NWM

BORDEN, INC. (BN NYSE)

HOLD

COMPANY UPDATE

Lowering Our Estimates Again

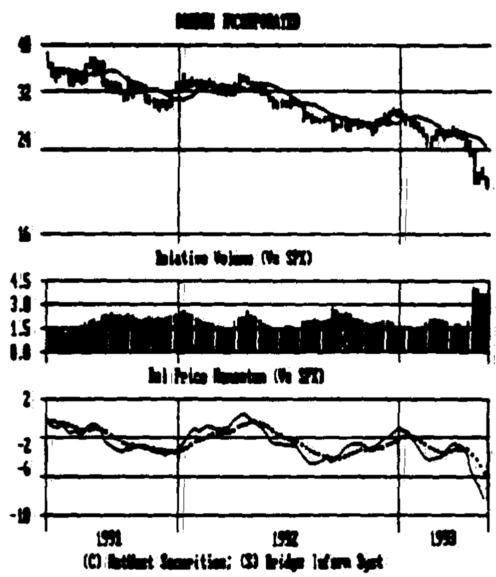
May 28, 1993

Price 5/27/93	52-Wk. Range	Earnings Per Share 1992A	1993E	1994E	P/E Ratios 1993E	1994E	Indicated Div.	Yield	5-Yr. Proj. Growth Rate	Mkt. Cap.(B)
$20 3/8	$32 - $20	$1.70	$1.35	$1.75	15.1x	11.6x	$1.20	5.9%	7%	$2.9
Fiscal Year End: December										
S&P 500										
$452	$457 - $397	$20.21	$26.00	$28.25	17.1x	16.0x	$13.42	3.0%		

INVESTMENT SUMMARY:

We are again reducing our 1993 earnings estimate, this time from $1.75 to $1.35, down drastically from the $1.70 earned last year, and our 1994 estimate from $1.95 to $1.75. Given the company's existing structure, we think that Borden is only capable of generating about 7% annual earnings growth over the long term. We note that Borden reported an 8% decline in net sales during the March period, while operating profits were off some 25%+ ($103 million versus $127 million) in the quarter — reflecting profit declines in all major business segments. Operating profits in the Grocery Products segment, which comprises roughly 25% of total sales, declined significantly, the result of weakness in the foodservice and pasta operations. Sales and operating profits in the Snacks and International Consumer Products segment, 26% of sales, decreased as well — reflecting substantially lower results from the North American Snacks operation. Meanwhile, the worldwide Packaging and Industrial Products division (30% of sales) also suffered from lower operating profits on lower sales. Finally, we note that operating earnings in the U.S. Dairy segment, 19% of sales, fell sharply as a result of lower volume in fluid milk.

In our opinion, the snack business, amidst a major consolidation, is clearly suffering in this period of transition. Costs associated with downsizing and streamlining the segment — shedding unprofitable regional brands, unifying distribution channels and introducing line-extensions (the primary source of growth in salty snacks) — we believe will dampen earnings longer than expected. Plus, with such stiff competition, particularly from PepsiCo's Frito-Lay unit, revitalizing Borden's snack segment to



Michael J. Branca
(212) 440-8835

NatWest Securities Corporation

100 Wall Street, New York, New York 10005 Telephone: (212)440-8300 Telex: 362004 Facsimile: (212) 248-0052

2031768546

We now forecast second quarter earnings in a $0.61-$0.62 per share range, a double-digit decline from the $0.68 earned in the year-ago quarter. Reported sales are likely to be down (perhaps 3% or so), reflecting the negative impact of foreign currency and soft worldwide volume growth in the period. We currently forecast June period domestic ready-to-eat cereal volume will be down 5%, versus a very difficult volume gain in the year-ago period.

Meanwhile, we look for a more modest 4% unit volume gain in the international cereal operations. Thus, overall volume growth in the ready-to-eat cereal business should be soft in the second quarter. As a result of the softer domestic volume outlook, we expect second quarter gross margins to contract, perhaps almost one percentage-point (to the 52%+ level), despite more favorable raw material costs. Overall, we now expect Kellogg's operating margin to slip by about one percentage-point (to the 15% mark), while the level of absolute SG&A spending remains essentially flat with a year ago. We still expect a more normal 36% tax rate for the full year and, given the company's strong cash flow, we expect heavy share repurchase activity (which should serve to lift reported earnings per share).

We continue to rate this top-quality stock HOLD. These shares have been beaten down of late, reflecting concern over brand-name consumer stocks and the lackluster near-term profit outlook. Still, given our expectations for only modest quarterly earnings comparisons and ongoing softness in the packaged food group, we would prefer to remain on the sidelines at this juncture. The sizable stock buyback program should provide support for these shares at about a 25% premium to Kellogg's well-defined long-term earnings growth rate. Clearly Kellogg's dominant global market share in the growing ready-to-eat cereal category offers considerable operating profit growth potential and, in our opinion, the capacity to sustain volume-driven 13-15% long-term earnings gains.

NWM

Pet Incorporated
Earnings Model
($ in Millions)

	1992 QUARTERLY RESULTS (A)				
	1ST QT	2ND QT	3RD QT	4TH QT	1992(A)
Net Sales	349.7	425.7	395.6	349.8	1520.8
Growth	-	-	-	-	-
COGS	185.7	222.5	203.6	178.9	790.7
Gross Margin	46.9%	47.7%	48.5%	48.9%	48.0%
% Gr Marg Q-Q	-	-	-	-	-
SGA	113.1	125.1	130.6	126.1	494.9
SGA/Sales	32.3%	29.4%	33.0%	36.0%	32.5%
% SGA Q-Q	-	-	-	-	-
Amortization	3.1	2.8	3.1	2.9	11.9
Amort/Sales	0.9%	0.7%	0.8%	0.8%	0.8%
Op Income	47.8	75.3	58.3	41.9	223.3
Op Margin	13.7%	17.7%	14.7%	12.0%	14.7%
% Marg Q-Q	-	-	-	-	-
Interest Expense, net	(12.4)	(11.6)	(11.3)	(10.6)	(45.9)
Other Inc(Exp),net	(0.9)	(0.6)	(1.2)	(0.3)	(3.0)
Pretax Income	34.5	63.1	45.8	31.0	174.4
Taxes	14.2	25.9	18.5	10.0	68.6
Tax Rate	41.2%	41.0%	40.4%	32.3%	39.3%
Net Income	20.3	37.2	27.3	21.0	105.8
Net Margin	5.8%	8.7%	6.9%	6.0%	7.0%
Shares	107.6	107.8	107.9	107.7	107.8
EPS	$0.19	$0.35	$0.25	$0.19	$0.98
% Change Q-Q	-	-	-	-	-

	1993 QUARTERLY RESULTS (E)				
	1ST QT	2ND QT	3RD QT	4TH QT	1993(E)
Net Sales	342.0	425.3	395.8	353.3	1516.4
Growth	-2.2%	-0.1%	0.1%	1.0%	-0.3%
COGS	174.9	210.8	191.3	169.4	746.4
Gross Margin	48.9%	50.4%	51.7%	52.1%	50.8%
% Gr Marg Q-Q	1.96%	2.70%	3.13%	3.20%	2.77%
SGA	121.2	137.0	141.1	132.8	532.1
SGA/Sales	35.4%	32.2%	35.6%	37.6%	35.1%
% SGA Q-Q	3.10%	2.83%	2.64%	1.55%	2.55%
Amortization	2.9	3.1	2.9	2.9	11.8
Amort/Sales	0.8%	0.7%	0.7%	0.8%	0.8%
Op Income	43.0	74.4	60.5	48.1	226.0
Op Margin	12.6%	17.5%	15.3%	13.6%	14.9%
% Marg Q-Q	-1.10%	-0.19%	0.55%	1.65%	0.22%
Interest Expense, net	(10.0)	(10.3)	(9.7)	(8.2)	(38.2)
Other Inc(Exp),net	0.2	0.1	(0.8)	1.1	0.6
Pretax Income	33.2	64.2	50.0	41.1	188.5
Taxes	13.3	25.8	19.9	16.3	75.3
Tax Rate	40.1%	40.2%	39.8%	39.7%	40.0%
Net Income	19.9	38.4	30.1	24.8	113.2
Net Margin	5.8%	9.0%	7.6%	7.0%	7.5%
Shares	107.6	107.5	107.3	106.7	107.3
EPS	$0.18	$0.36	$0.28	$0.23	$1.06
% Change Q-Q	-5.3%	2.9%	12.0%	21.1%	8.2%

	1994 QUARTERLY RESULTS (E)				
	1ST QT	2ND QT	3RD QT	4TH QT	1994(E)
Net Sales	354.0	442.3	411.6	369.2	1577.1
Growth	3.5%	4.0%	4.0%	4.5%	4.0%
COGS	176.4	213.0	193.6	171.5	754.5
Gross Margin	50.2%	51.8%	53.0%	53.6%	52.2%
% Gr Marg Q-Q	1.30%	1.40%	1.30%	1.50%	1.38%
SGA	129.9	147.3	151.9	143.4	572.5
SGA/Sales	36.7%	33.3%	36.9%	38.8%	36.3%
% SGA Q-Q	1.25%	1.10%	1.25%	1.25%	1.21%
Amortization	2.9	3.1	2.9	2.9	11.8
Amort/Sales	0.8%	0.7%	0.7%	0.8%	0.7%
Op Income	44.8	78.9	63.3	51.4	238.3
Op Margin	12.6%	17.8%	15.4%	13.9%	15.1%
% Marg Q-Q	0.07%	0.34%	0.09%	0.29%	0.20%
Interest Expense, net	(8.0)	(7.6)	(7.3)	(7.2)	(30.1)
Other Inc(Exp),net	0.6	0.6	0.8	1.2	3.2
Pretax Income	37.4	71.8	56.8	45.4	211.4
Taxes	14.9	28.7	22.7	18.2	84.6
Tax Rate	40.0%	40.0%	40.0%	40.0%	40.0%
Net Income	22.4	43.1	34.1	27.2	126.8
Net Margin	6.3%	9.7%	8.3%	7.4%	8.0%
Shares	106.4	106.1	105.8	105.5	106.0
EPS	$0.21	$0.41	$0.32	$0.26	$1.20
% Change Q-Q	16.7%	13.9%	14.3%	13.0%	13.2%

NATWEST SECURITIES

Borden, Inc.
Earnings Model
(in $ Millions)

	1991	1992(A)	1993(E)	1994(E)	1995(E)
Net Sales	7235.0	7142.6	6657.2	6878.0	7221.9
% Growth	-	-1.3%	-6.8%	3.3%	5.0%
COGS	5070.8	5057.2	4686.2	4808.7	5023.8
Gross Margin	29.9%	29.2%	29.6%	30.1%	30.4%
% Gr Marg Y-Y	-	-0.72%	0.41%	0.48%	0.35%
MGA	1462.0	1565.7	1487.4	1531.8	1619.3
MGA/Sales	20.2%	21.9%	22.3%	22.3%	22.4%
% MGA Y-Y	-	1.71%	0.42%	-0.07%	0.15%
Depr/Amrt	216.9	227.6	241.3	255.7	271.1
D & A/Sales	3.0%	3.2%	3.6%	3.7%	3.8%
Op Income	702.2	519.7	483.5	537.5	578.8
Op Margin	9.7%	7.3%	7.3%	7.8%	8.0%
% Marg Y-Y	-	-2.43%	-0.01%	0.55%	0.20%
Interest exp.	198.4	148.0	152.5	143.0	154.4
Affl/Min (inc.)	(21.1)	20.3	21.5	16.0	17.3
Other (Inc.)	(7.5)	1.3	22.2	12.0	13.0
Pretax Inc	532.4	350.1	287.3	366.5	394.1
Taxes	193.6	110.6	97.1	122.8	132.0
Tax Rate	36.4%	31.6%	33.8%	33.5%	33.5%
Net Income	338.9	239.5	190.2	243.7	262.1
Net Margin	4.7%	3.4%	2.9%	3.5%	3.6%
Shares	147.60	143.38	140.80	139.63	138.00
EPS	$2.30	$1.70	$1.35	$1.75	$1.90
% Change	-	-25.9%	-20.5%	29.2%	8.8%

Source: NatWest Securities

Washington Analysis

Industry	Analyst	Phone
Agribusiness	David Nelson	(202) 659-8030
	Heather Pillsbury	(202) 659-8030

U.K. Research

Brewers & Distillers	Graeme Eadie	011-4431-243-4220
	Michelle Proud	011-4431-243-4224
Food Manufacturing	David Atkinson	011-4471-375-6585
	Alan Erskine	011-4471-375-6584
	John Campbell	011-4471-375-8196
Food Retailing	Tony MacNeary	011-4471-375-8641
	David Shriver	011-4471-375-8642

European Research

Food Manufacturing	John Campbell	011-4471-375-8196
Food Retailing	David Shriver	011-4471-375-8641
	Tony MacNeary	011-4471-375-8642

Sellier, Paris

Alain Kerfourn, Head of Analysts
011-331-44-756-50-16

Food & Beverage, Paper, Leisure	Alain Kerfourn	011-331-44-76-50-16

Australian Research

Malcolm Sinclair, Head of Australian Research
011-61-2-258-0200

Food, Tobacco	John Parker	011-61-2-258-0200
Food, Tobacco, Retail, Chemicals	Malcolm Sinclair	011-61-2-258-0200

2031768550

NATWEST SECURITIES CORPORATION

GLOBAL EQUITIES RESEARCH

NatWest Securities Corporation
100 Wall Street; New York, NY 10005 (212/440-8300)
Michael W. Derchin, Director of Research (212/440-8521)

NatWest Washington Analysis
1612 K Street NW; Washington, DC 20006 (202/659-8030)
Leslie M. Alperstein, Director

Natwest Securities Limited
135 Bishopsgate; London, England EC2M 3XT (011-44-71 375-5000)
Bob Semple, Head of U.K. Research (011-44-71 375-8628)
Marina Tzamouranis, Head of European Research (011-44-71 375-6037)

NatWest Sellier
12 rue d'Uzès; 7500[illegible] Paris, France (011-33-1 44-76-50-00)
Alain Kerfourn, Head of Analysts (011-33-1 44-76-50-16)

County NatWest Securities Australia
Grosvenor Place; 225 George Street; Sydney, Australia 20[illegible] (011-61-2 258-0200)
Graeme [illegible], Director-Resources
Malcolm Sinclair, Director

360 Collins Street; Melbourne, Australia 3000 (011-61-3 [illegible])
Bruce Wookey, Director

Sales Offices

NatWest Securities Corporation
401 East Pratt Street; Suite 1351
Baltimore, MD 21202
(301/547-2771)

NatWest Securities Corporation
75 State Street; 25th Floor
Boston, MA 02109
(617/330-1066)

NatWest Securities Corporation
33 North Dearborn Street; 12th Floor
Chicago, IL 60602
(312/621-5777)

NatWest Securities Corporation
100 Wall Street
New York, NY 10005
(212/440-8300)

NatWest Securities Limited
135 Bishopsgate
London EC2M3UR
United Kingdom
(011-4471-375-5000)

NatWest Securities GmbH
16 Maximiliansplatz; 1st Floor
D-8000 Munich 2, Germany
(011-498-92-91-3991)

NatWest Securities Limited
Limmatquai 112; 2nd Floor
CH-8001 Zurich, Switzerland
(011-411-252-1313)

KELLOGG COMPANY (K-NYSE)

HOLD

COMPANY UPDATE

May 27, 1993

Lowering Our Earnings Estimates

NWM

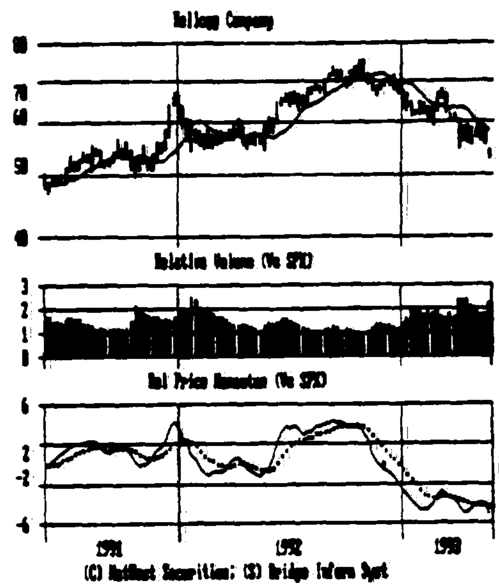
Price 5/26/93	52-Wk. Range	Earnings Per Share 1992A	1993E	1994E	P/E Ratios 1993E	1994E	Indicated Div.	Yield	5-Yr. Proj. Growth Rate	Mkt. Cap.(B)
$53 7/8	$75 - $53	$2.75	$2.95	$3.35	18.3x	16.1x	$1.28	2.4%	14%	$12.7
Fiscal Year End: December										
S&P 500										
$448	$457 - $392	$20.21	$26.00	$28.25	17.2x	15.9x	$13.42	3.0%		

INVESTMENT SUMMARY:

Kellogg management has indicated that second quarter and full-year results will likely fall short of our previous forecast. Slower than expected volume sales — notably in the U.S. as well as overseas — along with unfavorable currency translations are expected to result in second quarter earnings about 10% below the $0.68 per share earned in the year-ago period. Accordingly, we are lowering our second quarter earnings estimate from $0.73 to $0.62 per share, our 1993 annual estimate from $3.10 to a $2.95-$3.00 per share range and our 1994 estimate from $3.55 to a $3.35-$3.40 range.

The downward revision in the June quarter is predicated on lackluster worldwide ready-to-eat cereal volume growth. Overall tonnage growth will probably be off slightly in the period, well below our previous 3-4% volume growth estimate. International operations (roughly 40% of Kellogg's total) will likely produce only about 4% volume growth in the period, versus our prior forecast for a 5-7% unit gain in the June quarter.

Meanwhile, domestic volume will likely drop — we had been expecting a flattish result — by about 5%, compared to a double-digit increase in the year-ago period. We think that meaningful inventory adjustments by the trade, combined with the difficult comparison and heavy new product activity in the category, caused the surprisingly sharp volume shortfall. For the full year, we are modifying our domestic tonnage growth estimate to about 2%-3% from our previous 3%-4% range. Concurrently, we now expect international volume growth in the 4-6% range, off from our previous 5-7% forecast. In our opinion, overseas economic sluggishness, unfavorable currency translations and increased competitiveness — notably form Snack Ventures Europe (General Mills and Nestle's joint venture) will slow overseas volume expansion in the current year.



Michael J. Branca
(212) 440-8835

NatWest Securities Corporation

100 Wall Street, New York, New York 10005 Telephone: (212)440-8300 Telex: 362084 Facsimile: (212) 248-0852

2031768552