running about 16% ahead of year-ago levels, and the order backlog is also greater. The company's sold-ahead position ranges from one or two weeks to three months or more, depending on specific textile categories. Incoming business continues strong, and orders for future deliveries are being booked at higher prices. Results this year should benefit from reduced startup costs and from improved absorption of fixed costs as the rate of plant utilization increases. Operations are currently at about 95% of capacity. Since only 20% of Burlington's fiber usage is cotton, the impact of higher cotton costs should have only a modest effect on operating results. As demand is continuing strong for carpeting, draperies, bedspreads, hosiery, woolens, worsteds, and blended fabrics, we are estimating fiscal 1968 earnings at $2.75 to $3.00 a share, assuming a 10% tax surcharge. On the basis of our single figure earnings estimate of $2.85, full conversion of the $40 million of 5% debentures and outstanding options would reduce per-share earnings by only about 4%.

We consider Burlington common stock, one of our "Favored Fourteen for '68," an especially attractive purchase for appreciation in the textile industry. The investor seeking a higher return than the 3.0% yield currently afforded by the $1.20 dividend, can consider buying the 5% debentures (114), which are convertible into common at 39. They provide a current yield of 4.4% and are selling at a premium of 11% above conversion value.

J. P. STEVENS

For the fiscal year ending Oct. 31, 1968, J. P. Stevens, the nation's second largest publicly held textile company, expects to report a sharp increase in earnings. Reflecting reduced sales, lower selling prices, inventory writedowns, and heavy startup costs, profits last year declined to $4.14 a share, from a record $6.18 in fiscal 1966. However, earnings have been in a recovery trend since the low point reached in the April, 1967 quarter.

The company's sales breakdown is about as follows: apparel textiles, 64%; household fabrics, 24%; and industrial materials, 12%. Reflecting a sales gain of about 15%, the absence of heavy startup costs, and the inclusion of an extra accounting week, earnings for the first fiscal quarter (Feb. 3, 1968) were $1.26 a share, excluding an extraordinary credit of 7¢ a share, vs. $1.09 a year earlier. The outlook is for continued improvement for the balance of the year. Incoming orders from the beginning of the year to date are running more than 40% ahead of those for the year-earlier period. The company's sold-ahead position ranges from 11 to 12 weeks, vs. about 9 in 1967. Inventories are in good balance, and operations generally are up to six days, three shifts. Results should be aided by higher selling prices, lower startup costs, and the reduced earnings drain from the new hosiery division, which is expected to break even by year end. These factors should partially offset higher wages and increased cotton costs (only about 21% of Stevens' sales is in products composed of cotton). In view of strong demand for hosiery, woolens, worsteds, sheets, pillow cases, carpeting, and blended fabrics, we are estimating fiscal 1968 sales at around $850 million and earnings at $5.25 to $5.50 a share, assuming a 10% tax surcharge. Full exercise of stock options and conversion of the outstanding $27.7 million of 4% debentures would reduce our single-figure earnings estimate of $5.35 by less than 9%.

Stevens and United Elastic Corp. have agreed in principle on a merger calling for the exchange of 0.495 share of STN stock for each of the approximately 1.5 million United shares outstanding. Although the proposed merger would have diluted STN's earnings last year by about 4¢ a share, it should provide further diversification and growth opportunities in the near future.

Selling at about 10 times our estimate of earnings for this fiscal year, Stevens, in our opinion, is one of the more attractive values for capital appreciation in the textile group. The $2.25 dividend, which currently affords a yield of 4.2%, may be increased this year in light of the expected improvement in earnings.

E. F. HUTTON & CO., INC.,
New York, N.Y.

A PROGRESS REPORT ON THE TEXTILES

BACKGROUND COMMENTS

The November 1967 Market & Business Survey projected substantially improved results for the domestic textile industry in 1968. This projection was based largely on four factors:

1. Lower raw material costs.
2. A substantially increased sales base over which to spread costs.
3. Absence of new plant start-up costs.
4. Higher average selling prices.

Several other potentially constructive developments also were cited, all of which were expected to contribute to higher mill company earnings in 1968: As these developments were of a longer term nature, though, it was not felt that they would exert any unusual influence on the industry's 1968 results. These included:

1. Increased operating efficiency at the mill level.
2. The growing emphasis on research and development.
3. The steady changes now taking place in what the industry sells and how it is sold.
4. The favorable demographic trends now under way.
5. The steady technological progress now being recorded by most companies.

Interestingly enough, one of the potentially favorable developments mentioned above—increased operating efficiency—which was not expected to make a significant contribution to the industry's earnings picture this year appears to be doing just that—at least in several cases. A number of companies indicate that the benefits derived from full scale utilization of their new plant and equipment are helping to offset the effects of higher raw material and wage costs via increased productivity and reduced spoilage. Meanwhile, all of the other factors cited—with the single exception of raw material costs—also are working in the industry's favor. As a result, a strong recovery is underway in the sales and earnings of most mill companies—and with forward orders for many lines booked well ahead and generally firmer selling prices now prevailing on a wide range of products, continued gains are likely. Assuming reasonably favorable economic conditions, we believe the industry can show a year-to-year gain of at least 12% in sales over the estimated $18.8 billion figure of 1967: This would produce full year sales of around $21 billion. Meanwhile, the absence of new plant start-up costs the vastly improved operating efficiency now beginning to make itself felt at the mill level and the higher selling prices now in effect should enable most companies to record considerably larger increases in profits, with or without a tax increase.

The fact that the textile stocks have for the most part outperformed the market thus far this year is evidence that more and more investors are coming to recognize the speed and extent of the industry's earnings recovery. The generally strong technical position of these issues, however, together with the continued improvement in fundamentals now taking place, suggests that there still are a number of unusually attractive values in the group at present.

RAW MATERIAL COSTS

The one potentially favorable area cited in our November survey which has not lived up to expectations is raw material costs. Widespread publicity concerning a possible shortage of high quality long staple *cotton*, for example, led to a steady rise in the price of this commodity during the last half of 1967. By year-end, the price of rain-grown cotton used for print cloth (the industry's traditional bench mark) had risen to $0.45 a pound, well above the $0.26 a pound price which prevailed at the end of 1966. This situation, however, may have been overemphasized to some extent: Some companies admittedly have been hurt, but most firms apparently saw what was coming, and therefore were able to buy enough raw cotton last Spring and Summer (at prices well below current levels) to take care of most of their 1968 requirements. Meanwhile the general feeling is that this year's crop will be larger and of better quality than last year's, and if this comes to pass, prices undoubtedly will come down. Also, more and more companies are continuing to reduce the total amount of cotton used in their production. Taken together, these developments seem to preclude any further rise in the price of raw cotton during 1968, and most companies believe they will be able to buy their 1969 cotton at considerably lower prices than those prevailing today.

The dramatic turnaround in *polyester staple* prices which took place late last year ended a downward trend which had been going on for over five years. This reversal was sparked by an unexpectedly rapid upsurge in demand for carpets, permanent press sheets and pillow cases, which compelled fiber producers to