Market Commentary Monday, May 13, 2019

May 12, 2019

EXECUTIVE SUMMARY

Week in Review – Escalation of Trade Hostilities; Stocks Sink
Historical Perspective – 594 Worse Weeks than the Latest One for the S&P 500
Volatility – Ups and Downs are Normal
Wall of Worry – Lots of Scary Events Have Been Overcome…Just Since the End of the Financial Crisis
Trade Skirmish – Likely to Remain a Near-Term Headwind
Corporate Profits – Better-than-Expected Q1 Reports
Fed Speak – 66% Chance of Fed Funds Rate Cut This Year
Yields – Stocks Remain Attractive
Stock Updates – SIEGY, COHU, DIS, HMC, INTC, SYMC, TPC, MOS, TSN, MCK, TPR & ALB
Buckingham Portfolio Purchase – Adding ALB on May 15

Market Review

No doubt, there was plenty of drama on the trade front last week, with talks between the U.S. and China on Thursday and Friday yielding no agreement and President Trump's threat last weekend for new tariffs on $200 billion of Chinese goods coming to fruition. Not surprisingly, the U.S. and global equity markets took it on the chin as most did not see an escalation of hostilities as a likely outcome of the trade meetings, though stocks did stage a big turnaround on Friday afternoon. Investor fears were temporarily allayed when U.S. Treasury Secretary Steven Mnuchin said that the trade meetings were "constructive" and President Trump stated that the tariffs could be removed and that the talks would continue.

When the dust settled, the Dow Jones Industrial Average had dropped 1.96% for the week, while the broad-based Russell 3000 index dipped 2.13%. For its part, the S&P 500 fell 2.10%, with the losses marking the worst week of 2019. To be sure, the weekly red ink was pushing 4% early on Friday, so the skid could have been worse, but it is interesting to note how the decline stacked up on the historical spectrum.

AFAM
a KOVITZ division

THE PRUDENT SPECULATOR
Outsized S&P 500 Weekly Moves

The 5.3.19 – 5.10.19 skid was hardly ho-hum, but since 1927 there have been 594 other weeks in which the S&P lost at least 2.18%.

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	Totals
Years Ending in 0		14	9	3	6	9	7	11	8	8	75
Years Ending in 1		26	12	5	1	3	8	3	11	10	79
Years Ending in 2		22	3	2	8	1	11	0	13	5	65
Years Ending in 3		14	5	3	2	12	2	2	5	0	45
Years Ending in 4		16	3	1	0	17	5	5	3	5	55
Years Ending in 5		8	4	5	2	7	2	0	2	7	37
Years Ending in 6		4	8	5	6	2	7	5	3	3	43
Years Ending in 7		15	9	8	2	6	8	6	5	0	59
Years Ending in 8	5	14	11	0	1	7	7	7	18	8	78
Years Ending in 9	13	9	4	1	7	3	4	6	11	1	59
Totals	18	142	68	33	35	67	61	45	79	47	595

From 12.31.27 though 05.10.19. Weeks of index price return drops of more than 2.18%. SOURCE: Al Frank using data from Bloomberg

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	Totals
Years Ending in 0		11	9	11	4	9	12	9	9	11	85
Years Ending in 1		13	5	6	2	5	5	7	7	10	60
Years Ending in 2		19	9	0	8	4	10	4	8	4	66
Years Ending in 3		19	5	2	2	11	8	1	8	5	61
Years Ending in 4		13	2	5	0	8	6	4	5	5	48
Years Ending in 5		15	5	8	1	14	5	1	2	6	57
Years Ending in 6		13	10	6	6	9	11	8	3	6	72
Years Ending in 7		11	7	1	2	2	12	12	5	0	52
Years Ending in 8	13	20	8	4	4	6	9	15	9	8	96
Years Ending in 9	16	12	2	3	3	5	5	11	17	4	78
Totals	29	146	62	46	32	73	83	72	73	59	675

From 12.31.27 though 05.10.19. Weeks of index price return gains of more than 2.18%. SOURCE: Al Frank using data from Bloomberg

Certainly, we do not want to appear cavalier about the pullback, especially as President Trump continued to talk tough on trade on Saturday: “The deal will become far worse for them if it has to be negotiated in my second term. Would be wise for them to act now, but love collecting BIG TARIFFS!” That said, a 2%+ drop is hardly unusual, especially as 5% setbacks happen more than twice a year on average and 10% corrections take place more than once a year on average.

AFAM
a KOVITZ division

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%	108.0%	925	26	3.5	3/9/2009	4/30/2019
17.5%	66.5%	573	38	2.4	12/24/2018	4/30/2019
15.0%	66.2%	557	44	2.1	12/24/2018	4/30/2019
12.5%	43.8%	332	71	1.3	12/24/2018	4/30/2019
10.0%	34.9%	247	105	0.9	12/24/2018	4/30/2019
7.5%	23.4%	147	154	0.6	12/24/2018	4/30/2019
5.0%	14.7%	73	298	0.3	12/24/2018	4/30/2019

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 4.30.19. 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	13.2%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.5%	18.0%
Non-Dividend Paying Stocks	8.8%	29.5%
Long-Term Corporate Bonds	6.0%	7.5%
Long-Term Gov't Bonds	5.5%	8.5%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 03.31.19. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French 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

Indeed, volatility is part of the long-term investment process, with inevitable, frequent and often alarming selloffs the price that must be paid to achieve outsized returns over the time horizon with which most folks should be working. The key is to remember that the secret to success in stocks is not to get scared out of them, especially as there is seemingly always something about which to be concerned.

AFAM
a KOVITZ division

THE PRUDENT SPECULATOR
Keep Calm and Carry On

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	155%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	121%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	140%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	101%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	102%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	74%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	57%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%		44%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%		42%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%		40%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		37%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		43%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		39%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		53%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%			36%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%			35%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**36%**	**72%**	**70%**

Source: Kovitz Investment Group using data from Bloomberg. As of 5.10.19

After all, though many claim that the U.S. equity markets essentially have gone straight up since the end of the Financial Crisis, with nary a hiccup along the way, there have been plenty of disconcerting events overcome since March 2009. And, it is interesting that many supposed experts were certain that the last two on the above list – the Brexit Vote and the Trump Victory – would spell doom for stocks.

That is not to say that we should not be concerned about the ongoing trade skirmish as the tariff battle generally is not a positive for global commerce, with the uncertainty weighing on multi-national corporations around the world and creating a potential drag on U.S. GDP growth. While the President indicated this weekend that China is paying tariffs on $250 billion of goods, White House economic adviser Larry Kudlow conceded that U.S. businesses and consumers are essentially footing the bill. Of course, Mr. Kudlow was quick to add, “Both sides will pay these things…but the Chinese will suffer GDP losses and so forth with respect to diminishing export markets and goods.”

The equity futures on Sunday evening were again pointing to a continuation of the downturn when trading resumes this week as there appears to be nothing imminent in terms of trade negotiations. Yes, Mr. Kudlow also said, “The [trade] talks will continue. I will say this: There is a G-20 meeting in Japan toward the end of June next month and the chances that President Trump and President Xi will get together are pretty good,” but this issue will remain a near-term

headwind, even as corporate profits and the U.S. economy have both been faring better than expected this year.

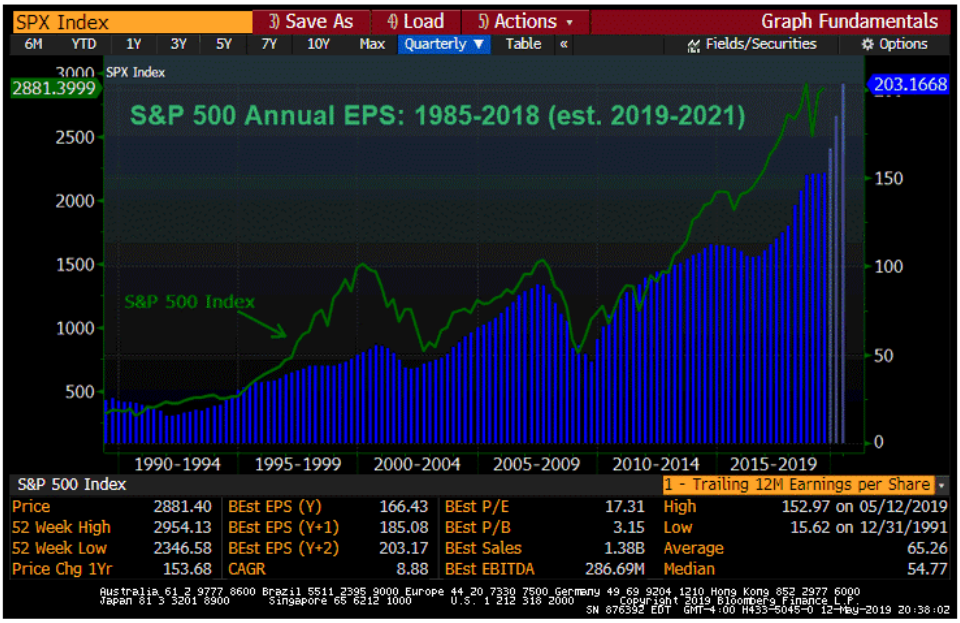
Looking at Q1 earnings reports, Standard & Poor's calculates that of the 449 companies in the S&P 500 to have announced results with full operating comparative data, 323 (or 71.9%) exceeded, 88 missed and 38 met their estimates; while 253 of 444 (57.0%) beat on sales. Certainly, should the trade skirmish drag on, the outlook for Corporate America's bottom line growth will be reined in, but as of 5.3.19, S&P was projecting that bottom-up operating earnings per share for the S&P 500 would jump to $165.62 this year from $151.60 in 2018. For 2020, the estimate stood at $185.03. History shows that analysts are often overly optimistic in their earnings forecasts, but Bloomberg also projects solid EPS growth for the S&P 500 over the next three years, so even with tariff troubles, we do not see a profit recession on the horizon.

AFAM a KOVITZ division

THE PRUDENT SPECULATOR

Stock Prices Often Follow Earnings

Market history shows that sustained market downturns usually coincide with a recession in corporate profits. No guarantees, of course, but the outlook for earnings, despite trade headwinds, is favorable.



Of course, we also note that should the U.S. economy (GDP growth was 3.2% in Q1) run cooler than expected, there is a strong likelihood that the Federal Reserve will cut interest rates. That is what the Fed Funds futures are presently suggesting as there is currently a 66% probability of a rate reduction by the December 2019 FOMC meeting. True, Fed Vice Chairman Richard Clarida said last week that the trade conflicts had "only had a very modest effect on the economy," but Federal Reserve Bank of Atlanta President Raphael Bostic told reporters on Friday that the central bank could reduce rates if the higher tariffs prompt a severe cutback in consumer

spending, “If this becomes prolonged and the extra cost gets fully passed on to consumers such that they pull back in a number of different ways, then that may mean we have a different calculus that we have to do to decide what appropriate policy looks like.”

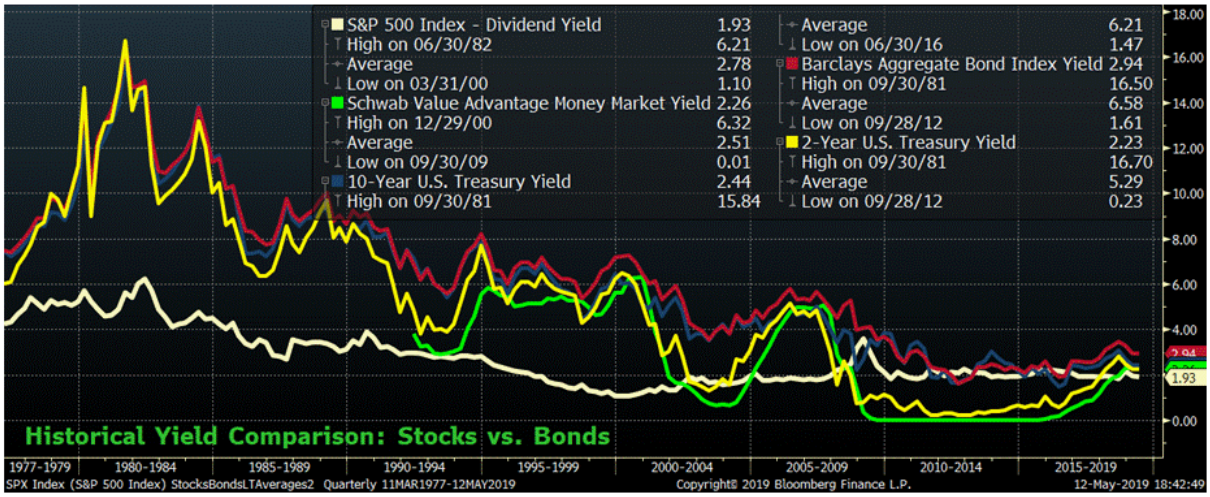
We suspect that we will have to navigate heightened market turbulence over the next few weeks and months, but we continue to see no reason for those who share our three-to-five-year time horizon to abandon their long-term investment plan. Despite the trade tensions, we think that the U.S. economy will continue to grow, that corporate profits will remain solid and that stocks continue to be attractive vis-à-vis other assets.

AFAM a KOVITZ division

THE PRUDENT SPECULATOR

Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for bonds, U.S. Treasuries and money market funds, the current payout on the S&P 500 (1.93%) is still very generous versus the income provided by fixed income. And, the comparison to the average yields for all of the securities below over the past four-plus decades very much favors equities.



Stock Updates

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/, Chris Quigley and Jason Clark offer updates on 12 of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices.

German industrial conglomerate **Siemens AG** (SIEGY – $60.50) posted earnings per share of $1.26, versus the $0.81 estimate, in Q2 2019. SIEGY had sales of $23.8 billion, versus the $23.6

billion estimate. While shares initially dipped on the earnings news, they rose about 2% for the week, as investor concern about profit margin contraction for 2019 subsided. The company saw strong performance in its Power & Gas and Healthineers segments, while a favorable sales mix and new contracts helped improve the full year's picture. Siemens also will spin off its Power & Gas segment, a move expected to create a company with 80,000 employees and 30 billion euros of revenue.

CFO Ralf Thomas commented on the results and noted a reporting change going forward that reflects SIEGY's structure given recent acquisitions, "We can truly speak of very good second quarter with a revenue growing in six out of eight of our industrial businesses. The same number of businesses lay within or even above the respective target margin ranges. As of the third quarter, we will be reporting based on the new organizational setup, meaning we will have figures for operating companies Gas and Power, Digital Industries, and Smart Infrastructure, as well as for the strategic companies Mobility, Siemens Healthineers, and Siemens Gamesa."

SIEGY trades for a reasonable sub-14 times the current fiscal 2020 (ended Sept. 2020) consensus earnings estimate and yields 2.6% after foreign taxes. SIEGY shares had a difficult 2018 (though better than the GE shares we swapped out of for the position, a result of our view that every stock is always fighting for its spot in our portfolios), but we see plenty of reasons to be optimistic that the rebound this year can continue. Siemens has landed important contracts around the world for large infrastructure projects, boosting its backlog to 142 billion EUR and continues to put a strong emphasis on the digitization of infrastructure. Infrastructure project spending can be lumpy, but we think the exposure has a valuable spot in our portfolios. Our Target Price for SIEGY is now $86.

Semiconductor equipment firm **Cohu** (COHU – $17.70) posted earnings per share of $-0.03, versus the $-0.02 estimate, in fiscal Q1 2019. COHU had revenue of $148.0 million, versus the $145.0 million estimate. The thinly-traded shares surged a whopping 24% higher the day following the announcement, though they have since given back a large chunk of those gains.

CEO Luis Mueller struck an upbeat tone, "Market conditions appear to have stabilized in the first quarter, and we're forecasting some segments to start improving in Q2 and continue into the second half of the year. And this is particularly true for mobility that has been weak since last fall. We have received volume handler orders in April for testing application processors, and we are expecting new demand for test and inspection of RF devices and test of LCD drivers later this quarter. Additionally, we forecast new tester, handler and contractor demand in third and fourth quarter to support a global communications infrastructure project where Cohu's platforms have been qualified to test a new generation of semiconductors. The continued strength in data center, cloud and AI is reflected in our recurring revenues as well as orders for PCB test equipment."

"We are accelerating the integration of Xcerra, have begun to implement the restructuring of our German operation, and now project annual run-rate cost synergies of $40 million by the end of 2019, significantly advancing the timeframe for when the full synergy savings will positively impact the business…I'm very optimistic about our future because I believe that Cohu is only a couple of quarters away from achieving a substantial transformation of the P&L, they'll drive

increased profitability and cash flow generation. Furthermore, we have already aligned products and roadmaps to position Cohu to benefit from significant trends in 5G and secular expansion in automotive and industrial markets," he continued.

CFO Jeff Jones offered the Q1 outlook, "In the second quarter 2019 guidance, we're expecting sales to be in the range of $150 million to $160 million. Revenue distribution is expected to be 92% semiconductor test and inspection, and 8% PCB test. Gross margin is expected to be approximately 40%. The lower gross margin quarter-over-quarter is due to projected lower margin handler product mix for the mobility market. For modeling purposes, we expect a normalized effective tax rate of approximately 22% on revenue of $170 million or more and profits in line with the business model. The diluted share count for Q2 is expected to be approximately 41.5 million shares."

COHU's results prompted an analyst upgrade from Stifel (from Hold to Buy), with a note that expressed confidence that fundamentals had bottomed and the next upcycle will be solid for the company. COHU's operating synergies in the PCB business are ahead of management's expectation, with run rate synergies now expected to be $40 million for 2019, versus last quarter's estimate of $20 million for the same period. COHU trades for 29 times 2019 earnings, but once the integration is complete, the P/E should be in the 8 to 10 range for 2020+. Shares yield 1.4%. Our Target Price is $25.

Movies, entertainment and theme park company **Walt Disney** (DIS – $134.04) reported earnings per share of $1.61, versus the $1.58 estimate, in Q2 2019. DIS had revenue of $14.9 billion, versus the $14.5 billion estimate. Shares fell 1% following the announcement, but we think that most of the enthusiasm points were spent a few weeks ago when DIS launched Disney+.

CEO Bob Iger said, "We're pleased with our results in Q2, which were impacted by our acquisition of 21st Century Fox in late March as well as our ongoing investment in our direct-to-consumer business. When we first considered the deal, we had just announced our DTC initiative, and we saw tremendous value in the Fox assets in terms of expanding our ambitions and enhancing our potential for success. We're already moving forward in that regard. Looking forward, we've got a very busy year ahead, including a number of major developments in our parks and resorts. We're breaking ground on a significant expansion at Tokyo DisneySea in the 21st, which will add new themed areas and attractions to that park. And we're looking forward to the grand opening of *Star Wars: Galaxy's Edge* in our Disneyland Resort on May 31. The excitement around this new land is unbelievable and will only grow once people have a chance to experience it for themselves."

Disney generated almost $2.5 billion so far from *Avengers: Endgame*, while the Disney+ platform will give folks who didn't get a chance to see the film in theaters to watch it beginning December 11. We would surmise that it's just the first of many theater-to-Disney+-only moves. We continue to like the focus on DTC, as cutting out middlemen should yield stronger financial results and perhaps a more positive customer experience. In addition, the Disney film studios have been able to churn out plenty of winners that have dwarfed the inevitable losers, and we see no change in that success formula anytime soon. DIS shares yield 1.3%, which was just bumped from $0.84 per share quarterly to $0.88 per share. Our Target Price has been raised to $167.

Global automobile manufacturing giant **Honda Motor** (HMC – $26.09) earned $3.12 per share in fiscal 2019 (vs. $3.81 est.). HMC had revenue of $143 billion, versus the $139 billion estimate. HMC suffered in Europe due to changes to the global automobile production network, currency headwinds and challenges in India, though some of the trouble was offset by cost reductions. Shares skidded more than 6% last week, as guidance was on the conservative end for fiscal 2020.

Honda expects FY2020 industry demand in the U.S. to moderately decrease due to a declining sedan market, while strong sales of the Passport and CR-V should be a plus. China is expected to remain flat overall across the industry, while Honda expects a "historical unit sales record" due to strong sales of Crider, Inspire and Envix models. National elections and stricter environmental regulations are also expected to weigh on the motorcycle market.

We continue to like the geographically diverse revenue stream and are encouraged by Honda's progress in emerging markets (including India and China) and modest opportunity for growth in North America. HMC shares sport a forward P/E ratio around 7, while the stock trades below book value and the net dividend yield stands around 3.4%. Our Target Price has been pared to $38.

Shares of semiconductor giant **Intel** (INTC – $46.20) have been crushed over the past month, suffering from setbacks, none of which are garden variety. At the company's investor conference this past week, new CEO Bob Swan offered more disappointing news, saying that revenue growth for the next three years will be at a percentage in the low single digits, with its main personal-computer chip business flat to slightly down. While sales of the company's data-centric products (server and other chips such as artificial intelligence processors) are projected to expand at a percentage in the high-single digits, the unit's growth won't be enough to overcome the sluggish PC market.

While one-year projections are relatively commonplace (the company already slashed its outlook for 2019 in late-April), Intel's ability to project three years out is confounding. Of course, the company offered growth ranges and not 10nm precision, but we still think it's highly specific when it need not be, though we suspect that Mr. Swan wanted to set a low bar early in his tenure. And the company encountered many issues getting the 10nm process chips to market, so we wouldn't be surprised to see the 7nm chips which are scheduled for 2021 get pushed back. None of this is new though (except the data center growth bit), so the market's strong negative reaction was surprising, and unfitting in our view.

Intel is giant and will always encounter size limits, and the company has an army of technical masters that we expect to engineer around the issues. The company routinely missed expectations in 2012 and 2013, yet it was able to string together good performance from 2014 to last year. While we many encounter a few more bumps in the road before INTC gets back on track, we continue to like the company's diversified revenue stream, low levels of debt, forward P/E ratio below 11 and 2.7% dividend yield. That said, our Target Price is now $63.

Security, storage and systems solution company **Symantec** (SYMC – $19.39) reported earnings per share of $0.39, versus the $0.39 estimate, in fiscal Q4 2019. SYMC had sales of $1.2 billion, versus the $1.2 billion estimate. Shares slid 12.5% following the announcement, as CEO Greg Clark abruptly resigned and the company offered weaker-than-expected guidance for fiscal Q1 2020 and FY2020.

Richard Hill, interim President and CEO opened one of the more memorable "first-time" analyst calls, "Unfortunately, we live in a world with unscrupulous people living among us. During my first night in Aviation Officer Candidate School in Pensacola, Florida, in the early '70s, Marine Drill Instructor Staff Sergeant/Lt Kwiatkowski words ring true in my ears today. He said to me, maggot, if you would keep your bleeping footlocker locked, we wouldn't have criminals. It's your fault we have people in jail today. So I'm asking all of you on the phone to go home and lock your family cyber footlocker by joining the Symantec consumer family and go to your CIOs and CSOs and ask them to call Symantec Enterprise solutions to ensure our corporate footlockers are protected by Symantec's Integrated Cyber Defense."

While Mr. Hill's sales pitch at the end is a bit tongue-in-cheek, it's also fair to suggest that the world needs to add new footlockers, and for the existing ones, improve its locks. And therein lies our continued interest in SYMC shares, as data security remains a high-growth industry.

Mr. Hill offered the fiscal 2020 outlook, "Non-GAAP revenue is expected to be $4.76 billion to $4.9 billion. Consumer is $2.46 billion to $2.5 billion and Enterprise is $2.3 billion to $2.4 billion. Operating margins are forecasted to be 30.7% to 32.7% which rounds to 31% to 33%. Non-GAAP EPS is forecasted at $1.65 to $1.80. Finally, cash flow from operations for the year is expected to be $1.1 billion to $1.3 billion. The drop in cash flow is attributable to multiple items. It's attributable to a conservative relief pitcher who doesn't want to saddle a new permanent CEO with the target that would limit his flexibility. In the area of capital allocation, we are having a very balanced approach with share repurchases, debt repayment and general corporate purposes, that are available for strategic options, including M&A. We have $1 billion left in our $1.3 billion repurchase authorization."

While the share price whack was obviously unpleasant, we expect that Mr. Hill's deep experience (he is the former Chairman/CEO of old-favorite Novellus and he is on the board of **Marvell Tech** (MRVL – $23.51)) and straight-shooting demeanor will provide shareholder returns in addition to more colorful analyst calls. We think SYMC trades at an inexpensive 11.2 times forward earnings, with a yield of 1.6% and a sizable repurchase program. Our Target Price has been trimmed to $32.

Our patience remains thin with **Tutor Perini** (TPC – $16.97), after the construction and contracting firm turned in another disappointing quarter. After a better-than-expected Q4, TPC's Q1 top- and bottom-line results both fell short of consensus analyst estimates. For Q1, TPC reported adjusted EPS of -$0.01 (est. $0.07) and posted revenue of $959 million (5% below expectations). Q1 was impacted by the timing of some of the company's projects as well as adverse weather that impacted some of its Building and Civil segment projects in California and the Midwest. Civil segment revenue for the first quarter was $333 million, up 27% year-over-year, reflecting favorable impacts from newer projects that are accelerating. Revenue for the Building and Specialty Contractors segments was $433 million and $192 million, respectively, both down compared to the first quarter of 2018, due to the timing of revenue burn for newer work. On the positive side, TPC reported a record backlog of future work.

"The record new awards and backlog for the first quarter demonstrate our continued success in capturing substantial new project opportunities across all segments of our business," explained CEO Ronald Tutor. "As these and other recent awards progress and contribute more meaningfully as the year develops, we expect to report significantly improved financial results. Our tremendous backlog, combined with what we anticipate will be a multi-year period of increased demand, supports our favorable outlook for strong revenue growth and improved profitability over the next several years."

The company reaffirmed its EPS guidance for 2019 in the range of $2.00 to $2.30, with profits weighted more heavily to the second half of the year, due to the timing of project ramp-up activities, as well as typical business seasonality. Backlog was $11.6 billion, an increase of 37% compared to $8.5 billion a year ago. New awards and adjustments to contracts in process totaled $3.2 billion, setting a new quarterly record. Significant new awards included the $1.4 billion Purple Line Section 3 Stations project in California, the Choctaw Casino and Resort project in Oklahoma, a large hospitality and gaming project in California, the $253 million Culver Line Communications-Based Train Control project in New York and the $200 million Southland

Gaming Casino and Hotel project in Arkansas. Importantly, nearly three-fourths of TPC's total backlog is comprised of higher margin Civil and Specialty projects.

We also can't ignore the possibility that a national infrastructure investment bill could come out of Washington in the not-so-distant future, which could be quite beneficial to TPC. This potential catalyst and the above positives notwithstanding, we have heard plenty of upbeat talk through the years with many quarters of disappointing execution, so we are more than skeptical about the outlook. We seemingly continue in a state of one step forward and two steps back, even as the stock remains one of the least expensive in our universe, and now owns its largest ever backlog of work. Shares trade for less than 7 times NTM adjusted EPS, but we continue to be worried about margins and cost overruns that can result from overly aggressive bidding. We already parted ways with Fluor this past week for ongoing execution struggles (and the surprise departure of that engineering and construction concern's CEO), so TPC continued residency in our portfolios is tenuous. That in mind, we have cut our Target Price to $25.

Fertilizer and agricultural chemical firm **Mosaic Co** (MOS – $23.90) posted Q1 earnings per share of $0.25, versus the $0.24 estimate. MOS reported sales of $1.9 billion, slightly above forecasts looking for $1.87 billion. Lower phosphate volume and higher fertilizantes unit production costs weighed on profits, but strong quarterly potash results offset some of the operational headwinds. Despite the seemingly better-than-expected quarter, MOS shares fell more than 6% in price on week, as the company revised its full-year adjusted EBITDA guidance to $2.0 to $2.3 billion, and adjusted EPS guidance to $1.50 to $2.00, "primarily reflecting the impact of curtailments and higher costs associated with the impact of new tailings dam regulations in Brazil, the increase in Canadian resource taxes and delayed recovery in phosphate margins."

CEO Joc O'Rourke commented, "Mosaic overcame weather and regulatory changes to deliver solid results. We expect our resilient and strong business to generate good results this year and across the business cycle. Markets for our two nutrients diverged during the first quarter. Phosphate prices fell primarily as a result of high carryover inventories in North America and high and early seasonal imports into New Orleans. In addition, Chinese exports in the first quarter increased by over 0.5 million tons from a year ago adding to global market length. While lower raw material prices helped, market stripping margins still declined over 20% year-over-year. North American demand began to emerge at the quarter's end and prices have stabilized. In fact, prices have actually increased for product that is upcountry in the U.S. where high Mississippi River water levels have created logistic challenges. Mosaic has a strong geographic competitive advantage in the US over importers."

Looking ahead, Mr. O'Rourke said, "At the end of the quarter over 40% of our phosphate inventory was in upcountry in Mosaic's or our customers' warehouses, which gives us the ability to get product where it needs to be regardless of river shipping conditions. This also highlights why we recently purchased a very large distribution facility called Pine Bend near the north end of the Mississippi River in Minnesota. The facility significantly improves our ability to serve Midwest customers and reduces our logistics risks…In addition, we're finally seeing seasonal demand in China emerge, which is focusing Chinese production on domestic demand. On the other side of the world, fertilizer demand in Brazil is running ahead of last year with very strong

shipment growth in both phosphate and potash. In contrast to the phosphate market, potash was much less impacted by the logistical challenges in the Mississippi River regions, and the potash supply and demand picture remained balanced during the quarter with prices holding relatively flat."

While we know fertilizer prices will remain volatile, we continue to believe that there is plenty of long-term potential, though we realize it takes a lot of patience to stay invested in the space. Higher crop yields become increasingly important as the global population expands, less farmable land is available and more folks in emerging economies move up the socioeconomic ladder, adding more protein to their diets (which requires more grains to feed the cattle, pigs, etc.). MOS trades for just 11.1 times NTM adjusted EPS projections, and trades or just 87% of book value per share. All things considered, we have trimmed our Target Price to $47, though we like that Mr. O'Rourke bought 10,000 MOS shares on Wednesday at 24.03.

Tyson Foods (TSN – $79.81) saw its shares continue to surge as the leading U.S.-based meat producer reported strong fiscal Q2 financial results and announced that it would enter the meatless protein space, joining the veggie burger mania that further ignited following Beyond Meat's wildly successful IPO. TSN reported that its fiscal Q2 revenue came in at $10.44 billion, outpacing consensus expectations of $10.27 billion. While analysts were looking for adjusted EPS of $1.13 for the period, Tyson delivered $1.20. Additionally, the continued rise in African Swine fever, especially in China could materially impact the price of pork globally, and increase demand for U.S. pork, which would be a big benefit to Tyson.

"I'm pleased with our direction as we begin the back half of the year," said CEO Noel White. "The Prepared Foods segment produced its second consecutive quarter of record return on sales. Both the Beef and Pork segments were solid performers, while the Chicken segment is poised for improvement following what we believe are its margin lows for the year."

Q2'19 Highlights

- Adjusted EPS[1] of $1.20
- Adjusted operating income[1] of $654M
- Adjusted operating margin[1] of 6.3%
- Record Prepared Foods adjusted operating margin[1] of 12.3%
- Record Beef adjusted operating income[1] of $156M
- Maintaining Adjusted EPS[1] guidance for FY2019 of $5.75-$6.10

($ in millions, except per share data)	
Sales	$10,443
Adjusted Operating Income[1]	$654
Adjusted Operating Margin[1]	6.3%
Adjusted EPS[1]	$1.20

Adjusted Operating Income & Margin[1]
($ in millions)

	Dollars	ROS
Beef	$156	4.0%
Pork	100	8.5%
Chicken	150	4.4%
Prepared Foods	249	12.3%
Other	(1)	n/a
Total	**$654**	**6.3%**

[1]Represents a non-GAAP financial measure. Adjusted EPS, adjusted operating income and adjusted operating margin are explained and reconciled to comparable GAAP measures in the Appendix.

4 Tyson Foods, Inc. May 6, 2019

Mr. White added, "Looking ahead, African Swine Fever has the potential to impact the global protein industry on a level that we have never experienced, and it is an event that will underscore the power of the Tyson business model. While Tyson's diversity across segments provides stability and puts us in a position to capitalize when opportunities arise, all proteins could see a benefit. A worldwide decrease in pork supply would offer significant upside to our pork business, while also lifting the chicken and beef businesses as substitutes and increasing raw material costs in our prepared foods business."

"Our forecasts for the current fiscal year do not include any potential effects from ASF as we do not have clarity on when the impact might occur or what the magnitude could be. To date, pork pricing hasn't kept pace with increased hog costs, leading us to believe any positive ASF impact would occur in late fiscal 2019 into fiscal 2020 and beyond. For these reasons, we are maintaining our guidance for fiscal 2019 in the range of $5.75-6.10 adjusted earnings per share, and we will stay focused on the long-term by growing our business on the strength of our leading brands and our diversified business model," Mr. White concluded.

While there are still near-term headwinds in poultry, over the long term, we think TSN and its diversified structure will pay dividends. Additionally, adding non-meat proteins to the mix should be a net positive. Furthermore, we believe that in the future, chicken can take share from other protein sources as it offers a relatively better cost and health profile to consumers. We also

think that prepared foods and increasing protein consumption around the globe, especially in emerging economies, provide a solid footing for top-line growth. TSN currently trades at 12.8 times NTM EPS and carries a dividend yield of 1.9%. Our Target Price for TSN shares has been increased to $91.

Although shares of **McKesson** (MCK – $130.86) have been down over the last year as it and its competitors have stayed in the headlines (concerning subjects like cutting prescription drug costs and the opioid crisis), the stock price jumped 6% last week after the health care distributor turned in a solid 2019 fiscal Q4. MCK reported adjusted EPS of $3.69, versus consensus estimates of $3.66. The company's revenue of $52.4 billion came in a bit more than 1% below forecasts. Management also announced that it had renewed its pharmaceutical distribution relationship with **CVS Health** (CVS – $55.16) through June of 2023. Additionally, the company gave additional adjusted EPS guidance for fiscal 2020 in the range of $13.85 to $14.45, not bad for a $130 stock.

"McKesson delivered solid adjusted operating results, and we are pleased to conclude fiscal 2019 with adjusted EPS growth of 8%," said CEO Brian Tyler. "We successfully executed in a challenging environment and took action to address the headwinds in our European business. McKesson exits fiscal 2019 with improving momentum across many of our businesses. Our financial flexibility, reinforced by a strong balance sheet and solid cash flow generation, positions us to continue delivering shareholder value. We are making important progress towards our initiatives and are confident that the actions we are taking position us for growth in fiscal 2020 and beyond."

There continue to be no shortage of stiff headwinds for MCK and its operations, from the ramifications of the opioid epidemic to potential competition from Amazon and the possibility for drug pricing legislation to come out of D.C. Certainly, any of those could squeeze MCK in some business areas, but we continue to believe that the stock price greatly discounts a tremendous amount of bad news, given that current analyst EPS estimates for fiscal '20, '21 and '22 now stand at $14.12, $15.37 and $16.67, respectively. MCK still plays an important role in getting medical supplies and medicines from manufacturers to pharmacies, clinics and hospitals, while continued integration of acquisitions and pending improvements in its health care IT business should help drive growth. MCK trades for 9.3 times NTM earnings expectations and our Target Price is now $198.

Shares of **Tapestry** (TPR – $32.25) went on quite a roller-coaster ride last week, soaring as high as $36.00 on Thursday morning before skidding all the way back to near $32. When all was said and done, the badly-battered stock did rebound more than 3% in an otherwise difficult market environment, thanks to a generally in-line fiscal Q3 2019 earnings release and the announcement of a $1 billion share buyback program (which represents almost 11% of the company's current market capitalization). TPR posted adjusted Q3 EPS of $0.42, versus the consensus estimate of $0.41, on revenue of $1.33 billion. The process has been slow, but Tapestry is making strides in the Kate Spade business and has realized margin expansion in the Stuart Weitzman line.

CEO Victor Luis said, "We are pleased with our third quarter performance, highlighted by increases in sales and gross margin on a constant currency basis in each of our three brands. Most notably, we again drove positive comps at Coach and generated a significant sequential

comp improvement at Kate Spade with Nicola Glass's new collection resonating with consumers globally. Further, we continued to make key investments across our portfolio and to realize meaningful synergies from the successful integration of Kate Spade as we harness the power of our multi-brand model. Taken together, adjusted EPS was in-line with our expectations for the quarter."

AFAM a KOVITZ division

THE PRUDENT SPECULATOR
TPR – Solid Fiscal Q3

FY19 THIRD QUARTER RESULTS

Delivered **sales growth and gross margin expansion** in each of our brands on a constant currency basis.

Drove continued positive global comparable store sales growth at **Coach** led by international markets and e-commerce channels.

Generated eight-point sequential improvement in comparable store sales growth at **Kate Spade**, as Nicola Glass's debut collection resonated with consumers globally; continue to project positive comparable store sales in fiscal Q4.

Achieved sales growth at **Stuart Weitzman**, reflecting ongoing progress in executing the brand's strategic priorities.

Realized **significant synergies** and made **key investments** across the portfolio as we harness the power of our differentiated **multi-brand model**; remain on track to deliver anticipated run-rate synergies of $100 to $115 million in fiscal 2019.

Announced $1 billion share repurchase authorization, demonstrating our confidence in driving sustainable growth and value; reiterated commitment to longstanding capital allocation priorities supported by our strong balance sheet and free cash flow.

Maintained near-term and long-range financial targets, including EPS guidance for fiscal 2019 and outlook for fiscal 2020.

Mr. Luis continued, "We're also excited to announce the approval of a $1 billion share repurchase authorization, demonstrating our confidence in driving long-term, sustainable growth and value. Through this program we will optimize our capital deployment and enhance shareholder return, while maintaining our financial and strategic flexibility. Importantly, we remain committed to our longstanding capital allocation priorities supported by our strong balance sheet and free cash flow: investing in our brands and business, pursuing strategic acquisitions on an opportunistic basis and maintaining our dividend."

Given that the share price is down on the year, we have to be pleased with the quarter, especially following a couple of subpar periods. We have remained patient with Tapestry and its continued work to evolve the company. Shares trade at a very reasonable 11.5 times NTM earnings expectations, and current EPS forecasts for fiscal '20, '21 and '22 stand at $2.86, $3.17 and $3.63, respectively. We like TPR's solid balance sheet and that the shares offer a 4.2% dividend yield. Our Target Price is presently $58.

Specialty chemical company **Albemarle** (ALB – $72.63) has continued to have a tough go of it as recent lithium price weakness and worse-than-expected results from a competitor have weighed on the stock. Of course, for its own part, Albemarle reported last week adjusted Q1 earnings of $1.23, in line with expectations, on slightly better-than-expected revenue of $832 million. Q1 results were negatively impacted by weather-related issues at the company's carbonate production facility in Chile, which resulted in lower lithium production and higher costs. That said, management expects to make up the lower volumes later in the year and forecasts stable prices.

CEO Luke Kissam explained, "In the first quarter, Albemarle delivered adjusted diluted EPS of $1.23, in-line with our March press release. Lithium pricing was up year-over-year, while Catalysts and Bromine Specialties performed well, with both benefiting from increases in volume and price. We remain confident in our expectations for the full year and are committed to our long-term strategy that positions us for continued growth."

Management announced that it was confident in its full-year 2019 outlook which includes revenue between $3.65 billion and $3.85 billion, and adjusted EPS between $6.10 and $6.50. While we wouldn't be surprised to see lithium prices remain soft in the near term, we are in ALB for the long-haul as we believe that as electric car growth grows globally, lithium demand will pick up, which will require new lower-grade and more costly supply to be brought on line, which in turn will give ALB an advantage and likely higher margins. Also, if and when autonomous vehicles become a reality, demand for lithium batteries should pick up even more.

As a reminder, Albemarle also generates healthy profits from bromine, which is primarily used in flame retardants. While demand for bromine has slipped in TVs and computers, it has risen for servers and automobile electronics. Further, ALB generates steady cash flows from its refining catalyst business. Despite the promising growth potential and healthy current income statement, ALB shares are trading for 11.3 times NTM adjusted EPS guidance and yielding 2.0%. Our Target Price for ALB is presently $128.

And, given the affection for Albemarle, we will add $8,000 of ALB to Buckingham Portfolio this week, with the trade scheduled for Wednesday morning, May 15.