

Region's Pros Rekindle Ardor for Tech Stocks

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By Kelly Greene

For our Southeastern stock pickers, the second quarter was even tougher than the first.

Six regional analysts and money managers who made picks for The Wall Street Journal in March all chose so-called defensive plays. But the stocks fell 15% on average in the second quarter, even though there wasn't a technology stock in the bunch. In comparison, the first-quarter picks had fallen only 1% -- including several tech stocks chosen by a different set of pros.

Of course, our disappointed pickers were in good company. The Standard & Poor's 500 stock index fell 3% in the second quarter. The Nasdaq Composite shed 13%.

The biggest losers among first-quarter regional picks were Sensormatic Electronics, a Boca Raton maker of anti-shoplifting tags, off 29% to \$15.828 as the quarter ended Friday, and Lowe's, down 30% to \$41.063 as investors feared that the Wilkesboro, N.C., home-improvement retailer would suffer as rising interest rates hurt consumer spending.

This time around, our pros are turning back to technology companies. Here is a look at their favorites.

Frank Jolley
President, Jolley Asset Management
Rocky Mount, N.C.

At first glance, it might seem that Equifax, the Atlanta-based credit-information and payment-services giant, should run a credit check on itself. Its debt recently rose to about 80% of total capital.

But Mr. Jolley dug deeper, and found that the company's spending has gone toward strategic acquisitions and stock repurchases. For example, in May it paid about \$260 million for Southfield, Mich.-based R.L. Polk & Co.'s consumer information group, whose databases of demographic and lifestyle data from 105 million households give Equifax a bigger presence in direct marketing. The company spent \$6.5 million in the first quarter to buy back 296,000 shares. (Equifax now has discontinued its stock-buyback program until it pays down debt, notes Mr. Jolley.)

What appeals to him is Equifax's low multiple. The stock closed at \$26.25 Friday -- about 15 times analysts' average earnings estimate of \$1.72 a share for this year. "That's a considerable discount to the S&P," says Mr. Jolley.

Plus, he says, Equifax has databases full of information that the Internet companies need: "As business gets done more quickly, this data becomes more valuable." Particularly for businesses such as online-brokerage outfits and auction Web sites, "the creditworthiness and integrity of the person is very important," Mr. Jolley says. "I'm not a New Economy-type investor, but I think the winners are going to be companies that can apply their own models to it -- not companies created for it."

He expects Equifax, whose market cap is nearly \$4 billion, to see its stock reach the mid-30s this year and top \$40 in 2001.

Greg D'Amico & Robert Loest
Portfolio managers, IPS Advisory
Knoxville

RF Micro Devices of Greensboro, N.C., can't turn out its chips fast enough. It makes radio-frequency transmitters that allow cell phones and other wireless devices to communicate with the Internet. "The demand is so enormous

that they're not going to meet it for years," says Mr. Loest. RF Micro is scrambling to quadruple production capacity.

Another growth arena: RF Micro has created a wireless-communications standard that is considered "the means for hand-held devices to communicate with each other," says Mr. Loest. He and Mr. D'Amico say the stock could double in the next year from the \$85 range. RF Micro still has a steep stock-market value of more than \$7 billion, but its shares are down sharply from a peak of \$184.50 on March 6. "They just got hit along with all the other Internet-related companies," says Mr. D'Amico.

Seven analysts now rate the stock a "strong buy," and six rate it a "moderate buy," says Mr. Loest. For the fiscal year that ends March 31, 2001, analysts estimate profit will be 84 cents a share, a 45% jump.

John Collopy
President, South Beach Capital Markets
Miami

Miami's Noven Pharmaceuticals makes stamp-sized patches that deliver medication through the skin, notably a twice-weekly patch for female hormone replacement. It also makes a nasal spray for osteoporosis. The market for these products is surging as the population ages.

Now Noven is developing a Ritalin patch to release medicine slowly through the skin. Parents of hyperactive children would no longer have to rely on school nurses to administer medicine. "If everything goes well, they could be in the market with this in the first stage of next year," Mr. Collopy says.

The company thinks some of its drugs can be used to treat people suffering from heart disease. And it is doing "serious work" on a patch to treat soft-tissue pain. "If you sprain an ankle or pull a muscle, you could put a patch on the pain site" instead of taking pain relievers, says Mr. Collopy. He also expects financial improvement for the company under new management, led by industry veteran Robert Strauss. Noven's market value is more than \$600 million. Last year profit was 25 cents a share and this year, Mr. Collopy expects 60 to 65 cents.

George Hunt
Analyst, Wachovia Securities
Charlotte

At long last, couch potatoes are warming up to Scientific Atlanta's technology, says Mr. Hunt.

The Norcross, Ga., maker of cable-television equipment provides the boxes that sit on top of TV sets to give channel-surfers "interactive" cable options, such as video on demand and Internet access. The set-top boxes are considered the cable operators' main weapon in their fight against inroads by satellite dishes.

Scientific Atlanta, which "made a big bet" on two-way digital cable a few years ago, produces the equipment that cable operators need to deploy such offerings. For the past two quarters, the company "has sold every single set-top box in inventory," says Mr. Hunt. "They've been saying this was going to happen for a while, and now it's paying off in spades."

Demand should be strong for quite some time, he adds. Although satellite dishes are winning two-thirds of new customers, there are 67 million cable subscribers in the U.S. Already, Scientific Atlanta and competitor General Instrument, a unit of Motorola, have sold about 8.5 million set-top boxes. "But there's still potential for 50 million more, and I'm predicting a 50% penetration rate by 2003," says Mr. Hunt. Cable operators see set-top boxes as a way to boost profit margins from existing customers now that basic video services are growing at only 3% to 4% a year. It's a relatively painless purchase for customers, who can rent the boxes for a few dollars a month, he adds.

Scientific Atlanta has a market cap of around \$12 billion. For the latest fiscal year, which ended Friday, Mr. Hunt expects it to post earnings of 81 cents a share, with per-share results rising nearly 25% in 2001 to \$1.01. His 12-

month target for the stock is \$100. It closed Friday at \$74.50.

Jason Knope, Lynne Mathews
Portfolio managers
SouthTrust Asset Management, Atlanta

If you're looking for a low-risk, defensive play, Mr. Knope and Ms. Mathews suggest Family Dollar Stores, a deep-discount retailer based in Matthews, N.C.

With nearly 3,600 stores in 39 states, the chain of little stores selling small-ticket items has filled a gap left by behemoths such as Wal-Mart Stores, they say. The typical Family Dollar is 10,000 square feet or smaller, sells to customers who typically buy about \$10 of merchandise and aims at "anyone who has an income of less than \$25,000" a year, says Mr. Knope. That demographic slice includes certain members of three burgeoning groups, says Ms. Mathews: Hispanics, senior citizens and single mothers.

The two portfolio managers were drawn to Family Dollar over competitors Dollar General of Goodlettsville, Tenn., and Dollar Tree Stores of Norfolk, Va. One reason: Family Dollar is stocking more brand-name products in an effort to draw new customers and increase sales as the company shifts away from selling apparel -- a higher-profit-margin segment, but one that is more fickle than consumer goods such as toothpaste or snacks, says Mr. Knope. The company added about 20 new brand-name products last year and is trying to stock several more each month.

Family Dollar, which has a market value of \$3.3 billion, also is stepping up its expansion plans, says Ms. Mathews, with 3,000 new sites identified for building. This year, she adds, the chain expects to open 400 new stores, and it may increase the number to 475 next year. "They're slowly but surely moving toward the 14% to 15% store-growth average for the industry," says Mr. Knope. Plus, the company has no debt, and has been able to fund most capital expenditures internally.

Family Dollar stock, which closed Friday at \$19.563, trades at a 25% discount to rivals even though analysts expect 22% to 23% earnings growth for the next several years, he says. The money managers' 12-month price target is \$28 to \$35.

Jeffrey Saut
Senior vice president, strategy
Raymond James & Assoc., St. Petersburg, Fla.

T/R Systems, a Norcross, Ga., company designer and maker of digital document-processing and printing systems for the print-on-demand market, has been socked unfairly, says Mr. Saut. "Xerox came out in essence and said, 'Business is weak.' They all came tumbling down," he recalls. After T/R Systems hit a 52-week low of \$5.94 on June 28, down from a yearly high of \$28.44 March 2, "I don't see much downside from here."

At a trade show in Dusseldorf, Germany, in May, T/R Systems introduced a software product called M@estro "that catapults these folks into a new market niche," Mr. Saut says. He says the product, designed for work situations where many workers share the same printers, "could increase productivity and cut costs -- universities are big users of this stuff."

Mr. Saut sees per-share earnings rising from five cents for the fiscal year that ended in January to 40 cents in fiscal 2001 and 77 cents in fiscal 2002. His 12-month price target is \$23. Market cap: \$75 million.

How the Second-Quarter Picks Did
STOCK PICKER: William Danzell
(FIRM): (Danzell Financial Group)
STOCK: Sonoco Products
(SYMBOL): (SON)
FRIDAY Close: \$20.578
Pct. Change: -11%

STOCK PICKER: Andy May & Eliot Laurence
(FIRM): (J.C. Bradford)
STOCK: Goody's Family Clothing
(SYMBOL): (GDYS)
FRIDAY Close: 5.500
Pct. Change: -9
STOCK PICKER: Tim McIntosh
(FIRM): (Strategic Investment Partners)
STOCK: Health Management Associates
(SYMBOL): (HMA)
FRIDAY Close: 13.063
Pct. Change: -8
STOCK PICKER: Dean McQuiddy & Pat Riley
(FIRM): (Sawgrass Asset Management)
STOCK: Sensormatic Electronics
(SYMBOL): (SRM)
FRIDAY Close: 15.828
Pct. Change: -29
STOCK PICKER: Allan Roness
(FIRM): (JWGenesis Financial)
STOCK: Claire's Stores
(SYMBOL): (CLE)
FRIDAY Close: 19.250
Pct. Change: -4
STOCK PICKER: Gary Tapp
(FIRM): (Robinson-Humphrey)
STOCK: Lowe's
(SYMBOL): (LOW)
FRIDAY Close: 41.063
Pct. Change: -30
AVERAGE CHANGE IN PICKS: -15%
CHANGE IN S&P 500-STOCK INDEX: -3%
Stock Pickers' Third-Quarter Plays
stock picker: Frank Jolley
Firm: (Jolley Asset Management)
stock: Equifax
symbol: (EFX)
Friday close: 26.250
stock picker: Greg D'Amico & Robert Loest
Firm: (IPS Advisory)
stock: RF Micro Devices
symbol: (RFMD)
Friday close: \$87.625
stock picker: John Collopy
Firm: South Beach Capital Markets
stock: Noven Pharmaceuticals
symbol: (NOVN)
Friday close: 30.063
stock picker: George Hunt
Firm: Wachovia Securities
stock: Scientific-Atlanta
symbol: (SFA)
Friday close: 74.500
stock picker: Jason Knope/Lynne Mathews
Firm: (SouthTrust Asset Management)
stock: Family Dollar Stores
symbol: (FDO)
Friday close: 19.563
stock picker: Jeffrey Saut
Firm: (Raymond James)
stock: T/R Systems
symbol: (TRSI)
Friday close: 6.375