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## Analysis shows what investors expect of firms

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Investors are expecting less from Plexus Corp. than from any other Wisconsin stock, according to an analysis of 48 state companies.

The Neenah company's three-year median revenue growth was 41.3%. Yet the market is expecting revenue to increase just 3.3% a year over the next five years, according to the Applied Finance Group.

Combine that with Applied Finance's conclusion that Plexus management is doing a worse job of using investors' capital than the leaders of any other public company in the state, and one researcher says you've got a stock that's an "interesting" investment idea.

"These guys have had disastrous sales growth during the last two quarters, and the market is basically pricing that into them right now," said Rafael "Rafe" Resendes, co-founder and partner at Chicago-based Applied Finance.

"Justifying their current price requires them to grow sales at 3% a year," he said.

That's a reasonable goal, Resendes said, even if the technology industry Plexus supplies doesn't fully rebound and becomes a "boring" industry that grows at the same pace as Gross Domestic Product again.

The company provides products and services to original equipment manufacturers in the telecommunications, medical, industrial, computer and transportation industries. Its stock price has plunged to about \$15 from a high of almost \$78 in September 2000, mostly because of shrinking demand as telecommunications and other technology companies continue to struggle.

Plexus was among state companies the market had the highest expectations for last year, but this year it's the opposite story.

"The market is not convinced that the bad news is over yet because margins are declining and market expectations for growth are very low," Resendes said.

**Analysis**

**INVESTOR EXPECTATIONS**

Company	Revenue Growth	Profit Margin	Market Cap	Price	Dividend Yield
Plexus Corp.	3.3%	15.2%	\$1.2B	\$15	0.0%
Applied Finance Group	41.3%	18.5%	\$0.8B	\$25	0.0%
Other Wisconsin Stocks	5.0%	12.0%	\$0.5B	\$20	0.0%

[Investor Expectations](#)

The company's operating margins have been dropping for the last five quarters, meaning that every time it generates \$1 in sales, Plexus is keeping less and less of it and more is going to expenses.

"The story you have to be willing to accept is that the tech market is going to firm up in terms of unit growth, and profit margins will rebound some, so unit growth increases can start to drive increased overall profits," Resendes said.

## Comparing companies

Resendes and his associates at Applied Finance looked at financial data for 48 state companies to evaluate how they stacked up in two categories.

The first compared how much the companies have increased revenue historically vs. how much revenue growth the market expects from them, based on their current stock price.

Applied Finance determined the revenue growth that investors are pricing into a stock by calculating the value of expected cash receipts and expenditures in today's dollars.

If that calculation shows the market is expecting revenue growth of only 5%, and the company's median revenue growth over the past three years is 15%, the stock may be worth considering. Its potential for sales growth, and presumably share price growth, could be higher than what the market is expecting.

The second category that Applied Finance looked at is what Resendes calls "economic margin," which evaluates the return companies generate on their assets vs. the opportunity cost of owning those assets.

The economic margin calculation considers cash flow and several other variables to determine how well executives use the money that stockholders and bondholders invest.

For example, XYZ Co. may have \$100 in annual cash flow and \$50 in earnings, but if Uncle Bob put up \$1,000 to get the company started and expects to earn, say, 12% on his money, XYZ may not be profitable.

Resendes and partner Daniel J. Obrycki would calculate XYZ's economic margin by subtracting the \$120 that Uncle Bob expects to be paid at the end of the year from the \$100 annual cash flow and then dividing that figure by the \$1,000 investment to arrive at an economic margin of negative 2%.

If managers are getting a better return on invested money this year than they did last year, it would make sense that the market would notice the company was being run better, and more investors would want to buy the stock.

Companies with an improvement in their 2002 forecast have a shot at turning in a good performance down the road, Resendes said.

Here are Resendes' comments about two of the other companies highlighted in Applied Finance's study:

- Johnson Outdoors - a company whose managers are using investors' capital better and a company the market has high expectations for - still has a negative economic margin, but it has improved considerably. Resendes worries the stock market is "a little too euphoric" about this company, whose operating margins have been declining and sales growth has been stable since the second quarter of 2001.

"Given the average profit margins they've been able to deliver, the market is expecting them to grow revenue at 15% a year - which is something they haven't been able to do historically," he said.

- Fiserv's stock price has been under pressure lately, and Resendes wouldn't be surprised if it continues to fall.

"Even with the weakness it has had in its stock price, this firm has to grow very aggressively - above 25% a year - to justify its current stock price," he said. "It's very difficult for this firm to do, given that over the last few years growth has been slowing down."

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