

Leucadia

Date: 10/23/03

Proposal: Watch List Proposal

Ticker: L LUK

Current Price: 40.60

Analysts: Tony Hung

## **Profile of Leucadia**

Leucadia National Corp., incorporated in 1968, is a diversified holding company engaged in a variety of businesses, including telecommunications, banking and lending, manufacturing, real estate activities, winery operations, development of a copper mine and property and casualty reinsurance. The Company's operating segments consist of banking and lending, manufacturing and domestic real estate. Banking and lending operations historically made collateralized personal automobile installment loans to individuals who have difficulty obtaining credit at interest rates above those charged to individuals with good credit histories. Manufacturing operations manufacture and market proprietary lightweight plastic netting used for a variety of purposes.

Leucadia's domestic real estate operations consist of a variety of commercial properties, residential land development projects and other unimproved land, all in various stages of development and all available for sale. Other operations primarily consist of winery operations and development of a copper mine.

Leucadia's banking and lending operations principally are conducted through American Investment Bank, N.A. (AIB), a national bank subsidiary, and American Investment Financial (AIF), an industrial loan corporation. AIB and AIF take money market and other non-demand deposits that are eligible for insurance provided by the Federal Deposit Insurance Corporation (FDIC). AIB and AIF have three deposit-taking branches in the Salt Lake City area, which have generated approximately three-quarters of their deposit balances.

Through its plastics division, the Company manufactures and markets proprietary lightweight plastic netting used for a variety of purposes including, among other things, construction, agriculture, packaging, carpet padding, filtration and consumer products. The products are primarily used to add strength to other materials or act as barriers, such as warning fences and crop protection from birds. This division is engaged in netting products used in carpet cushion, turf reinforcement, erosion control, non-woven reinforcement and crop protection.

Leucadia's domestic real estate operations include a mixture of commercial properties, residential land development projects and other unimproved land, all in various stages of development and all available for sale. These include a fully renovated 719-room hotel located on Waikiki Beach in Hawaii and a shopping center on Long Island, New York, which has 60,000 square feet of retail space. During 2002, the Company sold its interest in Compagnie Fonciere FIDEI, its foreign real estate subsidiary. During 2002, Leucadia sold one of its real estate subsidiaries, CDS Holding

Corporation, to HomeFed Corporation, which invests in, and develops, residential real estate projects in California.

### Other Operations

The Company owns two wineries, Pine Ridge Winery in Napa Valley, California, and Archery Summit in Willamette Valley, Oregon. Pine Ridge, which was acquired in 1991, has been conducting operations since 1978, while Leucadia started Archery Summit in 1993. These wineries primarily produce and sell wines in the luxury segment of the premium table wine market.

Leucadia's copper mine development operations consist of its 72.8% interest in MK Gold Company. MK Gold's subsidiary, Cobre Las Cruces, S.A., a Spanish company, holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. An independent feasibility study of this project was completed by Bechtel International, Inc. in 2001. This study is based on proven and probable reserves of approximately 15,800,000 metric tons grading 5.94% copper overlain by a gold-bearing gossan and by 150 meters of unconsolidated overburden.

Leucadia has a 47% stake in WilTel and its 25% stake in Finova through Berkadia, the company also has investments in **AmeriKing, Carmike Cinemas, HomeFed**





### Leucadia National (NYSE: LUK)

#### Issue Specific Data Company Industry Sector S&P 500

Beta	0.41	1.02	1.02	1.00
Market Capitalization (Mil)	\$2,228.04	\$25,408.36	\$25,408.36	\$18,468.42
Price % Change (TTM)	9.24	24.38	24.38	20.48

#### Financial Strength Company Industry Sector S&P 500

Quick Ratio	NA	0.83	0.83	1.27	
Current Ratio	NA	1.51	1.51	1.80	
LT Debt Equity		0.28	1.60	1.60	0.68
Total Debt Equity	0.28	2.75	2.75	0.99	
Cash Per Share (MRQ)	\$8.34	\$2.11	\$2.11	\$4.14	

Get Key Ratios for:

#### Profitability Company Industry Sector S&P 500

Gross Margin (TTM)	83.86	45.78	45.78	46.96
Gross Margin (5 Y Ave)	20.32	44.28	44.28	47.00
Profit Margin (TTM)	44.80	9.46	9.46	11.85
Profit Margin (5 Y Ave)	9.74	9.16	9.16	11.38
Effective Tax Rate (TTM)	NA	22.57	22.57	31.86
EBITD Margin (TTM)	27.98	17.26	17.26	18.94
Operating Margin (TTM)	-10.52	12.53	2.53	18.04

#### Valuation Ratios Company Industry Sector S&P 500

P/E Ratio	17.48	21.32	21.32	24.38
P/E High (Last 5 Y)	42.53	47.20	47.20	48.41
P/E Low (Last 5 Y)	6.15	14.01	14.01	16.16

Price/Book (MRQ)	1.41	4.14	4.14	4.14
Price/Sales (TTM)	8.37	2.12	2.12	3.26
Price/Cash Flow/share (TTM)	15.97	15.10	15.10	17.38
Price/Free Cash/share (TTM)	6.31	26.93	26.93	31.29
<b>Management Effectiveness</b>	<b>Company</b>	<b>Industry</b>	<b>Sector</b>	<b>S&amp;P 500</b>
ROE (TTM)	8.57	20.44	20.44	17.59
ROE (5 Year Ave)	9.16	23.03	23.03	20.18
ROI (TTM)	7.36	7.75	7.75	9.48
ROI (5 Year Ave)	35.53	9.69	9.69	11.76
ROA (TTM)	4.60	4.37	4.37	6.01
ROA (5 Year Ave)	3.83	4.72	4.72	7.27
<b>Corporate Efficiency</b>	<b>Company</b>	<b>Industry</b>	<b>Sector</b>	<b>S&amp;P 500</b>
Revenue/Employee	\$329,017	\$324,347.61	\$324,347.61	\$598,834.77
Income/Employee	\$147,400	\$36,466.77	\$36,466.77	\$72,221.96
Receivable Turnover	0.61	3.16	3.16	9.75
Inventory Turnover	NA	6.17	6.17	9.89
Asset Turnover	0.10	0.49	0.49	0.93
<b>Dividends</b>	<b>Company</b>	<b>Industry</b>	<b>Sector</b>	<b>S&amp;P 500</b>
Dividend Yield	NA	2.23	2.23	2.15
Dividend Yield (5 Year Ave)	12.20	1.67	1.67	1.37
Dividend 5 Year Growth Rate	0.00	13.27	13.27	6.76

## Recent Developments:

### Wiltel

Leucadia and the Wiltel board announced board approval and execution merger between Leucadia and Wiltel on August 21. The tender offer of .4242 shares of Leucadia for 1 of Wiltel is expected to end on October 15, 2003. Update: Leucadia currently owns 83% of Wiltel through a successful tender offer; however they are extending the deadline until October 30, 2003 in hopes of gathering the full 100% without undergoing separate acquisition transactions.

((About Wiltel))

Wiltel, a public telecommunications company that owns or leases and operates a nationwide fiber-optic network over which it provides a variety of telecommunications services, is an associated company.

### Telecommunications

Wiltel owns or leases and operates a nationwide inter-city, fiber-optic network, extended locally and globally. Wiltel has two operating segments: Network and Vyvx. Network provides Internet, data, voice and video services to companies that use high-capacity communications in their businesses. These companies include regional Bell operating companies, cable television companies, Internet service providers (ISPs), application service providers, data storage service providers, managed network service

providers, digital subscriber line (DSL) service providers, long-distance carriers, local service providers, utilities, governmental entities, educational institutions, international carriers and other companies that desire high-speed communications services. Network has built networks and entered into strategic relationships to provide services in the United States with connections to Asia, Australia, New Zealand, Canada, Mexico and Europe.

Vyvx transmits media for its customers regardless of format (analog or digital), method (fiber-optics or satellite) or geographic reach (domestic or international). Vyvx provides reliable, network-based methods for aggregating, managing and distributing content for content owners and rights holders.

Wiltel's global network is used to provide services to the customers of both Network and Vyvx. The global network includes ownership interests in or rights to use nearly 30,000 miles of fiber-optic cable, of which 28,554 is in service; local fiber-optic cable networks within 20 United States cities; 120 network centers located in 107 cities in the United States; operational border crossings between the United States and Mexico in California and Texas, as well as between the United States and Canada in Washington, Michigan and New York, and capacity on five major undersea cable systems connecting the continental United States with Europe, Asia, Australia, New Zealand and Hawaii.

#### The Deal:

The completion of this deal completes about a 6-month interlude in which Leucadia attempted to acquire the remaining 57% of Wiltel. Announcements were made as far back as May to pursue the merger offer, initially at .3565 ratio and then increased twice. Disagreements between the directors grew as Leucadia attempted an aggressive 2-tier offer over the summer.

Wiltel holds many assets that Leucadia may be interested in including its extensive 8 billion dollar broadband network and an exclusive remaining 17 yr contract deal with SBC Communications.

Wiltel already has extensive dealings with Leucadia. Every since the restructuring of WCG and its emergence out of bankruptcy, Wiltel has had Leucadia holding a controlling interest and looking over its shoulder in times of cash hemorrhages and bad leadership. Since July 2002, Leucadia made a 330 Million dollar investment in WCG to see it through bankruptcy negotiations. The official policy out of this merger is that Leucadia believes it can help better manage the company with a full merger of the two sides.

#### **Rehab Works**

RehabWorks, the nation's oldest and largest contract therapy provider for healthcare facilities, announced today that Leucadia National Corporation became its holding company effective Friday, August 29, 2003.

"Leucadia National Corporation offers RehabWorks strong financial backing which will allow our company to grow and venture into new markets within all sectors of the rehabilitation industry including the pediatric, outpatient and acute care markets," said Sally Weisberg, President of RehabWorks. "Furthermore, our emergence from

Chapter 11 enables us to invest in our employees and company to ensure we maintain our competitive edge that has permitted us to become the nation's largest provider of rehabilitation services in the long-term care market.

Leucadia National Corporation purchased RehabWorks and other Symphony Health Service companies including Polaris Group, Symphony Respiratory Services, and NurseWorks for an undisclosed amount. The purchase will allow RehabWorks to operate independently from its former long-term care parent company, Integrated Health Services.

About RehabWorks:

RehabWorks, the nation's largest contract therapy provider, has over 25 years of experience in establishing successful rehabilitation programs. Providing services in more than 39 states, RehabWorks' provides physical therapy, occupational therapy and speech language pathology services to the entire healthcare continuum from Pediatrics to Geriatrics. In 2002, RehabWorks, operating under Chapter 11, increased its total sales by 26% over 2001. The rehabilitation provider also introduced several state-of-the-art clinical tools, educational manuals and training programs.

### **The Leucadia, and Warren Buffet Connection.**

What many people don't know is that Leucadia is one of the few companies that has better returns over 25 yrs than Berkshire Hathaway. However, this is only where the connection between the two begin rather than end. If you examine the financial reports for Berkshire, you would notice that BH Finance arm of the company is composed of 3 different departments. General RE Securities, Xtra and Berkadia. Berkadia is actually a joint-venture between Leucadia and Berkshire and in 2003 it gained \$115 million dollars, out performing both General RE and Xtra.

Leucadia and Berkshire have had extensive dealings in the past including the two's joint ownership of Finova and its 400 + fleet of planes. Deals to close later in next year will result in transfer of some of Finova from Berkshire proper to Leucadia

Examining the Wiltel deal closer, it's hard to miss that Berkshire has over 1.5 million shares in WilTel. Additionally, Berkshire made a highly publicized move in July 2002 into the Level 3 Communications. This occurred at the same time Leucadia moved into WCG that was to become Wiltel. The plot thickens as in July 2002, after the backing of Warren Buffet, Level 3 made a 1.08 Billion dollar bid for WCG.

This has sparked rumors that the merger of Wiltel with Leucadia is just a deal by Warren Buffet to secure the valuable broadband networks and contracts of Wiltel for an absorption by Level 3 which would be the next step.

### **Analysis**

Currently LUK has a book value of \$27/sh and a market price of around \$35/sh, this is a very low ratio. Not included in financial calculations are LUK's interest in Finova, about %5 which will transfer over, along with the acquisition of Wiltel and now REHab Care. WilTel appears to just about to turn cashflow positive for 2004/2005 while

LUK still has a highly liquid balance sheet. LUK now has 3 good positions that have the high possibility of becoming fairly lucrative over the mid-term range. Some estimates have put LUK's possible upside as \$700 m to 1 billion in gains over a 2-5 year period (or \$10 to \$14/sh) which amounts to about a 30-40% gain.

Chances are in the short term that concerns over the debt of Witel that LUK will have to take on might drive prices down. This may be a good chance to enter into this company.