



Founded: in 1985 merging several Texan companies

Founder: Kenneth Lay

Headquarter: Houston, Texas (U.S.A)

Industry: Energy, Natural Gas, Financial Services



- 1987:** struggles after merging
- 1990:** regained profitability and expanding market share
- 1991:** profitable international investments
- 1995:** government deregulates the energy market
- 1997:** acquisition of Portland General Electric (PGE)
- 2001:** recognized for the sixth time as the “America’s most innovative company”



It's in a bunch of complex businesses. Its financial statements are nearly impenetrable. So why is Enron trading at such a huge multiple?

By Bethany McLean

Is Enron Overpriced?

In Hollywood parlance, the "It Girl" is someone who commands the spotlight at any given moment—you know, like Jennifer Lopez or Kate Hudson. Wall Street is a far less glitzy place, but there's still such a thing as an "It Stock." Right now, that title belongs to Enron, the Houston energy giant. While tech stocks were bombing at the box office last year, fans couldn't get enough of Enron, whose shares returned 89%. By almost every measure, the company turned in a virtuoso performance: Earnings increased 25%, and revenues more than doubled, to over \$100 billion. Not surprisingly, the critics are gushing. "Enron has built unique and, in our view, extraordinary franchises in several business units in very large markets," says Goldman Sachs analyst David Fleischer.

Along with "It" status come high multiples and high expectations. Enron now trades at roughly 55 times trailing earnings. That's more than 2½ times the multiple of a competitor like Duke Energy, more than twice that of the S&P 500, and about on a par with new-economy sex symbol Cisco Systems. Enron has an even higher opinion of itself. At a late-January meeting with analysts in Houston, the company declared that it should be valued at \$126 a share, more than 50% above current levels. "Enron has no shame in telling you what it's worth," says one portfolio manager, who describes such gatherings as "revival meetings." Indeed, First Call says that 13 of Enron's 18 analysts rate the stock a buy.

SOME PEOPLE liken Enron, with its massive trading operation, to a Wall Street securities firm.

But for all the attention that's lavished on Enron, the company remains largely impenetrable to outsiders, as even some of its admirers are quick to admit. Start with a pretty straightforward question: How exactly does Enron make its money? Details are hard to come by because Enron keeps many of the specifics confidential for what it terms "competitive reasons." And the numbers that Enron does present are often extremely complicated. Even quantitatively minded Wall Streeters who scrutinize the company for a living think so. "If you figure it out, let me know," laughs credit analyst Todd Shipman at S&P. "Do you have a year?" asks Ralph Pellechia, Fitch's credit analyst, in response to the same question.

To skeptics, the lack of clarity raises a red flag about Enron's pricey stock. Even owners of the stock aren't uniformly sanguine. "I'm somewhat afraid of it," admits one portfolio manager. And the inability to get behind the numbers combined with ever higher expectations for the company may increase the chance of a nasty surprise. "Enron is an earnings-at-risk story," says Chris Wolfe, the equity market strategist at J.P. Morgan's private bank, who despite his remark is an Enron fan. "If it doesn't meet earnings, [the stock] could implode."

What's clear is that Enron isn't the company it was a decade ago. In 1990 around 80% of its revenues came from the regulated gas-pipeline business. But Enron has been steadily selling off its old-economy iron and steel assets and expanding into new areas. In 2000, 95% of its revenues and more than 80% of its operating profits came from "wholesale energy operations and services." This business, which Enron pioneered, is usually described in vague, grandiose terms like the "financialization of energy"—but also, more simply, as "buying and selling gas and electricity." In fact, Enron's view is that it can create a market for just about anything; as if to underscore that point, the company announced last year that it would begin trading excess broadband capacity.

But describing what Enron does isn't easy, because what it

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1987: Valhalla scandal

1990: mark-to-market system fully implemented

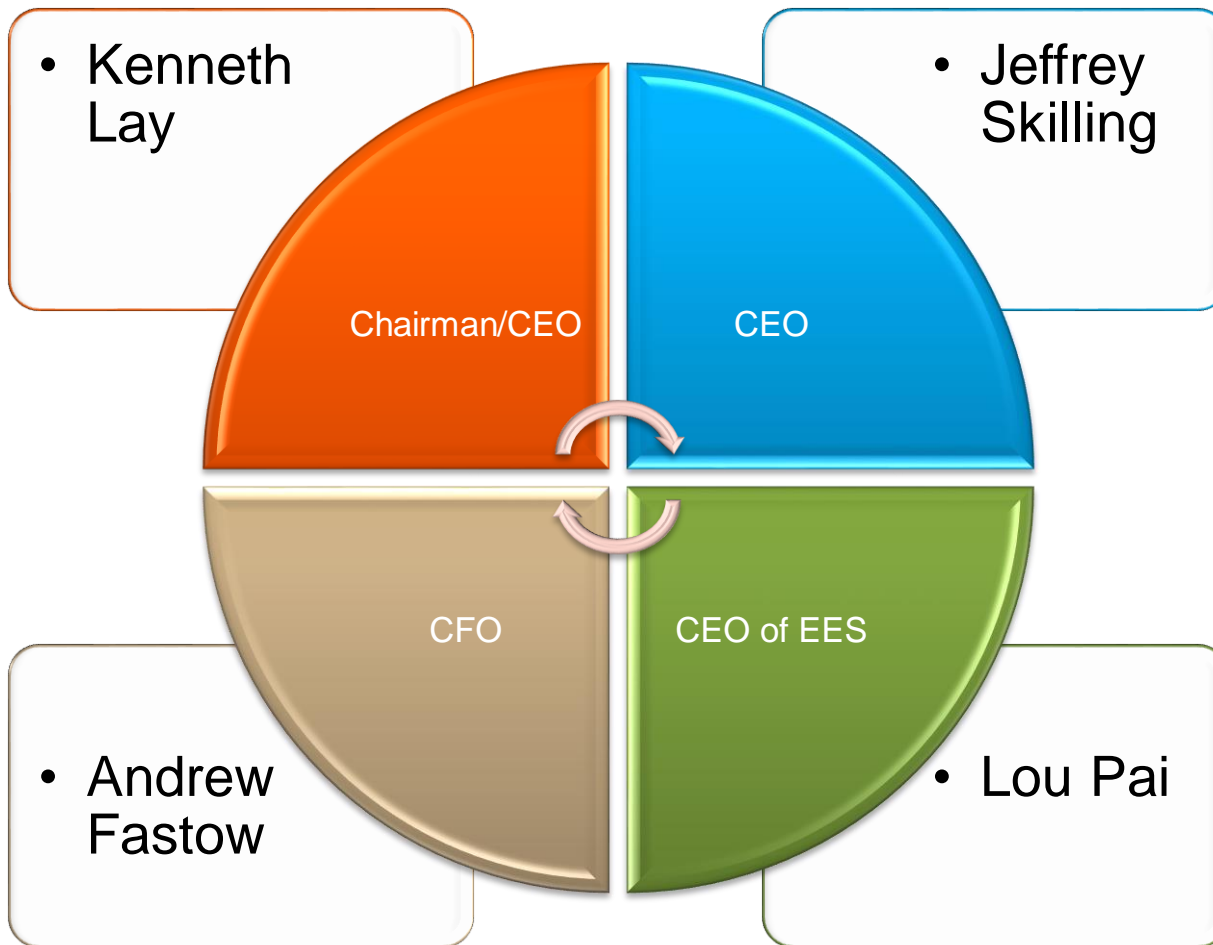
1991: losses from international investments

1995: lobby heavily the government to achieve the deregulation

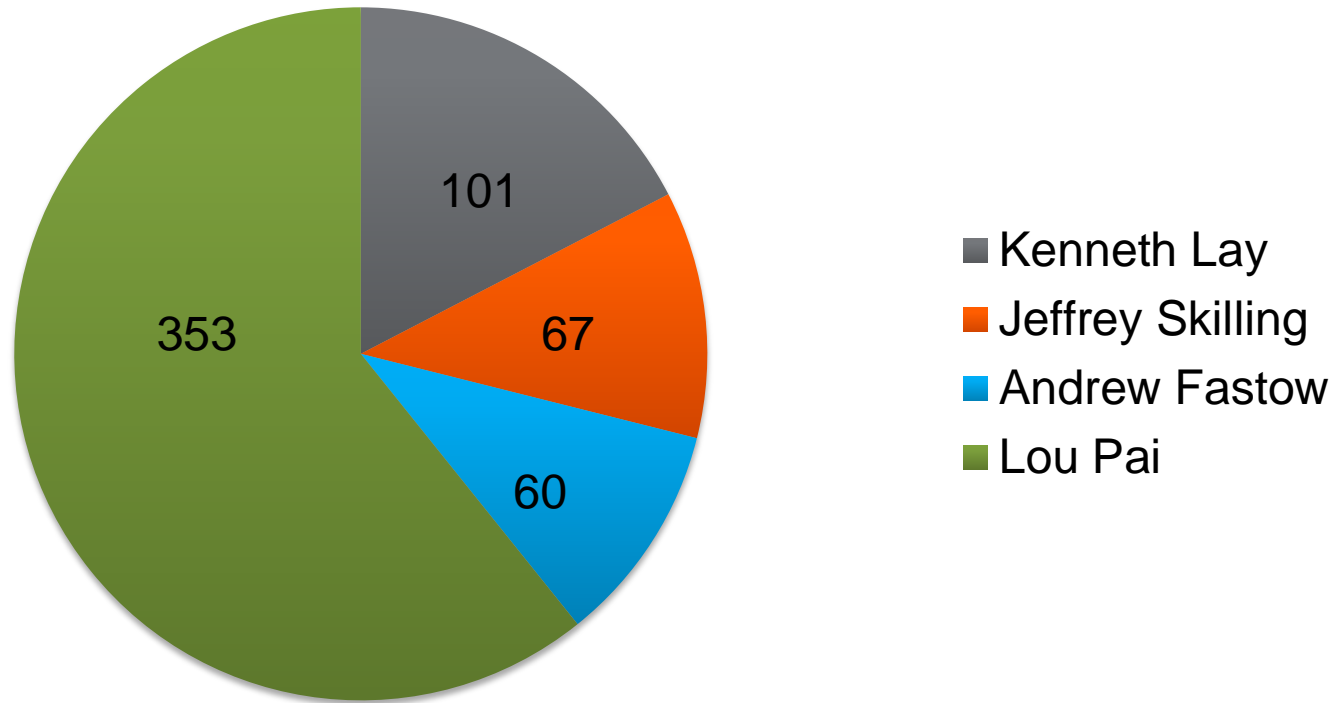
1997: acquisition of PGE through overpriced shares

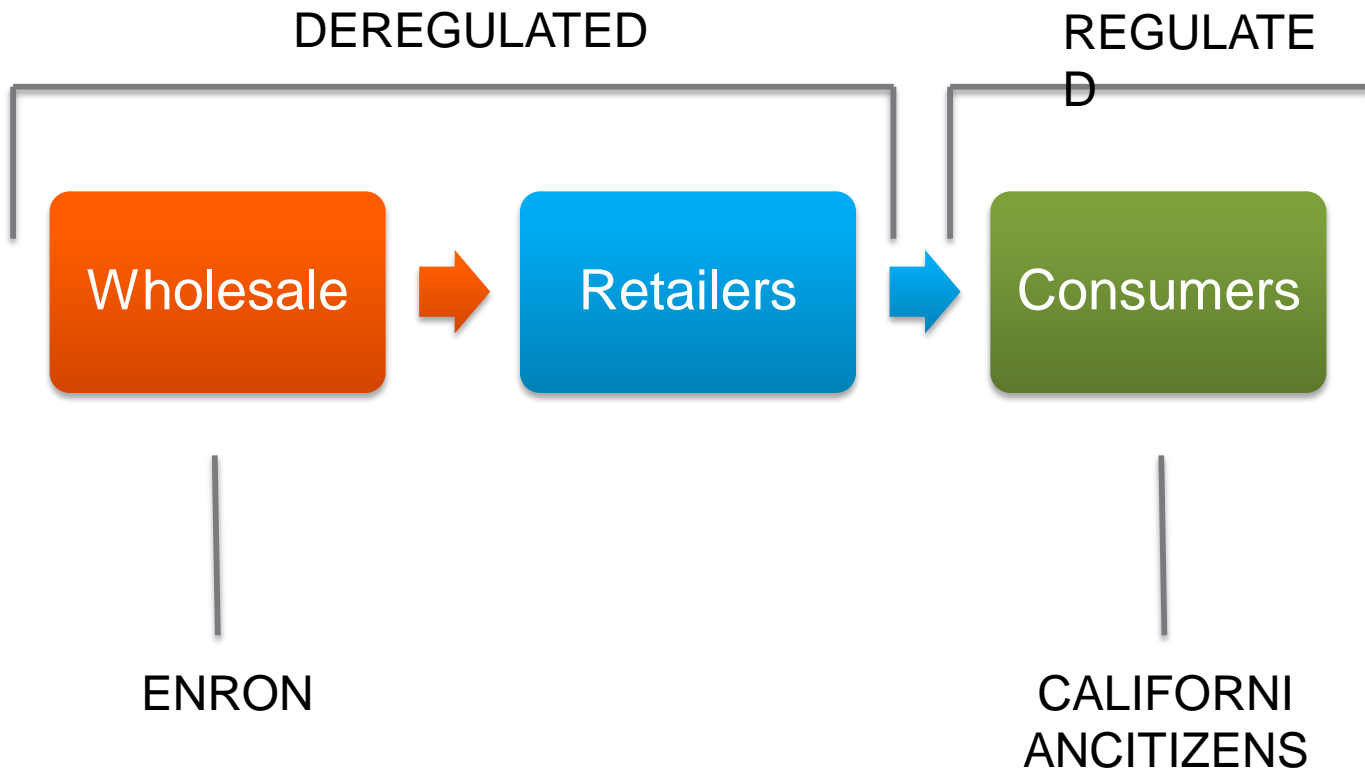
2001: CEO Skilling leaves the company

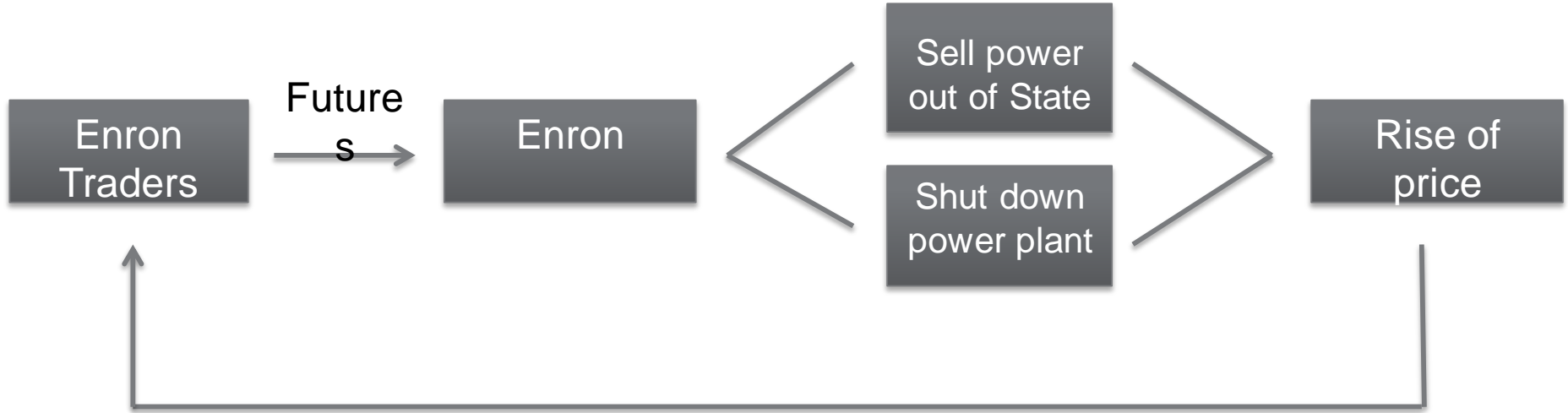
2002: Bankruptcy and failure



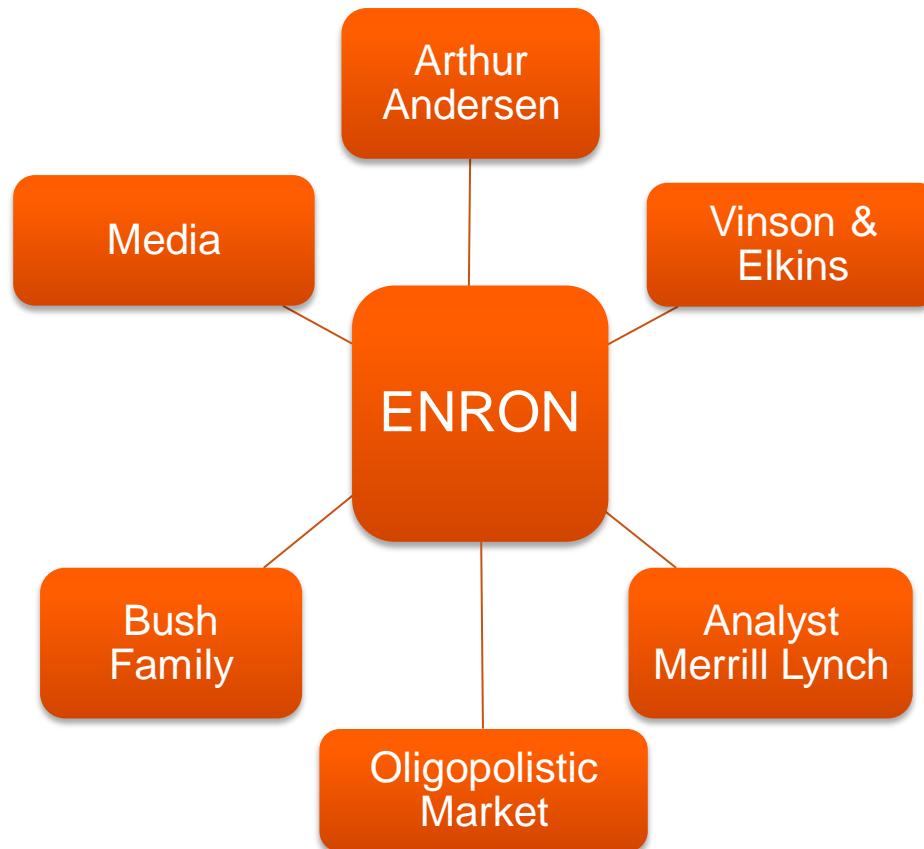
ENRON STOCK SOLD BETWEEN 10.1998 AND 11.2001 (MILLIONS \$)

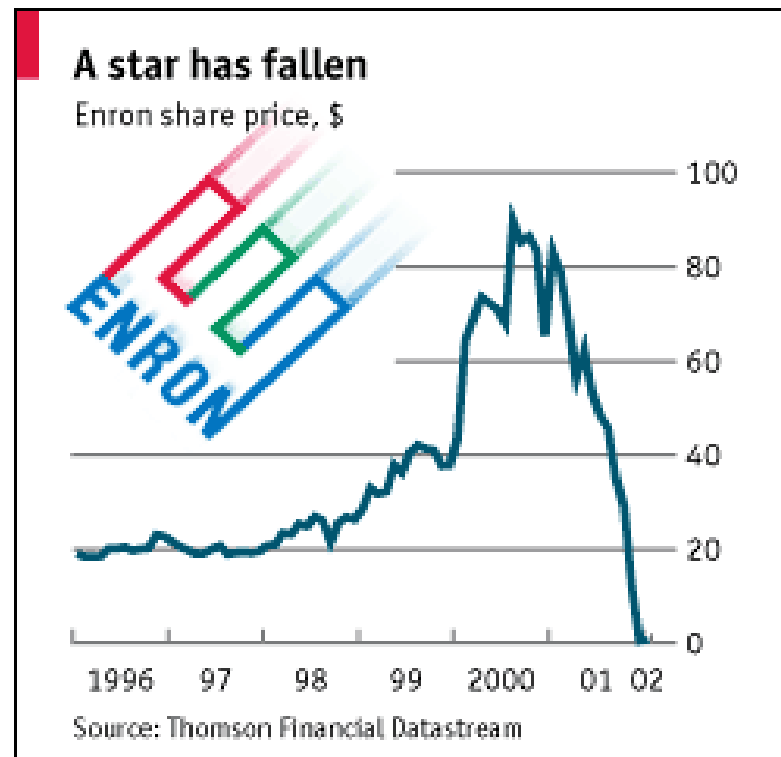






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