

A broker's bubbly ballyhoo for Bally

YOU KNOW THE SAYING: "One man's pain is another man's joy."

Well, that's one thrust of a double-barreled pitch institutional investors will be fed over the next week on Bally Manufacturing Co., the nation's largest maker of gaming (or slot) machines and a surging force in the leisure-time field.



**DAN
DORFMAN**

And it comes at a time of concern that the explosive video-game business—the chief reason for the surge in Bally's shares from a 52-week low of 20½ to a recent price of 30¼—could fall prey to slowing growth and sharply rising competition. Already, some of Wall Street's sharp hedge-fund crowd is selling short—a bet on lower stock prices—the shares of Warner Communications, a hot stock and a kingpin of the video-

game companies (through its Atari division).

The pitch begins today, when the brokerage firm of Ladenburg Thalmann & Co., a longtime Bally booster, fires off a research report—its third in six years and its first since '78—to some 100 institutional clients. The second salvo of the broadside will come Wednesday, when Bally's management reviews the company at a luncheon in New York for institutional heavyweights.

First to the Ladenburg report. Its major thrust: The pain that city and state governments soon should be feeling as a result of Reaganomics—namely, the sharp cutbacks in federal aid—could spur enactment of legislation to legalize gambling. And that, Ladenburg figures, could prove to be a bonanza for Bally.

"**THERE'S CUMBERSOME MACHINERY** long processes and lots of opposition, but my feeling is that if one state takes legislative action in this direction—which is quite feasible in the current economic environment—you could easily make a case for a steamroller effect," says Ron Koenig, Ladenburg's managing director and the author of the Bally report.

Ladenburg, which bought about 500,000 Bally shares for its clients last year and about 100,000 so far in '82 first recommended Bally in '76 at 6¼ and again in '78 at 13. Why a recommendation now after such a run-up?

Because it's a far more attractive investment opportunity today than it was in the past, replies Koenig. "Yesterday it was a speculation; today it's an investment-grade security."

He stresses that Bally no longer is a single-facet company—strictly a slot-machine maker (now only about 6% of revenues)—but rather a rapidly growing leisure-time force catering to the entire family. He cites in particular Bally's acquisition of the Six Flags amusement parks—an estimated \$300 million business this year—making it second only to Disney in this field.

Add this to Bally's more than 350 Aladdin's Castle family amusement-arcade centers "and you give the company almost a motherhood image... that institutions may find easier to buy," says Koenig.

Given the prospects of an earnings gain in a recessionary year (Koenig is predicting \$3.50 a share in '82, vs. \$3.03 in '81) and the growing perception "of the inevitable trend toward legalized gaming throughout the country," he figures it's only a matter of time before Wall Street accords the company's shares—now at 8.5 times his estimated '82 net—sharply higher valuation.

In a phone interview, Bally chief Bob Mullane told me he's "very pleased" with the current tempo of sales. Through mid-April, all Bally divisions—with the exception of slot machines (down about 10%-to-15%)—are beating year-earlier revenue figures, he says.

He figures an '82 performance of \$3.50 a share on sales of \$1.2 billion is a reasonable expectation. And he sees as "achievable" an '83 showing of \$4.10-to-\$4.20 a share on about \$1.4 billion to \$1.5 billion in revenues.

IN ADDITION TO GROWTH prospects through legalized gambling, Bally's chief investment enticement is its booming coin-operated video-game business (40% of '81's sales and more than 40% of its profits). And there are fears on Wall Street that Bally may not be able to top its '81 showing in this arena—what with last year's results benefiting strongly from a huge business in Pac-Man machines, the biggest video-game seller ever.

Mullane's response: We're not ready to roll over and play dead and say video games can't beat '82 figures." Bally is targeting for a 10%-to-20% gain in unit sales. And in support of this, he cites a very fast start for Ms. Pac-Man, a new video game, a "good stable" of accompanying new video games and a likely resurgence, especially abroad, of the flipper pinball games.

Mullane, citing legislative hassles, is not so enthusiastic about legalized gaming. And it's not something, he says, "we're building our future around. It's a hackneyed phrase, Mullane went on, "but we're betting our future—and it's a good one—on more and more leisure time. It's what people want as part of their life styles and it's where we're going to be."

© Tribune Company Syndicate Inc.