

Eye on Operations

Graco Corporation is not a household name. In fact, Graco carries around such a low profile that it's often mistaken for a kiddy toy-and-furniture manufacturer of the same name. Even the ticker symbol (GGG) is monotonous. Graco is in a greasy-hands business that is highly lucrative. It began operations in 1926 as a manufacturer of vehicle lubrication equipment. Today Graco sells fluids handling equipment to over forty different industries. In October 2006, the Company reported its eighteenth consecutive quarter of higher earnings.

Over the years, Graco has made sweeping moves to drastically cut its overhead costs. A 324,000 square foot manufacturing facility opened in Rogers, Minnesota in November 1996. The new Koch Center (named after Chairman David A. Koch) houses the factory and engineering fabrication shop. The Koch Center is also the distribution hub for all of the Company's products. The company's Minneapolis facility is used as a laboratory for testing and demonstrating all of the Company's products.

Graco's list of products includes:

Spray pumps for painting buildings

Spray pumps for applying roof sealants.

Specialized pumps for dispensing adhesives.

Mixers for blending chemical compounds.

Paint circulating systems for finishing vehicle chassis.

Lubrication systems for changing oil and greasing gears in automobiles and commercial fleets.

High-pressure washers for striping public highways.

In July 2006, Graco purchased Lubriquip from IDEX Corporation. Lubriquip is a manufacturer of oil and grease lubrication systems used to prolong the life of conveyor systems, packaging machinery, transportation equipment, and food processing equipment to name just a few applications. In 2005, Lubriquip logged sales of \$30 million.

Graco's spray pumps provide fluid pressures ranging from 20 to more than 6,000 pounds per square inch and flow rates from under 1 gallon to 140 gallons per minute. Brush and roller methods of applying paint are becoming a thing of the past. More and more commercial contractors are switching to waterborne paints because these paints are better for the environment and easier to use than solvent-based paints. Domestically, over eighty percent of professional painters use airless spray pumps. In Asian-Pacific markets, less than five percent of professional painters use airless spray pumps. Graco's Tex Spray Gun applies a variety of textures including stone paint, synthetic stucco, cement stucco and anti-skid deck coatings. It applies paint five times faster than hopper guns and seven times faster than hand trowels.

Graco's lubricating equipment systems have been purchased by many of the big name oil producers including Kendall, Texaco, Quaker State and Pennzoil. The compact EM5 lubrication meter, weighing only 2.5 pounds, can be read from across the room. The Horizon system allows an auto service mechanic to track and record every drop of lubricant dispensed. It is a portable device with a keyboard for programming a menu of lubricants to be dispensed.

Financial Snapshot

First quarter revenue of \$202 million was up 14% year over year. This is the thirteenth consecutive quarter where all three of Graco's business segments have logged revenue gains. Year to date cash flow from operations was quite strong at \$117 million in spite of significant uses of cash—dividends of \$30 million, property, plant and equipment additions of \$22 million, share repurchases of \$70 million and acquisitions of \$31 million. Graco has no long-term debt.

Industrial segment sales were \$101 million, up 15%. In the Americas sales were up 19% with nice gains in the protective coatings side of the business, the process side of the business and the finishings side of the business. In Europe sales were up 15% with increases in most of the geographic regions that Europe serves and in most of the major product categories. In Asia, sales rose 4% mostly China and Southeast Asia. Korea and Japan were the only weak spots. Operating margin of 31% was up 400 basis points over last year. A combination of higher sales and improved products from the acquired businesses drove that improvement.

In the Contractor segment, third quarter sales were \$79 million, up 4%. In the Americas, sales have leveled off—likely the impact of slower housing starts. However, sales to commercial contractors and the resiliency of the remodeling market is offsetting lagging sales to residential contractors. In Europe sales were up 25% reflecting strong sales in all products categories, particularly airless spray guns. The marketing team in Europe is focused on converting end users, adding new distribution and successfully launching new products. Operating margin in the Contractor segment was 27% up 100 basis points over last year.

The Lubrication segment had explosive growth. Sales were \$22.4 million up 65% from last year. The Lubriquip acquisition contributed 44% of that growth. Operating profit margins slipped 3% to 21% due to acquisition costs for Lubriquip. Graco has incurred \$1.2 million of the projected \$2 million cost of acquiring Lubriquip.

Sales Overseas are Propelling Growth

Approximately 41% of Graco's sales are to the foreign markets. Assuming that the US dollar continues to weaken, it is advantageous to own a US company that sells its products overseas.

If you look at the SSG for Graco, you will note a steeper slope (i.e. more rapid growth) in the last five years. The company has a highly efficient business model and sports a gross

profit margin of 52.7% that is unmatched any of its competitors. The weakness in the stock price is a unique buying opportunity.

Analyst Estimates

The average rating of the six analysts who follow the Company is a buy. The five-year projected growth rate of 18% by Yahoo (Thomson Financial) is far too aggressive in my opinion. Reuters and Standard & Poor's growth projections of 16.5% are more in line but still a tad high.

Judgments On the SSG

I used the SSG Preferred Procedure to calculate a growth projection of 15%. I used a sales growth rate of 12%, net profit margin of 20%, and shares outstanding of 67.2 million to calculate earnings per share of \$4.19.

The five-year average high and low P/Es are 21.6 and 14.6 were again too aggressive in my opinion. I chose to use the high and low P/E of 19.5 and 14 from the year 2002. The relative value is 103%.

The Bottom Line

At 25/50/25 zoning and a current price of \$39.55, Graco has an upside potential of 3.3 to 1 with a buy below price of \$40.40. The projected annual return (PAR) is 14.9% and the total return is 18%.

Our club portfolio is underweight Industrials and Graco is a preferred way to boost that sector weighting. I recommend that we buy Graco under \$40 to diversify and potentially improve the total return on our club portfolio.

For further reading:

2005 Annual Report and 10K.

Standard & Poor's Stock Report

Value Line Stock Report

3rd Quarter 2006 Earnings Call Transcript

GRACO INC. NYSE-GGG

RECENT PRICE **42.68** P/E RATIO **18.8** (Trailing: 21.2 Median: 15.0) RELATIVE P/E RATIO **1.03** DIV'D YLD **1.4%** VALUE LINE

TIMELINESS 3 Lowered 9/22/06
SAFETY 2 Raised 10/31/03
TECHNICAL 3 Lowered 9/15/06
BETA 1.00 (1.00 = Market)

2009-11 PROJECTIONS

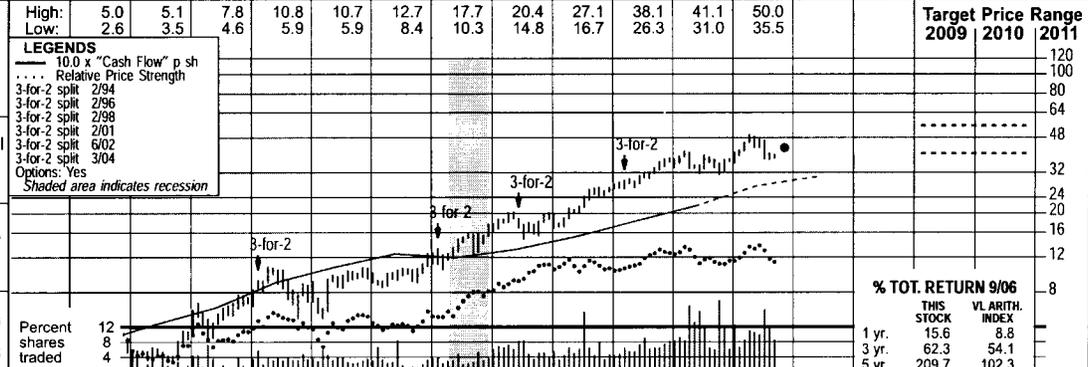
	Price	Gain	Ann'l Total
High	55	(+30%)	8%
Low	40	(-5%)	Nil

Insider Decisions

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

Institutional Decisions

	4Q2005	1Q2006	2Q2006
to Buy	104	103	121
to Sell	91	90	85
Hlds(000)	53866	53511	58623



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
3.93	3.68	3.73	3.71	4.17	4.42	4.54	4.80	6.37	6.42	7.23	6.75	6.83	7.75	8.77	10.70	12.10	13.45	Sales per sh sh ^A	17.50
.32	.22	.22	.22	.30	.44	.55	.67	.90	1.07	1.25	1.20	1.31	1.53	1.83	2.18	2.75	3.05	"Cash Flow" per sh	4.20
.21	.11	.12	.11	.17	.31	.40	.50	.60	.84	1.01	.92	1.05	1.23	1.55	1.80	2.20	2.45	Earnings per sh ^{AB}	3.40
.05	.06	.06	.07	.07	.09	.09	.11	.13	.13	.16	.18	.20	.26	.41	.54	.58	.70	Div'ds Decl'd per sh ^C	1.00
.15	.10	.12	.19	.27	.23	.35	.23	.18	.13	.21	.43	.17	.22	.24	.29	.30	.30	Cap'l Spending per sh	.50
1.10	1.13	1.15	.84	.93	1.19	1.46	1.83	.14	.91	1.62	2.48	3.44	2.46	3.35	4.21	4.90	5.65	Book Value per sh	10.30
81.84	84.81	85.97	86.95	86.39	87.40	86.30	86.24	67.83	68.90	68.42	70.00	71.30	69.06	68.98	68.39	66.00	64.00	Common Shs Outst'g ^D	60.00
8.3	18.9	18.8	24.3	15.2	11.9	10.1	12.6	14.4	10.5	9.7	14.8	17.1	18.1	20.0	20.1	20.0	20.1	Avg Ann'l P/E Ratio	13.5
.62	1.21	1.14	1.44	1.00	.80	.63	.73	.75	.60	.63	.76	.93	1.03	1.06	1.07	1.07	1.07	Relative P/E Ratio	.90
3.1%	2.8%	2.9%	2.6%	2.8%	2.3%	2.3%	1.8%	1.5%	1.5%	1.7%	1.3%	1.1%	1.2%	1.3%	1.5%	1.5%	1.5%	Avg Ann'l Div'd Yield	2.2%

CAPITAL STRUCTURE as of 6/30/06			391.8	413.9	432.2	442.5	494.4	472.8	487.0	535.1	605.0	731.7	800	860	Sales (\$mill) ^A	1050
Total Debt None			16.8%	19.1%	21.0%	24.4%	25.6%	25.1%	26.9%	27.6%	29.6%	29.3%	32.0%	32.0%	Operating Margin	34.0%
Leases, Uncapitalized Annual rentals \$1.7 mill.			12.7	13.5	13.7	14.7	15.5	18.5	18.1	18.7	17.8	23.5	25.0	30.0	Depreciation (\$mill)	40.0
Pension Assets-12/05 \$185 mill. Oblig. \$191 mill.			35.1	44.3	47.3	59.3	70.1	65.3	75.6	86.7	108.7	125.9	150	160	Net Profit (\$mill)	210
Pfd Stock None			31.5%	29.6%	33.8%	33.2%	33.8%	33.0%	32.3%	32.2%	32.4%	33.5%	35.0%	35.0%	Income Tax Rate	34.5%
Common Stock 67,846,000 shares as of 7/20/06			9.0%	10.7%	10.9%	13.4%	14.2%	13.8%	15.5%	16.2%	18.0%	17.2%	18.7%	18.5%	Net Profit Margin	20.0%
MARKET CAP: \$2.9 billion (Mid Cap)			63.9	87.3	48.3	59.7	61.9	82.2	160.3	68.1	130.4	102.3	125	175	Working Cap'l (\$mill)	475
CURRENT POSITION			8.1	6.2	112.6	65.7	18.1	--	--	--	--	--	Nil	Nil	Long-Term Debt (\$mill)	Nil
Cash Assets			126.1	157.5	9.3	62.9	110.9	173.7	245.4	169.8	230.8	287.7	320	360	Shr. Equity (\$mill)	615
Receivables			26.4%	27.2%	39.6%	47.1%	55.6%	37.6%	30.8%	51.1%	47.1%	43.7%	46.5%	44.0%	Return on Total Cap'l	33.5%
Inventory (LIFO)			27.9%	28.1%	507.6%	94.3%	63.2%	37.6%	30.8%	51.1%	47.1%	43.7%	46.5%	44.0%	Return on Shr. Equity	33.5%
Other			21.3%	22.0%	392.7%	80.1%	53.0%	30.5%	25.2%	42.1%	36.0%	31.3%	34.0%	31.5%	Retained to Com Eq	24.0%
Current Assets			2.4%	2.2%	2.3%	1.5%	1.6%	1.9%	1.8%	1.8%	2.4%	2.8%	2.7%	2.8%	All Div'ds to Net Prof	29%
Accts Payable			18.6	24.7	27.3											
Debt Due			6.0	8.3	--											
Other			72.2	78.6	79.6											
Current Liab.			96.8	111.6	106.9											

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
of change (per sh)	8.5%	6.5%	11.5%
Sales	19.0%	11.5%	14.5%
"Cash Flow"	22.5%	13.5%	14.5%
Earnings	18.5%	23.0%	16.5%
Dividends	13.0%	30.0%	20.5%

Cal-endar	QUARTERLY SALES (\$ mill.) ^A				Full Year
	Mar.Per	Jun.Per	Sep.Per	Dec.Per	
2003	119.7	146.4	133.7	135.3	535.1
2004	135.0	160.2	149.0	160.8	605.0
2005	170.9	198.2	176.9	185.7	731.7
2006	192.2	218.6	190	199.2	800
2007	205	230	205	220	860

Cal-endar	EARNINGS PER SHARE ^{AB}				Full Year
	Mar.Per	Jun.Per	Sep.Per	Dec.Per	
2003	.25	.34	.33	.31	1.23
2004	.32	.43	.41	.39	1.55
2005	.38	.51	.44	.47	1.80
2006	.51	.60	.54	.55	2.20
2007	.58	.66	.59	.62	2.45

Cal-endar	QUARTERLY DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	.049	.049	.049	.049	.20
2003	.055	.055	.055	.055	.22
2004	.093	.093	.093	.093	.37
2005	.13	.13	.13	.145	.54
2006	.145	.145	.145		

BUSINESS: Graco Inc. designs, manufactures, and sells equipment, including specialized pumps, air & aerosol spray guns, regulators, meters, and valves, for moving and applying fluids and semi-solid materials for the vehicular, construction, food, chemical, and plastic industries. Industrial/automotive unit accounted for 50% of sales in '05; Contractor, 42%; Lubrication, 8%. Foreign sales, 41% of total. Sold interest in Graco Robotics, Inc., 6/91; Lockwood Technical, Inc., 4/92. Has about 2,100 empls. '05 depr. rate: 9.2%. Barclays Global Investors, N.A. owns 10.9% of common; officers and directors, 2.7% (3/06 proxy). Chairman, CEO, and President: David A. Roberts, Inc. MN. Addr.: 88 Eleventh Ave. N.E., Minneapolis, MN 55413. Tel.: (612) 623-6000. Net: www.graco.com.

Graco probably had another strong performance in the third quarter.

Note: The company's earnings report was to be released shortly after this Issue went to press. We think that third-quarter share earnings likely came in at \$0.54, 23% higher than the year-ago quarter. All three of the company's operating divisions (Industrial, Contractor, and Lubrication) have been growing at a healthy clip, and we expect this to continue in the near future. We also expect some share repurchases in the remainder of this year and also in 2007, aiding per-share figures. We have hiked our 2006 and 2007 share-net estimates by a nickel each, to \$2.20 and \$2.45, respectively.

A new facility was recently purchased. A 207,000-square-foot building in Anoka, Minnesota (near the company's Minneapolis headquarters) was bought for \$6.4 million in August. This facility, which was built in 1995, will be used by the Lubrication division. Lubriquip, the recently acquired lubrication company that had previously been a subsidiary of IDEX Corporation, will operate in this new facility beginning in 2007. Lubriquip had

previously conducted its operations at two locations, one in Ohio and one in Wisconsin. The consolidation into one plant will increase operating efficiency at Lubriquip, whose margins are lower than Graco's overall percentage. Management expects that it will take between 18 and 24 months before the acquired business is operating at margins that are equal to the rest of the company.

Graco's common stock is no longer timely. It is now ranked 3 (Average) for year-ahead performance. Also, these shares offer below-average capital gains potential over the 2009-2011 pull. Although the company is running well and healthy earnings advances out to late decade are likely, the stock is currently trading at a price-to-earnings multiple that we feel is inflated. Until the P/E ratio returns to a more normalized level, we would suggest staying on the sidelines. However, cautious investors may be intrigued by the Above-Average Safety rank (2), market-average Beta, and excellent ratings for Earnings Predictability and Price Growth Persistence.

Tom Nikic October 27, 2006

(A) Fiscal year ends on last Friday of calendar year. (B) Primary earnings through '96, then diluted. Excludes nonrecurring items: '91, d5¢; '92, d29¢; '96, 3¢; '97, 2¢; '99, 13¢. Next earnings report due late Jan. on 3/25/04. (C) Dividends historically paid on the first Wednesday in February, May, August, and November. Special dividend of \$1.50 per share paid (D) In millions, adjusted for stock splits.

Company's Financial Strength B++
 Stock's Price Stability 80
 Price Growth Persistence 100
 Earnings Predictability 95
To subscribe call 1-800-833-0046.



Stock Comparison Guide

Prepared by Ssostar

Date 01/08/2007

See Chapter 15 of the *Investors Manual* for complete instructions.

NAME OF COMPANY

GROWTH COMPARISONS

(From Section 1 of the BetterInvesting Stock Selection Guide)

	GRACO INC GGG	IDEX CORP IEX	ILLINOIS T ITW		
4 (1) Historical % of Sales Growth	6.0 %	6.7 %	10.9 %		
5 (2) Projected % of Sales Growth	12.0 %	12.0 %	10.0 %		
4 (3) Historical % of Earnings Per Share Growth	16.8 %	4.5 %	9.0 %		
5 (4) Projected % of Earnings Per Share Growth	15.0 %	15.0 %	10.0 %		

MANAGEMENT COMPARISONS

(From Section 2 of the BetterInvesting Stock Selection Guide)

	(2A) Trend				
5 (5) % Profit Margin Before Taxes (Average for last 5 Years)	24.0 UP	12.6 UP	15.7 UP		
4 (6) % Earned on Equity (Average for last 5 Years)	41.5 UP	11.2 UP	15.4 UP		
(7) % of Common Owned by Management	NONE	NONE	NONE		

PRICE COMPARISONS

(From Section 3-5 of the BetterInvesting Stock Selection Guide)

0 (8) Estimated Total Earnings Per Share For Next 5 Years		16.36	18.22	19.88	
(9) Price Range Over Last 5 Years	High (3A) Low (3B)	10.30-41.10	16.60-45.40	24.60-48.40	
(10) Present Price		39.55	46.11	46.00	
0 Price Earnings Ratio Range Last 5 Years	(11) Highest (3D)	24.60	29.10	27.50	
	(12) Average High (3D7)	21.60	24.30	23.70	
	(13) Average (3-8)	18.10	20.30	20.30	
	(14) Average Low (3E7)	14.60	16.40	16.90	
	(15) Lowest (3E)	11.00	13.90	15.10	
3 (16) Current Price Earnings Ratio	(3-9)	18.70	19.62	15.54	
0 Estimated Price Zones	(17) Lower-Buy (4C2)	26.34-40.43	26.53-43.55	29.60-44.85	
	(18) Middle-Maybe (4C3)	40.43-68.61	43.55-77.58	44.85-75.35	
	(19) Upper-Sell (4C4)	68.61-82.70	77.58-94.60	75.35-90.60	
0 (20) Present Price Range	(4C5)	-Buy-	-Hold-	-Hold-	
3 (21) Upside Downside Ratio	(4D)	3.27	2.48	2.72	
0 (22) Current Yield	(5A)	1.47	1.30	1.83	
5 (23) Projected Average Return	(5C)	14.85	13.60	10.38	

OTHER COMPARISONS

(24) Number of Common Shares Outstanding		67.24	53.48	566.88	
0 (25) Potential Dilution from Debentures, Warrants, Options		None	None	None	
0 (26) Percent Payout	(3G7)	40.70	31.20	27.30	
5 (27) Relative Value		103.3 %	96.7 %	76.6 %	
5 (28) Debt/Capital Ratio		7.0 %	17.0 %	16.0 %	
(29) Date of Source Material		10/30/2006	1/5/2007	1/5/2007	
(30) Where Traded		NYSE	NYSE	NYSE	



Stock Selection Guide®

The most widely used aid to good investment judgment

Company GRACO INC Date 01/05/07

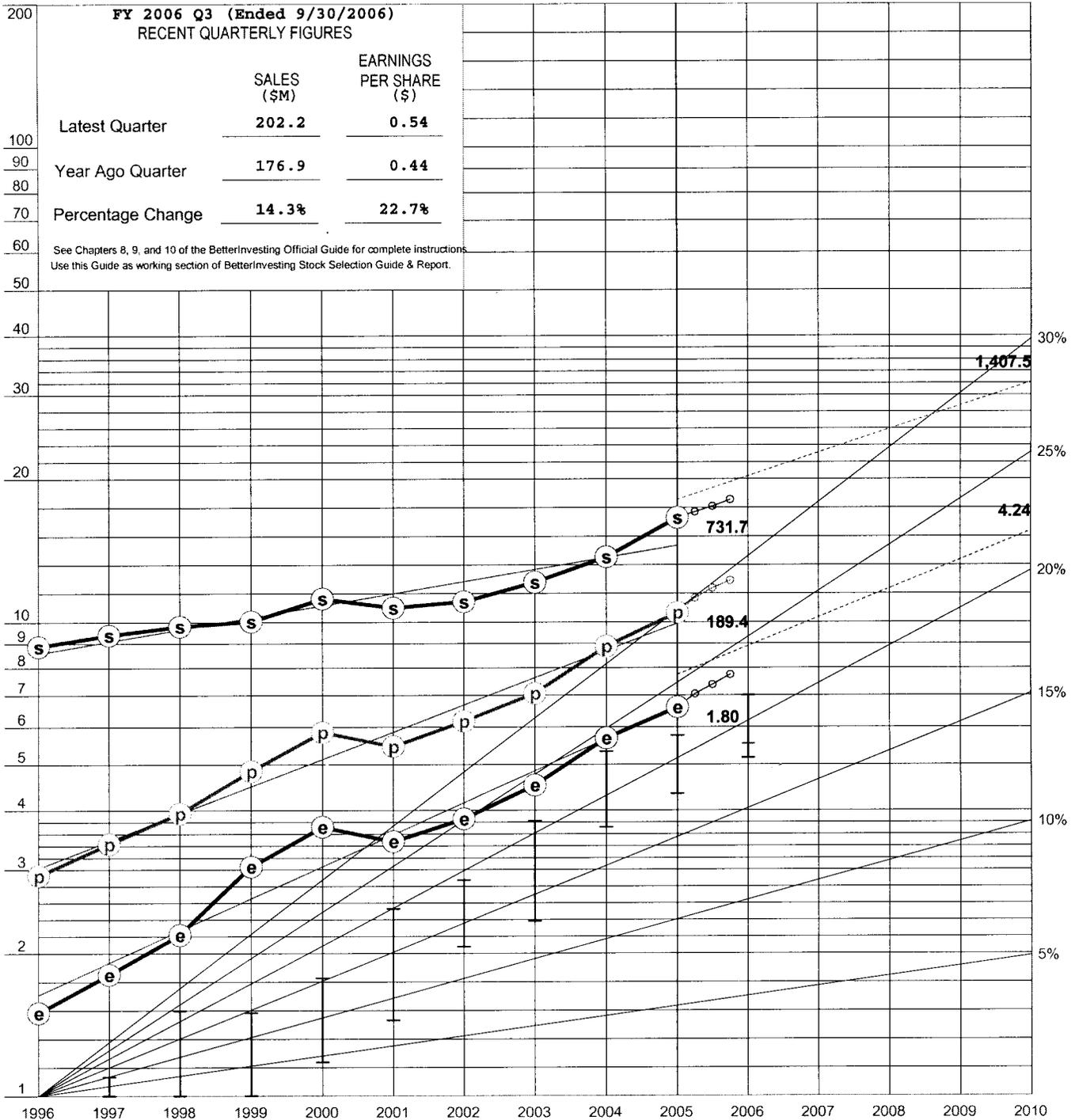
Prepared by Ssostar Data taken from NAIC Data

Where traded NYSE Major product/service Industrial

CAPITALIZATION --- Outstanding Amounts		Reference	
Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	67.2	0.0	0.0
Debt (\$M)	22.3	% to Tot.Cap.	7.3 % Potential Dil. None

1 VISUAL ANALYSIS of Sales, Earnings and Price

GGG



- (1) Historical Sales Growth 6.0 % (3) Historical Earnings Per Share Growth 16.8 %
 (2) Estimated Future Sales Growth 12.0 % (4) Estimated Future Earnings Per Share Growth 15.0 %

2 EVALUATING MANAGEMENT

Company **GRACO INC**

(GGG)

01/05/07

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A % Pre-tax Profit on Sales (Net Before Taxes + Sales)	13.5	14.9	16.5	19.8	21.4	20.9	22.9	23.9	26.6	25.9	24.0	UP	
B % Earned on Equity (E/S + Book Value)	28.0	26.9	435.0	90.9	62.2	37.8	30.4	50.1	46.3	42.8	41.5	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

Year	PRESENT PRICE		HIGH THIS YEAR		LOW THIS YEAR		36.910	
	A	B	C	D	E	F	G	H
	PRICE	PRICE	Earnings Per Share	Price Earnings Ratio	Price Earnings Ratio	Dividend Per Share	% Payout	% High Yield
	HIGH	LOW		HIGH A ÷ C	LOW B ÷ C		F ÷ C X 100	F ÷ B X 100
1 2001	17.7	10.3	0.94	18.9	11.0	0.163	17.4	1.6
2 2002	20.4	14.8	1.05	19.5	14.1	0.196	18.7	1.3
3 2003	27.1	16.7	1.23	22.0	13.5	0.220	17.8	1.3
4 2004	38.1	26.3	1.55	24.6	17.0	1.873	120.8	7.1
5 2005	41.1	31.0	1.80	22.8	17.2	0.520	28.9	1.7
6 TOTAL		99.1		107.8	72.8		203.6	
7 AVERAGE		19.8		21.6	14.6		40.7	
8 AVERAGE PRICE EARNINGS RATIO	18.1		9 CURRENT PRICE EARNINGS RATIO		18.7			

4 Proj. P/E [16.30] Based on Next 4 qtr. EPS [2.04] Current P/E Based on Last 4 qtr. EPS [2.11] PEG=109

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E 21.6 ^(3D7 as adj.) X Estimate High Earnings/Share 4.24 = Forecast High Price \$ 82.7 ^(4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E 14.6 ^(3E7 as adj.) X Estimated Low Earnings/Share 1.80 = \$ 29.5
 (b) Avg. Low Price of Last 5 Years = 19.8 ^(3B7)
 (c) Recent Severe Market Low Price = 26.3
 (d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}} = \frac{0.580}{0.071} = 8.1$
 Selected Estimate Low Price = \$ 26.3 ^(4B1)

C ZONING

82.7 ^(4A1) High Forecast Price Minus 26.3 ^(4B1) Low Forecast Price Equals 56.4 ^(C) Range. 1/3 of Range = 14.1 ^(4CD)
 (4C2) Lower 1/3 = 26.3 ^(4B1) to 40.4 (Buy) **Note: Ranges changed to 25%/50%/25%**
 (4C3) Middle 1/3 = 40.4 to 68.6 (Maybe)
 (4C4) Upper 1/3 = 68.6 to 82.7 ^(4A1) (Sell)

Present Market Price of 39.550 is in the Buy ^(4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price ^(4A1) 82.7 Minus Present Price 39.550 = 43.2 = 3.3 To 1
 Present Price 39.550 Minus Low Price ^(4B1) 26.3 = 13.2 ^(4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price ^(4A1) 82.7 = (2.091) X 100 = (209.1) - 100 = 109.1 ^(4E) % Appreciation
 Present Market Price 39.550

Relative Value: 103.3% Proj. Relative Value: 90.1%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 0.580
 Present Price of Stock \$ 39.550 = 0.015 X 100 = 1.5 ^(5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS
 Avg. Earnings Per Share Next 5 Years 3.21 X Avg. % Payout ^(3G7) 40.7 = 130.6 = 3.3 % ^(5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential ^(4E) 109.1 **P.A.R. Tot. Ret.**

Average Yield ^(5B) <u>1.5</u> %	Average Yield	<u>2.4</u> %	<u>2.1</u> %
Average Total Annual Return Over the Next 5 Years ^(5C) <u>3.3</u> %	Annual Appreciation	<u>12.4</u> %	<u>15.9</u> %
	% Compd Ann Rate of Ret	<u>14.9</u> %	<u>18.0</u> %