# MARKET COMMENTARY MONDAY, FEBRUARY 4, 2019

February 3, 2019

**EXECUTIVE SUMMARY**

*Forbes South America Cruise* – Market Rallies While Buckingham is at Sea this Time Around
Volatility – Stock Prices Move in Both Directions
Sentiment – Still Not Much Optimism
Econ Data – Strong Labor Report & ISM Manufacturing Numbers
FOMC Meeting & Press Conference – Moderate Growth and Fed Seemingly on Hold in Regard to Near-Term Rate Hikes
Corporate Profits – Solid Growth Likely
Stock Updates – MDC, WHR, RDS.A, AMGN, AAPL, ETN, KLIC, PFE, T, GLW, RCL, MSFT, SYMC & CE

**Market Review**

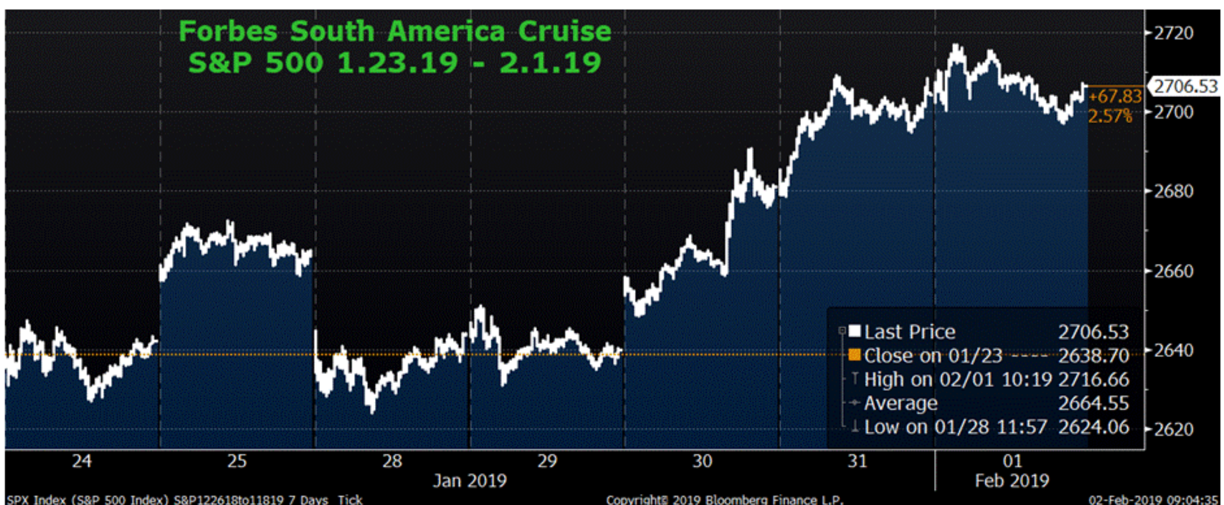
Greetings from Buenos Aires, Argentina, where the *Forbes South America Cruise* has come to an end. Alas, travel back to the States Sunday evening and into the wee hours of Monday morning coincides with the production of the February edition of *The Prudent Speculator*, so we will do our best to have *TPS 628* ready to email out by Tuesday morning, February 5.

The seas on our voyage were extremely calm and the fellow cruisers were delightful, with the mood no doubt aided by the fact that this sailing did not feature the significant equity market downside volatility associated with the last two *Forbes Cruises – Australia and The Danube*.

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## Forbes 2019 South America Cruise

Happy to report that the losing streak associated with the Forbes Cruises ended at two, as unlike with the 2018 Australia and Danube sailings in which sizable market downturns took place, stocks managed to gain a fair amount of ground while your Editor was at sea. That's good news, as there is another sailing—Stockholm to Amsterdam—in July!




Indeed, this time around, the Russell 3000 index managed to show a total return of 2.88% over the seven market days we were aboard the Crystal Symphony. Growth did trump Value, with the Russell 3000 Growth index advancing 3.34% and the Russell 3000 Value index gaining 2.42% over the period, but given where things stood on Christmas Eve, we suspect that few are complaining about the massive rebound off the lows and the pleasant reminder that stock price volatility cuts both ways.

# THE PRUDENT SPECULATOR
## Volatility is Normal: Value/Divs Win Race

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

**Advancing Markets**

| Minimum Rise % | Average Gain | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
|---|---|---|---|---|---|---|
| 20.0% | 107.9% | 916 | 26 | 3.5 | 3/9/2009 | 9/20/2018 |
| 17.5% | 67.6% | 585 | 37 | 2.5 | 10/3/2011 | 9/20/2018 |
| 15.0% | 66.0% | 555 | 44 | 2.1 | 12/24/2018 | 2/1/2019 |
| 12.5% | 43.7% | 330 | 71 | 1.3 | 12/24/2018 | 2/1/2019 |
| 10.0% | 34.8% | 246 | 105 | 0.9 | 12/24/2018 | 2/1/2019 |
| 7.5% | 23.3% | 146 | 154 | 0.6 | 12/24/2018 | 2/1/2019 |
| 5.0% | 14.7% | 72 | 298 | 0.3 | 12/24/2018 | 2/1/2019 |

**Declining Markets**

| Minimum Decline % | Average Loss | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
|---|---|---|---|---|---|---|
| -20.0% | -34.3% | 371 | 25 | 3.6 | 1/6/2009 | 3/9/2009 |
| -17.5% | -30.3% | 222 | 37 | 2.4 | 9/20/2018 | 12/24/2018 |
| -15.0% | -28.3% | 192 | 43 | 2.1 | 9/20/2018 | 12/24/2018 |
| -12.5% | -22.6% | 140 | 70 | 1.3 | 9/20/2018 | 12/24/2018 |
| -10.0% | -19.3% | 102 | 104 | 0.9 | 9/20/2018 | 12/24/2018 |
| -7.5% | -15.4% | 65 | 153 | 0.6 | 9/20/2018 | 12/24/2018 |
| -5.0% | -10.9% | 37 | 297 | 0.4 | 12/3/2018 | 12/24/2018 |

From 02.20.28 through 2.1.19. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz Investment Group using data from Bloomberg, Morningstar and Ibbotson Associates

**LONG-TERM RETURNS**

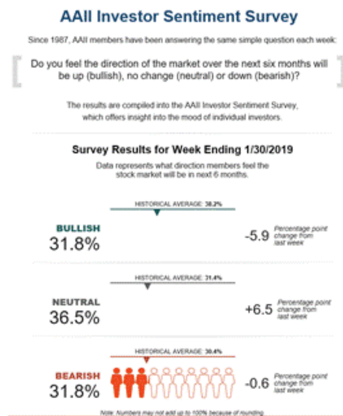
| | Annualized Return | Standard Deviation |
|---|---|---|
| Value Stocks | 13.1% | 25.9% |
| Growth Stocks | 9.3% | 21.4% |
| Dividend Paying Stocks | 10.4% | 18.0% |
| Non-Dividend Paying Stocks | 8.7% | 29.5% |
| Long-Term Corporate Bonds | 5.9% | 7.5% |
| Long-Term Gov't Bonds | 5.4% | 8.5% |
| Intermediate Gov't Bonds | 5.1% | 4.4% |
| Treasury Bills | 3.3% | 0.9% |
| Inflation | 2.9% | 1.8% |

From 06.30.27 through 12.31.18. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

And, we might add that the big bounce has not exactly led to a burst of enthusiasm about the prospects for stocks going forward for the South American cruisers or for the folks on Main Street. Of course, we view little in the way of investor optimism as good news from a contrarian standpoint,...

# THE PRUDENT SPECULATOR
## AAII Sentiment – Contrarian Buy Signal

Certainly, there is no guarantee that past is prologue, but it is nice to see the same number of pessimists as optimists in the latest sentiment survey from the American Association of Individual Investors. This is very much true, following the 15% rally off of the Christmas lows, when the number of Bears hit a 5-year high! Indeed, AAII data and subsequent equity performance suggest that folks should be greedy when others are fearful, especially for those with longer-term time horizons!




**AAII Bull-Bear Spread**

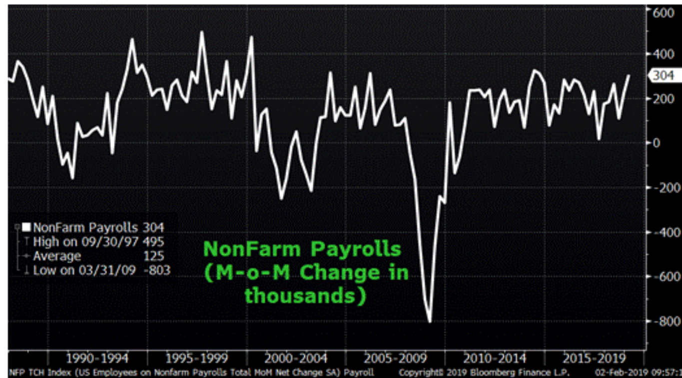
| Decile | Low Reading of the Range | High Reading of the Range | Count | R3K Next 1-Week Arithmetic Average TR | R3K Next 1-Week Geometric Average TR | R3K Next 1-Month Arithmetic Average TR | R3K Next 1-Month Geometric Average TR | R3K Next 3-Month Arithmetic Average TR | R3K Next 3-Month Geometric Average TR | R3K Next 6-Month Arithmetic Average TR | R3K Next 6-Month Geometric Average TR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Below & Above Median Bull Bear Spread = 8.5 | | | | | | | | | | |
| BELOW | -54.00 | 8.48 | 818 | 0.24% | 0.21% | 1.18% | 1.05% | 3.27% | 2.88% | 6.57% | 5.82% |
| ABOVE | 8.49 | 62.86 | 798 | 0.17% | 0.15% | 0.50% | 0.41% | 2.06% | 1.83% | 4.62% | 4.13% |
| | Ten Groupings of 1616 Data Points | | | | | | | | | | |
| 1 | -54.0 | -14.3 | 161 | 0.34% | 0.28% | 1.30% | 1.05% | 4.08% | 3.46% | 8.15% | 6.75% |
| 2 | -14.1 | -7.0 | 164 | 0.40% | 0.37% | 1.27% | 1.15% | 3.97% | 3.64% | 7.15% | 6.55% |
| 3 | -6.8 | -0.9 | 161 | 0.30% | 0.26% | 1.66% | 1.57% | 3.36% | 2.96% | 6.90% | 6.19% |
| 4 | -0.7 | 3.4 | 156 | 0.16% | 0.14% | 1.20% | 1.13% | 2.67% | 2.36% | 6.08% | 5.65% |
| 5 | 3.4 | 8.0 | 165 | -0.01% | -0.04% | 0.51% | 0.41% | 2.54% | 2.29% | 4.94% | 4.40% |
| 6 | 8.1 | 12.4 | 155 | 0.14% | 0.13% | 0.44% | 0.36% | 1.79% | 1.57% | 4.69% | 4.17% |
| 7 | 12.5 | 17.0 | 175 | 0.15% | 0.13% | 0.88% | 0.80% | 2.78% | 2.59% | 5.77% | 5.36% |
| 8 | 17.0 | 22.6 | 151 | 0.27% | 0.25% | 0.68% | 0.60% | 2.14% | 1.86% | 5.67% | 5.18% |
| 9 | 22.7 | 30.0 | 163 | 0.10% | 0.08% | 0.27% | 0.18% | 2.10% | 1.84% | 4.52% | 3.92% |
| 10 | 30.5 | 62.9 | 165 | 0.20% | 0.18% | 0.20% | 0.13% | 1.24% | 1.01% | 2.25% | 1.82% |

*From 07.31.87 through 1.31.19. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg*

…especially given that the major economic data out last week was solid, if not strong, on the employment front,…

AFAM CAPITAL

# THE PRUDENT SPECULATOR
## Healthy Jobs Data



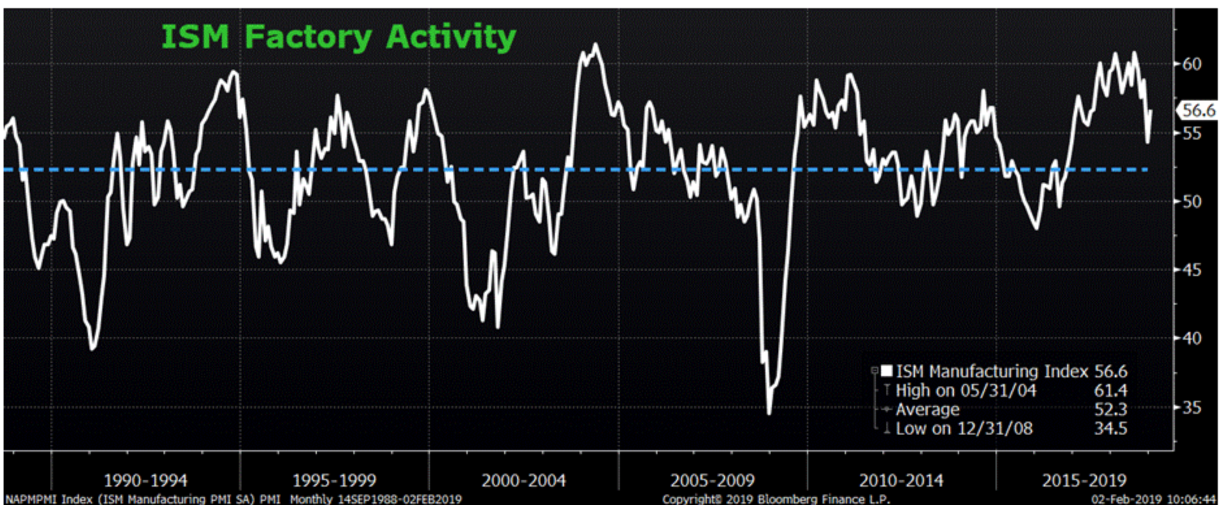
Uncle Sam said that the number of new jobs created during January totaled 304,000, well above the consensus forecast of 158,000, though the unemployment rate ticked up 0.1% to 4.0%. The labor participation rate inched higher to 63.2%, while average hourly earnings rose a less-than-expected 0.1%, suggesting that more people looking for work is not yet putting a lot of pressure on wage inflation readings.

…and in regard to the manufacturing sector.

AFAM CAPITAL

# THE PRUDENT SPECULATOR
## Excellent ISM Manufacturing Number

The latest read on the health of the factory sector came in at a better-than-expected 56.6 for January, with the Institute for Supply Management stating, "The past relationship between the PMI® and the overall economy…corresponds to a 4.0% increase in real gross domestic product (GDP) on an annualized basis."




Those data points confirmed the upbeat take that we heard from the Federal Reserve on Wednesday, when Jerome Powell & Co. chose to leave the Fed Funds rate at a range of 2.25% to 2.50%. The FOMC Statement included: "Information received since the Federal Open Market Committee met in December indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Job gains have been strong, on average, in recent months, and the unemployment rate has remained low. Household spending has continued to grow strongly, while growth of business fixed investment has moderated from its rapid pace earlier last year. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2 percent. Although market-based measures of inflation compensation have moved lower in recent months, survey-based measures of longer-term inflation expectations are little changed."

While the lack of a rate hike was not a surprise, investors seemed relieved by Chair Powell's comments in the press conference that followed the Fed Meeting. On the one hand, he stated, "The U.S. economy is in a good place, and we will continue to use our monetary policy tools to help keep it there. The jobs picture continues to be strong, with the unemployment rate near historic lows and with stronger wage gains. Inflation remains near our 2 percent goal. We continue to

expect that the American economy will grow at a solid pace in 2019, although likely slower than the very strong pace of 2018. We believe that our current policy stance is appropriate at this time."

On the other hand, he alleviated investor worries that the Fed is on a pre-set course in terms of hiking interest rates.

THE PRUDENT SPECULATOR
Jerome Powell: January 30, 2019

*Despite this positive outlook, over the past few months we have seen some cross-currents and conflicting signals about the outlook. Growth has slowed in some major foreign economies, particularly China and Europe. There is elevated uncertainty around several unresolved government policy issues, including Brexit, ongoing trade negotiations, and the effects from the partial government shutdown in the United States. Financial conditions tightened considerably late in 2018, and remain less supportive of growth than they were earlier in 2018. And, while most of the incoming domestic economic data have been solid, some surveys of business and consumer sentiment have moved lower, giving reason for caution.*

***We always emphasize that our policies are data dependent.*** *In other words, as economic conditions and the outlook evolve, we take that new information into account in setting our policies. We are now facing a somewhat contradictory picture of generally strong U.S. macroeconomic performance, alongside growing evidence of cross-currents. At such times, common sense risk management suggests patiently awaiting greater clarity--an approach that has served policymakers well in the past. With that in mind, I'd like to spell out how the Federal Open Market Committee (FOMC) has been thinking about these issues.*

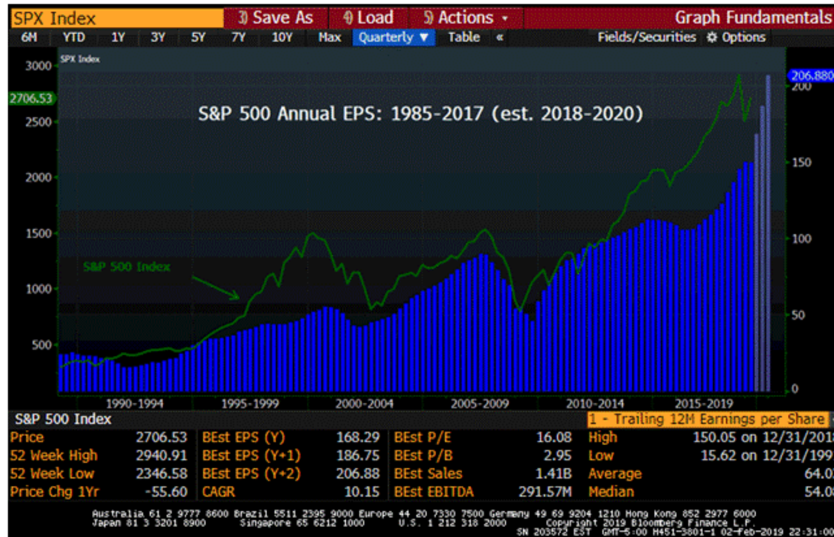
*At our December meeting, we noted the solid outlook for steady growth, vigorous job creation, and price stability. We also stressed that the extent and timing of any rate increases were uncertain, and would depend on incoming data and the evolving outlook. We therefore said that we would be paying close attention to global economic and financial developments and assessing their implications for the economic outlook.*

*Today, the FOMC decided that the cumulative effects of those developments over the last several months warrant a patient,* ***wait-and-see approach*** *regarding future policy changes.*

The bottom line, by our way of thinking, is that the U.S. economy is healthy enough to support solid corporate profit growth without being too strong to compel the Federal Reserve to hike interest rates to levels that might trigger a recession.

We realize that this belief has a bit of Goldilocks to it, and we are by no means suggesting that there is an "all-clear" signal being sounded, as we know that stocks can pull back at any time and there are plenty of geopolitical and domestic issues about which to be concerned. However, we see no reason to not remain enthused about the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks, especially as we think corporate profits will remain healthy this year and into 2020.

Certainly, we understand that analysts are often overly optimistic in their projections, but sizable year-over-year earnings expansion is expected in 2019, with further growth likely in 2020.




| S&P 500 Earnings Per Share | | |
|---|---|---|
| Quarter Ended | Bottom Up Operating EPS 3 Month | Bottom Up Operating EPS 12 Month |
| ESTIMATES | | |
| 12/31/2019 | $44.51 | $167.65 |
| 9/30/2019 | $43.49 | $162.13 |
| 6/30/2019 | $41.49 | $160.02 |
| 3/31/2019 | $38.16 | $157.18 |
| 12/31/2018 | $38.99 | $155.56 |
| | | |
| ACTUAL | | |
| 9/30/2018 | $41.38 | $150.42 |
| 6/30/2018 | $38.65 | $140.37 |
| 3/31/2018 | $36.54 | $132.23 |
| 12/31/2017 | $33.85 | $124.51 |
| 9/30/2017 | $31.33 | $118.56 |
| 6/30/2017 | $30.51 | $115.92 |
| 3/31/2017 | $28.82 | $111.11 |
| 12/31/2016 | $27.90 | $106.26 |
| 9/30/2016 | $28.69 | $101.42 |
| 6/30/2016 | $25.70 | $98.17 |
| 3/31/2016 | $23.97 | $98.61 |
| 12/31/2015 | $23.06 | $100.45 |
| 9/30/2015 | $25.44 | $104.14 |
| 6/30/2015 | $26.14 | $108.30 |
| 3/31/2015 | $25.81 | $111.50 |
| 12/31/2014 | $26.75 | $113.01 |

*Source: Standard & Poor's. As of 1.31.19*

**Stock Updates**

In response to the deluge of earnings reports, we have posted updated Target Prices to our Web site, theprudentspeculator.com. Also, keeping in mind that all stocks are rated as "Buy" until such time as they are a "Sell," while a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/, Jason Clark and Chris Quigley offer updates on 14 of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices…

Despite a somewhat tough 2018 for the stock, no shortage of worrisome headlines about the domestic homebuilders and a miss on its Q4 bottom-line, shares of **MDC Holdings** (MDC – $32.83) continued the solid 2019 bounce back after the company reported its latest financial results. MDC is now up 16.8% YTD after rising more than 10% last week.

MDC said its Q4 adjusted EPS came in at $0.95, versus the consensus estimate of $1.14. However, revenue for the period was $858.5 million (versus expectations of $836.2 million). We were happy to see year-over-year gross margins expand in the period and for business backlog to still be at a respectable $1.43 billion.

CEO Larry A. Mizel commented, "2018 was a banner year for MDC as home sales revenues increased 19%, home sales gross margins expanded 170 basis points, and pretax income rose to its highest level in over a decade. In addition, we ended the year in excellent financial condition, with a homebuilding debt to capital ratio of 39% and enhanced liquidity following the increase of our homebuilding line of credit from $700 million to $1.0 billion in the fourth quarter. Furthermore, we delivered on our goal of 10% active community count growth to start 2019."

Mr. Mizel continued, "The fourth quarter marked a strong end to the year as we made significant year-over-year improvements to our top and bottom line. However, order activity during the quarter was not as robust as it was last year, a sign that buyers are being patient with their purchase decisions. Years of price appreciation coupled with recent uncertainty about mortgage rates have understandably made some buyers cautious and have resulted in a slower sales pace for our industry. Fortunately, we have adjusted our strategy over the past few years to address the rising cost of home ownership by bringing down the price points of our homes. Our more affordable home offerings were well received in 2018, and we anticipate the same will be true in 2019."

Mr. Mizel concluded, "We continue to believe that the outlook for our industry remains favorable, with rising wages, continuing job growth and positive consumer sentiment providing a healthy economic backdrop. MDC is in a great position to capitalize on these fundamentals thanks to our more affordable product focus, our strong balance sheet and our seasoned management team. As a result, we are optimistic about our company's future as we enter the spring selling season."

We continue to like MDC and the fact that shares trade at 9.5 times NTM adjusted EPS expectations and offer investors a 3.7% dividend yield, while management also just declared an 8% stock dividend. While there are uncertainties around interest rates, and we would not be surprised to see them move higher in 2019, we note that rates remain at levels that are still low on the historical spectrum. Additionally, as Mr. Mizel pointed out, the U.S. economy continues to be healthy, with a favorable outlook for employment, consumer confidence and potentially higher wages for homebuyers. MDC sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet, with ample liquidity that the company can use to smartly acquire land in attractive markets. Additionally, we like MDC's focus on first time buyers (many Millennials) with its Season collection of homes. Our Target Price for MDC is now $46.

Shares of **Whirlpool** (WHR – $132.99) endured a wild ride on Tuesday after the household appliance maker reported its Q4 earnings Monday evening. Illustrating why stop-loss orders can be hazardous to one's wealth, in the first part of trading on Tuesday, the stock plunged more than 5%, as investors seemed disappointed with the company's 2019 outlook, before a massive rally ensued after management's quarterly call that sent the shares to an end-of-day gain of more

than 9.5%. WHR pared some of the advance after enduring a few analyst downgrades and target price cuts, but the stock managed to end the week up more than 6%!

AFAM a KOVITZ division

THE PRUDENT SPECULATOR
WHR – Stop-Loss Orders are Problematic

While WHR's revenue of $5.66 billion came in 1.6% below analyst expectations, adjusted EPS of $4.75 for the period outpaced consensus estimates by more than 12%. The quarter was once again led by business in North America, while the rest of the world, outside of WHR's Asia business, was a bit weaker than in the year-ago period.

CEO Marc Bitzer commented, "Sustained focus on our successful execution of price increases and disciplined working capital reduction, coupled with a favorable tax rate, allowed us to deliver very strong fourth-quarter earnings and cash which exceeded our most recent guidance. These results impressively demonstrate that we effectively manage through macroeconomic volatility, and provide additional confidence in our ability to drive positive results in 2019."

For 2019, Whirlpool now says it expects adjusted EPS of $14.00 to $15.00 as favorable product price/mix, restructuring benefits and reduced share count are offset by a higher tax rate and cost and currency increases. Additionally, the company expects to generate free cash flow of $800 million to $900 million.

“We remain committed to driving profitable growth through strong global price/mix and unwavering cost discipline, while also delivering sustainable working capital improvements,” said CFO Jim Peters. “As a result, we expect to continue fully investing in our business to drive long-term margin expansion and strong cash generation.”

All the above sounds good to us, especially considering the very inexpensive share price. WHR currently trades at 9 times NTM adjusted EPS expectations and offers a 3.5% dividend yield. To be sure, the company must continue to transform and invest in some of its international businesses, while dealing with slowing home sales in the U.S., competitive pressures, rising input costs and fluctuating currency values, so we have adjusted our Target Price downward to $199.

**Royal Dutch Shell** (RDS.A – $62.84) reported quarterly financial results that showed both revenue and adjusted EPS topping analyst estimates. The integrated oil giant posted EPS of $1.38, with the strong quarter highlighted by operating cash flow, which increased to $22.0 billion, from $7.3 billion a year ago. Free cash flow hit $16.7 billion for Q4 and $39.4 billion for the full year.

CEO Ben van Beurden commented, “Shell delivered a very strong financial performance in 2018, with cash flow from operations of $49.6 billion, excluding working capital movements. We delivered on our promises for the year, including the completion of the $30 billion divestment program and starting up key growth projects while maintaining discipline on capital investment. We paid our entire dividend in cash, further reduced our debt and launched our share buyback program, with $4.5 billion in shares repurchased so far. We will continue with a strong delivery focus in 2019, with a disciplined approach to capital investment and growing both our cash flow and returns. Our strategy to deliver a world-class investment case is working.”

Shares trade at less than 12 times forward earnings expectations and offer a net dividend yield of 5.1%. It is also worth noting that the company has $20.5 billion remaining on its share repurchase program, to be funded in large part by the impressive improvement in free cash flow generation. We continue to believe that global energy demand will increase over the long term, as usage in emerging economies should continue to rise. We note that exposure to integrated oil names like Royal Dutch offers the opportunity to partake in numerous aspects of the energy stream, so if upstream is not performing well because of lower oil prices, downstream operations (refining) might benefit from spikes in refined product demand or pricing. Our Target Price has been boosted to $96.

Despite turning in a strong Q4, shares of **Amgen** (AMGN – $187.07) fell almost 6% last week as traders sold on concerns about the company’s full-year 2019 forecast. The biotech giant reported adjusted EPS of $3.42, versus consensus expectations of $3.27. Revenue for the period came in at $6.23 billion, almost 7% above average forecasts looking for $5.84 billion. 2019 full-year guidance of $21.8 billion to $22.9

billion and adjusted EPS of $13.10 to $14.30 came in light compared to consensus estimates of $22.8 billion and $14.54, respectively.

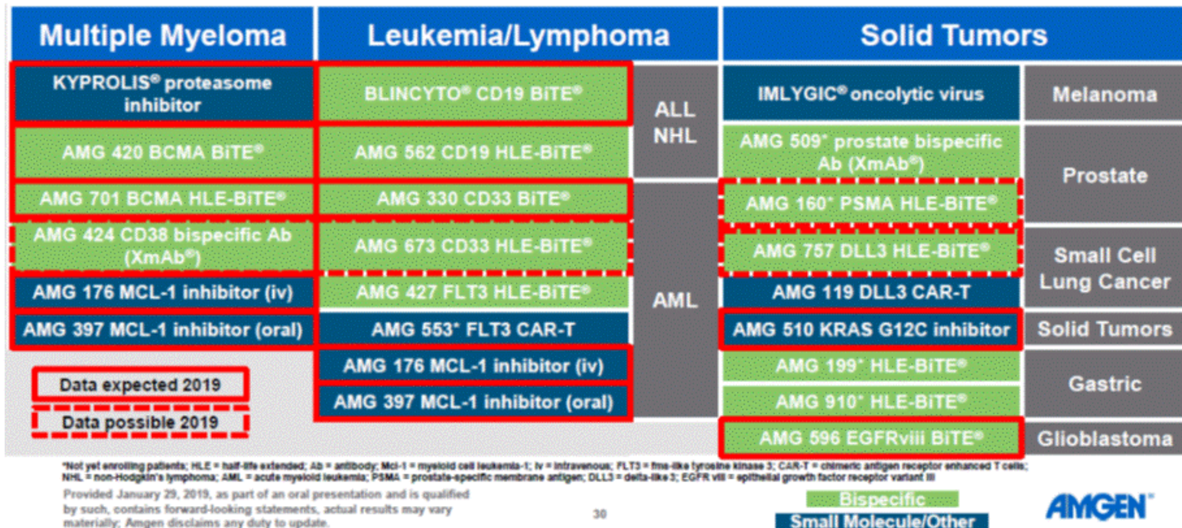
During Q4, AMGN's top-line beat was driven by several products, led by Neulasta. The products sales of $1.17 billion beat consensus of $990 million, driven by 9% volume growth. U.S. Repatha sales also topped estimates, thanks to double-digit volume growth, partially offset by lower net-selling price. As we move forward, continued and increasing strong performance from newer products (Aimovig, Repatha, Prolia/Xgeva) will be key to offsetting the decline of drugs like Neulasta and Enbrel, which face competitive threats.

The company generated $3 billion of free cash flow in Q4, and $10.6 billion in 2018. Also, during the fourth quarter, Amgen repurchased 11.1 million shares of common stock at a total cost of $2.2 billion. For the full year, AMGN repurchased 94.5 million shares of common stock at a total cost of $17.9 billion. At the end of the fourth quarter, the company had $5.1 billion remaining under its buyback authorization.

"Through our continued solid operating performance in 2018, we met and exceeded our long-term financial commitments," said Chairman and CEO Robert A. Bradway. "Looking to the future, we are encouraged by our long-term growth prospects driven by our portfolio of newer products, pipeline and ongoing success in international expansion."

AFAM a KOVITZ division

# THE PRUDENT SPECULATOR
## AMGN – Always a Robust Drug Pipeline




We like the pipeline of new products, strong free-cash-flow generation, solid financial footing and 3.1% dividend yield. While AMGN maneuvers through some of its legacy products seeing declining revenue and new medications picking up, there have been some calling for the company to make a big acquisition, especially after the soft Q4 guidance. We think the outlook was smartly conservative, and we believe that management would rather return capital to shareholders via buybacks and dividends versus overpaying for a bolt-on purchase. That said, if the right opportunity came along at the right price, we don't think they would hesitate to buy. All things considered, we have adjusted our Target Price modestly lower to $227.

Technology hardware designer and manufacturer **Apple** (AAPL – $166.52) earned $4.18 per share in fiscal Q1 2019 (vs. $4.17 est.). AAPL had sales of $84.3 billion (vs. $84.0 billion est.). Shares moved up 6.8% following the announcement, which was interesting to watch after the stock plunged more than 10% in early January after Apple lowered guidance. Apple officially beat on the top- and bottom-lines, but we note that analyst expectations at the end of December were for adjusted EPS of $4.66 and revenue of $91.2 billion.

CEO Tim Cook explained, "As you know, our December quarter revenue was below our original expectations, coming in at $84.3 billion. That's down 5% from a year ago or down 3% adjusting for foreign exchange. We noted four factors that would impact our results when we provided guidance in November: different iPhone launch timing from a year ago; FX headwinds; supply constraints on certain products; and macroeconomic conditions in emerging markets. One of those factors, weak macro conditions in some emerging markets, was significantly more severe than we originally foresaw, especially in Greater China."

Mr. Cook concluded, "We are as confident as ever in the fundamental strength of our business, and we have a very strong pipeline of products and services with some exciting announcements coming later this year. Apple innovates like no other company on earth, and we are not taking our foot off the gas. We'll continue to invest through near-term headwinds, just as we always have, and we'll emerge stronger as a result."

For the first time, AAPL reported the Services segment gross margin, which was 62.8%. This helped relieve some investor concerns about the potential ramifications of a slowdown in hardware sales. Apple's balance sheet still sports its mountain of cash and the demand for its products we believe is robust over the long term. Apple's App Store also has a substantial amount of recurring and ancillary revenue, which we would argue is hugely valuable even if the company never sold another iPhone. We believe the valuation after the recent pullback makes Apple one of the most attractive tech names in our universe, with metrics like a forward price to earnings ratio of 14.2, a free cash flow yield of 7.7% and a dividend yield of 1.8%. We have ratcheted our Target Price for AAPL back up to $213.

Shares of diversified industrial manufacturer **Eaton** (ETN – $76.48) enjoyed a solid performance week, jumping 7.6% as the company released its Q4 financial results. Eaton's Q4 included adjusted EPS of $1.46, versus a $1.43 consensus estimate, on revenue of $5.46 billion, versus forecasts of $5.42 billion.

CEO Craig Arnold commented on Q4, "We had a very strong fourth quarter, with better-than-expected organic revenue growth and margins. Organic growth came in at 7%, 1% higher than our guidance. Our segment margins in the fourth quarter were 17.4%, 20 basis points above the midpoint of our margin guidance and 100 basis points over the fourth quarter of 2017. Operating cash flow in the fourth quarter, excluding the $300 million payment for the arbitration decision related to the legacy Cooper business, was $1.1 billion."

We were also pleased to see management exploit the equity market downturn in the quarter. Mr Arnold explained, "We took advantage of the significant pullback in financial markets in December and repurchased $700 million of our shares in the fourth quarter. This represents 2.3% of our shares outstanding at the start of the quarter. We intend to continue taking advantage of any periods of share price weakness to buy our shares back."

Turning to 2019, Mr. Arnold stated, "Looking at 2019, we expect our organic revenues to grow between 4% and 5%, partially offset by approximately 1% from negative currency translation. We anticipate segment margins to be between 17% and 17.4%, representing at the midpoint a 40 basis point improvement over 2018. We expect 2019 earnings per share to be between $5.70 and $6.00, representing at the midpoint a 9% increase over 2018 excluding the 2018 arbitration decision. We anticipate earnings per share for the first quarter of 2019 to be between $1.18 and $1.28, a 12% increase at the midpoint over the first quarter of 2018."

THE PRUDENT SPECULATOR
ETN – Solid Outlook

## 2019 Organic Growth Expected to be 4-5%

| Segment | 2019 organic revenue growth | Key market drivers |
|---|---|---|
| Electrical Products | 4 - 5% | ++ Industrial markets and large commercial projects up mid-single digits<br>+ Lighting up low-to-mid single digits<br>+ Single-phase power quality to grow low-single digits<br>+ Small commercial projects to grow low-single digits |
| Electrical Systems and Services | 5 - 6% | ++ Power distribution assemblies in the Americas show strong growth<br>++ Data center markets to grow high-single digits<br>+ Harsh and hazardous markets grow mid-single digits<br>+ Utilities markets up low-single digits |
| Hydraulics | 5 - 6% | + Mobile equipment markets showing continued strength in Asia and North America<br>+ Industrial equipment markets in North America remain strong |
| Aerospace | 8 - 9% | ++ Commercial OEM and aftermarket markets showing solid growth<br>++ Continued strength in military OEM and aftermarket |
| Vehicle | (2) - (1)% | ++ Growth in Brazil truck markets<br>● NAFTA Class 8 truck market flat with 2018 at high levels<br>● Global light vehicle market flat |
| eMobility | 11 - 12% | + Continued progress on over 30 growth opportunities |
| Eaton | 4 - 5% | |

© 2018 Eaton. All rights reserved

12

We continue to like that ETN's global expansion has increased its access to rapidly growing emerging markets and their expanding auto markets. We also like that its diversification combines businesses that tend to perform well during different stages of the economic cycle, while steady aftermarket sales provide a more stable income stream. We are fans of ETN's strong cash flow, which allows the company to repurchase shares and pay a generous dividend (yield is 3.5%). Shares trade at 13.1 times NTM expected adjusted EPS, and our Target Price has been raised to $94.

Semiconductor equipment manufacturer **Kulicke & Soffa** (KLIC – $22.01) posted earnings per share of $0.25, versus the $0.15 estimate, in fiscal Q1 2019. KLIC had

sales of $157.0 million, versus the $153.0 million estimate. Shares slipped 4.2% following the announcement, though they finished the week more than 1% ahead.

KLIC CEO Fusen Chen said, "We were again able to achieve our quarterly revenue targets through this softer period demand, despite the current market headwind, which we believe are near-term in nature. We expect to benefit from three primary areas. Execution of all fundamental organizational plan, ongoing semiconductor unit growth within our core offering and the higher volume production of advanced packaging. We have made a meaningful improvement to the business over the past three years, including a more aggressive approach to capital allocation and the shareholder return and also fundamental improvements supported through organizational change and a renewed set of priorities, which have already strengthened our position and provide new vector of growth."

KLIC announced that it will repurchase an additional $100 million of shares. Since August 2014, the company has bought back 13.8 million shares for $227.8 million. We like that KLIC is working to expand its business to include LED and automotive component (electronics, safety aids, engine parts) manufacturing, while battling NAND pricing headwinds. KLIC has a diversified customer base and opportunity to switch to advanced packaging as nodes continue to shrink. In addition, KLIC yields 2.4%. Our Target Price has been trimmed to $29.

Shares of global pharma giant **Pfizer** (PFE – $42.88) somewhat surprisingly enjoyed a solid week, climbing almost 8.5% from Tuesday through Friday after the company reported solid Q4 results. For the three-month period, PFE said its adjusted EPS came in at $0.64, versus consensus analyst estimates of $0.63. Additionally, sales for the quarter were $13.98 billion, slightly higher than the $13.9 billion for which investors were looking. PFE also gave initial full-year 2019 guidance, which included revenue of $52.0 to $54.0 billion and adjusted EPS of $2.82 to $2.92 (both came in slightly below consensus forecasts).

During Q4, the core product portfolio posted steady gains that offset generic competition, leading to total sales growth of 5%. While the company will feel the loss of U.S. patent protection for neurology drug Lyrica in mid-2019, we think this can be offset by continued solid gains for cardiovascular drug Eliquis, immunology drug Xeljanz, and cancer drug Ibrance. One of Pfizer's other top products, Prevnar 13, should benefit from increased international demand.

CEO Dr. Albert Bourla stated, "2018 was highlighted by solid financial performance, shareholder-friendly capital allocation, the strengthening of our pipeline and the formation of our new commercial structure designed to transition the company to a period post-2020 where we expect a higher and more sustained revenue growth profile…We enter 2019 with confidence in the competitive positioning of our businesses, the prospects for our recently launched products and product line extensions, as well as the strength and breadth of our

research pipeline. Our focus remains on advancing science and innovation in areas that we believe will serve the unmet needs of patients and also create the most attractive opportunities for value creation."

Dr. Bourla continued, "2019 is expected to be a busy year with important clinical data readouts across our early-, mid- and late-stage pipeline. In the near term, we expect to report pivotal top-line results for tanezumab in chronic lower back pain as well as additional data in osteoarthritis following today's announcement of a second positive Phase 3 trial. Later in the year, we anticipate reporting pivotal results for rivipansel in vaso-occlusive crisis from sickle cell disease as well as the results of the first Phase 3 trials for abrocitinib (PF-04965842), our Janus kinase-1 (JAK1) inhibitor in development for moderate-to-severe atopic dermatitis. In our earlier stage pipeline, we anticipate generating data for two nonalcoholic steatohepatitis candidates (PF-05221304 and PF-06865571), psoriasis data for two tyrosine kinase 2 (TYK2) inhibitor candidates (PF-06826647 and PF-06700841, a TYK2/JAK1 dual inhibitor) and immune response data for our respiratory syncytial virus infection (PF-06928316) and pentavalent meningococcal (PF-06886992) vaccine candidates. We also expect to provide early clinical data for our mini-dystrophin gene therapy candidate (PF-06939926) in boys with Duchenne muscular dystrophy, and for our gene therapy program for Hemophilia A (PF-07055480), in collaboration with Sangamo Therapeutics, Inc."

He concluded, "We see attractive opportunities globally to deliver value to patients, payors and other stakeholders through a combination of innovative biopharma medicines, vaccines, biosimilars, legacy brands and sterile injectable pharmaceutical products. I believe we have the business structure, leadership team and financial capability firmly in place to drive continued success."

## PFE – Long-Term Core Holding

### Key Takeaways

- Delivered strong Q4 2018 financial results, with 5% operational Revenue growth and 3% Adjusted diluted EPS[1] growth compared to the same period last year
- Issued 2019 financial guidance ranges, the midpoints of which imply comparable operational performance for Revenues and Adjusted diluted EPS[1] versus 2018 results, despite an anticipated $2.6B of LOE impacts to 2019 (~$0.9B higher than 2018)
- Accomplished multiple product and pipeline milestones since our previous quarterly update
  - Received FDA approval for Lorbrena (lorlatinib), a third-generation ALK tyrosine kinase inhibitor for patients with ALK+ metastatic NSCLC
  - Received FDA approval for Daurismo (glasdegib) for the treatment of newly-diagnosed AML in patients who are at least 75 years old or who have comorbidities that preclude use of intensive induction chemotherapy
  - Announced positive Phase 3 top line results for Xtandi in patients with metastatic hormone-sensitive prostate cancer
  - Announced positive Phase 3 results for PF-05280586, a proposed biosimilar to rituximab
  - Announced the initiation of a Phase 3 program for the company's 20-valent pneumococcal conjugate vaccine candidate
  - Announced that the FDA accepted for filing two NDAs for tafamidis for the treatment of transthyretin amyloid cardiomyopathy; PDUFA for tafamidis meglumine (20mg capsule) is in July 2019; PDUFA for tafamidis free acid form (61mg capsule) is in November 2019
  - Announced this morning positive top-line Phase 3 results for tanezumab in osteoarthritis patients treated for 24-weeks with an additional 24-week safety follow-up period
- Returned $20.2 billion to shareholders in 2018 through a combination of dividends and share repurchases

**We Remain Committed to Delivering Attractive Shareholder Returns in 2019 and Beyond**

(1) See slide 17 for definition.

Fourth Quarter 2018 Earnings

15

We like the progress Pfizer has been making on its pipeline and believe the market continues to undervalue it, and believe it should lead to faster growth in the next few years, even though we know the company could be impacted by potential actions from Washington that could lead to lower or flat product pricing, We like the strong balance sheet and that management said it will continue to focus on dividend growth and share repurchases. PFE yields 3.4% and trades for less than 15 times NTM earnings. Our Target Price is $48.

Integrated telecom services firm **AT&T** (T – $30.00) reported earnings per share of $0.86, versus the $0.86 estimate in fiscal Q4 2018. T had revenue of $48.0 billion, versus the $48.5 billion estimate. Shares tumbled 4.3% following the announcement, as AT&T suffered again from dismal performance in its pay TV segment.

CFO John Stephens said, "Six months ago, we had 0.5 million customers on highly discounted DIRECTV NOW offers, timely offers that required the customer to pay $10 a month for the service. At the end of the year, essentially none of these customers remained on those offers. Eliminating these promotions for low value, high churn customers clearly elevated subscriber losses in the quarter, but it had a positive impact on streaming ARPUs and lowered content costs. In fact, DTV

NOW ARPU (average revenue per user) was up about $10 sequentially from the third quarter."

The streaming DirectTV Now lost 267,000 subscribers, while traditional TV lost an additional 391,000 subscribers in Q4. We think that competition in streaming TV is unlikely to go away, with Hulu, Netflix and Amazon Prime excellent alternatives to expensive TV packages. And AT&T is not alone in this regard, considering the overall industry lost more than 1 million pay TV subscribers in Q3 2018 (Q4 is not yet complete for every communication services company). We wonder if the losses accelerate in the future, as fewer subscribers are left to shoulder the huge licensing fee contracts.

Fortunately for AT&T, it's wireless and internet service businesses have remained strong cash generators and we believe will keep that up for the foreseeable future. After all, cord-cutters need the internet to run their monthly paid streaming services. We are watching AT&T carefully to ensure the company isn't stuck holding a massive liability bag for content licenses it isn't able to monetize anymore, thereby putting its dividend payment ability in jeopardy. To us, AT&T is a better-than-utility-like exposure with a massive 6.8% yield and a single-digit P/E ratio. Our Target Price is now $40.

Electronic components maker **Corning** (GLW – $33.09) earned $0.59 per share in fiscal Q4 2018 (vs. $0.57 est.). GLW had total revenue of $3.1 billion, versus the $3.0 billion estimate. Shares rose 11.1% following the announcement, propelled by CEO Wendell Weeks' positive outlook and earnings beat.

Mr. Weeks commented, "As we turn to 2019, committed demand supports additional investments and will lead to additional growth. Overall, we expect to continue to grow more than twice as fast as the communications infrastructure market…We're also significantly expanding our presence in the aftermarket. As announced this month, we will collaborate with OtterBox, the number one selling smartphone case brand in the U.S., to introduce the Amplify line of glass screen protectors. Ultimately, we remain on track to fully achieve our Strategy and Capital Allocation Framework goals. In 2018, we leveraged our investments to meet increased demand from our customers, grow sales and significantly improve profitability in the second half just as we said we would. Looking ahead, we are confident in our ability to deliver sustained performance. We have multiple businesses driving our growth. Our capabilities are becoming increasingly vital to important trends. Our relationships with industry-leading customers are opening new opportunities, and our strategic investments are paying off. We're not only succeeding in building a bigger company, we're building a stronger, more resilient one."

## Progress on Strategy & Capital Allocation Framework

*On track to fully achieve our Framework goals. Expect to deliver both near- and long-term growth.*

**Optical Communications**

- Introduced significant new products for hyperscale data center and carrier environments, including RocketRibbon™ extreme-density cable and TXF™ optical fiber for 4G transmission up to 55 Tb/s per fiber
- Completed the acquisition of 3M's Communication Markets Division

**Mobile Consumer Electronics**

- Continued adding value to mobile consumer electronic devices with the launch of Corning® Gorilla® Glass 6, alongside related innovations
- Announced plans with OtterBox to introduce "Amplify" line of glass screen protectors for smartphones and tablets
- Grew sales ~30% since 2016, despite smartphone unit sales being relatively flat

**Automotive**

- Reached production milestone of 1 million GPFs and expanded investment in Hefei, China, as automakers prepare for upcoming regulations
- Announced a manufacturing capacity investment for Corning Gorilla Glass for Automotive Interiors in Hefei, China

**Life Sciences Vessels**

- Announced a new high-volume manufacturing facility in Durham County, North Carolina to produce Corning Valor® Glass
- Continued collaboration with Merck and Pfizer on Corning Valor® Glass

**Display**

- Continued ramping production of the world's first Gen 10.5 glass at new Hefei facility on schedule and in tandem with BOE's panel production
- Achieved most favorable glass pricing in a decade in 2018; expect pricing environment to improve further in 2019

CORNING © 2019 Corning Incorporated 14

We like that GLW continues to return large sums of money to shareholders ($12.5 billion expected to be returned in 2019), while investing more than $10 billion to cement its lead in each of the company's business segments. GLW yields 2.2% and trades for a reasonable (given its growth potential) 16.4 times forward-12-month earnings. We have elevated our Target Price for GLW to $45.

Cruise line operator **Royal Caribbean Cruises Ltd** (RCL – $118.31) reported earnings per share of $1.53, versus the $1.51 estimate, in fiscal Q4 2018. RCL had sales of $2.3 billion (vs. $2.3 billion est.). Shares rose 8% following the announcement, buoyed by the earnings beat and solid growth outlook.

CEO Richard Fain said, "By any measure, 2018 was an unusually busy and successful year. Our teams achieved record financial results while introducing four new vessels, acquiring a controlling interest in Silversea's cruises, opening two stunning cruise terminals and implementing Excalibur on about half of our fleet. On the financial front, the simple point is that strong fundamentals are driving strong results. In 2018, we achieved net income of $1.9 billion with earnings per share growth of 18%. Moreover, our EPS growth would have approached 25% had foreign exchange and fuel rates remained neutral during

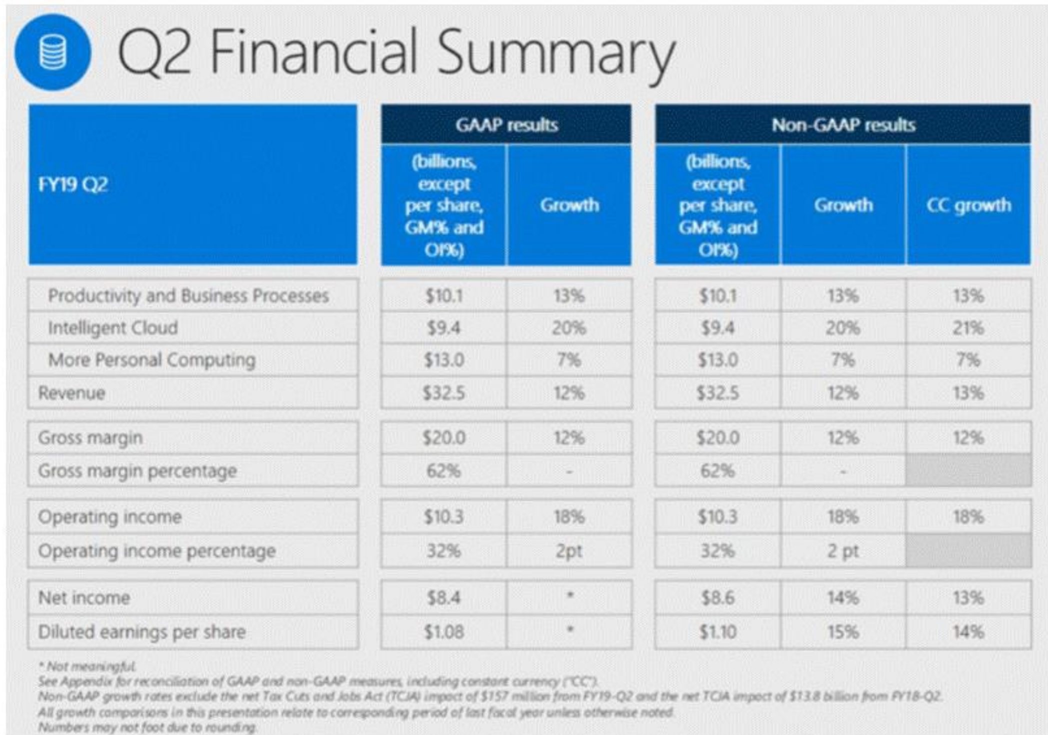
the year. This outcome should encourage those who watch on the sidelines, concerned about weather, politics, trade wars, supplies, etc."

Mr. Fain continued, "We are starting 2019 with some very good cards. Among them is the first full year of operation from Symphony of the Seas, Azamara Pursuit, Celebrity Edge and new Mein Schiff 1, as well as the delivery in 2019 of Celebrity Flora and Spectrum of the Seas. All of these new vessels carry significant premiums and help position 2019 for success. Happily, the record-breaking start to Wave validates our confidence. And with Wave off to a wonderful start, our already good book position continues to strengthen. In past years we have experienced all types of fears and challenges, from the Zika virus on global tourism in 2015, to questions about China supply in 2016, weather threats and capacity in 2017, global macro concerns in 2018, et cetera. Yet during all these periods, we were able to generate record revenue, record operating income and record earnings per share." Climbing over the Wall of Worry, RCL expects to earn $9.75 to $10.00 per share in fiscal 2019, including $1.10 in Q1.

We are pleased to see RCL reap rewards from its successful implementation of the Double-Double program a few years ago. We continue to be optimistic on the overall prospects of the cruise industry, especially given favorable demographic and cruise-pricing trends, not to mention strong experience-oriented travel demand like Forbes cruises (alas, Crystal is not a Royal Caribbean property) and the long-term potential in emerging markets. Shares trade for an attractive 11.8 times projected next-12-month earnings with a dividend yield of 2.4%. Our Target Price for RCL has sailed ahead to $155.

Computing giant **Microsoft** (MSFT – $102.78) reported earnings per share of $1.10, versus the $1.09 estimate, in fiscal Q2 2019. MSFT had revenue of $32.5 billion, versus the $32.5 billion estimate. Shares tumbled 1.8% following the announcement, finishing a positive week for equities in general down more than 4%. The Redmond-based computing giant left some wondering if the Cloud spending-spree was starting to slow down based on the company's outlook. Happily, we believe a cloud of doom is not about to overcome the Cloud.

CEO Satya Nadella made it clear that the prior quarter was not slow for the Cloud, "We delivered $32.5 billion in revenue this quarter with double-digit top line and bottom line growth, driven by strength across all of our commercial cloud. Our commercial cloud revenue grew 48%, anchored by Azure revenue growth of 76%. These results speak to us picking the right secular trends in large and growing markets, many of which are still in their infancy, as well as focused innovation and execution. Leading companies in every industry are partnering with us to build their own digital capability to compete and grow. This is creating a broad opportunity for everyone, including our ecosystem. As one example, the co-sell program we introduced 18 months ago has already generated $8 billion in contracted partner revenue."



## Q2 Financial Summary

| FY19 Q2 | GAAP results | | Non-GAAP results | | |
|---|---|---|---|---|---|
| | (billions, except per share, GM% and OI%) | Growth | (billions, except per share, GM% and OI%) | Growth | CC growth |
| Productivity and Business Processes | $10.1 | 13% | $10.1 | 13% | 13% |
| Intelligent Cloud | $9.4 | 20% | $9.4 | 20% | 21% |
| More Personal Computing | $13.0 | 7% | $13.0 | 7% | 7% |
| Revenue | $32.5 | 12% | $32.5 | 12% | 13% |
| Gross margin | $20.0 | 12% | $20.0 | 12% | 12% |
| Gross margin percentage | 62% | - | 62% | - | |
| Operating income | $10.3 | 18% | $10.3 | 18% | 18% |
| Operating income percentage | 32% | 2pt | 32% | 2 pt | |
| Net income | $8.4 | * | $8.6 | 14% | 13% |
| Diluted earnings per share | $1.08 | * | $1.10 | 15% | 14% |

*Not meaningful.*
*See Appendix for reconciliation of GAAP and non-GAAP measures, including constant currency ("CC").*
*Non-GAAP growth rates exclude the net Tax Cuts and Jobs Act (TCJA) impact of $157 million from FY19-Q2 and the net TCJA impact of $13.8 billion from FY18-Q2.*
*All growth comparisons in this presentation relate to corresponding period of last fiscal year unless otherwise noted.*
*Numbers may not foot due to rounding.*

Mr. Nadella continued, "Our accelerating customer momentum is driven by our deep and growing partnerships with leading companies and differentiated innovation across our portfolio. Every company is becoming a digital company, and they're looking for a trusted partner to help them build tech intensity. Microsoft is that partner."

CFO Amy Hood said, "For Q3, first FX, with the stronger U.S. dollar and assuming that current rates remain stable, we now expect FX to decrease revenue and operating expense growth by approximately 2 points and decrease COGS growth by approximately 1 point. With the segments, we anticipate about 2 points of negative FX impact on revenue growth in Productivity and Business Processes and Intelligent Cloud and 1 point in More Personal Computing. Second, continued strong customer demand, healthy bookings growth, and increasing revenue annuity mix should drive another solid quarter in our commercial business. Commercial unearned revenue is expected to decline approximately 2% to 3%, in line sequentially with historic trends. We expect commercial cloud gross margin percentage to continue to improve year over year, as material improvement in Azure gross margin will again be partially offset by the mix of revenue toward Azure consumption-based services. Third, CapEx, we expect a sequential dollar

increase in capital expenditures, as we continue to invest to support increasing demand."

MSFT returned $9.6 billion to shareholders via dividends and share repurchases in Q2. While it might seem like shares have risen just 1.1% this year (that's a terrific 13.7% if MSFT is able to do that every month for the rest of the year), they are coming off a terrific 20.8% return in 2018 and we believe there are still a host of reasons to think that the music at the Cloud party is unlikely to stop in the foreseeable future. In addition, we think MSFT's valuation is still not excessive, as the stock sports a 4% free cash flow yield and a 1.8% dividend yield. Analysts, despite some concerns, expect the company's EPS growth rate to be at least 13% for each of the next three fiscal years, with earnings growing from $3.88 in 2018 to an estimated $5.83 in fiscal 2021. Our Target Price for MSFT has been boosted again, this time to $124.

Security, storage and systems solution company **Symantec** (SYMC – $22.91) reported earnings per share of $0.44, versus the $0.39 estimate, in fiscal Q3 2019. SYMC had total revenue of $1.2 billion, versus the $1.2 billion estimate. Shares climbed 12.2% following the announcement, as analysts rotated to a more positive tone in research notes. Wedbush analyst Dan Ives said that the company "is starting to get its mojo back" and that enterprise security "was the clear star of the show."

CEO Greg Clark, who came to SYMC via the Blue Coat acquisition, said, "Our top line results were driven by both our Enterprise Security business, which achieved revenue above guidance, and solid revenue performance from our Consumer Digital Safety business. We achieved total company operating margins of approximately 32% above our guidance. We generated strong cash flow from operations of $377 million in the third quarter, up substantially year-over-year. In Enterprise Security, we delivered revenue of $616 million, $31 million above the high end of our guidance range and after difficult first half of the year, we are pleased with return to revenue growth in Enterprise Security, which grew 3% organically."

Mr. Clark said of outgoing CFO Nick Noviello, "Nick will be stepping down from his role as CFO in the coming months to pursue other opportunities. Through the integration of both Blue Coat and LifeLock, these substantial improvements we've made in our business systems and processes and in helping me and the executive team set the stage for Symantec's next chapter of growth and shareholder value creation. We are initiating a search process to identify a new CFO. While we're working expeditiously to conduct a search, we are committed to taking the time we need to find the best candidate for the role."

Mr. Noviello provided a boost to the 2019 outlook, "We are adjusting guidance for the full year fiscal 2019 to reflect our outperformance in Enterprise in the third quarter. We are forecasting fiscal year 2019 revenue in the range of $4.76 billion to $4.79 billion, consisting of $2.36 billion to $2.38 billion in Enterprise Security and

$2.40 billion to $2.41 billion in Consumer Digital Safety. At the midpoint, on an organic basis and in constant currency, our guidance suggests a growth of 1.5% in revenue for the total company, relatively flat revenue for Enterprise Security and 3% growth for Consumer Digital Safety. We are forecasting operating margin in fiscal year 2019 to be approximately 30%. We are forecasting EPS for fiscal year 2019 in the range of $1.57 to $1.61. We are forecasting cash flow from operations for fiscal year 2019 to be in the range of $1.25 billion to $1.35 billion. We expect Enterprise Security segment organic revenue will grow in the mid to high single digits year-over-year."

We were pleased to see SYMC shares jump on a solid quarter and like that the Blue Coat acquisition is making money for shareholders. Those that have patiently held the company have also weathered an accounting audit and should expect calendar 2019 to be a step in the right direction. We think SYMC trades at an inexpensive 13.4 times forward earnings, with a yield of 1.3% and a sizable repurchase program. Although SYMC did not buy back any shares last quarter, the Board increased the authorized amount to $1.3 billion from $500 million. The repurchases are expected to start in fiscal Q4, with the emphasis on paying down debt in the meantime. Our Target Price has been lifted to $33.

Specialty chemicals manufacturer **Celanese** (CE – $98.71) earned $2.38 per share in fiscal Q4 2018 (vs. $2.40 est.). CE had sales of $1.7 billion, in line with the $1.7 billion consensus estimate. Shares skidded following the announcement, in the midst of a volatile week that saw the stock price dip as low as $93.48 on Tuesday and climb as high as $98.87 on Friday afternoon.

CEO Mark Rohr said of oil prices and the effects on CE, "I think a lot of the conundrum the world finds itself in today regarding sort of the economic environment really relates to the collapse in oil prices that occurred early last year. And that collapse in oil price is going to ripple through so many raw materials, petrochemical industry, in a broad sense. And of course, that had huge impacts and ripple effects back on ethylene in China and MTO in China, and ultimately, methanol. So, you have all these dynamics that kind of roll into that. We saw weakness and we saw slowdown as we ended the fourth quarter – the back couple of months of the fourth quarter. It seems to be kind of normalizing now at the level, and we think we're going to see that start to recover as we get into the end of this quarter and start the next quarter going forward."

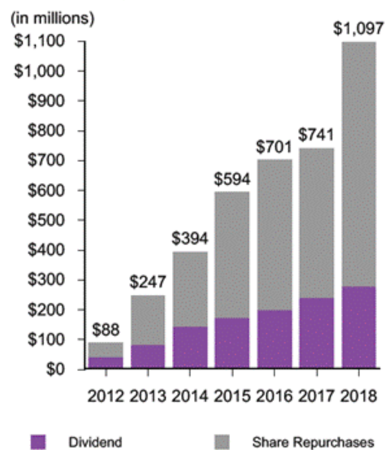
Mr. Rohr continued, "Underlying fundamentals and forward-looking demand forecasts for our products and solutions-based businesses remain strong. The strength of our business models, additional contribution from organic investment projects underway, and planned acquisition contributions give us confidence in reaffirming our plan to earn $12 per share in 2020. Having said that, we believe the economic weakness surfacing last quarter primarily in Europe and Asia will continue through the first quarter and into the second before global business starts to recover. Assuming this slower start and expecting some fourth quarter 2019 moderation, which we commonly see, we would anticipate 2019 adjusted

earnings of approximately $10.50 per share. We will be in a better position to refine this outlook during our first quarter earnings call in April, based on updated views of customer activity and economic trends."

THE PRUDENT SPECULATOR
CE – Continuing to Share the Wealth

**Returning Cash to Shareholders**

**Dividend Payout and Share Repurchases**




**Full Year 2018**

**Share Repurchases**

- Deployed $817 million to repurchase ~7.9 million shares; reduced share count by approximately 6%
- ~$700 million remaining share repurchase authorization as of December 31, 2018

**Dividend**

- Increased dividend per share by 17%
- Paid $280 million in dividends

***$3.9 billion returned to shareholders since 2012 via dividends and share repurchases***

Celanese Corporation© Q4 Earnings Release 14

We continue to like Celanese despite the near-term headwinds and believe it can move higher still via geographic expansion and new application development. CE enjoys a cost advantage in many of its markets and we see the Advanced Engineered Materials business having attractive long-term growth potential. We also like CE's free cash flow generation (the company generated $270 million in the quarter), which allows it to continue to strengthen its financial base, while returning capital to shareholders. CE trades for just 9.4 times forward earnings per share and yields 2.2%. We have pared our Target Price to $146.