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Stock Project: Martha Stewart Living Omnimedia, Inc.

I have chosen Martha Stewart Living Omnimedia, Inc. as my company to profile and work with this semester. As a woman in today's society, I feel that she has accomplished quite a bit in the business world for women and has had great success doing so. Her company has a lot of aspects to it, such as marketing, which is my major. I believe that profiling this company will keep my interest. And despite her recent legal troubles, she still has maintained to keep on top of her game and I admire that. Throughout these 16 weeks, her company will probably have many lows and a few highs, given the fact that she will be going to prison soon. Also in light of the new competition, Omnimedia's market share might take a hit. And its future prospects remain uncertain because of Stewart's imprisonment. All of the troubles and uncertainty will make for an interesting market watch.

When looking at a particular firm, you want to analyze the ratios that the company puts out every year. First of all you have liquidity ratios, which are the firm's ability to convert assets into cash. Omnimedia's current ratio has the company higher than the industry. If the industry has a lower current ratio then that might cause problems in the short run because it shows there is a shortage of money. The company's quick ratio is also higher than the industry's indicating that the industry has a large amount of cash tied up in unproductive assets.

Activity ratios measure the operating characteristics of a firm. An inventory turnover tells you the number of times a company replaces inventory. The higher the number of this ratio, then the more efficient a company can grow sales volume. The inventory turnover for Omnimedia is zero, as compared to the industry which is 28.44. This means that the company is

not growing and does not have a lot of potential to grow. The other two turnovers including receivable and asset, both stand at zero for the company as well. The industry boasts a much bigger average. So overall the industry is growing, and Omnimedia is being left behind.

Leverage ratios provide an indication as to the long term solvency of the firm. It measures the firm's extent to which it is using long term debt. The leverage ratios on yahoo show that the total debt to equity is in favor of Omnimedia because it does not have any. This means that the industry as a whole could have difficulty in paying interest while obtaining more funding. Long term debt is also in favor of my company compared to the industry. And the interest coverage for the industry is relatively high indicating the industry's earnings can cover the interest debt.

Profitability ratios offer different measures of a firm's success at generating profits. All three of the profit margins compared to the industry are extremely low. This indicates that the industry is experiencing substantial profitability while Omnimedia is suffering. When I compare my company's numbers to their past performance, specifically in the last five years, I will note that their numbers are also lower than before the scandal and crisis of their owner. There has been a dip in profits. When looking at the return ratios as compared to the industry, I see that Omnimedia is obsolete to the industry garnering zero return on assets, investment, and equity. The industry has faired much better average around 11 percent for those ratios. Like the margin ratios, the return ratios are also lower when compared to my company's past five year performance. The industry as whole has faired better in all accounts and that is a major problem.

Market ratios relate a market value, the stock price to book values obtained from the firm's financial statements. When taking a look at the P/E ratio, I can see that the industry fairs much better. This means investors are willing to pay more for other company stocks rather than

Martha Stewart's. The price to book, price to cash flow, and the price to free cash flow all indicate a serious problem with Omnimedia's ability to keep up with the industry.

Even though the liquidity ratios are quite good, all of its other ratios are quite devastating. Compared to the industry and its own past performance, Omnimedia is doing very poorly in the stock market. Therefore, I would not want to buy shares, but I would want to sell shares of the company to escape the uneasiness of the firm.

A security market line is the relationship between an investment's hurdle rate and its market risk. To calculate the security market line equation and Omnimedia's current required rate of return on stock, I took the beta of 1.21 and multiplied it by the sum of the return on market and risk free rate which was 9.07. The multiplication I got was 10.97. And finally I added 10.97 to the risk free rate of 3.53. The required rate of return on my stock is 14.5%.

As for the intrinsic value of the stock, I had to crunch some numbers because the stock and earning report did not give me a growth rate. I formula I used to calculate was one minus the dividend payout rate (current dividend divided by previous year earnings). Then I multiplied that answer by the ROE or the historical ROE. The constant growth rate came out to be 7.24% and now I am all set to figure out the price of the stock. I took the current dividend of .32 and multiplied it by the sum of one plus the growth rate of 7.24. The answer came out to be 2.9568. Then I divided that by taking the required rate of return of 14.5 and subtracting the growth rate. The answer was 7.26. To come up with the final intrinsic value I divided 2.9568 by 7.26 and came up with a value of 40.72.

The calculated intrinsic valued of 40.72 is well above the current price of 22.31, located in the Wall Street Journal. The price differentiation could have the fact to do with as of November 30, Martha Stewart is in jail, and the holiday shopping season is off to a rocky start.

To analyze Omnimedia, Inc. you can look at the SWOT analysis. This company has many strengths going for them such as their brands and brand building capabilities. Martha Stewart Living is also a leading provider of ideas in and around the home. Their brand and brand labels span all media and merchandising channels. There is also a lot of talent incorporated with Omnimedia so they can bring the freshest and newest ideas to the world. They may have plenty of strengths, but Martha Stewart living's weaknesses overwhelmingly demolish the strengths. The owner and founder, Martha Stewart, as well as the company chairman both were indicted and convicted of lying about insider trading. Another weakness is the increased competition. Many new companies have come out and seen bigger profit margins than Omnimedia in the past year. Opportunities for Martha Stewart Living lay in growth. For instance, in 2003 they launched a new line in Sears Canada. The growth of the company is grounded in its distribution partners, a solid governmental structure, and a powerful business model. Threats to the corporation consist of vulnerability. The future of the powerful home design company is shaky and with their owner in prison and such a bad name, there could be a threat for a takeover. With such a dicey company, anything could go wrong, and that is a huge threat to have a lot of uncertainty.

Based on my analysis of the above, I believe that the current price is accurately priced. Even with the intrinsic value being above the current price, I think that the recent troubles and uncertainty of the company has brought its price down. If you look at the numbers from last year, they are far more promising and up than the numbers for 2004. So if the current price was higher, I would doubt it highly. I would also question it based on the negative numbers that Martha Stewart Living has garnered up.

In conclusion of my stock market report of Martha Stewart Omnimedia Living, Inc., I would recommend on not purchasing the stock. It is just too risky. If you are a smart business woman, you would not pick a company who has had so many difficulties. And you would not purchase stock of a company who has dismal numbers. There is no way to tell if Omnimedia will ever be the giant it was before Martha Stewart's conviction. Or even if there will be enough stability. I just cannot purchase this stock.