As stocks swoon, our pros Mario Gabelli, Brian Rogers, Fred Hickey, Scott Black offer 2014 investing tips.

Goodbye, greed. Hello, fear.

Just one month young, 2014 already is giving investors a run for their money -- or should we say, from all the dough they piled up last year? Stocks are tumbling, bonds are beckoning, gold's aglitter, and volatility's back in town. In short, a confluence of weak corporate earnings, emerging-market turmoil, and a reduction in the Federal Reserve's monetary support suddenly has silenced the upbeat note on which 2013 ended, and the Dow Jones industrials have fallen about 5%.

This means two things with regard to the annual Barron's Roundtable, whose illustrious members gathered Jan. 13 in Manhattan to share their unvarnished opinions of how and where to invest in the new year. Those who predicted a sharp setback for U.S. and emerging market equities, as detailed in this year's first Roundtable installment, published Jan. 20, can give themselves a pat on the back, even if the selling has come somewhat earlier than expected.

More important, this week's third and final Roundtable issue, featuring the investment recommendations of Mario Gabelli, Brian Rogers, Fred Hickey, and Scott Black, arrives at precisely the right time, given it's loaded with details on 22 undervalued and highly promising stocks and funds that could outperform, no matter the cacophonous and, quite frankly, scary backdrop. It would be hard to find a savvier stock-picking quartet this side of, well, last week's Roundtable issue, or one with a better command of industry issues and corporate fundamentals.

Mario, chairman and CEO of the investment firm Gamco, is renowned for his understanding of media outlets and deals, through which companies are refashioned via mergers, acquisitions, split-ups, spinoffs, and other identity-altering, growth-promoting transactions. He has an even six picks, most of which have benefited, or could benefit, from such high-stakes asset-shuffling.

By his own admission, Brian likes "real stocks for real people" -- in other words, un-fancy companies with liquid shares. Even better, for the contrarian-minded chairman and chief investment officer of money manager T. Rowe Price, if these stocks have been down so long, it looks like up.

Fred made his name analyzing and investing in tech stocks, as the name of his newsletter, the High-Tech Strategist, suggests. These days, they're too rich for his frugal tastes, yet too dangerous to short at a time when the central bank's policies are -- or at least have been -- keeping risk assets aloft. Instead, Fred is hiding out in cash and gold, for which he sees bright things, at last, in 2014.

Scott, head of Boston's Delphi Management and arguably the planet's most patient fellow, was the closer after one of the most exhausting and exhaustive gatherings yet. But his detailed comments on five pharma, energy, and tech stocks were well worth the wait.
Barrons: Mario, where do you see bargains this year?

Gabelli: I’ve got six names. First, I want to return to the backdrop. The U.S. economy is growing, albeit with bumps in the road. With a confrontation unlikely in Congress over raising the federal debt ceiling, business and consumer psychology should continue to improve. Corporate profits are likely to be up in the 5% area in 2014, and corporate cash flows should improve further, reflecting reduced pension outlays. Even allowing for interest rates to keep rising, price/earnings multiples will remain reasonably constant, as they are discounting higher rates, in part. Overall, I expect the market could rise 3% to 6% for the year.

Our Panelists

SCOTT BLACK
Founder and president, Delphi Management, Boston

ABBY JOSEPH COHEN
Senior investment strategist and president, Global Markets Institute, Goldman Sachs, New York

MARC FABER
Editor and publisher, The Gloom, Boom & Doom Report, Hong Kong

MARIO GABELLI
Chairman and CEO, Gamco Investors, Rye, N.Y.

BILL GROSS
Founder and co-CIO, Pimco, Newport Beach, Calif.

FRED HICKEY
Editor, the High-Tech Strategist, Nashua, N.H.

BRIAN ROGERS
Chairman and CIO, T. Rowe Price, Baltimore

OSCAR SCHAER
Managing partner, O.S.S. Capital Management; chairman, Rivulet Capital, New York

MERYL WITMER
General partner, Eagle Capital Partners, New York

FELIX ZULAUF
President, Zulauf Asset Management; Co-CIO and partner, Vicenda Asset Management, Zug, Switzerland
Sectors I like include commercial aviation, which will benefit from increased travel by the rising middle class in India and China. I expect continued strength in single-family housing, given the below-average starts of the past six years, and a continued focus on organic and natural foods. In the energy sector, horizontal drilling and fracking [hydraulic fracturing of shale] will remain a game-changer. Finally, I want to reemphasize that the Federal Reserve could let the air out of the stock-market bubble by increasing the margin requirement from the current 50%. [Investors who borrow to buy stock on margin must put up collateral equal to 50% of the value of their equity.]


Many things could let the air out of this market.

**Gabelli:** My picks include Journal Communications [ticker: JRN], a surrogate for what's happening in media and broadcasting; two turnarounds related to management changes, and two energy plays. I was going to recommend Beam [BEAM; holds up bottle of Jim Beam bourbon], but it just agreed to be acquired by Japan's Suntory Beverage & Food [2587.Japan].

Journal Communications is based in Milwaukee. There are approximately 51 million shares outstanding, with two classes of stock; 44.6 million shares have one vote each, and 6.3 million have 10 votes apiece. Shares closed Friday [Jan. 10] at $9. The company owns 13 television stations, 35 radio stations, and one major newspaper, the Milwaukee Journal Sentinel. Revenue will total $410 million for 2013. Ebitda [earnings before interest, taxes, depreciation, and amortization] will be about $75 million, and earnings per share, 55 cents. Journal Communications benefitted in 2012 from a tsunami of spending on political advertising tied to the elections. That was absent in 2013, but political spending will pick up in 2014, and in 2016 there will be another tsunami. In the interim, auto advertising is booming. We value the newspaper at four times Ebitda; the TV stations are worth eight to nine times Ebitda; and radio is worth seven to eight times.

**Mario Gabelli's Picks**

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*Source: Bloomberg*
**Witmer:** What is your stock-price target?

**Gabelli:** The pension liability should decline because of rising interest rates. If CEO Steven Smith spins off the newspaper, the newspaper plus the broadcasting assets could be worth $13 to $15.

I started traveling in 1967 to Canton, Ohio, where I would visit with Timken [TKR] and Diebold [DBD], which makes automated teller machines. Diebold has had all sorts of issues -- with accounting, the Foreign Corrupt Practices Act, taxation in Brazil, and so forth. The company hired a new CEO, Andreas Mattes, with a background at Siemens [SI] and Hewlett-Packard [HPQ]. Diebold has 63.8 million shares and is trading for $33.63. Debt, net of cash, is about $180 million. The company had a bloated cost structure, and has been cutting costs. The financial self-service business, including ATMs, generated $2.2 billion in revenue in 2013. The security-systems business had about $630 million of revenue. Diebold also has a small election-systems business in Brazil. Total revenue came to $2.84 billion, with Ebitda at $215 million and earnings per share at $1.35. The company will likely add a new technology officer to help migrate it to a primarily security-software business. Mattes has done a good job of turning things around, but the stock remains virtually unchanged.

*What could ignite the shares?*

**Gabelli:** The makeover is in the early innings. If Diebold continues on its current course, financial self-service revenue could rise to $2.5 billion. Security is an easy $750 million or $800 million, so we're talking about $3.3 billion of revenue and $2.75 a share of earnings. If it works, the stock could double. One downside is that NCR [NCR] has been making software deals and is ahead of Diebold. But Diebold could stay ahead of NCR because customers love its service.

*Enlarge Image*

*Jennifer Altman for Barron's*

Gabelli: "Let's assume that natural gas stays at $4.40 per Mcf. National Fuel Gas could be worth $100 a share."

The company currently addresses $10 billion out of the possible $14 billion financial self-service market. With new products and services, it plans to address $16 billion out of $19 billion in the next several years. Diebold has been focusing only on hardware, and now will focus on security software. Diebold has a shot not only at substantially higher cash flow, but at developing products related to mobility and cloud computing. Here is a company with a $2 billion market capitalization, no balance-sheet problems, and a great brand and image, in the early stages of a turnaround.

**Witmer:** What is the lowdown on the CEO?
Gabelli: He's very organized. Diebold was searching for someone to transform the company. Given its modest market cap, the company could be attractive to a larger company interested in the footprint that it serves.

Chemtura [CHMT] is in the later stages of a turnaround. The company, which makes specialty chemicals, came out of bankruptcy protection in 2010. There are 96.5 million shares outstanding, and the stock trades for $26. The CEO, Craig Rogers, was CEO of Hercules, which was sold to Ashland [ASH] in 2008. He has been adding to Chemtura's portfolio of assets in areas of core competency, selling other assets where he can get high multiples, and buying back shares. The company's share count could fall to 70 million in the next three years. Debt totals $583 million. Chemtura just sold its consumer-products business for $250 million after taxes. In addition, it announced in October that the board had approved examining whether to sell the agricultural-chemicals business, which generates annual revenue of $450 million and Ebitda of $95 million to $100 million.

What are Chemtura's core competencies, as you say?

Gabelli: Assuming the sale of the ag business, the company will have two businesses -- engineered industrial products and engineered performance products. It makes petroleum additives and fire retardants, among other things. If Chemtura can generate $2.5 billion of revenue through organic growth and minor tuck-ins, it could earn about $450 million to $500 million of Ebitda. The going rate for specialty-chemicals companies is eight times Ebitda, so the stock could sell around $45 in two years. I made a lot of money with Craig Rogerson at Hercules. Chemtura is three years into its turnaround, and now is in the takeoff stage.

Next, think of Mother Earth. The first 1,000 feet of earth below sea level is the Upper Devonian. That's where 99% of the gas-drilling takes place. The next 8,000 to 9,000 feet is the Marcellus, and below that is the Utica, which is rich in energy liquids. National Fuel Gas [NFG] owns 720,000 acres, and leases 60,000. The stock is $70, and the play here is simple. The company operates the gas utility in Buffalo that is worth about $20 per share. It has a midstream pipeline business which it hasn't monetized, and a growing exploration and production business in the Marcellus. Let's assume that natural gas stays at $4.40 per Mcf [thousand cubic feet] on the strip [the average of the next 12 months' futures contracts]. National Fuel Gas could be worth $100 a share.

How do you figure?

Gabelli: The new CEO, Ron Tanski, has said the company is looking at financial engineering, including a master limited partnership for its midstream business. When Columbus came across the sea to America, everyone figured out how much money could be made, not whether it was a safe journey. If you're a utility CEO, the question is, how embarrassed will you be if you're not on the cutting edge? Oneok [OKE] decided to spin off its local-distribution company, and the stock has rallied sharply. That would be a good path for NFG to follow. Natural gas was $4.79 per Mcf in 2009. It fell to $4.64, and $2.83, and then rose to $3.60. Now it is heading north because of the cold weather in much of the country. The stock did well last year, partly because natural-gas prices rose, and the company had some significant discoveries in the Marcellus shale. Regarding the numbers, there are 83 million shares outstanding, and the market capitalization is $5.6 billion. National Fuel Gas has $1.7 billion of net debt, and pays a dividend of $1.50 a share.

My next company had tax issues, problems overseas, and material weaknesses in its accounting. It lost a ton of money in Iraq, and has receivables from Venezuela.
That's all?

**Gabelli:** The company is [Weatherford International](https://en.wikipedia.org/wiki/Weatherford_International) [WFT]. The oil producers have spent $725 globally on exploration and production, including $200 billion in North America. Some $13 billion has gone into artificial lift, or the use of artificial means to increase the flow of oil when pressure is insufficient. [General Electric](https://www.ge.com) [GE] bought Lufkin Industries, a provider of artificial-lift technologies, in 2013, paying 13 times Ebitda. Weatherford has a similar business, its crown jewel, that could be worth at least that valuation. Weatherford could report $15.5 billion to $16 billion of revenue for 2013. Ebitda could approach $2.7 billion. The balance sheet remains bloated with about $9 billion of debt, but management has identified three or four businesses that it wants to monetize.

Weatherford is working on getting a clean accounting opinion. It is an interesting play, because they could IPO [take public via an initial public offering] the artificial-lift business, and use that stock to both delever and make acquisitions.

**Witmer:** Would management agree to this?

**Gabelli:** They move slowly. It's an obvious plan, which would help to reduce debt. The hope is that if Weatherford can clear up the "material weakness" statement in its financials, Wall Street will start looking at it in light of GE's purchase of Lufkin. Artificial lift is one of the most important capabilities to have in horizontal drilling and fracking. If current management doesn't spin off the business in a year or so, someone else could come in and buy it.

**Black:** Didn't the company have to restate earnings a few years back?

**Gabelli:** Yes. It is still two or three quarters behind in restating earnings. Management moved the corporate headquarters to Switzerland from Texas several years ago. Weatherford had good products, distribution, and service, and screwed it up. That's why the stock went from $47 to $14. At some point, either the CEO, Bernard Duroc-Danner, pulls off a turnaround or there will be a change.

**Witmer:** Are there any shareholders who might be instrumental in encouraging change?

**Gabelli:** The company's biggest shareholder, Invesco, has been selling shares, and that is an overhang for the stock.

My last pick is a cereal company started in the 1890s. It is run by a CEO who has become a "cereal" acquirer.

[Collective groan.]

**Rogers:** Can we talk about the bourbon?

**Gabelli:** The company is [Post Holdings](https://www.postholdings.com) [POST]. It was spun out of Ralcorp in February 2012. The stock is trading at $50, and there are 32.7 million shares, and an additional 12 million issued from convertible preferreds last year to finance acquisitions. The CEO, William Stiritz, has spent $1.4 billion on multiple acquisitions. He is recreating the strategy he used when he ran Ralston Purina. Post's acquisitions are accretive to Ebitda, and additional value is coming from synergies. Post has a 10.2% market share in cereal, and that business is growing the overall business. Pro forma revenue, after consolidating purchases, could be more than $2 billion for the year ending September 2015.
The company is building a presence in organic and natural foods, a category that will grow exponentially in coming years.

Post could have $500 million in Ebitda three years from now, from both organic growth and synergies. In five years, Stiritz will be around the age of Warren Buffett today. He is one of the great value-adders, like John Malone of Liberty Media [LMCA] or Buffett.

Thanks, Mario. You're up, Brian.

Rogers: My comments and recommendations come in the context of low expectations for equities. It will be difficult to earn a lot from equities, and it will be difficult to earn money in the bond market this year. Fred talked earlier today about pockets of irrational exuberance in the market, whether it is Bitcoin or Twitter's [TWTR] $30 billion stock-market valuation. Reasonable people would debate a lot of what we're seeing out there. So, in this highly uncertain environment, I have what I would call real stocks for real people. Two are in transition, three are cheap laggards, and since Bill hyped a couple of Pimco's products [Gross recommended three Pimco funds, highlighted in last week's issue], I will recommend one T. Rowe Price mutual fund.

Brian Rogers' Picks

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Source: Bloomberg

Applied Materials [AMAT], my first company, had several tough years. But I like to invest in laggards and hope they can turn around. The stock closed Friday around $17.50. There are 1.2 billion shares, and the market value is $21 billion. The stock yields 2.3%. Applied is merging with Tokyo Electron [8035.Japan], which was responsible for some of the excitement in the shares in the second half of 2013. This is a consensual merger between two interesting companies. There is potential for substantial cost synergies here. Both the CEO and the chief financial officer of Applied came from Varian Semiconductor, which the company bought in 2011. With Tokyo Electron, this will be a global juggernaut in semiconductor-equipment manufacturing and related services. After the deal is approved this year, the combined company will buy back 10% of its stock within 12 months. Applied shareholders will own two-thirds of the company.

What could the new company earn?

Rogers: In two years, it could have somewhere between $2 and $2.50 a share of earnings power. We'll call it $2.25. If you apply a multiple of 12 to earnings, you have a lot of upside. Part of it has been realized because the stock was up more than 50% last year after many years of underperformance. Now, investors' interest has been piqued.
Rogers thinks Consul Energy shares will heat up as it transitions from coal to gas. He also likes Applied Materials.

**Black:** Applied Materials has lagged in technology across the board. Doesn't that concern you?

**Rogers:** In part, Scott, that is why the stock has lagged the market for four or five years and got down to $12 a share at one point last year. Putting these companies together will be a good source of earnings growth. They are in different businesses in some respects. Nothing is forever in this industry, but merging two interesting companies under good leadership is almost a prototype for other deals involving American and Japanese companies.

Jennifer Altman for Barron's

Rogers: "I like to invest in laggards and hope they can turn around.

My next pick is Consol Energy [CNX], a coal and natural-gas company based in Pennsylvania. We used the "F" word a lot today -- I'm speaking of fracking. Consol is expanding its footprint in shale gas. The stock closed Friday at $36.63, and the company has an $8.4 billion market cap. Consol sold about half its coal business last year for $3.5 billion. It has been growing the shale-gas business, helped by a big acquisition it made in 2010. It has a great low-cost position in the Marcellus and Utica shales. The company used to be three-quarters coal and a quarter gas. Eventually, it will be 50% coal, but from its better mines.

**What will that mean for the stock?**

**Rogers:** If you value coal at six times Ebitda, which is pretty low, and the natural-gas business at eight times Ebitda, you get a stock price somewhere in the $45 to $50 range. It won't get there immediately, and it will take time for them to invest and cash in on the gas business. But Consol is a company in great transition. They have been good acquirers and good sellers. They buy and sell at
attractive prices. The CEO, Brett Harvey, is determined to grow the value of the company. Full disclosure: T. Rowe Price owns about 11% of the stock.

Gabelli: That's all? You have no conviction.

Rogers: I'm saving some for you. Consol's shares lagged the market last year. They were up only 18%. The company is buying back shares. The stock yields 1%; this is not a dividend play, and in fact, the company cut the dividend as part of its deal to sell much of its coal. The coal sale provides Consol with cash to expand its shale-gas business, and removes pension and post-retirement liabilities from its balance sheet.

My next three companies haven't done well in the past few years and look inexpensive. In a market with little upside, where we are in for what I'd call three-yards-and-a-cloud-of-dust investing, the winning formula could be investing in companies with decent dividends and asset value, without a lot of downside risk. You don't have to be up 30% this year or next. You have to be up 10% or 15%.

And the names are?

Rogers: Cablevision [CVC] is close to Mario's heart. The stock is selling at $16.88, and the company has a $4.5 billion market cap. There is a lot of activity going on in the cable-TV business right now.

Gabelli: Charter Communications [CHTR] just announced a $61.3 billion bid for Time Warner Cable [TWX]. But why do you like Cablevision?

Rogers: I view it as potentially a $22 stock. Coming off its current price, that would be a 30% return. The company has a 3.6% dividend yield, which is safe, and that's enough.

Rogers: The Dolan family, which controls the company, spun off AMC Networks [AMCX] a few years ago, as well as Madison Square Garden [MSG]. What's left is an interesting business they can continue to run.

Rogers: The Dolan family has 73% voting control of Cablevision and calls the shots. But in an industry where consolidation is increasing, there might be an opportunity to sell the company at some point. There isn't much downside risk. In a bad market, the stock could fall to $15, or maybe $14.50.

Who might buy Cablevision if the industry continues to consolidate?

Gabelli: There is a great economic benefit in clustering customers in Los Angeles and New York.

Rogers: Next, Bill Gross mentioned the Reaves Utility fund [UTG; Gross' recommendation appeared in last week's issue]. There is a way to create a similar basket of utilities without using leverage to boost returns. We like Entergy [ETR]. Telecom, electric-utility, and gold stocks lagged the market last year. Utilities were up 11%. Entergy was down 1%. The company serves customers in Arkansas, Louisiana, Mississippi, and Texas, and has a fleet of merchant nuclear-power plants. Entergy could earn about $5 a share this year. It trades for $61, or 12 times earnings. It pays a $3.32-a-share dividend, for a yield of 5.2%. Just to show how damaging it was to invest in the utility sector, this stock was above $120 six years ago. There has been a six-year degradation of value.
While the stock has been going down, the dividend has been going up. This is a low-growth, relatively unexciting company, and the dividend is safe. The value of the merchant fleet is high because low-cost nuclear power is in demand. It wouldn't take much to earn a total return of 15% on Entergy in the next year or two.

**Gabelli:** So you're hedging your bet on Consol, or natural gas, with a bet on Entergy?

**Rogers:** You might say that, but these picks reflect company-specific fundamentals.

**Newmont Mining** [NEM] is my next idea. This is the first time in my career that I have owned a gold stock. This one is probably way too big and high quality for Fred, but if you don't know much about investing in gold and you want some exposure, you go to Newmont. It is an $11 billion company, with 500 million shares. 

*It's a real stock for a real person.*

**Rogers:** That's right. The price of gold was down by 28% last year. Newmont's shares fell 50%. They are trading at $23.80. Gold stocks are a levered play on the commodity. Newmont gears its dividend to the price of gold, so this is an interesting way to bet on both.

**Zulauf:** Only if the price of gold rises.

**Faber:** For the record, I like it and own it.

**Rogers:** If gold goes to $1,800 an ounce, the dividend rises to $2 a share. If gold goes to $1,100, the dividend is halved to 40 cents from 80 cents annually. To me, gold mining is a traumatized sector. Cash has been flowing out. Newmont is the blue chip.

**Hickey:** One positive for Newmont is its Indonesia mine. The mine has been in a stripping phase [removal of waste rock], so there has been almost no production of gold or copper. This is a big copper operation.

**Rogers:** Newmont isn't making any money in copper.

**Hickey:** Toward the end of this year, gold and copper production will start coming back on.

**Gabelli:** The Indonesian government recently banned the export of commodities like nickel, but it exempted copper and gold.

**Rogers:** Another positive about Newmont is that it has a blue-chip capital structure. In an industry where finance strategies can be fairly aggressive, this is a relatively conservative company.

**Faber:** A Chinese company could easily acquire Newmont, if it got permission.

**Rogers:** Performance-wise, emerging markets have been a rugged place to invest. Last year, the MSCI Emerging Markets index was down about 2%, while most of the developed markets performed much better. Institutional and retail cash flows have been moving aggressively out of emerging-market investment products. The buy side hates emerging markets. The sell side hates emerging markets. Technicians and quants hate emerging markets. I think it's great. Combine this bearish sentiment with what is, at worst, a neutral valuation case and things start to look positive. The MSCI Emerging Markets index is selling for 10 times earnings. Maybe earnings will fall this
year, maybe not. Emerging markets will see good growth at some point in the future, and valuations are attractive, relative to developed markets.

**Gabelli:** Even consultants who advise pension plans and have long preached investing in emerging markets are changing their minds.

**Zulauf:** According to the trading desks at the large investment firms, only small amounts of emerging-market bonds and equities have been sold. The big money is still in them. If something goes wrong in emerging markets, there could be some heavy selling ahead.

**Rogers:** Felix, it is virtually impossible to time these things perfectly, but these markets are cheaper than they were, and sentiment is really negative. If you don't have exposure, it makes sense to get some. My pick is the T. Rowe Price Emerging Markets Stock fund [PRMSX], although there are other ways to play this through mutual and exchange-traded funds. The expense ratio on this fund is 1.25%.

**Faber:** You can't throw every emerging market into the same basket. Some, like China, already have had huge corrections. It is down 60% from the high. Vietnam has corrected, as well. They may be in a bottoming phase, while others, like Turkey and Mexico might have more downside risk.

*Good point, Marc, and thank you, Brian. Fred, time to tell us what you like.*

**Hickey:** I'll start with what I don't like. I am struggling this year to come up with some ideas in technology, because while the stock market was wonderful in 2013, end-market demand in the tech sector was terrible. PC unit sales saw the biggest annual decline ever, down 10%. Sales of computer servers, storage, and networking products all fell, even though cloud storage drove demand. *IBM* [IBM] has seen year-over-year revenue decline for six straight quarters. The company's Chinese business fell 22% in the third quarter. Hardware sales were down 40%.

This leads me to the NSA [National Security Agency]. A number of tech companies have talked about losing business because of their possible association with the NSA's spying program. *Cisco Systems* [CSCO] mentioned it recently on the company's horrific conference call, in which management forecast a year-to-year decline of 8% to 10% in total sales and double-digit declines in every one of Cisco's key emerging markets. Felix spoke this morning about problems in emerging markets. The company's Russia orders fell 30% in the October quarter; Brazil is down 25%; and Mexico and India, 18% each. Cisco is on the leading edge of the problem, the canary in the coal mine, so to speak. The smartphone business grew rapidly, but that industry has matured. *Apple* [AAPL] saw double-digit declines in profitability in each quarter of its latest fiscal year. Samsung, the world leader in smartphones, posted a terrible quarter just a week ago. Its problem is similar to Apple's: declining profit margins. All the trouble we're seeing in traditional tech explains, in part, the pockets of irrationality in other areas of the market.

**Fred Hickey's Picks**

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Gabelli: You mean, in social media?

Hickey: That's right. Everybody piled into Twitter, and at one point, it fetches 69 times sales! Prices of cloud-computing and 3-D-printing companies went insane last year. Tesla Motors [TSLA] was up 344%, and Netflix [NFLX], 298%. In both cases, the CEOs said the valuations weren't rational. Elon Musk [CEO of Tesla] said, "Tesla has a higher valuation than we have any right to deserve." I never saw this kind of stuff, even in 2000.

Black: Certain companies and industries are doing well.

Hickey: They will do well only if the economy holds up. We have had the worst economic recovery in history, and what little economic activity there is owes to money-printing [the Federal Reserve's asset-buying program, which has kept interest rates low]. If money-printing ends and the stock market falls -- and tech is weak already -- we've got a big problem.

Black: Semiconductor sales worldwide are supposed to be up by 5.6% this year, to $333 billion. And enterprise software is forecast to be up 6.7%.

Hickey says Agnico-Eagle Mines is the right company in the right places at the right time.

Gabelli: Cybersecurity is growing; 3-D printing is growing.

Hickey: But the valuations are insane in areas with growth. I love the cloud, but I can't find a cloud stock that is reasonably priced.

In that case, are you shorting these stocks?

Hickey: I'm not short anything right now. I talked last year about how difficult it would be to sell stocks short in a money-printing environment. I put on tactical short positions right before earnings misses, and there were scores of them throughout the year. I am looking for a momentum decline in the market that Felix talked about earlier today, and at that time I will take some short-term short positions on some of these high-priced stocks. I am not going to recommend shorting stocks this year because, by the end of the year, we could be on QE5 [the fifth round of the Fed's quantitative-easing regimen] and stocks could be even crazier. I shorted stocks in 2000 and 2007, but I just can't do it here. As Bill said, asset prices aren't normal.
Gabelli: So give me your summary: Do you see stocks down 5% this year? Up 5%?

Hickey: The market was steadily up last year. This year, there will be a period of instability. We are going to see a dislocation, as Felix said. When you get a bust, everything in tech falls, not just social-media stocks. Nothing survived the selloff in 2000, and almost nothing survived in 2008. Amazon.com [AMZN] fell 84% in 2000, and 64% in 2008. As the Fed continues to taper, the market will get hit. At that point, I would consider buying tech stocks.

Is there anything you are buying outside of tech?

Hickey: Yes, but I wanted to set the stage first. There is an incredible correlation between the stock market and money-printing. The market went higher after QE1, 2, and 3. Whenever the Fed stopped buying, the market went down. If the forecast is that the Fed will end its asset-buying by the end of the year, why would you expect the market to do anything but fall? I recommend holding cash so you can buy things after the dislocation. You can buy short-term Treasury bonds, money-market instruments, T-bills, whatever you want to own. In a dangerous, high-priced market it is good to own cash and wait for a better pitch.

Enlarge Image

Jennifer Altman for Barron's

Hickey: "You can get big moves down in gold stocks, but you can also get massive moves up."

My second pick is gold, which I have recommended for several years. It had a terrible year in 2013, falling 28% after 12 consecutive up years. It's like seeing a stock go from $2.50 to $19 to $12. There are corrections in big secular bull markets. Gold had one in the 1970s, when it fell 46%. Then it went up eightfold. In a money-printing environment, the secular bull market in gold isn't over. The best, most effective way to own gold this year is through Central Fund of Canada [CEF]. We've talked before about owning your gold in a safe location -- in this case, in Canada. The fund is 57.6% gold and 41.6% silver. Central Fund of Canada sells at the highest discount to net asset value of any precious-metals closed-end or exchange-traded fund. The discount is 6%. If gold is $1,250 an ounce, you are effectively buying it for $1,175 an ounce. If silver is $19.80, you are buying it at an effective price of $18.61.

Witmer: Fred, since you have thought so much about gold, is there some way to come up with an intrinsic value based on production costs and expected demand?

Hickey: There are a lot of ways to value gold. It is clear to me that it is undervalued when Goldman Sachs says 20% of existing mines are non-economical now. A lot of gold mines, particularly in South Africa, have high costs and are shutting down. We are going to have production declines,
starting in 2015. If the price of corn is so low that you can't grow it, it is too low. It's the same with gold.

**Witmer:** Where do supply and demand meet?

**Hickey:** That is an interesting question. The gold price dropped dramatically last year, in part because the biggest buyer, India, was taken out of the picture. Typically, India consumes 1,000 tons of gold a year. China has become a big swing factor in the gold market, too. It has been doubling its gold imports.

**Faber:** I'm on your page. The total above-ground supply of gold is 150,000 tons.

**Hickey:** It is 172,000 tons, to be exact.

**Faber:** If some large holders of gold decide to sell, that puts additional supply on the world market.

**Hickey:** And that's what happened this year. U.S. investors dumped 550 tons of the GLD [SPDR Gold Trust] out of 1,350 tons. They dumped four years worth of inflows. Three-hundred tons have been sold short, almost a record level. There was huge selling of gold in the U.S. and other Western countries, more than 800 tons. Most of it got shipped to China.

**Faber:** And other Asian countries.

**Hickey:** Yes, it got shipped to Turkey and Russia, too. India's imports fell from 162 tons in May to seven tons in November because the government imposed higher import restrictions -- and the rupee collapsed.

**Faber:** The smuggling of gold is rising.

**Hickey:** Smuggling is up sevenfold in India in the past six months. As we discussed earlier today, India faces an election in the spring, and Narendra Modi is the leading candidate for prime minister. He is a pro-business type. The Congress Party is in trouble at the polls. Gold was selling for a premium of as much as $160 an ounce over the spot price earlier last year, and the premium is still above $100 an ounce. You can't get married in India unless you have gold. The people are upset about this, and it looks like the Congress Party is going to ease up on the import restrictions.

If that happens, India will come back into the market in 2014 in a big way. Indians have been buying gold for thousands of years. The big U.S. selling is done; net outflows from the GLD essentially have stopped this year. Chinese, Thais, Vietnamese, Saudis, Russians, and Turks will continue to buy as they have been, because many don't trust what is going on in the world. You'll see a totally different supply/demand ratio for gold in 2014. Last year, a near-perfect storm occurred to prompt selling. Something similar happened in the 1970s, when the U.S. and the International Monetary Fund sold large quantities of gold. When the selling eased, the price exploded upward.

*Do you like other gold plays, in addition to the Central Fund of Canada?*

**Hickey:** I have two gold stocks. The nice thing is, even with the collapse in the price of gold, these companies were able to earn money, particularly in the latest quarter. And, they are beating estimates, which is truly impressive. The first is Agnico-Eagle Mines [AEM], an intermediate [midsize] gold producer. The stock is trading at $27.26, down from $57 a little over a year ago. It was $88 three years ago. Agnico-Eagle produces a million ounces of gold a year, four times the
level it produced in 2008. Yet the stock is back to 2008 levels. The market cap is $4.7 billion. The company has seven mines, all in safe locations. There are four in Canada, two in Mexico, and one in Finland. Two mines are coming online -- Goldex, in Canada, and another mine in Mexico.

There has also been insider buying at Agnico-Eagle. In the latest reported quarter, the company cut its costs so much that it earned 35 cents a share, up from an expected eight cents.

Gabelli: What was their cash cost [the cost of mining gold]?

Hickey: It was $591 an ounce in the latest quarter, down significantly from prior levels. Agnico-Eagle is one of the lowest-cost producers. It's all-in sustaining cost is $1,025 an ounce. The company is cutting capital spending in 2014 to bring down costs. Shares yield 3.2%.

My other gold stock is Goldcorp [GG], the second-largest gold company after Barrick Gold [ABX], based on market value. Newmont is third. Goldcorp has an $18.8 billion market cap, and 67 million ounces of proved and probable reserves. Newmont and Barrick aren't growing, but Goldcorp is. The company is talking about a 50% increase in production in the next two years. It has a dividend yield of 2.6% and is selling below book value of $25.54 a share. The stock was $46 a little over a year ago, and is $23.19 now. Its mines are in good locations, mostly in Canada and Mexico, and some in South America. Goldcorp also has a mine in the Dominican Republic.

What do earnings look like?

Hickey: Earnings in the latest quarter were 23 cents a share, versus 20 cents a year earlier. Operating cash flow was 46 cents a share. Goldcorp saw a big drop in its cash costs, which fell to $551 an ounce from $646 in the prior quarter. Its all-in costs are lower than Agnico's; I'm estimating $950 to $1,000 in 2014, down from an estimated $1,065 in 2013. The company expects continued profit-margin expansion and cash-flow gains, assuming a $1,200-an-ounce gold price, lower than today's. The balance sheet is strong without a lot of debt. If gold prices rise, there will be a lot of leverage in the stock.

Marc recommended the Market Vectors Junior Gold Miners ETF [GDXJ] today. I will, too. You can get big moves down in gold stocks, but you can also get massive moves up. In the mid-1970s, the 11 biggest gold stocks in the U.S. went up by an average of 10 times, and one went up 17 times. Newmont was a laggard at five times. Coming out of the 1999-2000 bottom, the gold index went up 15 times. Coming out of the 2008 bottom, there was a fourfold move up in the stocks, and a 90% rally in one month. The junior miners have done worse than the big companies in the past few years, and are down 80% from the peak. Gold stocks have dropped for three years, while gold has fallen only for one. The opportunity exists for a massive move up in the GDXJ.

Duly noted. Is that it, Fred?

Hickey: I have one more, also in a hated market segment. Hated segments is my theme here. It is Cameco [CCJ], a uranium play. The price of uranium oxide fell 21% last year, to just under $35 a pound. Uranium was rallying significantly until the Fukushima disaster that occurred in Japan in 2011. At one point, it was above $70 a pound.

Cameco's stock has been sitting at around $20 a share for the past couple of years. Again, it has mines in good locations. The two primary mines are in Canada. The McArthur River mine has the world's largest high-grade uranium deposit. Cigar Lake has the second-highest-grade deposit. It is a huge mine and is coming on line imminently after a long delay. Although industry costs are $40 an
ounce across the board, Cameco's are $20, so the company has been making good money, even at
today's low prices. It will earn more than $1 a share this year, and the stock could have a nice move
if uranium prices rise. Cameco is the only significant uranium play with a dividend; it yields 1.9%. 
Uranium is a clean fuel, which is in demand after Fukushima. China needs nuclear energy. It has a
small number of reactors now, but could build up to 30, and then 50, and then 100.

Gabelli: There is another plus: The uranium in the Russian bombs has almost been used up.

Hickey: That's right, the overhang is gone. Japan was No. 3 in the world in nuclear generation, with
54 reactors. Four are now crippled, and 16 have applied to be restarted. Japan used to get 29% of its
electricity from nuclear. Now it has a huge import bill, and the ruling party is determined to put
these reactors back into operation. India is also increasing its use of nuclear power, as is Russia. All
of this bodes well for Cameco.

Thank you, Fred. Scott, you are last, but by no means least.

Black: I am a big believer in buying good businesses, not bad management at cheap prices. I am
looking this year for companies with double-digit revenue growth, as earnings per share for
companies in the Standard & Poor's 500 are likely to rise only 8% or so, and that's being generous.
The key is to buy businesses that generate free cash and will be able to sustain growth. My first
recommendation is Express Scripts [ESRX], the biggest pharmacy-benefits manager in the U.S. The
stock closed Friday at $72.86. There are 822.9 million fully diluted shares, and the market cap is
$60 billion. The company doesn't pay a dividend.

For 2013, revenue is expected to total $103.5 billion, up 10%. The company could earn $4.32 a
share, versus $3.74 in 2012. We do our own models at Delphi. Conservatively, revenue growth
could be zero this year. But we are in the midst of a transition from branded drugs to generics,
which have much higher gross-margin-dollars per prescription for pharmacies. I am modeling 8.3%
gross margins. Selling, general, and administrative expenses will decline by about 8%, which gets
you operating income of $4.95 billion. Fully taxed at 38.5%, you get $4.92 in earnings per share.
Subtract a five-cent minority interest, and that's $4.87.

Scott Black's Picks

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Source: Bloomberg

If I model the year more optimistically, I get revenue of $105.57 billion. Economies of scale could
lift gross margins to 8.35%, which takes operating income to $5.18 billion. Earnings per share could
be $5.09. Minus the nickel, and that's $5.04. Using the median, or $4.95 a share, the stock trades for
14.7 times earnings, a little more than we are used to paying. Pro forma return on equity could be
15.3%.

Witmer: What is your free-cash-flow estimate?
**Black:** It is $3.65 billion for this year.

**Gabelli:** What is your estimated growth rate for the next five years?

**Black:** The company thinks it can grow earnings in the next three-to-five years by 10% to 20% per annum, including 9% to 12% from core operations and 4% to 8% through stock buybacks and acquisitions.

**Gabelli:** The market is extending the horizon with regard to growth, so this kind of stock is going to earn a higher multiple.

Black: "Bonanza Creek Energy is an exciting company with enormous growth potential in an oil-rich area."

**Black:** Also, Express Scripts will benefit as 40 million people come into the health-care system. There will be demand for more prescriptions. The company serves 67,000 retail pharmacies in the U.S. and Canada. It has a 95% penetration of U.S. pharmacies. Also, 81.6% of its network fill, or drugs delivered through pharmacies, is generic products, up 1.9 percentage points year over year. Home delivery of prescriptions, which accounts for 28% of sales, is 74.8% generic, up 2.6 percentage points. In five years, Express Scripts feels that home delivery of medications, which is more profitable than network distribution, will be 40% of its revenue mix. Secular trends are working in the company's direction.

This year, $14 billion to $15 billion of drugs are going off-patent. That doesn't translate dollar-for-dollar into generic substitutes, but the bottom line is there will be more opportunity.

**Actavis** [ACT], my next pick, also ran up recently. It used to trade for 13 times future earnings and now trades for 14.3 times. It is the old Watson Pharmaceuticals. The CEO, Paul Bisaro, has done an excellent job. He led the company when it bought and integrated Andrx. Actavis is trading for $183.32 a share. It has 176 million shares and a $32.3 billion market cap with no dividend. The company is expected to post 2013 revenue of $8.57 billion, up 45% from 2012. In October, Actavis acquired Warner Chilcott, a leader in gynecological products that competes against Johnson & Johnson's [JNJ] Ortho unit. Full-year earnings could come in at $9.35 a share, against $6 a share in the prior year. Again, these are Delphi's estimates. This year, revenue could rise by just over 20%, to $10.47 billion. We estimate Ebitda margins of 25.5%, and depreciation will run $200 million. Interest expense is $182 million, and management has promised $400 million of cost savings. That
gets you to profit before tax of $2.688 billion. It's taxed at 16%, because it is domiciled in Ireland, Actavis could earn $12.83 a share.

**Gabelli:** Why did the stock jump recently?

**Black:** It rose because the company won some drug approvals, and it has more promising drugs in the pipeline. Returning to the numbers, pro forma return on equity is spectacular at 37%. The debt-to-equity ratio is one post-acquisition, and management doesn't want to get more levered. Actavis is a triple-B credit. Return on total capital is 18.5%. We estimate free cash flow at $1.55 billion this year. The company has three operating divisions. Actavis Pharma, the generic-drug business, accounts for 61% of revenue. Actavis Specialty, the branded-drug unit, contributes 28%, and sells urology products and oral contraceptives. The third segment, Anda Distribution, distributes drugs to more than 55,000 pharmacies.

While worried about macro forces weighing on the market, Black thinks investors can do well in Bonanza Creek and KLA-Tencor.

Actavis has set a goal of 10% annual growth in earnings per share at a minimum. It has already filed 30 abbreviated new-drug applications. It launched a generic version of Lidoderm, a patch for the treatment of shingles, last fall. Actavis has launched 509 products in the past nine months.

**Witmer:** Are they mostly generics?

**Black:** Yes. The company operates in 60 countries. It has been rationalizing its manufacturing facilities and recently closed a plant in California. Based on product line, central-nervous-system treatments account for 34% of revenue. Cardiovascular is 23%, and women's hormonal treatments are 15%. Actavis also signed a licensing agreement with Amgen [AMGN] to produce biosimilars, including some cancer drugs it plans to roll out.

My next pick, Bonanza Creek Energy [BCEI], is a small energy exploration-and-production company in the Wattenberg oil field in the Colorado Rockies. It went public about two years ago. We bought the stock around $14, and it is now trading at $44.33. There are 40.3 million shares, and a $1.79 billion market cap, with no dividend. The Wattenberg is rich in oil and natural-gas liquids. Bonanza also is in the Mid-Continent Cotton Valley field in Arkansas. We estimate that the company had revenue of $411 million in 2013, up 78% year to year, with $1.92 a share in real earnings. It expenses dry-hole costs. Bonanza exited the year producing about 18,500 barrel of oil equivalent per day, and expects to average 24,000 this year, which means its exit rate will be 29,500 BOE. We're talking 59% growth just from the drill-bit, not including acquisitions. We figure 66% of production is oil. The company hedges 9,500 barrels of oil a day at around $90 a barrel. Oil revenue could total $520 million this year.

What else does Bonanza Creek produce?
Black: It produces 1,440 barrels a day of NGLs, or natural-gas liquids, accounting for 6% of revenue, or $28 million. It has been getting a premium price of $53 a barrel because of its Cotton Valley location. If you follow NGLs around the U.S., you know that prices typically range from $35 to $40 a barrel. Then there is gas production, which contributes 28% of revenue, or $66 million, with gas priced at $4.50 per thousand cubic feet [Mcf]. In total, we see $614 million of revenue in 2014, versus Wall Street's estimate of $608 million. Lease operating expense is $78 million. The ad valorem tax is $38 million. The company could have operating income of $230 million this year. It has $500 million outstanding in bonds that pay 6.75%. There is no bank debt. We estimate net income of $121.5 million, or $3.02 a share. On that basis, the stock looks reasonably priced.

The key in valuing domestic energy companies is discretionary cash flow. Net income is $122 million; depreciation, depletion, and amortization is $200 million; dry-hole expense is $8 million, and deferred tax is $74 million. That's $404 million. Bonanza Creek has $10 a share of discretionary cash flow. The stock is selling for 4.4 times discretionary cash flow.

Gabelli: How will Bonanza maintain its production?

Black: It is going to outspend cash flow at this point. The company has a 17-year inventory in the Wattenberg, and will spend $575 million to $600 million this year. The good news is that, because it just did a financing, it has close to $200 million in cash on the balance sheet. Bonanza won't have to draw on its bank lines this year. The company earns 17.7% on equity, which few energy outfits do. Assuming $80 a barrel for Wattenberg oil, the company says it earns a 40% cash-on-cash return -- and oil is well above $80. Finding and development costs are around $17 a barrel, or under $3 per Mcf. The company's cash margin per barrel is exploding. It was $45.66 per barrel of oil equivalent last year, and now is up to $57.74. Lease-operating expenses have fallen substantially, to $7.98 a barrel from $9.76. The potential reserves are huge, at 350 million BOE.

What are they worth, potentially?

Black: The net present value of the oil is $3.78 billion. The NGLs are worth about $210 million, and the upside potential in gas is about $1.8 billion, which takes you to $5.775 billion. Assuming half that value adds about $71 a share to the company's current breakup value. Assuming even a third, adds $48 a share. Bonanza is an exciting company with enormous growth potential in an oil-rich area, and has done well so far.

I'll give you a freebie: We own Synergy Resources [SYRG]. I'm not recommending it because it is much more expensive, trading at nine times discretionary cash flow. But it is right next door to Bonanza. A lot of the major players are in the Niobrara shale formation in Colorado because it is liquids-rich. They drill horizontal wells.

My next recommendation is a tech stock: KLA-Tencor [KLAC]. It is the leader in metrology, a fancy name for the optical inspection of semiconductor wafers as they come through the production line. Foundry and logic customers account for 70% of orders, and memory customers, 30%.

Gabelli: Where is the stock, and why do you like it?

Black: The stock is $63.62. Fully diluted, there are 168.7 million shares, for a market cap of $10.7 billion. KLA pays a $1.80-a-share dividend, with a 2.8% yield. For the fiscal year ended June 2013, the company earned $3.30 a share on $2.84 billion of revenue. Fiscal 2014 started slowly, but we are coming to an inflection point where year-over-year earnings will turn up. This fiscal year, we see full-year revenue up 7%, to $3.03 billion. Sixty cents of every dollar of revenue could drop to
the bottom line. After taxes, at 24%, and share buybacks—the company still has a seven-million-shares authorization—you get 166.6 million shares, or about $3.75 a share in earnings, fully diluted. Unlike most tech companies, KLA records stock-based compensation as an expense.

As it should.

Black: We are estimating revenue of $3.36 billion in fiscal 2015, and earnings per share of $4.65. Here’s the key: The company has $13.06 a share in net cash on the balance sheet. If you subtract that from the stock price and divide by estimated calendar-year earnings of $4.20, you get a price/earnings multiple of 12. Return on equity for the current fiscal year will be about 18.2%. KLA could generate $600 million of free cash flow this year. It is a money machine.

What will it do with all that cash?

Black: It will return cash to shareholders through stock buybacks, and perhaps bump up the dividend. Unlike a lot of tech companies, it doesn’t manufacture in China. About 50% of its manufacturing is in the U.S.; 27% is in Israel; and 23% is in Singapore. More than 70% of its cash is sitting in the U.S., not overseas. Product revenue is 79% of the total, and service revenue, 21%. According to Gartner, the fastest-growing area in wafer-fabrication equipment is process controls. Two things are driving this: Wafers are getting thinner, and there is a move from planar to 3-D chips. You need more metrology if you want increased yields. It is expensive to have to throw out wafers in the course of manufacturing.

Witmer: How many players are in this business?

Black: There are three major companies in this space.

Hickey: These are great technology companies, but they are roller-coaster stocks. They will do well so long as the economy is doing well. Long term, however, KLA is a great pick.

Black: KLA-Tencor is the third-largest employer of physicists in the U.S. Only the government and universities employ more physicists.

My last pick is SanDisk [SNDK], which I also recommended in the midyear Roundtable ["Shifting Winds," June 17, 2013]. It is the leader in flash memory, with a market share of more than 50%, and has a joint venture with Toshiba [6502.Japan]. The stock is $72.60; there are 230 million fully diluted shares, and a $16.7 billion market cap, with a 1.24% yield.

Hickey: The decline in the yen has helped SanDisk, right?

Black: It has helped dramatically. Every 10% decline in the yen against the dollar boosts gross margins by 300 basis points [three percentage points]. SanDisk manufactures in Japan and sells in dollars worldwide. As the yen went from 76 to the dollar to 104, SanDisk got an 810-basis-point bump in gross margins. In 2013, revenue likely rose 22%, to $6.15 billion. The company’s capacity was sold out at the beginning of the year, and customers were on allocation. Earnings could come in at $5.20, against $2.38 in 2012. [SanDisk reported 2013 revenue of $6.17 billion on Jan. 22, and $5.31 in earnings per share.]

Let’s talk about 2014. The business could grow, at a minimum, 10% to 11%. The company is shooting for 27% operating margins, which would mean $5.88 in earnings per share. The company has 44 cents a share in stock-based compensation and doesn’t account for it as an expense. But we
do, which means true earnings could be $5.44 a share. SanDisk has more than $4 billion of cash and equivalents, or a net $15.53 a share. Divide by $5.44 and you get a 10.5 price/earnings multiple. Return on equity is 18.7%.

Where is SanDisk's cash?

Black: The bulk of the cash isn't overseas, although management wouldn't give me an exact breakdown. Days sales outstanding is only 38 days, and the company has 84 days of inventory. For the first nine months of 2013, it generated $943 million in free cash. SanDisk repurchased $1.44 billion of stock, and its goal is to return 70% of cash flow through dividends and share repurchases. I can't estimate free cash flow for this year because the company is building a state-of-the-art facility for flash memory with Toshiba, and they haven't yet decided on the capital budget. It will be around $1 billion.

Gabelli: That's an expensive proposition.

Black: It is, but SanDisk is a 49.9% partner with Toshiba. SanDisk is in NAND flash; solid-state drives and removable memory cards; and embedded memory for mobile devices, cameras, and other digital applications. Original-equipment manufacturers -- other corporations -- account for 62% of revenue, and the retail market accounts for the rest. The company has a 14% share of the corporate market, and 30% of the retail segment. SanDisk is a dominant company in its space, and demand for flash memory will continue to grow.

Hickey: NAND flash demand is starting to dip.

Black: This is a leading-edge producer. The new Fab 4 project with Toshiba will give SanDisk an advantage in geometry. SanDisk's competition includes Samsung [005930.Korea], Toshiba, SK Hynix [000660.Korea], and Micron Technology [MU]. These companies license designs from the SanDisk/Toshiba joint venture.

Gabelli: Thank you, Scott.

And thank you all. Let's go to dinner.