculate k. As we shall see in Chapter 17, establishing the target capital structure is a major task in itself.

Dynamic Considerations. Capital budgeting and cost of capital estimates are a part of the *planning process* — they deal with ex ante, or estimated, data rather than ex post, or historical data. Hence, we can be wrong about the location of the IOS and the MCC. For example, we can underestimate the MCC and hence accept projects that, with 20-20 hindsight, we should have rejected. In a dynamic, changing world this is a real problem. Interest rates and money costs could be low at the time plans are being laid and contracts to build plants are being let, but six or eight months later these capital costs could have risen substantially. Thus, a project that formerly looked good could turn out to be a bad one because we improperly forecasted the MCC schedule.

Although this listing of problem areas may appear formidable, the state of the art in cost of capital estimation is really not in bad shape. The procedures outlined in this chapter can be used to obtain cost of capital estimates that are sufficiently accurate for practical purposes, and the problems listed here merely indicate the desirability of certain refinements. The refinements are not unimportant, but the problems we have identified do not invalidate the usefulness of the procedures outlined in the chapter.

Small
Business

COST OF EQUITY CAPITAL FOR SMALL FIRMS

The three equity cost estimating techniques that were discussed in this chapter have serious limitations when applied to small firms, thus increasing the need for the small-business manager to use judgment. Consider first the constant growth model, $k_s = D_1/P_0 + g$. Imagine a small, rapidly growing firm, such as Bio-Technology General (BTG), which does not now and will not in the foreseeable future pay dividends. For firms like this, the constant growth model is simply not applicable. In fact, it is difficult to imagine any dividend model that would be of practical benefit for such a firm because of the difficulty of estimating growth rates.

The method which calls for adding a risk premium of about 3 percent to the firm's cost of debt can be used for some small firms, but problems arise if the firm does not have a fixed rate issue outstanding. BTG, for example, has no such debt issue outstanding, so we could not use the bond-yield-plus-risk-premium approach for BTG.

The third approach, the CAPM, is also often unusable because if the firm's stock is not publicly

traded, then we cannot calculate the firm's beta. For the privately owned firm, we might use the so-called "pure play" CAPM technique. This involves finding a firm in the same line of business that does have public equity, estimating its beta, and then using this beta as a proxy for that of the small business in question.

To illustrate the pure play approach, again consider BTG. The firm is not publicly traded, so we cannot estimate its beta. However, data are available on more established firms, such as Genentech and Genetic Industries, so we could use their betas as representative of the biological and genetic engineering industry. Of course, these firms' betas would have to be subjectively modified to reflect their larger sizes and more established positions, as well as to take account of the differences in the nature of their products and their capital structures as compared to those of BTG. Still, as long as there are public companies in similar lines of business available for comparison, the estimates of their betas can be used to help estimate the cost of capital of a firm whose equity is not publicly traded. Note that a "liquidity premium" as discussed in Chapter 3 would also have to be added to reflect the illiquidity of the small, nonpublic firm's stock.

Flotation Costs for Small Issues

When external equity capital is raised, flotation costs increase the cost of equity capital beyond what it would be for internal funds. These external flotation costs are especially significant for smaller firms, and they can substantially affect capital budgeting decisions involving external equity funds. To illustrate this point, consider a firm that is expected to pay constant dividends forever, and hence whose growth rate is zero. In this case, if F is the percentage flotation cost, then the cost of equity capital is $k_e = D_1/[P_0(1 - F)]$. The higher the flotation cost, the higher the cost of external equity.

How big is F? According to the latest Securities and Exchange Commission data, the average flotation cost of large common stock offerings (more than $50 million) is only about 4 percent. For a firm that is expected to provide a 15 percent dividend yield (that is, $D_1/P_0 = 15\%$), the cost of equity is $15\%/(1 - 0.04)$, or 15.6 percent. However, the SEC's data on small stock offerings (less than $1 million) show that flotation costs for such issues average about 21 percent. Thus, the cost of equity capital in the preceding example would be $15\%/(1 - 0.21)$, or about 19 percent. When we compare this to the 15.6 percent for large offerings, it is clear that a small firm would have to earn considerably more on the same project than a large firm. Small firms are therefore at a substantial disadvantage because of the effects of flotation costs.

The Small-Firm Effect

A number of researchers have observed that portfolios of small-firm stocks have earned consistently higher average returns than those of large-firm stocks; this is called the "small-firm effect." On the surface, it would seem to be advantageous to the small firm to provide average returns in the stock market that are higher than those of large firms. In reality, it is bad news for the small firm; what the small-firm effect means is that the capital market demands higher returns on stocks of small firms than on otherwise similar stocks of large firms. Therefore, the cost of equity capital is higher for small firms. This compounds the high flotation cost problem noted above.

It may be argued that stocks of small firms are riskier than those of large ones and that this accounts for the differences in returns. It is true that academic research usually finds that betas are higher on average for small firms than for large ones. However, the larger returns for small firms remain larger even after adjusting for the effects of their higher risks as reflected in their beta coefficients.

The small-firm effect is an anomaly in the sense that it is not consistent with the CAPM theory. Still, higher returns reflect a higher cost of capital, so we must conclude that smaller firms do have higher capital costs than otherwise similar larger firms. The manager of a small firm should take this factor into account when estimating his or her firm's cost of equity capital. In general, the cost of equity capital appears to be about four percentage points higher for small firms (those with market values of less than $20 million) than for large, New York Stock Exchange firms with similar risk characteristics.