



THE OHIO STATE UNIVERSITY

FISHER COLLEGE OF BUSINESS

PRECISION CASTPARTS CORP.

Hugh Garside

MBA 7225 – Student Stock Market

July 8, 2014



- Overview
- Discussion of Stocks
- Valuation Analysis
- Recommendation



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OVERVIEW



Sector Name	S&P 500	SIM	+/-
Consumer Discretionary	11.7%	11.3%	-0.4%
Consumer Staples	9.6%	9.5%	-0.1%
Energy	11.0%	9.1%	-1.9%
Financials	16.1%	14.8%	-1.4%
Health Care	13.2%	14.9%	1.7%
Industrials	10.6%	7.4%	-3.2%
Information Technology	18.7%	22.3%	3.6%
Materials	3.5%	3.0%	-0.5%
Telecommunication Services	2.4%	2.8%	0.4%
Utilities	3.1%	3.4%	0.3%

Source: Bloomberg



- SIM is currently 320 basis points underweight; therefore portfolio should be balanced by increasing the weight by roughly 300 basis points
- **Reasons to increase the weight**
 - Industrials are cyclical and tied to a strong economy
 - Positive economic indicators
 - Unemployment contracting
 - GDP growing (recent dip due to harsh winter)
 - Housing starts increasing
 - Maintain diversification of portfolio



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DISCUSSION OF STOCKS



FLUOR®



Quantity	Security	Ticker	Unit Cost	Total Cost	Market Price	Market Value	Unrealized Gain/Loss	% of SIM
7,000	Fluor Corp.	FLR	62.56	437,920.00	77.93	545,510.00	107,590.00	4.2%
1,600	Precision Castparts Corp.	PCP	260.17	416,272.00	255.31	408,496.00	(7,776.00)	3.2%
								7.4%

Source: SIM



Precision Castparts is the world leader in structural investment castings, forged components, and airfoil castings for aircraft engines and industrial gas turbines. Airbus, Boeing, GE, Rolls-Royce, and many other leading manufacturers depend on us for critical airframe, engine, power generation, medical, and general industrial components. With few exceptions, every aircraft in the sky flies with parts made by Precision Castparts.

INVESTMENT CAST PRODUCTS

The world leader in manufacturing high-quality, complex investment castings for aircraft engine, industrial gas turbine, airframe, and other applications, including the world's largest diameter investment cast components.

FORGED PRODUCTS

The world-leading producer of complex forgings and high-performance alloys for aerospace, power generation, and general industrial applications.

AIRFRAME PRODUCTS

One of the top manufacturers of engineered fasteners, fastening systems, metal components, and assemblies for aerospace, transportation, power generation, and general industrial markets.



FLUOR®

Fluor is one of the world's largest publicly traded engineering, procurement, construction (EPC), maintenance, and project management companies. Fluor works with governments and Clients in diverse industries around the world to design, construct, and maintain complex and challenging capital projects.

Energy & Chemicals

Fluor is one of a few global EPC companies that can execute challenging energy and chemicals projects in remote locations around the world.

Power

To meet global demand for power, Fluor provides EPC and plant betterment services for power plants using coal, gas, oil, nuclear, and renewable sources of energy.

Infrastructure

Fluor provides engineering, procurement, and construction (EPC) services to Clients in aviation, bridges, commercial and institutional, offshore wind farms, ports & marine terminals, public-private partnerships, rail & transit, telecommunications, and toll roads & highways markets.

Mining and Metals

Fluor provides a full range of engineering, procurement, construction and maintenance services to the mining and metals industries and is one of the few companies with the global capability and experience to execute complex projects in remote locations.

Industrial

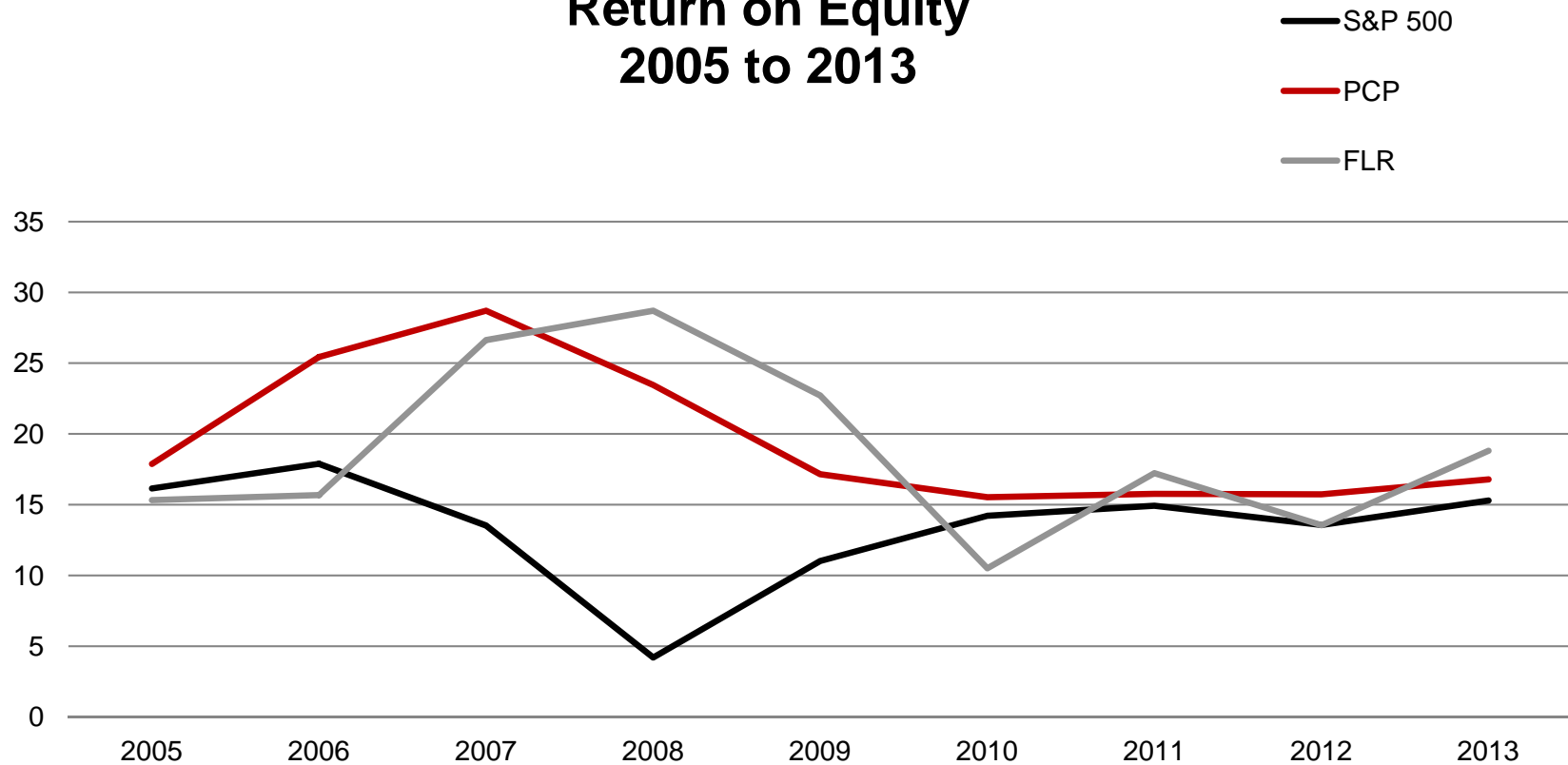
Fluor provides engineering, procurement, and construction (EPC) services to Clients in life sciences and manufacturing markets. In addition, Fluor offers operational readiness and operations & maintenance services.

Government

Fluor's Government Group provides diverse services, including EPC, maintenance, environmental remediation and management, logistics and base operations support, and contingency operations to U.S. and international government agencies.



Return on Equity 2005 to 2013



Return on Equity Table

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>CAGR</u>
S&P 500	16.15	17.89	13.53	4.21	11.02	14.22	14.93	13.57	15.29	-0.68%
PCP	17.88	25.44	28.7	23.46	17.15	15.53	15.77	15.73	16.79	-0.78%
FLR	15.32	15.68	26.63	28.7	22.71	10.51	17.23	13.55	18.81	2.60%
		10.77%	-24.37%	-68.88%	161.76%	29.04%	4.99%	-9.11%	12.68%	
		42.28%	12.81%	-18.26%	-26.90%	-9.45%	1.55%	-0.25%	6.74%	
		2.35%	69.83%	7.77%	-20.87%	-53.72%	63.94%	-21.36%	38.82%	

Source: Bloomberg



Precision Castparts Corp.											
Analyst: Hugh Garside											
6/3/2014											
						Terminal Discount Rate =	10.0%				
						Terminal FCF Growth =	4.5%				
Year	2015E	2016E	2017E	2018E	2019E	2020E	2021E	20122E	2023E	2024E	2025E
Revenue	9,493	11,103	12,832	14,372	16,528	18,511	19,437	20,408	21,429	21,857	22,295
% Growth		17.0%	15.6%	12.0%	15.0%	12.0%	5.0%	5.0%	5.0%	2.0%	2.0%
EBT	2,544	2,971	3,427	3,880	4,462	4,998	5,248	5,510	5,786	5,902	6,020
EBT Margin	26.8%	26.8%	26.7%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Interest	-	-	-	-	-	-	-	-	-	-	-
Interest % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Taxes	839	980	1,131	1,281	1,473	1,649	1,732	1,818	1,909	1,947	1,986
Tax Rate	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Net Income	1,704	1,991	2,296	2,600	2,990	3,349	3,516	3,692	3,876	3,954	4,033
% Growth		16.8%	15.3%	13.2%	15.0%	12.0%	5.0%	5.0%	5.0%	2.0%	2.0%
Add Depreciation/Amort	342	411	488	388	446	500	525	551	579	590	602
% of Sales	3.6%	3.7%	3.8%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Plus/(minus) Changes WC	1,121	(483)	(519)	(388)	(446)	(500)	(525)	(551)	(579)	(590)	(602)
% of Sales	11.8%	-4.4%	-4.0%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%
Subtract Cap Ex	285	333	449	359	413	463	486	510	536	546	557
Capex % of sales	3.0%	3.0%	3.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Free Cash Flow	2,883	1,585	1,816	2,241	2,577	2,886	3,030	3,182	3,341	3,408	3,476
% Growth		-45.0%	14.6%	23.4%	15.0%	12.0%	5.0%	5.0%	5.0%	2.0%	2.0%
NPV of Cash Flows	15,864	38%									
NPV of terminal value	25,461	62%							Terminal Value	66,039	
Projected Equity Value	41,325	100%									
Free Cash Flow Yield	7.70%								Free Cash Yield	5.26%	
Current P/E	22.0	18.8	16.3						Terminal P/E	16.4	
<i>Projected P/E</i>	24.2	20.8	18.0								
Current EV/EBITDA	14.1	12.0	10.4						Terminal EV/EBITDA	10.5	
<i>Projected EV/EBITDA</i>	15.5	13.2	11.4								
Shares Outstanding	146.6										
Current Price	\$ 255.31										
Implied equity value/share	\$ 281.89										
Upside/(Downside) to DCF	10.4%										
Debt	3,603										
Cash	332										
Cash/share	2.27										



Precision Castparts Corp.

Discount Rate

Growth Rate	Discount Rate				
	9.50%	9.75%	10.00%	10.25%	10.50%
4.00%	291.83	278.69	266.65	255.58	245.36
4.25%	300.90	286.81	273.94	262.15	251.30
4.50%	310.88	295.69	281.89	269.29	257.73
4.75%	321.90	305.47	290.59	277.07	264.73
5.00%	334.16	316.27	300.17	285.60	272.36

Min 245.36

Max 334.16

Mean 283.88



Fluor											
Analyst: Hugh Garside											
7/7/2014											
						Terminal Discount Rate =		9.0%			
						Terminal FCF Growth =		3.5%			
Year	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenue	28,583	29,873	31,224	32,785	34,425	36,146	37,953	39,851	41,445	43,103	44,827
% Growth		4.5%	4.5%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%
EBT	968	1,009	1,053	1,147	1,205	1,265	1,328	1,395	1,451	1,509	1,569
EBT Margin	3.4%	3.4%	3.4%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Interest	-	-	-	-	-	-	-	-	-	-	-
Interest % of Sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Taxes	290	303	316	344	361	380	399	418	435	453	471
Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income	677	706	737	803	843	886	930	976	1,015	1,056	1,098
% Growth		4.3%	4.3%	9.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%
Add Depreciation/Amort	286	299	312	328	344	361	380	399	414	431	448
% of Sales	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Plus/(minus) Changes WC	(55)	(64)	(68)	(66)	(69)	(72)	(76)	(80)	(83)	(86)	(90)
% of Sales	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%
Subtract Cap Ex	286	299	312	328	344	361	380	399	414	431	448
Capex % of sales	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Free Cash Flow	622	642	669	738	775	813	854	897	933	970	1,009
% Growth		3.2%	4.3%	10.2%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%
NPV of Cash Flows	5,140	39%									
NPV of terminal value	8,017	61%									
									Terminal Value		18,980
Projected Equity Value	13,157	100%									
Free Cash Flow Yield	4.90%								Free Cash Yield		5.31%
Current P/E	18.7	18.0	17.2								
<i>Projected P/E</i>	19.4	18.6	17.9								
									Terminal P/E		17.3
Current EV/EBITDA	8.5	8.2	7.8								
<i>Projected EV/EBITDA</i>	8.9	8.5	8.2								
									Terminal EV/EBITDA		8.4
Shares Outstanding	162.6										
Current Price	\$ 78.02										
Implied equity value/share	\$ 80.92										
Upside/(Downside) to DCF	3.7%										
Debt	429										
Cash	2,430										
Cash/share	14.94										



Fluor Corp.

Discount Rate

		8.50%	8.75%	9.00%	9.25%	9.50%
Growth Rate	3.00%	83.76	80.02	76.59	73.44	70.53
	3.25%	86.33	82.32	78.66	75.30	72.20
	3.50%	89.17	84.84	80.92	77.33	74.04
	3.75%	92.30	87.62	83.39	79.54	76.03
	4.00%	95.78	90.69	86.11	81.96	78.02
	Min	70.53				
Max	95.78					
Mean	81.48					



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VALUATION ANALYSIS



Absolute Values

<u>Index/Stock</u>	<u>Valuation Ratio</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Current</u>	<u>Average</u>	<u>CAGR</u>
S&P 500	Price/Earnings	18.41	16.90	16.61	17.36	16.32	18.44	18.26	12.91	14.10	17.10	17.99	16.76	-0.23%
Precision Castparts Corp	Price/Earnings	18.19	20.00	17.71	20.19	8.00	16.80	19.97	19.48	19.33	22.75	21.48	18.54	1.68%
Fluor Corp	Price/Earnings	24.23	27.40	27.68	32.38	11.53	12.01	18.63	13.94	13.19	19.44	19.25	19.97	-2.27%
S&P 500	Price/Cash Flow	12.44	13.57	16.04	18.43	5.61	8.42	8.24	6.89	8.39	9.22	9.74	10.64	-2.42%
Precision Castparts Corp	Price/Cash Flow	12.11	29.92	12.30	20.96	7.52	17.07	19.14	22.92	18.92	20.83	19.65	18.30	4.96%
Fluor Corp	Price/Cash Flow	16.02	16.04	23.80	14.22	8.18	8.91	21.69	9.74	15.62	16.54	12.62	14.85	-2.36%
S&P 500	Price/Sales	1.58	1.51	1.62	1.54	0.91	1.23	1.34	1.23	1.34	1.68	1.75	1.43	1.03%
Precision Castparts Corp	Price/Sales	1.47	1.96	2.00	2.84	1.22	2.84	3.19	3.30	3.30	4.08	3.85	2.73	10.11%
Fluor Corp	Price/Sales	0.47	0.50	0.50	0.76	0.36	0.37	0.57	0.37	0.36	0.48	0.49	0.48	0.42%
S&P 500	Price/EBITDA	7.82	7.10	6.99	6.73	4.95	6.57	6.95	6.48	7.14	8.68	9.06	7.13	1.48%
Precision Castparts Corp	Price/EBITDA	8.29	10.57	9.88	11.75	4.78	9.86	11.92	11.98	11.64	13.22	12.47	10.58	4.17%
Fluor Corp	Price/EBITDA	12.12	16.53	13.99	16.83	6.77	6.18	15.95	7.30	10.37	9.34	9.27	11.33	-2.65%
S&P 500	Price/Book Value	2.91	2.73	2.85	2.77	2.00	2.16	2.18	2.06	2.14	2.58	2.73	2.46	-0.64%
Precision Castparts Corp	Price/Book Value	2.44	3.27	3.79	4.77	1.74	2.66	2.79	2.86	2.83	3.43	3.24	3.07	2.88%
Fluor Corp	Price/Book Value	3.45	4.13	4.15	5.68	3.05	2.44	3.34	2.50	2.85	3.45	3.35	3.49	-0.29%
S&P 500	EV/Sales	2.49	2.43	2.56	2.54	1.47	1.67	1.78	1.60	1.69	2.02	2.13	2.03	-1.55%
Precision Castparts Corp	EV/Sales	1.96	2.45	2.82	2.11	1.28	3.24	3.31	3.42	3.74	4.07	4.16	2.96	7.82%
Fluor Corp	EV/Sales	0.48	0.48	0.48	0.69	0.28	0.25	0.44	0.27	0.27	0.40	0.41	0.40	-1.56%
S&P 500	EV/EBITDA	12.34	11.43	11.07	11.07	8.00	8.91	9.26	8.40	9.00	10.44	11.00	10.08	-1.14%
Precision Castparts Corp	EV/EBITDA	11.05	13.21	13.92	8.72	5.02	11.24	12.35	12.40	13.19	13.21	13.49	11.62	2.02%
Fluor Corp	EV/EBITDA	12.21	16.05	13.44	15.27	5.28	4.28	12.48	5.33	7.98	7.77	7.64	9.79	-4.58%
S&P 500	Dividend Yield	1.65	1.80	1.77	1.93	3.15	2.12	1.88	2.12	2.24	1.89	1.91	2.04	1.47%
Precision Castparts Corp	Dividend Yield	0.18	0.17	0.15	0.09	0.20	0.11	0.09	0.07	0.06	0.04	0.05	0.11	-12.02%
Fluor Corp	Dividend Yield	1.17	0.83	0.98	0.55	1.11	1.11	0.75	1.00	1.09	0.80	0.95	0.94	-2.06%
S&P 500	Free Cash Flow Yield	4.86	3.87	3.50	1.23	10.42	7.53	7.93	9.23	6.82	6.92	6.49	6.25	2.93%
Precision Castparts Corp	Free Cash Flow Yield	6.82	1.93	6.06	3.59	10.84	4.77	4.62	3.56	4.13	3.89	4.13	4.94	-4.89%
Fluor Corp	Free Cash Flow Yield	4.24	2.98	0.31	4.80	8.47	8.33	2.36	6.36	3.81	3.83	5.55	4.64	2.73%



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Recommendation



- Hold current shares in Fluor and Precision Castparts