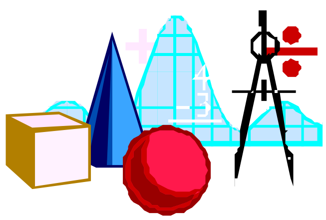
Erasmus University Rotterdam
Faculty of Economics
Dept. of Business & Organization

PPN
THE PREMIER PERFORMANCE NETWORK

6σ



What Wall Street Analysts Say About Six Sigma

The Market Value of Sustainable Performance Improvement

© Boudewijn Bertsch and Roger Williams

"Beginning in 1996, Six Sigma is the single largest component of GE's incentive compensation the first change to this plan in 6 years. If management is this focused, investors should be as well."

Jennifer Pokrzywinsky, P.J. Solit, Morgan Stanley & Co, June 6, 1996

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The authors and their research

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1.Financial Analysts and Six Sigma Management

1.1 Introduction

In researching what effect the Six Sigma approach to breakthrough management is having on Corporate America, we discovered that since 1996 financial analysts in the U.S. and Europe have begun to include Six Sigma initiatives and results in their investment reports. Increasingly they are evaluating Six Sigma Management as a credible improvement methodology to significantly impact the bottom line.

Analysts now equate a serious Six Sigma commitment from a top management team with increased management execution capability and the delivery of hundreds of millions of dollars to the bottom line. Consequently, analysts tend to valuate such a company more highly and are more inclined to recommend the stock to investors. Although there are many other factors that lead analysts to a “strong buy recommendation,” it is clear that Six Sigma has become one of these factors.

1.2 Increasing Awareness

Executives in the United States have begun to realize the impact that Six Sigma can also have on the financial community. Management often includes information about the progress of their Six Sigma initiative in their quarterly and annual reports, as well as on their company public web pages. Also, many executives give speeches about their Six Sigma initiative to enhance the image of their corporation.

Although the trend to discuss Six Sigma in investor reports is perhaps strongest in the United States, there are clear signs that European analysts are also beginning to accept that a successful Six Sigma program is a positive factor in valuating a corporation. In 1997, Dresdner Kleinwort Benson in London organized a Six Sigma conference. The engineering company Siebe (now Invensys) initiated the conference. Siebe’s own Six Sigma initiative began in 1995. The conference raised Siebe’s profile and was considered a major success by Dresdner Kleinwort Benson, primarily because more than 100 analysts, brokers, and fund managers attended.

1.3 Observations

1. **Six Sigma is now a brand name. Financial Analysts recognize it as contributing to possible sustained profit improvement.**

Because of public endorsements by Larry Bossidy (Chairman of Honeywell formerly AlliedSignal) and Jack Welch (Chairman of General Electric), Six Sigma as an improvement methodology and management approach to creating breakthrough and lasting financial improvements, has become a brand in Corporate America. Both AlliedSignal and General Electric have educated financial analysts in the methodology of Six Sigma. For more than five years both companies have itemized past results and projections of Six Sigma projects in their annual reports and noted quarterly how Six Sigma contributes to their balance sheet (in terms of profit improvement, productivity improvement, margin improvement etc.). These noted positive results have built credibility for the Six Sigma approach and financial analysts now equate a Six Sigma initiative with a greater probability for higher earnings. We have not discovered any other improvement methodology that has received the same recognition by financial analysts.

2. Financial analysts are increasingly more sensitive to performance indicators that create long-term value improvement. Six Sigma is becoming one of these indicators.

For many years a realization has been growing that, although analysts and executives tend to live from quarter-to-quarter, indicators that reveal long-term increased value are an important source of information. It is clear from our research that the Sigma indicator is increasingly seen as one of these long-term indicators. At the least, it seems to create a perception in the financial community that the management team is creating value through managing a systematic improvement program. We observe that more management teams in leading edge companies in many industries are following the example of General Electric, AlliedSignal, and Invensys and reporting in their quarterly and annual reports how their Six Sigma initiatives are progressing.

3. Top executives in Corporate America pitch Six Sigma to Financial Analysts to positively influence their stock price.

It is now clear to many top executives that a Six Sigma approach can help lower their cost base and create sustained performance improvement. What seems to be equally clear is announcing the beginning of a Six Sigma program to financial analysts may increase the value of ones' company's stock price. However, due to the mixed success of Six Sigma initiatives, [some have been very successful, while others have failed to yield promised results, i.e., Polaroid] analysts are aware that this may be "institutionalized window dressing" and only take these announcements seriously if credible results follow in a sustainable manner.

4. The Weight Six Sigma Carries in an Analyst's Report

Six Sigma is seen as one of the elemental factors, along with mergers and acquisitions, the world economy, and, for example, share buy back schemes, that can influence a company's market value. However, analysts are well aware that Six Sigma cannot overcome basic business fundamentals, or for that matter, substitute for a poor strategy. One analyst was willing to share with us that Six Sigma would weigh as much as 20% of the total of factors considered relevant for the overall recommendation.

5. Six Sigma and E-Business

Some financial analysts see a Six Sigma capability as a prerequisite for a competitive E-Business capability because of Six Sigma's process management focus. This is considered a prequisite for E-Business transformation. Therefore, not having a Six Sigma initiative may undermine the confidence financial analysts have in an executive team's capability to make their company E-Business compatible.

6. Will financial analysts take systematic improvement programs other than Six Sigma into as serious consideration in making their recommendations?

We have no information on this issue but analysts emphasized in their discussions with us that any alternative performance improvement program would have to be credible by showing sustainable performance improvement over time.

1.4 Conclusion

It is clear that financial analysts, more than ever before, have debunked the many management fads that have characterized the 1980s and the 1990s. They are increasingly aware that a sound improvement methodology can improve the financials of a corporation and they are accepting that Six Sigma is such a methodology. As the trend to cover Six Sigma programs in investment reports intensifies, and all signs point in this direction, we expect that executives in relevant companies who do not have a Six Sigma or similar credible initiative, may find themselves at a disadvantage in discussions with financial analysts.

Other methods such as TQM, Business Process Reengineering, or Knowledge Management that may hold the same promises as Six Sigma as expressed by their proponents, have never received such attention from financial analysts as Six Sigma does today. In a business world where the power of the stock market and financial analysts is substantial, top executives would not be wise to ignore this development.

1.5 Review of Investment Reports

The following are abstracts from financial analysts beginning with the oldest quotes from 1996, since these were the first ones cited in investment reports. We will end with quotes from 2000 reports. None of the quotes have been edited except in some instances to explain an abbreviation. For each report we studied, the name of the author(s), investment firm, date of publication, and relevant page number(s) are indicated.

1.6 Investment reports on General Electric

June 6, 1996 Morgan Stanley & Co, Jennifer Pokrzywinsky, P.J. Solit,
General Electric: Strong Buy

"Based on additional Six Sigma meetings with GE, including internal audit meetings, we are raising our GE rating to Strong Buy from Outperform, and increasing our projected five year EPS growth rate to 13% from 11%. We view this 13% in a 12-14% range, compared to 11% used by most investors for valuation and 7-8% likely for the S&P 500. This "excess growth" of 500-600 basis points over the market compares to 200-300 basis points historically, and is driven by Six Sigma quality initiatives." (Page 1)

"NO. 1 COMPONENT OF MANAGEMENT COMPENSATION - While Six Sigma is coming up more frequently, it has yet to get the investor focus, understanding, or valuation it deserves. Beginning in 1996, Six Sigma is the single largest component of GE's incentive compensation the first change to this plan in 6 years. If management is this focused, investors should be as well." (Page 1)

"RAISING PRICE TARGET TO $102 - To reflect better growth, we are raising our 12 18 month target to $102 from $86. This assumes no relative multiple expansion by 2000, and discounts back 'excess growth' of 500bp. This target could rise if GE gets closer to its Six Sigma target, or if service initiatives (aided by Six Sigma) create incremental high margin revenues." (Page 1)

"As we discuss below, we now believe Six Sigma quality initiatives alone can propel EPS growth of 12 14% we are using 13% and maybe better for the next five years, in an environment of 8% EPS growth for the S&P 500." (Page 2)

Source of Growth:	**Assumptions:**	**Contribution:**
GE Capital	37% of 1995 EPS; CAGR 15%	+6 points
Non GECS Sales	CAGR4%	+2 points
Share Repurchase	$3 billion annually	+1-2 points
Six Sigma	30-40% of $7B low end target	+3-4 points
GE EPS	Growth 1996-2000	+12-14%

"WHAT DO WE KNOW THAT THE MARKET DOESN'T? - GE just started Six Sigma a few months ago, and it will cost $200 million ($0.08 per share) in 1996. It sounds suspiciously like all the other mushy stuff GE talks about (boundarylessness, stretch goals) and mushy stuff that other companies talk about (demand flow, kaizen). Why, then, are we willing to pay decidedly un mushy money for its benefits today? (Page 3)

1) SIX SIGMA ACADEMY - As we described in March (see 3/18 broadcast), we had the

privilege of two days at the Six Sigma Academy as a guest of founder Mikel Harry and AlliedSignal, the Academy's other customer. At this meeting, we learned the power and methodology of Six Sigma relative to traditional quality approaches, and importance of two ingredients: intensive statistical training and a culture open to change. At this point, we knew that Six Sigma was a potential “game changer” (in GE parlance), but we had no concrete reason to pay for it and after just 3-4 months of startup activity, GE had nothing concrete to say. (Page 3)

2) INTERNAL GE MEETING - Very recently, we sat in on internal Six Sigma presentations intended to educate GE's audit staff, including review of specific projects, and we have spoken with quality leaders from GECS (General Electric Capital Services), Transportation, and Plastics. (“Quality leaders” did not exist six months ago.) These meetings reinforced our conviction that, more than any other company, GE has the infrastructure, the people, and the culture to make Six Sigma happen, probably faster than anyone who has done it before. In contrast to even 2-3 months ago, GE is far more knowledgeable and confident in its own ability to execute.” (Page 3)

3) COMPENSATION/FINANCIAL COMMITMENT - In a letter to employees, CEO Jack Welch recently called Six Sigma ’the most important initiative this company has ever undertaken‘ and he dedicated the entire shareholder meeting to the topic. In 1996, GE will dedicate $200 million and its best people to this effort ("1A" performers, in GE's internal measurement). Finally, key people are paid to care beginning in 1996, all officers and their direct reports have 40% of incentive compensation tied to Six Sigma objectives (plus 30% net income; 30% operating cash flow), vs 50% NI/50% operating cash flow previously. This is the first real change in GE's incentive compensation since cash flow was added in 1990. (Page 3)

4) EARLY SUCCESSES - More importantly, the first round of projects has generated gains consistent with the theoretical multi billion opportunity. Our favorite example in GECS lease fleet, 70% of all trailers tagged "ready to lease” were not. (GE had grossly underestimated the problem at 20%.) Closer inspection indicated that out of spec tires were the biggest single issue. The audit staff checked 1,200 tires to discover that 84% of the problem was underinflation. This slowed turnaround, hurt asset utilization, annoyed customers, and cost GE $2 million in tire life every year. A low cost, first pass solution saves $1.3 million immediately, and $2 million is achievable, not to mention less quantifiable gains in customer satisfaction. The greatest concern of everyone we met was not finding, measuring, or fixing it was organizing and prioritizing vast numbers of projects to go after big ones first. (Page 3 and 4)

September 15, 1999 Jeffrey T. Sprague, Nicole M. Parent Salomon Smith Barney General Electric: Buy

”Stronger global economic conditions, the successful maturation of internal initiatives such as Service and Six Sigma, strong growth at GE Capital, and a rapid payback on its large investments in Japan suggest that GE’s EPS growth rate should accelerate to 15% during 1999-2001. GE’s Six Sigma program should deliver over $1.5 billion in net benefits in 1999 compared to a slightly negative contribution in 1996, the program’s first year.” (Page 3)

“Third, we believe institutional “window dressing” plays a role. We see a number of potential catalysts to move the stock higher over the next three to four months, starting with a September 16 meeting focused on Six Sigma and leadership development. Chairman and CEO Jack Welch will be making opening comments at the meeting.” (Page 5 and 6)

October 7, 1999 Martin A. Sankey, Meera Jegathesan, Goldman Sachs
General Electric: U.S. Recommended List.

”Quality improvement efforts continue to pay off for GE. Total cost productivity growth was 4.6% in the third quarter versus 4.0% a year ago (see Table 2). The Six-Sigma program is projected to deliver $2 billion in benefits at a cost of $500 million in 1999 versus 1998 benefits of 1.2 billion in benefits and outlays of $450 million.” (Page 2)

“GE is also working on the next generation of Six-Sigma, taking it from an internally driven program to one that is truly centered on the consumer by taking an “outside-in” view and “gaining insight through variance.” For example, delivering to customer request as opposed to General Electric internal lead-times. By aligning the GE quality process with the customer and improving the customer’s productivity, GE hopes to gain revenue and profit as it shares in customer satisfaction and gains productivity from process improvement. It is hoped that removing variability through Six-Sigma, GE’s quality and fulfillment capabilities can be honed to become a winner in electronic commerce. In total GE expects the benefits from Six-Sigma to reach $5 billion by 2003 (see Table 10).” (Page 8 and 9)

December 14, 1999, Banc of America Securities, Russel L. Leavitt
General Electric: Strong Buy

“Solid earnings gains are driven by contributions from the company’s company-wide initiatives including globalization, Six Sigma programs, and service thrusts.” (Page 1)

December 20, 1999, Prudential Securities, Nicholas P. Heymann, Lawrence Feiler
General Electric: Strong Buy

“After our fourth meeting with GE management in four weeks, it is very clear the company’s fundamental momentum is continuing to build steadily. GE has adopted several new value-creation initiatives (such as equity investments by its operating businesses in Internet-related startups), is offering greater earnings visibility of three years instead of one historically, and is using its exceptionally successful Six Sigma productivity program to directly solve customers’ problems (thereby enhancing its chances to improve its market share in all its businesses). GE’s overall net Six Sigma benefits in 2000 should total an estimated $2.4 billion, including $500 million in net benefits for 2000, up from $1.5 billion in net benefits for GE alone expected in 1999.” (Page 1 and 2)

“GE is also gaining share by “loaning” some of its “black-belt” Six Sigma productivity project leaders to its customers to solve their problems.” (Page 2)

1.7 Investment reports on AlliedSignal (now Honeywell)

March 18, 1996 Morgan Stanley & Co, Jennifer Pokrzywinsky
AlliedSignal: Visit report to Six Sigma Academy

“We visited the Six Sigma Academy in Arizona with AlliedSignal and a small group. Six Sigma's two clients are Allied-Signal and General Electric. If you have been on enough plant tours, it is easy to get overwhelmed and ultimately jaded by discussions of “kaizen” and demand flows in our view, some companies lack the culture and leadership to change under any program, while others (American Standard $29, Emerson Electric $80) have met tremendous success with home grown approaches. We were impressed with the Six Sigma consulting team (who are, of course, consummate salespeople), but what really differentiates this program from the pack of buzzwords and fads is the energy and commitment with which two of what we consider our smartest companies - GE and ALD (AlliedSignal) - have embraced it." (Page 1)

"While both companies have mentioned Six Sigma, we believe investors have not fully appreciated the power or the potential of this process to generate low risk earnings growth and share gains." (Page 1)

March 18, 1996, Jack Blackstock, Donaldson, Lufkin & Jenrette Securities Corporation, AlliedSignal: Buy

"We recently attended a meeting with some of ALD's external quality improvement specialists to gain a better understanding of the company's Manufacturing and Engineering Excellence programs which are largely based upon the Six Sigma system defined by Mikel Harry. Many attributes of the Sigma program appear to us to be a systemization of common sense combined with a broader and arguably more enlightened examination of manufacturing costs. While we doubt that the Sigma system per se is a panacea, we were quite impressed with the quantity of cost savings that appear available to ALD and the success the company is having in achieving them through the initiative." (Page 1)

"Quantifying Savings Management indicates that the company implemented around $350 mm in annualized cost reduction in 1995, including Sigma program savings of $120 mm in Aerospace, $90 mm in Engineered Materials and $71 mm in Automotive....... While we are always skeptical of the next managerial fad, we do think that it is worth investors' time to become familiar with Sigma concepts." (Page 1)

18 March 1996, Howard Rubel, Goldman, Sachs & Co. Investment research AlliedSignal: Buy

"Operational Excellence, a major component of Allied-Signal's drive to become a premier company, was showcased to a group of investors late last week. The Meeting provided an in depth look at Six Sigma, the process measurement statistic which serves as a benchmark for world class quality. The tutorial demonstrated how the highest quality producer can be the lowest cost producer and the market leader. AlliedSignal believes that this drive toward Operational Excellence using Six Sigma processes can deliver $400 million in 1996 cost savings and close to double that in 1997. We believe that the rigorous re examination of the company's processes and quality for the purpose of improving results will lead to higher shareholder returns. (As an aside, General Electric has recently committed to a Six Sigma.)." (Page 1)

August 23, 1999, Jeffrey T. Sprague, Nicole M. Parent, Salomon Smith Barney The "New" Honeywell: Buy

"Fourth, productivity at the "new" Honeywell will improve as AlliedSignal's strong cost discipline is applied to Honeywell's manufacturing cost base. One of the historical knocks on Honeywell is that its margins are too low given the dominance of its market positions. We believe that the application of Six Sigma and Allied's cost conscious culture should rapidly address this issue. Projected cost savings of $500 million, half of which are expected in 2000, appear conservative. The goal is to improve Honeywell's productivity from 5% to 6% driven by Six Sigma." (Page 9 and 10)

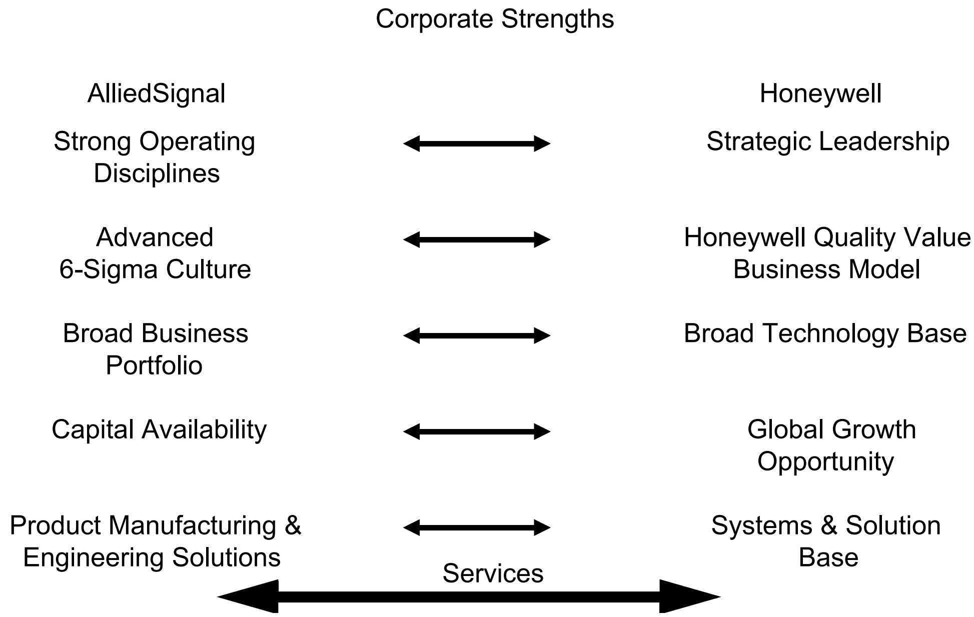
AlliedSignal's Six Sigma initiative is designed to wring billions out of its cost structure. The program strives to improve the quality of execution throughout the company, not just the product quality that a customer experiences. In the past, AlliedSignal focused its Six Sigma efforts on manufacturing. However, today the program spans the entire organization to include things like quality of manufacturing, “back-office” efficiency, marketing and product design. Six Sigma as it applies to product innovation, will increase the company’s success rate in new products, help to shorten cycle times giving AlliedSignal a competitive advantage with speed to market and reduced costs. Specifically, by using Six Sigma in the design of the AS900 engine, AlliedSignal was able to reduce the time-to-certification from 42 months to 33 months, the number of workhours to project completion, and the variability in fan modules by 50%. Six Sigma equates to 3.4 defects per million. The AS900 is currently at about 5.2 Sigma, up from 2.3 Sigma for other engines only two years ago. Today corporatewide ALD (AlliedSignal) achieves about 4 Sigma (about 6,210 defects per million) vs 2 Sigma (308,000 defects per million) in 1991. While these gains are impressive, there is still room for improvement. For example, if your telephone operated at Four Sigma, you would be without service more than 54 hours per year. At Six Sigma, it would be less than two minutes per year. If your car operated at Four Sigma, you’d spend about 37 minutes in the repair shop for every 100 hours you operate the vehicle. At Six Sigma, you’d only have 1.2 seconds of repair for every 100 hours of operation.

Figure 16. Sigma Levels

Sigma	Defects MM
1	500,000
2	308,537
3	66,807
4	6,210
5	233
6	3.4

ALD’s Six Sigma program is accelerating; the company has realized over $2 billion in Six Sigma savings since 1992 with $500+ million of that savings coming in 1998 ramping up to $750 million by 2001. Productivity is targeted to move from 6.3% in 1998 to 7% in 1999 driven by Six Sigma. Productivity is very simple increasing efficiency to gain a competitive advantage which is then used to achieve growth and generate cash flow. (Page 22 and 23)

Figure 6. Attributes Each Company Brings to the Table (page 11)



Source: Company reports and Salomon Smith Barney

29 September 1999, Phua K. Young, Farukh Z. Farooqi, Merrill Lynch
AlliedSignal Inc.: Buy

> "AlliedSignal expects free cash flow to exceed $800 million in 2000. This is before the repurchases of stock exercised by employees from stock options. About 40% of compensation is now tied to cash flow, 30% is deduced from productivity improvement and 30% from growth in sales." (Page 19)

> "By employing Six-Sigma, EAS (Electronics & Avionics Systems) has improved its margins from around 6% in 1991 to over 15% in 1998, an increase of 900 basis points." (page 22)

December 1, 1999 David J. Pizzlmenti Schroder & Co. Inc.
AlliedSignal and Honeywell Merger: Rating 1 (Buy)

> "The strategic fit is excellent — HON (Honeywell) will provide enhanced top-line opportunities, strong technology with a systems focus, a well-respected and well-known brand name, and global reach, while ALD brings strong products, excellence in execution, cost discipline, Six Sigma methodologies, a large service initiative, and a continuous improvement culture to the table." (Page 1)

> "Melding the diverse cultures of the two companies offers significant potential in that AlliedSignal's strength is in execution (e.g., Six Sigma, productivity, etc.), while Honeywell is probably one of the better top-line growers in the group, and best positioned strategically with a systems focus." (Page 2)

December 21, 1999 Don C. MacDougall, J.P. Morgan
Honeywell International: Buy

"Management provided detailed information on the additional integration savings (an additional $250 mm over the original $500 mm). An additional $90 million is expected from materials management, $25 million from Six Sigma, $60 million from corporate overhead, $35 million from Aerospace SG&A, $20 million from R&D, and $20 million from international infrastructure. The expected savings will total $250 million in 2000, $575 in 2001, and $750 million by 2002. It is notable the impact of 2000 cost savings has been reduced by $90 million by pay-as-you-go restructuring expenses. Productivity will continue to be a key emphasis at Honeywell, with targets for 7% from 2000-2002 driven by a combination of operating leverage, six sigma, and e-business initiatives. We continue to believe the bigger near term opportunities for HON from e-business will be found on the cost side of the business, although management also made a good case for longer term use of the internet to drive revenue growth." (Page 2)

"Honeywell's acquisition of Pittway Corp. creates a viable growth platform in Home and building Control and establishes Honeywell's franchise as the leader in complete home and building solutions from HVAC to Fire and Security. Honeywell announced that it has agreed to buy Pittway Corp., a $1.6 billion manufacturer of security and fire systems and other low-voltage products for homes and buildings, for a total consideration of about $2.2 billion, including $45.50 for each Pittway share and about $167 million in assumed debt. We expect a close early in 1Q2000. The deal transforms Honeywell's Home and Building Control segment into an over $5 billion unit and creates a $2 billion platform in the $10 billion fire and security systems industry. Management expect the deal to be neutral to earnings in 2000 with modest accretion in 2001 through various cost saving opportunities, six sigma savings, and revenue synergies. The deal also offers some solid strategic rationale. First, the high growth, non-seasonal Fire and Security business is a nice offset to Honeywell's current HVAC offering which is highly seasonal, cyclically exposed and lower growth. Additionally, the deal further bolsters Honeywell's product content in targeted home and building endmarkets and establishes the company as the only integrated supplier of complete home and building solutions." (Page 2)

January 11, 2000 Don C. MacDougall, J.P. Morgan
Honeywell International: Buy

"Management is not counting on a cyclical rebound to make its earnings and growth targets and is highly focused on internal opportunities for revenue and margin improvement. In our view, many of the near-term opportunities will be related to the merger savings, which have already exceeded initial expectations. The company now expects total savings of $750 million from the merger, and we think we could still see upside from this level. A continued focus on productivity improvement through Six Sigma, along with a newer focus on e-business sourcing opportunities should also contribute to steady improvements in operating margins at Honeywell." (Page 1)

"A significant portion of earnings growth at HON will likely be driven by merger synergies as management recently raised the bar on cost savings to $750 million from $500 million. The bulk of the increase comes from greater than expected savings in materials management while Six Sigma acceleration, corporate/shared services savings, Aerospace SG,&A, R&D, and international infrastructure are all contributing to this impressive number. Table 8 illustrates in detail the sources of cost synergies and the upside to the originally forecast numbers. In total, we expect $250 million in 2000 ($340 million in savings and $90 million in restructuring) and $575 million in 2001, which should increase to the $750 million run rate by 2002." (Page 10)

Table 8: Additional Merger Savings Detail
($ in millions, unless otherwise stated)

	OriginalE	AdditionalE	TotalE
Materials Management	$100	$90	$190
Details	1% of 10B Purchases $7M: T & E Related	$18M: E-Procurement	
Six Sigma Acceleration	150	25	175
Details	Drive HON's Productivity to 6%	Blackbelts at $100K per Project	
Corporate/Shared Services	110	60	170
Details	Eliminate Redundant Corp. Staff Leverage ALD Bus. Sys. Within HON	$8M: Invest Mgmnt and trustee Fees	
Aerospace SG&A	90	35	125
Details	Elim Redundant S,G&A, Field Services $6M: Org. Infrastructure	$7M: R&O	
R&D	30	20	50
Details	Elim Redundant Efforts	$5M: Licensing Opps.	
International Infrastructure	20	20	40
Details	Leverage HON's Int. Presence $2M: Reduce Freight Costs	$6M: Consolidate Facilities	
Total	$500	$250	$750

Source: Company reports.
Note: ALD = AlliedSignal.

April 18, 2000. Don C. MacDougall, J.P. Morgan Securities Inc.
Honeywell International: Buy

"Honeywell posted first quarter 2000 EPS of $0.63, up 15% from the same period last year and $0.01 ahead of our expectations. Surprisingly strong growth at Aerospace and Home and Building Controls combined with a sequential rebound in operating margins at Performance Materials to drive results. Robust aftermarket business and continued strength in business and regional jets were more than enough to offset weakness in commercial OE end markets at Aerospace. Recent price increases and targeted cost reductions resulted in nice margin improvement from a weak fourth quarter 1999 at Materials. Performance at Automation and Control was mostly driven by contributions from recently acquired Pittway, while strength at Home and Building Controls added to results. Lastly, robust demand for turbochargers in Europe resulted in a strong quarter at Power and Transportation, in spite of tremendous forex pressures. A 6% gain in productivity also contributed to healthy margin expansion, a hallmark of Honeywell's culture of continual improvement. The company has trained nearly 300 Six Sigma black belts in Automation and Controls and Aerospace this year (black belts totaled 3,800 companywide at quarter end). A solid free cash flow number of $265 million after restructuring rounded out results." (page 3)

1.8 Investment report on Seagate Technology Inc.

October 20, 1999. John C. Dean, SalomonSmithBarney,
Seagate Technology Inc.: Buy

"Increased Productivity and asset Management Focused
Generally, Seagate management firmly believes that increased productivity and asset velocity are key metrics to driving profitability, and has been committed to deploying supply chain management initiatives and operational efficiency programs, including six Sigma." (Page 3 and 4)

"Over time, we expect Seagate's productivity gains will help to offset the margin pressure from mix and ASP (Average Sales Price) declines; and, execution of new product introductions could also help buffer against competitive pricing dynamics (i.e., higher prices can be obtained on timely, higher-performance products). (Page 4)

"Its continued focus on operational excellence and supply chain management will translate into improved gross margins and bottom-line performance over time." (Page 5)

1.9 Investment report on Raytheon

October 26, 1999 Pierre Chao, Bill Knight Credit Suisse | First Boston
Raytheon: Buy

"Restructuring, Six Sigma, better financial controls, newly aligned compensation incentives, growth initiatives, and customer-focused training will take time to show through, but they are steps in the right direction, in our view." (Page 2)

1.10 Investment report on DowChemical

December 6, 1999, Merrill Lynch, John E. Roberts, Michael Judd, Cherry Thomas
Dow Chemical: Long Term BUY

"We've raised our EPS estimates after almost every quarter for the past few years, and the company has exceeded its over the cycle objectives of 10% EPS growth, return on capital over 3% above the cost of capital, and 20%+ return on equity. The company has also earned well above the cost of capital in 1999, which is viewed as a through year.

These results have been driven by productivity gains (35% headcount reduction or 9%/yr. fixed cost productivity), portfolio upgrading ($10 bn. of divestments and acquisitions - excluding Carbide), the repurchase of 25% of shares outstanding (at well below the current price), and continued core volume growth (6.8% compared to 3.7% over the past cycle).

Two new developments were highlighted: Fulcrum fiber composites for metal replacement, and Strandfoam (extruded polypropylene foam) for automotive head collision protection and lower cost thermal insulation material. Another $200 mil. in productivity gains are also targeted for 2000 from the six sigma efforts Dow businesses, on top of benefits expected from integrating Union Carbide." (Page 2)

1.11 Investment report on DuPont

December 16, 1999, Credit Suisse | First Boston, J. F. Hickman, J.Cochran, A. J. Singer.
DuPont: Buy

> ”Implementation of 6-Sigma should have more of an impact on 2000 earnings and could prove a substantial source of upside earnings surprise during the year. DuPont has 750 trained “black belts” (managers trained in 6-Sigma) globally and expects to have another 300-400 in 2000, overseeing 4 to 6 projects per annum each, with substantial cost savings per project. DuPont is believed to be the first member of the 6-Sigma Academy to ever break even in year one of implementation, which should give confidence that it may hit or exceed average savings-per-project totals of around $175,000.” (Page 3).