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BARRON'S

THE DOW JONES BUSINESS AND FINANCIAL WEEKLY WWW.BARRONS.COM JANUARY 24, 2005

The *Barron's* Roundtable, Part 2: With wit and wisdom, our panelists debate the prospects for stocks, bonds and the economy in 2005. This year's experts are Bill Gross, Archie MacAllaster, Meryl Witmer, Marc Faber, Oscar Schafer, Felix Zulauf, Fred Hickey, Abby Joseph Cohen, John Neff, Mario Gabelli, Art Samberg, Scott Black.

DOWJONES

Picks, Pans and Passion

Five market experts share their unique insights and best investment ideas. Grains, anyone?

BARRON'S
ROUNDTABLE

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Yes, the market is expensive. But plenty of stocks are tantalizingly cheap, if only you can find them. That's why, at the start of each year, the editors of Barron's sit down with some of the planet's smartest investors, and drill and grill them for hours on end about their favorite bargains. Our 38th annual confab was held Jan. 10, and in last week's issue we shared this distinguished group's big-picture views.

In this week's installment, No. 2 of three, five Roundtable members offer up their particular picks and pans, and other lively insights. John Neff retired some years back as head of the Vanguard Windsor Fund, but his mind still works overtime, as you'll see in his analysis of Citigroup's sunny prospects. Abby Cohen, the reigning U.S. stock strategist at Goldman Sachs, is calm, cool and commanding in her defense of some of Goldman's favorite stocks, including Pfizer, the downtrodden -- and undervalued -- epitome of Big Pharma.

Money manager Felix Zulauf hails from Switzerland, but is every bit a man of the world -- a world in which crude oil eventually could sell for $100 a barrel, and the dollar, any day now, could mount a surprising rally. Then there's the new guy at the table, Fred Hickey, editor extraordinaire of The High-Tech Strategist, a nifty newsletter that takes the full measure of the technology business. Deeply pessimistic about the prospects for many tech stocks -- the overvalued many -- Fred nailed the trouble with eBay well before the market did. And he doesn't think it's over.

Last, but never least, Mario Gabelli sang the praises of 16 firms, from General Mills to Walt Disney, and explained why corporate lovemaking (otherwise known as deals) is suddenly back in vogue. For the rich details, read on. **– Lauren R. Rublin**

Barron's: *Mario, you're on.*
Gabelli:: To review my macro position, fiscal and monetary conditions provided a tailwind so the administration could get re-elected. It's now

elected, and those conditions will be a headwind. GDP should be up 2.5% this year because the consumer is fatigued. Labor costs are rising, which will hurt corporate earnings, and the wealth effect is helping some consumers. Corporate confidence has improved dramatically, as have the finances of local government. In addition to taking greater risks in capital spending and hiring, companies are doing more deals.

So lovemaking in the corporate world is back. About three years ago serial acquirers were tarred and feathered and Enron, Tyco and WorldCom knocked the wind out of merger activity. Corporate America said, let's not do deals. Well, deals are back. They came back with a vengeance in the fourth quarter. All the ingredients were there; the elimination of amortization of goodwill so that earnings are up immediately, a very strong corporate balance sheet, good cash flow, low cost of capital in terms of making acquisitions. The fact that companies like Rayovac go out and make a deal. Their stock goes up to 6 as opposed to going down. Corporate confidence is back. We are going to see a lot more of that. And that obviously helps stocks.

Q: *If companies are so confident, why have insiders been selling so much stock?*
Gabelli: I'm not selling our stock, but IPOs [initial public offerings] are done because people want to sell stock. In any event, my first pick is a small-cap stock, but it's indicative of its industry. I look for industries that are making money at the bottom of a cycle, and balance sheets that are being restored. About 10 years ago, the manufactured-housing industry sold 370,000 units. Last year, it shipped 135,000. Warren Buffett bought two companies in this business, and put billions of dollars to work. We like **Cavco Industries**, based in Phoenix. The stock is splitting 2-for-1, so on a post-split basis it trades for 23. There will be 6.3 million shares outstanding. As of the end of its March 31 fiscal year, Cavco should have about $45 million in cash and no debt. The company was spun off from Centex in June 2003, and could become an attractive growth vehicle over the next five or 10 years. Cavco manufactures mobile and park homes.

Q: *How much stock do you own?*
Gabelli:: Our clients own 22%. Why is this industry attractive? Even though shipments have dropped in recent years, demand has stayed reasonably constant at around 240,000 units. The gap has been filled by repossessions, which were running around 90,000 a year. Now they're dropping to 40,000. In addition, the pipeline of homes on dealers' shelves is being cleaned out. Cavco sells what it calls 20 x 20 park homes. It has had to increase manufacturing capacity. Earnings after adjusting for the split should be $1.25 for fiscal '05 and $1.60 for fiscal 2006.

Q: *And your next idea?*
Gabelli: When you think of cereal, you think of children. But walk onto a college campus and you'll see kids eating cereal at an increasing rate. The same applies to adults. That brings me to **General Mills**, which sells for $50. The symbol is GIS. There are 365 million shares.

Neff: The University of Pennsylvania just opened a cereal cafe for students.

Gabelli: General Mills has a $19 billion market value. It's got about $7 billion of debt, so that's an enterprise value of $26 billion. In the fiscal year ending May 31, the company should earn $2.80 to $2.85 a share. They're going to have a down fourth quarter because the fourth quarter had an extra week a year ago. Accounting for CoCos [contingent convertible debt] knocks off another six or seven cents, which will be offset by nonrecurring gains. On the plus side, General Mills has gotten its act together. In addition, it's going into whole-grain cereals. The company should earn $3.30 a share in fiscal '06 and $3.60 in '07. It's growing about 9% or 10% a year.

Moving on to Las Vegas, picture three corners. One is where the Bellagio stands today. One is where Excalibur stands, and one is where Wynn Resorts is creating its new hotel. Among these, there is a mighty mite with excess land, 34 valuable acres.

Q: *And the mighty mite is...*
Gabelli: Aztar, which operates the Tropicana in Las Vegas. Land prices have gone up dramatically there. The company also operates a hotel in Atlantic City, and properties in other jurisdictions. Aztar has 34 million shares. The symbol is AZR and the stock trades for 34. The company has a $1.3 billion market cap, and $650 million of debt. The company could have $235 million of ebitda [earnings before interest, taxes, depreciation and amortization] in '05, and $250 million in '06. It should earn about $2 a share in 2005. This is a takeover play for someone who wants to earn a return on those 34 acres, half of which are undeveloped. Secondly, gaming has just been approved in Broward and Miami-Dade counties, in Florida. Macau is a hot gaming market. It's the gateway to China. There will be gaming in Korea.

Faber: This year Macau will have higher gaming revenues than Las Vegas.

Schafer: If you buy Aztar's 34 acres, will you make a good return?

Gabelli: Yes. The MGM Grand is earning about $300 million a year. New York, New York, across the street, is earning around $100 million. These guys earn $30 million.

Shifting gears, there has been consolidation in the cellular market. Alltel is buying Western Wireless, a rural cellular-service operator, for 7.8 times 2005 ebitda. Sprint is buying Nextel, and prior to that Cingular merged with AT&T Wireless. At the same time, TIM is being reabsorbed by Telecom Italia, and Rogers Canada took over Rogers Wireless. The government, meanwhile, is auctioning off more spectrum. The cable guys have a wonderful three-way play in voice, video and data, but they need to get into mobility, so they're coming into this business. **U.S. Cellular** is my pick today. The company has 87 million shares, and the stock trades for 49. U.S. Cellular should have $650 million of ebitda in 2004 and $750 million in 2005. It is clustered in the heartland from Chicago south. Telephone & Data Systems, a public company, owns 70 million of the 87 million shares. It sells for 82. You get 1.22 U.S. Cellular shares for every TDS share. TDS should buy the balance of the company. This is another consolidation play and we're going to see a lot more on a global basis.

Q: *That makes sense. What else have you?*
Gabelli: Industrial companies. **Thomas Industries** is located in Louisville. The symbol is TII, and there are 17.6 million shares. Thomas will have revenues of $410 million in 2004 and $450 million in 2005. They make pumps and compressors. The stock sells at 37. The company has no debt, and $250 million, or $15 a share, in cash. You're paying only $22 for the business. Earnings could be $2.40 a share in 2005. Last year's fourth quarter will be a little sticky because they made an acquisition earlier in Germany that I didn't particularly favor. They gave away too much stock. Hopefully, they don't pay a big dividend.

Witmer: *Why don't you want them to pay a dividend?*

Gabelli: I'd rather have them buy back the stock. They are materially overcapitalized and their German acquisition was poorly timed. My next pick, **Thomas & Betts**, is located in Memphis. The stock sells for 28 and there are 59 million shares outstanding. The symbol is TNB. As of Sept. 30 the company had $550 million of debt and $330 million of cash. They own 20% of a privately owned company called Leviton, which makes electrical connectors for commercial industrial buildings. It's a goldmine. Thomas & Betts should earn about $2 a share in '05, up from $1.35. The driver is the growth in commercial industrial markets. The company has $1.5 billion of revenue.

I also like **Cooper Industries**, in Houston. It

Mario Gabelli's Picks

	Ticker	Price 1/7/05
Cavco Industries	CVCO	$46.40*
General Mills	GIS	50.94
Aztar	AZR	34.40
U.S. Cellular	USM	49.40
Industrials		
Thomas Industries	TII	37.01
Thomas & Betts	TNB	28.35
Cooper Industries	CBE	64.62
T.V. Broadcasters		
Fisher Communications	FSCI	49.33
LIN TV	TVL	17.95
Entertainment		
Vivendi Universal	V	31.84
Walt Disney	DIS	27.17
Time Warner	TWX	18.90
Cable Companies		
Cablevision	CVC	24.68
Rogers Communications	RG	25.86
Liberty Media Intl.	LBTYA	43.41
UnitedGlobalCom	UCOMA	9.19

*The stock will split as of 2/1/05 Source: Bloomberg

Gabelli: Disney overstayed its welcome in the radio businesses.

has approximately 94 million shares and trades around 65. The estimate for '04 is about $3.50 a share in earnings, on $4.4 billion of revenues. In '05 it's about $4 on $4.6 billion of sales. The company is in the same electrical business as Thomas & Betts, and has a tools and hardware segment. I think they would sell off tools and hardware. There is $900 million of net debt, though they have a long-term liability in asbestos and need to clarify that. Danaher tried to buy them three years ago around the current price, but the business and the balance sheet have improved dramatically since. Now, let me talk about advertiser-supported media.

Q: *That's something we know about.*
Gabelli: Media advertising in the U.S. was $264 billion in 2004, up from $245 billion. This year it should reach $280 billion, even with drug advertising falling, wireless consolidating, the auto sector weak and the elections and Olympics over. In '06 the number should increase by 7%. The fastest-growing subset is what they used to call advertising on the Internet.

Q: *What do they call it now?*
Gabelli: Advertising on the Internet. It dropped sharply when the tech bubble burst but has come roaring back. The loser is local broadcasting in '05. I like three companies that did terribly last year but that could have lovemaking opportunities. One is **Fisher Communications**, in Seattle. Fisher had a management change Thursday [Jan. 6] and the CEO has departed. Ben Tucker, the new CEO, will facilitate the sale of the company. Fisher has 8.6 million shares. The stock trades for 49, and the market cap is $415 million. They have $150 million of debt, which they just financed at 8 5/8%, and the first call on it is in '07.

Black: That's an awfully high rate.

Gabelli: Tell me about it. For $580 million of enterprise value, you get real estate in downtown Seattle known as Fisher Plaza, and two ABC affiliate stations. One is in Seattle, the other in Portland, Ore. The logical buyer is ABC, which currently covers only 23.5% of the U.S. with its own owned and operated stations. NBC and CBS are closer to 40%. These stations together are worth about $400 million under "normalized" operations. You also get three million shares of Safeco, worth $150 million, and a radio station in Seattle, and eight CBS-affiliated TV stations. This is going to be sold somewhere in the next 18 months.

Lin TV is an $18 stock. The company has 50 million shares. The symbol is TVL. The company should earn 80 cents for '04 and $1 in '06. Earnings will be flat this year. Hicks Muse [Tate & Furst] owns a piece of this. The company either becomes attractive because broadcasters are looked on with more favor a year from now, or is put into someone else's bailiwick.

Black: What is a takeout multiple for this? Lin is selling for 10 times enterprise value.

Gabelli: At 12 times, the company is worth 36, so you can get a double if there's a takeout. Now I will touch base on some entertainment stocks like **Vivendi Universal**, which I talked about a year ago.

Vivendi has 1.1 billion shares and is trading for 31. For that you get 18.5% of NBC/Universal for free. That's a liquidity event that will happen for Vivendi in three or four years [meaning the company will sell its Universal stake.] It's worth about $9 billion. The balance of the business includes 56% of a wireless operator in France known as SFR. Vodafone owns the rest. Vivendi has a stake in Maroc Telecom, and in a satellite business in France, and in Canal Plus. Vivendi's balance sheet has improved dramatically. It currently has €5 billion of debt. That includes €1 billion the company paid to buy a 15% stake in Maroc Telecom. Vivendi also owns Universal Music Group, and its valuation could be improved. It could be worth €5 billion. The stock has done well since Jean-Rene Fourtou took over. Now, a word about **Walt Disney**.

Q: *We're all ears.*
Gabelli: Disney is trading at 27, has a $54 billion market cap, and $11.5 billion of debt, including consolidated debt from the Hong Kong and European Disneylands. That brings you to $65 billion of enterprise value. The company reported earnings of $1.12 a share in its annual report, before a four-cent net tax adjustment. Take out another dime for expensing options. The first quarter looks flat, but the company could do $1.25 for the current fiscal year, or $1.50 after expensing stock options. Here's the scenario. [CEO Michael] Eisner retires. A new CEO is appointed; the job is [President Robert] Iger's to lose. ABC is turning around because of the TV show "Desperate Housewives." There's a spinoff coming called "Desperate Money Managers."

Q: *That's a perennial show.*
Gabelli: "Lost" is doing well in its time slot, which gives Iger some strength. Their movie line-up is pretty good. The ability of the U.S. to compete even at a $1.31 euro makes Florida a bargain, so Orlando [Disneyworld] will enjoy rising occupancy and rising attendance at its hotels. The new chief will have to figure out how to monetize 30,000 hotel rooms. Disney overstayed its welcome in the radio business, but it has some powerful franchises such as ESPN. The Disney brand globally is another. Brian Roberts [CEO of Comcast] does not come back with another offer, but Disney has changed. It's an interesting investment.

My next idea is a bunch of companies but a simple idea.

Q: *You're about to exceed your quota!*
Gabelli: Cable is in the sweet spot, and has huge cash flow. It needs to develop a wireless strategy. We like **Time Warner**, in part because you get AOL for free and Internet advertising is booming. I'm recommending **Cablevision Systems**. The stock is 24. It is worth in the low 40s. Time Warner buys it. The Rainbow DBS satellite system goes to Viacom. [Last week Cablevision agreed to sell the unit to Echostar Communications.] Jimmy [President James Dolan] takes over Madison Square Garden, the Knicks and the Rangers.

Rogers Communications gives you a terrific opportunity in Canada. It is the wireless and cable operator there. Two other cable companies I like: **Liberty Media**, and its cousin, **United GlobalCom**. [Last week the companies announced they would combine.] That's it.

Q:: *At last. Thank you, Mario.* ■

Mario J. Gabelli is the Chairman and Chief Investment Officer of Gabelli Asset Management Inc. and Portfolio Manager of various investment products at the firm. The securities mentioned in the article are not representative of any entire portfolio, and are subject to change at any time. As of February 2005, the firm and its affiliates benefically own on behalf of their investment advisory clients or otherwise a percentage of outstanding shares of the following: Aztar Corp. 12.83%; Cablevision Systems 9.97%; Cavco Industries Inc. 43.62%; Cooper Industries Ltd. 3.5%; Fisher Communications Inc. 17.18%; General Mills Inc. less than 1%; Liberty Media International Inc. 1.66%; Liberty Media Corp. 1.42%; Lin TV Corp. 13.46%; Rogers Communications 2.46%; The Walt Disney Co. less than 1%; Thomas & Betts Corp. 15.51%; Thomas Industries Inc. 19.88%; Time Warner Inc. less than 1%; Unitedglobalcom Inc. 1.71%; U.S. Cellular Corp. 5.16%; Vivendi Universal less than 1%. One of our affiliates serves as an investment adviser to Time Warner, Inc. and has received compensation within the past 12 months for these non-investment banking securities-related services.

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