Gaming Industry

Overall Assessment: Good presentation in general with nice summaries and tables. Both qualitative and quantitative factors are in considered in discussing the company's current position. That said, your strategies need more elaboration/thought.

Major comments:

- <u>Brand Name</u>: One of your strategies is to break-up the organization forming separate companies with the break-up occurring either by existing subsidiaries or by geography. What needs more elaboration is to what extent brand name is important in each market tier e.g., one brand or a diverse stable of brands. You note in your write-up on page 4 for Mandalay's competitor Park Place Enterprises that "… It has deliberately not consolidated its 6 brands under one name, but rather leverages them individually in an effort to segment its target market and steer different target audiences towards different properties". Should Mandalay also follow this strategy?

- <u>Management competence</u>: Does management have the necessary competence to go into the regional mall business or is a different set of skills necessary? Should they hire outside management to operate their non-gambling e.g. regional mall activities?

- <u>Performance relative to Major Competitor</u>: It seems that Manadalay is similar to MGM Grand in terms of their current holdings and the potential strategies that your group suggests for Mandalay. If this is correct, why does MGM with a Sales growth (3 Year CAGR) that is 50% less than Mandalay have a higher EPS growth (3 Year CAGR) 8.3% vs -12% for Mandalay, higher profit margins (8.9% vs 6.6%), higher growth rate in profit margins (33.85% vs -43%) and a higher P/E? It suggests that Manadalay is not using debt in an effective manner relative to MGM. This is interesting since both companies have a cost of equity > ROE. What is their credit rating relative to their competitors especially MGM? How much should they reduce debt by in order to increase their credit rating, lower their borrowing cost, lower their beta and hence lower their cost of equity?

- <u>Competitor's reaction to Company's strategy</u>: Given your analysis, it is unclear how Mandalay's strategy differs from that of MGM's strategy. In addition to this, it appears that MGM is doing a better job of implementating their strategy (see the preceding comment on relative performance)

- <u>Where are the growth markets</u>? You need to discuss where the growth markets are and how Manadaly is positioned with respect to these markets. Although you touch on this in various sections in the report you need to be more specific. Based on what I read in your report, it is my understanding that there will only be a handful of winners in Las Vegas given overcapacity concerns. Also, near term prospects in Atlantic City will be challenging. Besides this, consolidation in the industry is a reality and is likely to continue. Are the emerging markets the Mississippi Gulf Coast, Tunica, and Detroit? How does this impact on their strategy e.g. how are they positioned relative to these growth markets? (more elaboration is necessary)

- <u>Growth via Seasoned Equity Offering (SEO)</u>: Your group suggests that since Manadaly has reached its maximum borrowing limit, that they issue new equity to bring down their debt. You also point out that high capital expenditures are necessary for maintaining the cash flows on their mature properties. Will this necessarily maximize shareholder value? Do dilution effects to equityholders exist by having an SEO? Why haven't you considered rebalancing their portfolio of properties by selling underperforming properties and using the proceeds to pay down debt and/or purchase new properties? Do you agree with management that repurchasing their shares is a good strategy? Why or why not e.g. is it an effective use of their capital?

- <u>Relative Financial Ratios</u>: I would like to see what the ratios are for your competitors relative to your firm. You provide summaries but no table of ratios.

Minor comments:

- Given your new strategy on page 15, why isn't revpar reported for Mandalay vs. the competitors over time?

- In your Geographic and Tier Diversification chart, why isn't MGM Grand colored in for Tier 4 given that they purchased the Mirage?

- Could you please make your font size a bit larger? I have difficulty reading small print.

Beer Industry

Overall Assessment: Good in-depth discussion of competitors albeit more elaboration is necessary on your strategies.

Major comments:

- Bi-coastal markets: Should Boston beer be a niche player with a focus on the east coast and the west coast plus Canada given the location of their in-house breweries and contract breweries? Please provide a geographic distribution of their sales and earnings (if possible).

- Is their advertising reaching their target audience: Given that Boston Beer competes on quality rather than price and they they have struggled to develop new successful advertising campaigns, what is the profile of their typical customer? Given this profile e.g. customers who enjoy high quality (I suspect you're marketing to yuppies and not generation Xers) are they using the right entertainment media/shows? What audience watches these shows? What media do these people watch/use? Are they necessarily watching TV or surfing the net at nights? Point: Is Boston Beer spending its advertising dollars wisely?

- Corporate governance issues: You indicate in your report that Jim Koch owns 100% of the voting rights. Why doesn't this indicate that there is an alignment of management interest with stockholder interests? You also state on page 86 that "there has been some turnover in management that is expected to stoke the competitiveness of BBC". To what extent is this true? How much hands-on management is Jim Koch exerting?

- ROE relative to Cost of equity: what is the cost of equity for Boston Beer? How does this relate to its ROE? What does this suggest about management's effectiveness from a financial perspective?

- Comparing Apples to Apples: What do you mean by "industry average"? Is it the big 3 beers companies only or does it also include the craft brews? Does it make more sense to compare Boston Beer to other competitors in the craft brew market and/or compare Boston Beer to Heineken USA rather than the Big 3 brewers? Make sure you are comparing your ratios to the right benchmarks and/or companies. According to Boston Beer's 10K " Boston Beer competes in what the Company defines as the "Better Beer" category, also referred to as the Specialty Beer category. The defining factors for "Better Beer" includes price, quality, image and taste, and are representative of imports and craft beers." On page 82, in your graph of the Growth-Share matrix: Boston Beer, how are you defining relative market share? Relative to what… the big 3 brewers or just craft brewers or all brewers?

- When does contract with Stroh's expire: One issue which you didn't explore is when the contract with Stroh's expires. This is important since Boston Beer's 10K states that "The Company brews approximately 40% of its production at the Stroh Breweries." How long before this may become an issue?

- <u>Distribution uncertainty</u>: You mention only in passing that Miller introduced a new contract with its distributors that seeks to impose new requirements on distributors so as to focus the distributor's attention, time, selling effort and investment on Miller products. You really need to explore this point more fully especially since Boston Beer's 10K states that "The Company is uncertain of the effect this may have on its results of operations, cash flows and financial position as Miller distributors represent a significant part of the Company's distribution network"

Minor comments:

- Provide a summary table showing each beer brewer discussed and a blow by blow synopsis of applicable characteristics e.g.

	Anaheuser Busch	…..	Boston Beer
Pricing	• Price leader		
…..			
Segmentation/Differentiation			
….			
Financials			

- Potential Websites: I don't know to what extent you surfed the web to do your report but here are some sites I found to be interesting: www.realbeer.com, www.beerweek.com,

Mass Retail/Department Stores

Overall Assessment: Once again, nice job of discussing the strengths and weaknesses of each competitor. Looks like you've taken my suggestions to heart and looked at Investext for analyst reports on JCP. Also, good use of flowcharts.

Major comments:

- Drivers of Department Store Sales: Do you have any sense as to what percent of their department store sales are driven by apparel, home furnishings, etc? How does this compare to other department stores? Also, on a national basis which age group spends the most money in department stores? Is it the baby boomer's or is it 18-30 year olds? The reason I'm asking is that
former. I recall that 18-30 year olds purchase the most merchandise. Is this correct? If so, why is JCP focusing primarily on the 35-54 year olds?

- Drug Stores: To what extent are the sales of drug stores suffering as the result of grocery superstores that have an in-house pharmacy? Are there potential problems in JCP's investment in this industry? Is management moving outside their core area of competence? If management hasn't figured out how to increase their department store sales and has had to bring in new management, have they figured out how to increase sales of Eckerds? Is the management needed to run a department store the same type of talent to run a drug store?

- Real estate: Where is the population growing the fastest versus where have they been closing stores e.g. in 1998, Penney closed 75 locations? Where have they been opening stores? You touch on this with respect to focusing more Eckerd locations in areas where retirement growth is the greatest but not JCP department stores. Should they continue to be anchors in regional malls or should they also consider stand alone stores or stores in a power center? How much real estate do they own versus lease?

- Parlaying their knowledge of catalog sales: Can JCP parlay their knowledge of catalog sales (where they have a comparative advantage) into increased sales for their department store sales? For example, is the merchandise that moves the fastest in catalogs devoted the most "shelf" space/square feet in stores? Who are the customers who shop in catalogs? Is the profile of these customers similar to the ones who shop at the stores? You mention a sentence on a closer tie-in in inventory management between catalog sales and department store sales but this needs some embellishment.

- Current strategy: Isn't another current strategy to remove layers of managers? Didn't management make several mis-steps which caused them to be in their current predicament such as making a big investment in Washington, D.C., to focusing on attracting higher-income shoppers -- instead became costly mistakes? It is my understanding that Penney had spent more than $225 million to become the Washington-Baltimore area's second-biggest department store chain.

- Financial ratios: In section 4, your group should be commended for your excellent job in doing the various ratios for your competitors and JCP. Wow!!

Minor comments:

- What's JCP growth in revenues by unit e.g. is catalog sales growth greater than department store sales growth?

Network Attached Storage

Overall Assessment: I was a little disappointed with the paper given the quality of your presentation. Some of the information conveyed in the presentation is not thoroughly discussed in the paper. As a starting point, please revisit the CEO Interview published in the Wall Street Transcript as of February 1, 2000. It really does a good job in discussing current strategies and potential problems. Also, see the latest Bear Stearns report. This report is a work in progress relative to the other reports that I've read.

Major comments:

- Strategic Alliances: More discussion is necessary on strategic alliances for NTAP vs. alliances formed by competitors. As an example, I read that Cisco Systems, Inc., Global Crossing (Nasdaq:GBLX) and Network Appliance (Nasdaq:NTAP) are NetVoice's strategic partners. Also, Yahoo recently announced that it choose NTAP to be their exclusive storage provider. For an example of an interactive map of internet industry alliances in the B2C and C2C, go to www.orgnet.com/netindustry.html. I don't know if you can obtain a similar map for your company's sector(s).

- Competitors' Strategies: There is little or no discussion of the current strategies associated with some of the competitors of NTAP.

- Segmented Competition: Page 19 provides a nice diagram of who the players are in the various markets that NTAP competes in. What is the market share for NTAP (and other competitors) in each of these markets? If you could add this information to your diagram it would help me visualize where different players core competencies/markets lie. Also, do NTAP's products have an advantage over those of the competition? NTAP's CEO, Warmenhoven, claims that "One advantage of Network Appliance filers is that they can talk to both Unix and Windows machines. About 40 percent of the company's products are used in a mixed computer environment that requires that bilingual ability". What about other filers? To what extent do competitors compete in the different markets? (please elaborate on what you have) Is it the case that although EMC is a contender in about 30 percent of the accounts for which Network Appliance bids, NTAP is moving upstream to higher-capacity points and competing with EMC on the low end of their target market, which is corporate database applications? Also, there seems to be a perception among analysts that although NTAP is encroaching on some of EMC's core market, EMC products do much better housing databases while NTAP products do best storing lots of individual files, also in demand for Web pages, email attachments, MP3 files and other documents. I guess what I'm trying to see is if NTAP has more of a comparative advantage is some markets due to a stronger product.

- Breakdown of NTAP's Revenue by Product Type: To the extent possible, I'd like to see what is the composition of their revenue and the growth of each revenue unit. For example, you note that caching products account for about 7% of their revenue.

- New product innovations: I found no mention in your report that NTAP has some ambitious new products in the pipeline that will quadruple storage capacity in high-end models and reintroduce Intel chips to the company's portfolio. Why did they switch from their current use of Alpha chips? Will this strategy hurt them given that data can be transferred into and out of Alpha chips more quickly than with Intel chips?

- Ratio Analysis: Although you discuss how Business Week views NTAP versus EMC on page 30, I really need to see the various ratios for NTAPs relative to its key competitors with respect to growth, short term solvency, LT solvency, managerial effectiveness, etc. Also, where are the decision trees?

Toy Industry

Overall Impression: Financial analysis is weak relative to some of the other reports that I've read. Also, the report needs to be reorganized. You first discuss Toys R Us (your target firm) and then the competitors followed by an overview of the industry and the consumer. Your proposed strategy finishes the report. Isn't this backwards? On the positive side, you do a nice job in discussing their current strategy.

- Inventory Turnover @ Wal-Mart vs. ToysRUS: There is no discussion of what types of toy inventory mass-merchandisers have vs. Toys R Us. It seems that management doesn't have as good a sense of what kids want. Are there inventory control problems or merchandising mix issues that need to be addressed? Please elaborate. Why are mass merchandisers selling more toys than ToysRUs?

- Toys for Whom? Your report indicates that toys for teens and tweens has higher sales per square foot than toys for the infant - nine year old market. While you say that this has been one of the few success stories in Toys R Us recent history, you suggest a spin-off option for the R zone. Have you considered an alternative strategy of toys for people of all ages? This is in-line with your Circuit City idea but it stresses a toy store for kids of all ages. In the old days, there was a store called Tandy's Toys for Men that became a part of Radio Shack.

- Elimination of the Middleman: To the extent that Mattel and Hasbro start selling toys directly on-line as well as to ToysRUS, doesn't this have implications on ToysRUS bargaining power with these suppliers in the future? What about the smaller independent toy makers? Are they also going on-line? Just asking the question.

- Location: Is there any mention of a sales differential when ToysRUS is located in a strip mall or power center vs. free standing/stand alone stores? I would suspect that being in a strip mall or power center generates more customer traffic. Any strategy implications?

- Financial Performance: Please provide ratio analysis of your competitors vs. Toys R Us with respect to liquidity ratios, solvency ratios, growth ratios, management efficient ratios, etc. with the accompanying analysis. Key in especially on inventory turnover (an indication that their merchandise isn't moving) and the average collection period among others. It's not enough to say that they have reduced their inventory levels (page 2). If they reduced their inventory levels but the inventory is still not moving as fast as the competition they still have a problem. How does their debt ratios compare to their competitors (see below)? Also, what is their cost of equity relative to their ROE?

- Stock Repurchase vs Reducing Debt Levels: Given that the rating agencies have recently downgraded ToysRUS debt rating, which in turn means that the cost of borrowing is increased, is it necessarily a good strategy to repurchase their stock? Since the firm claims that they are using stock buybacks in trying to increase shareholder value, why has their stock price continued to fall? While I don't personally like EVA since EVA maximizes firm value rather than shareholder value, since EVA is what the firm is using, what are the implications of share repurchases on EVA vs. reducing their debt levels? See our in-class example of EVA for Coke and the impact that a reduction in debt had on the WACC. (We don't operate in an MM world)

Minor Comments:

- I would suggest a summary table showing the sales per square foot and other ratios for each competitor on a side by side basis so that the reader doesn't have to constantly flip back and forth throughout your report.