Market Commentary Monday, May 27, 2019

May 27, 2019

EXECUTIVE SUMMARY

Tech Wreck – Selloff Continues; Tech Stocks Hard Hit
Earnings – Estimates Remain Robust
Econ Data – Numbers Still Coming in OK
GDP Forecasts – Slowing Growth But No Recession
Sentiment – AAII Bullishness Sinks Further
Income – Dividends on Stocks Still Very Favorable
Valuations – Inexpensive Multiples on Our Portfolios
Stock Updates – QCOM, SFL, TGT, CM, FL, KSS, LOW & MDT

Market Review

We hope everyone is enjoying the Memorial Day Weekend, even as we recognize that the equity markets continued the May swoon in the week just ended, with technology stocks especially hard hit in the wake of the ban on doing business with Chinese telecom giant Huawei in the latest escalation of the trade skirmish with the Middle Kingdom. The Nasdaq Composite index skidded 2.3% last week, while the Philadelphia Semiconductor index plunged 6.4%.

While the markets do not like uncertainty and there is no way of knowing the twists and turns that will come on the China front, we think that the big selloff in names like **Apple** (AAPL – $178.97), **Cohu** (COHU – $14.71), **Jabil Inc.** (JBL – $26.04), **Lam Research** (LRCX – $181.90) and **Micron Tech** (MU -$34.00) present opportunities to pick up quality companies at temporarily discounted prices. To be sure, we understand that the near-term in tech-land will remain bumpy, but the industry generally is characterized by above average growth potential, reasonable valuations and strong balance sheets, while many of the names we like also pay out generous dividends.

No doubt, many stocks have been hit much harder than the overall market over the last several weeks, but it is interesting to note that analysts have yet to rein in their earnings expectations for the market as a whole, at least as measured by the S&P 500.

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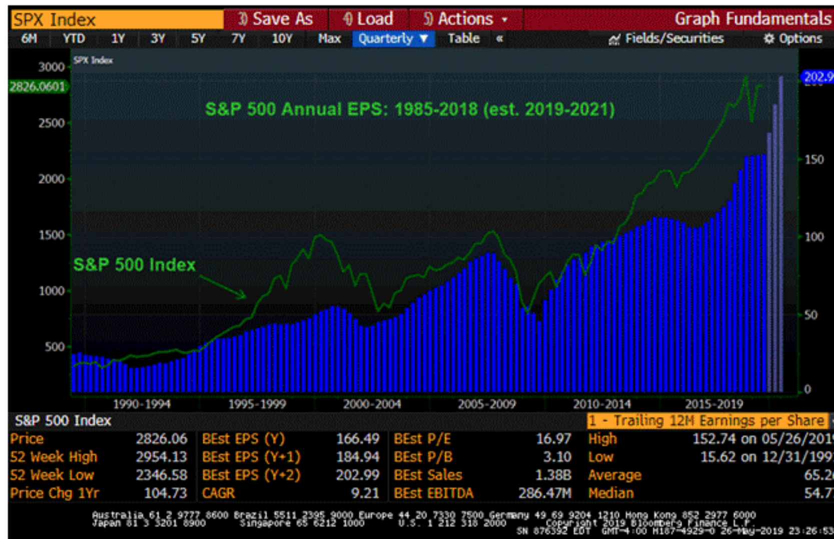
Growing Black Ink for Corporate America

Certainly, we understand that analysts are often overly optimistic in their projections, but sizable year-over-year earnings expansion is expected in '19, with further growth likely in '20 and '21.



S&P 500 Earnings Per Share		
Quanter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2020	$49.35	$185.30
9/30/2020	$47.81	$180.16
6/30/2020	$45.50	$175.22
3/31/2020	$42.64	$169.93
12/31/2019	$44.21	$165.50
9/30/2019	$42.87	$156.32
6/30/2019	$40.21	$154.83
3/31/2019	$38.21	$153.27
ACTUAL		
12/31/2018	$35.03	$151.60
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

Source: Standard & Poor's. As of 5.23.19

That does not mean that estimate downgrades won't soon be coming, especially if the trade battle intensifies, but domestic economic numbers generally have been holding up well,…

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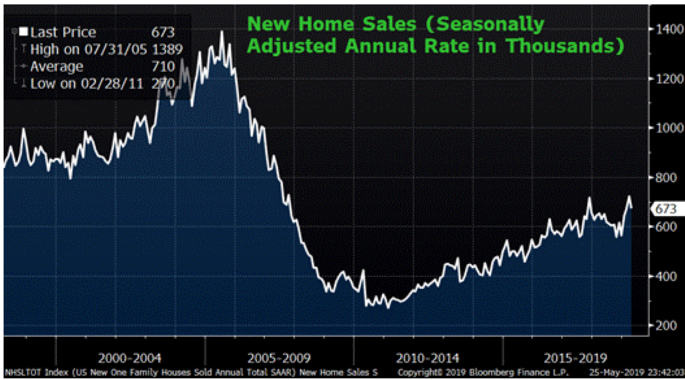
A Modest Pullback, but Housing Still OK



While new homes sales fell 6.5% in April to a 673,000 annual rate, the tally was relatively robust, especially as the already surprisingly strong number for March was revised upward by 31,000, while the median sale price last month jumped nearly 12% to $342,200. Meanwhile, sales of existing homes more or less held steady in April at 5.19 million, while supply climbed 9.6% and the median sale price rose 2.9% to $267,300.

…though there have been a few chinks in the armor,…

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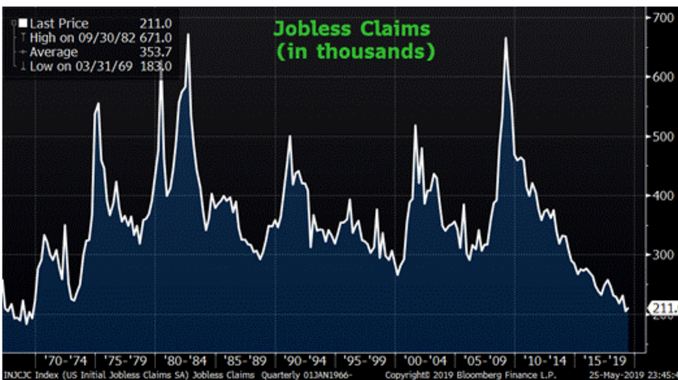
Mixed Econ Numbers



The headline number for durable goods orders came in about as expected during April, dipping 2.1% on weakness in transportation orders, even as Boeing's 737 MAX woes have yet to really weigh down the figures. Still, orders ex-transportation were flat for the month. And, first-time filings for unemployment benefits continue to bounce along near five-decade lows, with the latest week's tally inching down to 211,000.

…and the enthusiasm for economic growth has waned of late.

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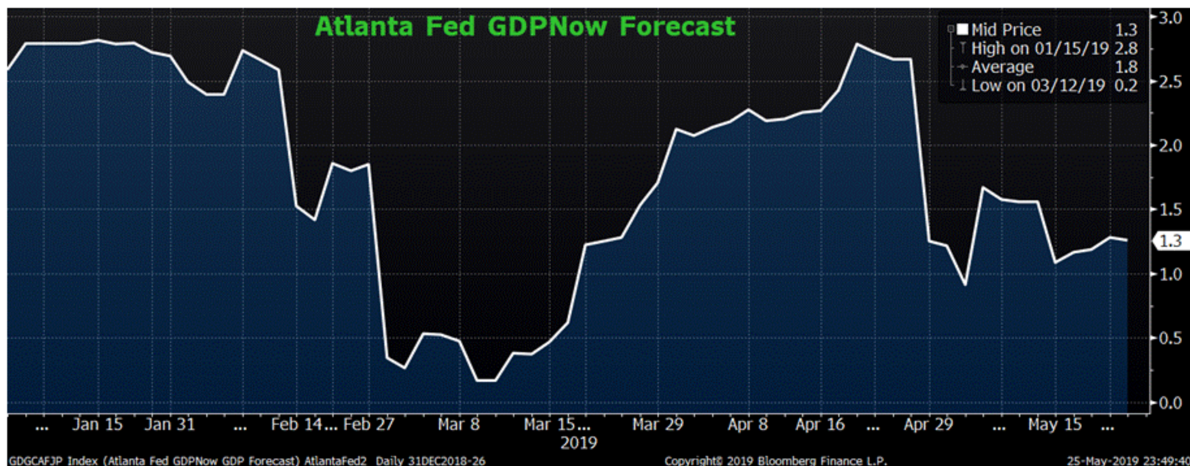
Economic Fortunetelling

As the old saw goes, economists have predicted nine of the last five recessions, and the soothsaying so far in 2019 vividly illustrates why we like the Niels Bohr quotation, "Prediction is very difficult, especially if it is about the future." Indeed, three months ago, forecasts for U.S. GDP growth were near zero, only to quickly rebound to a 2.8% annualized growth estimate, but then sink anew to a 1.3% guess today.



And speaking of enthusiasm, the latest Sentiment Survey from the American Association of Individual Investors (AAII) showed another dip in the number of Bulls, this time to 24.7%, a tally that is well below the long-term average of 38.5%. Historically, folks on Main Street tend to become pessimistic AFTER the markets have tumbled and optimistic AFTER the markets have rallied, so we are not overly surprised to see the drop in the number of Bulls. As AAII said, "Since setting a 2019 high of 43.1% two weeks ago, bullish sentiment has fallen by a cumulative 18.4 percentage points; it is now at an unusually low level."

No guarantees, despite the current readings on the contrarian AAII Sentiment indicator, that we are near a short-term market bottom, and one might think that the rough sledding will continue this week, given the seeming lack of any progress on the trade negotiations, but the pullback has added to the appeal of stocks in general from an income perspective,…

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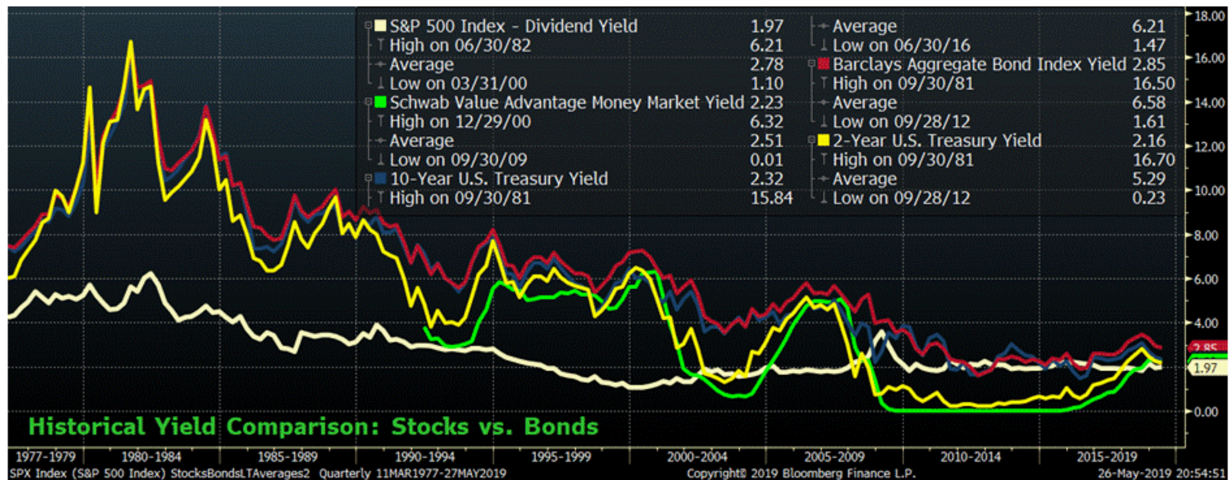
Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for bonds, U.S. Treasuries and money market funds, the current payout on the S&P 500 (1.97%) 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.



…while we remain very comfortable with the valuation metrics associated with our broadly diversified portfolio of what we believe to be undervalued stocks.

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Managed Account Ports & Benchmarks

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	12.7	11.6	1.0	1.7	3.2
Select Value	13.2	11.9	1.1	1.8	2.8
Select Dividend	13.0	11.7	0.9	1.9	3.5
Select Focused Dividend	12.0	11.2	0.9	2.1	3.6
Select Focused Value	13.9	12.5	1.3	2.3	2.8
Select SMID Dividend	12.6	11.4	0.6	1.4	3.2
Russell 3000	19.6	17.6	1.9	3.1	2.0
Russell 3000 Growth	24.7	21.8	2.8	6.7	1.4
Russell 3000 Value	16.2	14.6	1.5	2.0	2.6
Russell 1000	19.0	17.2	2.0	3.2	2.0
Russell 1000 Growth	23.4	21.1	3.0	7.1	1.4
Russell 1000 Value	15.9	14.5	1.6	2.0	2.6
S&P 500 Index	18.5	17.0	2.1	3.3	2.0
S&P 500 Growth Index	24.3	21.3	3.6	5.5	1.5
S&P 500 Value Index	14.5	13.7	1.4	2.2	2.5
S&P 500 Pure Value Index	11.3	10.3	0.6	1.2	2.9

As of 05.25.19. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

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 8 of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices.

Holders of **Qualcomm** (QCOM – $66.21) that thought the Apple settlement was the last major legal hurdle to overcome were unfortunately wrong, as shares plunged following a ruling on the company's litigation with the FTC that found certain parts of QCOM's business agreements violate federal antitrust laws. U.S. District Judge Lucy Koh wrote in a 233-page order, "It makes little sense for the Court, having found that Qualcomm's patent licenses are the product of anticompetitive conduct, to leave those licenses in place. To permit Qualcomm to continue to charge unreasonably high royalty rates would perpetuate its artificial surcharge on rivals' chips, which harms rivals, OEMs, and consumers, and would enable Qualcomm to continue to reap the fruits of its Sherman Act violation. Thus, the Court finds it necessary to require Qualcomm to renegotiate those license agreements."

The order continued, "Requiring negotiations and renegotiations of license agreements to occur without the threat of chip supply, technical support, and software cutoff will enable Qualcomm

and OEMs to negotiate license terms that reflect the fair value of Qualcomm's patents. Although this remedy does not merely proscribe future Qualcomm conduct, and will require Qualcomm to renegotiate many licenses, it is 'entirely appropriate' for a court to order an injunction 'beyond a simple proscription against the precise conduct previously pursued.' This remedy addresses Qualcomm's refusal to license rival modem chip suppliers on FRAND terms, which the Court held is anticompetitive conduct under the Sherman Act. Thus, requiring Qualcomm to license its SEPs to rival modem chip suppliers on FRAND terms 'unfetter[s] [the] market from anticompetitive conduct.' Ford Motor Co., 405 U.S. at 577. Although Qualcomm claims such a remedy is inconsistent with industry practice, Qualcomm conceded to the IRS in 2012 that Qualcomm licensed modem chip suppliers only until Qualcomm decided that licensing OEMs at the handset level instead was 'humongously more lucrative.'"

While the order was unsurprisingly met with a strong objection from Qualcomm, it's difficult to parse the actual nature of Qualcomm's legal battles. After all, in early May, the Justice Department unusually offered its take in the FTC's case against QCOM, warning that a broad judgement could adversely affect the U.S. in its effort to come out ahead of China in the 5G technology buildout.

It's not clear to us the extent to which QCOM will have to renegotiate its royalty contracts. Some research reports from analysts this week suggested that it would have little major effect, while others posited that it could wipe out half of the company's revenue. And of course, it could be anywhere in between. Additional complexity is added when we consider that 5G has turned into a negotiation point with China by the Trump administration. That's not new news, though, considering the administration blocked a bid by Broadcom last year to purchase Qualcomm and has been outspoken in its criticisms of Huawei Technologies.

We are disappointed that the QCOM situation has devolved into a mess again, considering that the future was looking bright just a few weeks ago when the years-old Apple/Qualcomm spat was settled. We are closely watching the fluid situation, but our Target Price has been slashed to $89 for the time being, though we note that QCOM yields 3.8%, so we are earning a few bucks for our patience.

Marine shipping concern **Ship Finance Int'l** (SFL – $12.75) reported earnings per share of $0.40, versus the $0.25 estimate, in fiscal Q1 2019. SFL had adjusted revenue of $116.5 million, versus the $116.7 million estimate. Shares initially did respond favorably to the release, but they traded 2.2% lower for the week.

CEO Ole B. Hjertaker commented, "The Board has declared a quarterly dividend of $0.35 per share. This is our 64th — 61st quarter with profits and dividends and the dividends represents $1.40 per share on an annualized basis or nearly 11% dividend yield based on the closing price yesterday. Over the years, we have now paid more than $25 per share in dividends or more than $2.1 billion in total and we have a fixed rate charter backlog of $3.8 billion, which should support continued dividend capacity going forward."

Mr. Hjertaker added, "The last 12 months have been very active in multiple transactions. We have grown our backlog by more than $1.3 billion and seen a major change in the fleet mix. As a

consequence of this, the EBITDA is up 25% compared to the same period last year. During the first quarter, we have agreed to extend the charters for two 5,800 TEU container vessels by five years but added a purchase obligation at the end. In addition, four 4,100 TEU vessels were extended by two years. All these vessels are chartered on bareboat basis to MSC."

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SFL – Very High Yield with Risk Mitigation

Diversified Portfolio with Significant Contracted Revenue

We like that management continues to be committed to maintaining an overall conservative profile as evidenced by its strategy to charter out most of its assets on a long-term basis to reputable operators in the shipping and offshore markets. We also like that it is making fleet changes to reflect the current operating environment, while keeping an eye on the long term. The company is making significant capital investments for much of the fleet to fit scrubbers to the exhaust stacks. The investment is between $2.5 million and $7 million per ship, but SFL believes it can recapture the expenses quickly and the scrubbers add value when the vessels are sold. The current 11.0% dividend yield is very rich, while the stock trades for just 1.1 times book value. Our Target Price for SFL is $16.

General merchandise discount store chain **Target** (TGT – $81.57) posted earnings per share of $1.53, versus the $1.44 estimate, in fiscal Q1 2020. TGT had sales of $17.6 billion, versus the $17.4 billion estimate. Shares have risen more than 10% since the release, as investors cheered better-than-expected comparable sales growth (4.8% vs. 4.3%), better-than-expected fiscal Q2 EPS estimates ($1.61+/- $0.10 vs. $1.60) and 4.3% transaction growth.

CEO Brian Cornell said, "We also saw strength across channels in the first quarter. Store comparable sales were up 2.7%, while comp digital sales were up 42% adding 2.1 percentage points to the Company's comp growth. Our ability to offer these same-day services which deliver high level satisfaction is a result of our strategy to put stores, the center of fulfillment. In fact, our stores handle more than 80% of our first quarter digital volume, including all of our same-day options combined with digital orders shipped directly from stores to guests' homes. Across both our stores and digital channels, sales growth continues to be driven primarily by traffic. Specifically in the first quarter, comp traffic was up a very healthy 4.3% on top of 3.7% a year ago. On the bottom line, our first quarter performance was also stronger than expected. Against an expectation for a slight rate decline, our operating margin rate increased about 20 basis points in the quarter. This performance reflected the benefit of disciplined expense control, combined with a favorable mix of digital fulfillment. Altogether, the first quarter earnings per share grew more than 15%, at the top end of our guidance range."

COO John Mulligan added, "Shipt offers unlimited free same-day deliveries from Target and more than 50 other retailers across the country for a$99 annual fee. There are nearly 100,000 Shipt shoppers delivering orders across the country today. And it's still growing rapidly as we welcome new marketplace partners and expand into new markets. In dense urban areas, where we're building small format stores, we offer a service in which guests who shop in-store can ask us to hold their basket at checkout and deliver to their front door later that same day in a time window of their choosing. For their service recharge of flat fee of $7 with no annual fee, and our guests love it. Once we solve the problem of carrying the order home, it frees them up to shop more, a lot more. Average basket size on these orders is more than five times bigger than the average for these locations and they include a very strong mix of items from our home category. Beyond all these same-day options, when guests need to replenish their pantry, they can order a 45 pound shopping cart size box of Essentials and we'll deliver it the next day for their service recharge and industry leading delivery fee of only $2.99 with no annual fee."

In fiscal 2020, TGT reaffirmed expectations for EPS between $5.75 and $6.05 per share (compared with $5.39 in 2019). We think that Target's evolution has been rewarding both for customers and shareholders and believe the company's delivery options rival (or exceed) the choices offered by competitors. TGT scores highly in our proprietary scoring system and we think the business' future looks bright. Our Target Price for TGT, which trades for 13.4 times NTM earnings and yields 3.1%, has been raised to $98.

North-of-the-border financial giant **Canadian Imperial Bank** (CM – $77.84) earned $2.23 per share in Q2 2019 (vs. $2.22 est.). CM had revenue of $3.44 billion, versus the $3.39 billion estimate. Shares slid 4.5% following the announcement and fell more than 5% for the week. CM had a Basel III Common Equity Tier 1 equity ratio of 11.2% and a return on equity of 15.8%. The Canadian Personal and Small Business Banking segment saw higher expenses and provision for credit losses, as well as lower fee income. Commercial Banking and Wealth Management, both in the U.S. and in Canada, saw higher revenue, as a result of favorable market conditions and higher fees.

CEO Victor G. Dodig stated, "This quarter we continued executing our client-focused strategy and delivered solid results across our Bank. Through our connected franchise, we grew our client

base, improved client experience, and strengthened the depth of our relationships. We also continue making investments to modernize our platforms, improve efficiency, and enhance our clients' experience. On a net basis, our investments drove accelerated expense growth at essentially flat operating leverage. Despite market volatility, which was driven largely by geopolitical uncertainty, the economic environment continues to be constructive across our businesses while trends in our risk indicators and provisions remain benign."

Mr. Dodig added, "I am pleased with the progress we've made to-date in our transformative journey as we build a relationship-oriented bank for modern world. We clearly have areas of opportunity with our business — we clearly have areas of opportunity within our business and we're making sound investments to deliver on these opportunities going forward. Importantly, the connectivity across our bank is helping to differentiate us in the market. Our growth is increasingly driven by a connected team across business lines and across borders. Going forward, we are still on a path of transformation and we will continue investing in our business for the long term despite short-term pressure on revenues. Given market conditions to date and our decision to continue investing in the business, we expect year-over-year EPS growth to be relatively flat for fiscal 2019. Longer term, the execution of our strategy will allow us to deliver on all of our financial targets over time, including our medium-term EPS growth target of 5% to 10%."

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CM – Guarded Outlook but Favorable Q2

Second Quarter, 2019 Highlights

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Adjusted[1]	Q2/18	Q1/19	Q2/19
($MM, except for EPS, Efficiency Ratio, ROE, and CET1 Ratio)			
Revenue	4,361	4,552	4,536
Non-Interest Expenses	2,467	2,501	2,570
Pre-Provision Earnings	1,894	2,051	1,966
Impaired	217	295	250
Performing	(5)	43	5
Provision for Credit Losses	212	338	255
Net Income – Reported[2]	1,319	1,182	1,348
Net Income – Adjusted[1]	1,345	1,363	1,357
Diluted EPS – Reported	$2.89	$2.60	$2.95
Diluted EPS – Adjusted[1]	$2.95	$3.01	$2.97
Efficiency Ratio – Adjusted TEB[1]	55.9%	54.4%	56.1%
ROE – Adjusted[1]	17.4%	16.0%	15.9%
CET1 Ratio	11.2%	11.2%	11.2%

Earnings[1]
- Pre-Provision Earnings growth of 4% YoY
- ROE of 15.9%

Revenue
- NIM expansion in Personal & Small Business Banking
- Significant volume growth in Canadian and U.S. Commercial Banking
- Solid AUM growth in Wealth Management
- Continued steady performance in Capital Markets

Expenses
- Focused investments to drive future growth

Provision for Credit Losses (PCL)
- Stable credit performance
- PCL for Impaired ratio of 26 bps, down 4 bps QoQ

[1] Adjusted results are Non-GAAP financial measures. See slide 27 for further details.
[2] Reported results are on slide 25.

Overall, we have been pleased that the company has improved multiple measures of its core business performance. We like that the organization continues to make inroads in the U.S., especially considering that CM's Canadian home loan book expansion has slowed as prices have cooled in many previously hot markets. CM continues to benefit from the Canadian government keeping the banking segment attractive by maintaining barriers to entry. CM trades for less than 8.4 times forward earnings estimates and yields a generous 5.3%. Our Target Price has been trimmed to $105.

Shares of **Foot Locker** (FL – $44.40) plummeted almost 16% Friday after the specialty retailer reported fiscal Q1 2020 results that came in below consensus analyst expectations. Revenue for the period totaled $2.08 billion, versus estimates of $2.11 billion, while adjusted EPS was $1.53, compared to forecasts looking for $1.60. FL delivered 14.8% growth in its digital channel during the quarter with e-commerce penetration increasing to 15.4% of total sales (up from 13.9% last year). Investors seemed upset about the company's same-store-sales growth of "only" 4.6%, even as management indicated that it saw the full-year comparison on track, while expected bottom-line growth is now likely to be in the high single digits, versus previous expectations of a low double-digit increase.

The modest transgressions notwithstanding, we saw the one-day whack to FL shares as very much overdone, especially as the stock had already skidded more than 7% in May prior to Friday's plunge. Management comments also hardly painted a dire picture. "We started the year with great energy, innovative products, and exciting customer events, leading to solid top-line growth in the first quarter with strong performance across our regions, banners, channels, and categories," said CEO Richard Johnson. "Based on the momentum we have underway; we feel confident that the updated strategic imperatives we introduced at our Investor Day in March position us to deliver on our long-term goals."

"The team did an excellent job positioning the company to leverage its mostly fixed occupancy and buyer's compensation expenses during the first quarter," explained CFO Lauren Peters. "To build on this momentum and create even deeper connections with our customers, we continue investing in our digital capabilities, store fleet, and infrastructure, which we believe will deliver returns on both the top-line and bottom-line, creating shareholder value in the short and long term."

Foot Locker sports $1.13 billion of cash on its balance sheet and only $123 million of debt. Net cash per share now registers at $8.93, providing plenty of resources to right-size and grow the business. That in mind, during the first quarter, Foot Locker opened 14 new stores, remodeled or relocated 13 stores, and closed 34 stores. As of May 4, FL operated 3,201 stores in 27 countries in North America, Europe, Asia, Australia, and New Zealand. In addition, 119 franchised Foot Locker stores were operating in the Middle East, as well as 10 franchised Runners Point stores in Germany.

We still see Foot Locker offering desirable upside to patient long-term investors. We are constructive on the continued work to become a more well-rounded omni-channel retailer. We think the digital channel still holds a lot of opportunity and we have been pleased to see the

growth, but it doesn't come without investment (via digital add spend with platforms like Google and Facebook) which will keep some near-term pressure on margins.

We also understand that in the near-term the company could experience obstacles if the current administration decides to expand the tariff list in the current trade dispute with China, where many athletic shoes are manufactured. As Foot Locker and 170 shoe and retail companies wrote to President Trump last week, "The proposed additional tariff of 25 percent on footwear would be catastrophic for our consumers, our companies and the American economy as a whole."

We continue to like the company's solid cash position and solid execution, though we did nudge our Target Price lower to $82. Of course, with a big stock buyback program, the share price discount allows management to repurchase far more shares than initially expected, making our long-term holdings more valuable. FL trades for less than 9 times NTM adjusted EPS expectations and yields 3.4%.

After a five-quarter streak of beating bottom-line consensus analyst expectations, family-oriented department store operator **Kohl's** (KSS – $51.12) disappointed investors by posting adjusted earnings per share of $0.61, versus the $0.68 estimate, for fiscal Q1 2020. Kohl's top-line was also below expectations ($3.82 billion versus $3.93 billion). While many were looking for Kohl's to report positive same-store sales growth, the difficult quarter actually resulted in a decline by 3.4%. Weak areas included women's apparel (which was also reported by several competitors) and seasonal products. We believe that KSS was aggressive in marketing spend during the quarter to try to improve slow foot-traffic as competition discounted heavily to get rid of post-holiday inventory. A few bright spots in the quarter were athletic apparel and digital sales, in which KSS realized high-single-digit growth.

Investors sold shares not just on the quarterly shortfall, but also because management announced that it was reducing its full-year adjusted EPS expectations from a range of $5.80 to $6.15, to a range of $5.15 to $5.45. No doubt, the news was not grand, but the stock was taken out to the woodshed, with the shares sinking nearly 20% last week alone.

CEO Michelle Gass commented, "The year has started off slower than we'd like, with our first quarter sales coming in below our expectation. We are actively addressing the opportunities that impacted our first quarter sales and we have strong initiatives that will enhance our sales performance in the second half. We are incredibly excited about our nationwide rollout of the Amazon returns program as well as several important brand launches and program expansions. Operationally, the team reacted appropriately throughout the quarter by managing expenses in line with our expectations. While we are planning the year more conservatively, we continue to invest in our business and operate with a view on our long-term success.""

Despite the short-term setback and the potential near-term headwinds blown by the ongoing trade skirmish with China, we continue to like Kohl's evolution and believe there is plenty of upside in the name, especially after what we feel was a very overdone selloff. Our Target Price for KSS has been cut to $85, but we note that the stock now trades for 9.5 times estimated earnings while yielding 5.4%.

Shares of home improvement chain **Lowe's** (LOW – $95.37) were pounded last week, falling 12.5% after fiscal Q1 2020 financial results included a bottom-line that came in below consensus analyst estimates. Adjusted EPS for the quarter were $1.22, while analysts were looking for $1.33. On a brighter note, revenue was $17.74 billion, exceeding expectations of $17.64 billion. Additionally, same store sales growth of 3.5% was greater than forecast. However, Lowe's cost struggle impacted profitability margins in the quarter, including ineffective legacy pricing tools, and changes to the merchandising group.

"Our first quarter comparable sales performance is a clear indication that the consumer is healthy and our focus on retail fundamentals is gaining traction. Our commitment to improving in-stocks and customer service coupled with our focus on winning with the pro customer were integral to driving improved sales," explained CEO Marvin R. Ellison. "However, the unanticipated impact of the convergence of cost pressure, significant transition in our merchandising organization, and ineffective legacy pricing tools and processes led to gross margin contraction in the quarter which impacted earnings. We are taking the necessary actions to more systematically analyze and implement retail price changes to mitigate cost pressure. Our recent acquisition of the Retail Analytics platform from Boomerang Commerce will also assist in modernizing and digitizing our approach to pricing. We are still in the early stages of our transformation, and with the changes we are putting in place, we expect to deliver improved gross margin performance over the balance of the year.

We remind readers that no turnaround is without its share of turmoil, and LOW is still a turnaround story (even as the stock has gained more than 33% on a total return basis since late-summer 2017), but we think the Q1 margin-management hiccup was unduly punished this past week. Even looking at the lowest annual estimates provided by Bloomberg, the minimum projections for adjusted EPS stand at $5.50, $6.21 and $6.71 for fiscal 2020, 2021 and 2022, respectively. We continue to believe, as does LOW's management team, that the macroeconomic backdrop offers plenty of opportunity for the company, and we think that folks will continue to need repairs and upgrades (for existing homes) and materials and accessories (for new homes). LOW shares yield 2.0% and our Target Price now resides at $123.

Health care equipment developer and manufacturer **Medtronic PLC** (MDT – $93.03) posted solid fiscal Q4 2019 financial results this past week that included top- and bottom-line results that beat consensus analyst estimates. Adjusted EPS for the quarter came in at $1.54, compared to expectations of $1.46. MDT had sales of $8.15 billion (vs. $8.11 billion est.). Minimally Invasive Therapies Group and Restorative Therapies Group grew faster than Wall Street forecasts with Cardiac and Vascular Group growth coming in lower than projected.

CEO Omar Ishrak commented, "Q4 was a solid finish to a strong fiscal year for Medtronic. In fiscal year 2019, we executed and delivered revenue growth, EPS, and free cash flow all above the guidance we set at the beginning of the year. Our organization overcame challenges and relied upon the diversification of our business to deliver another quarter of solid top- and bottom-line results, with excellent free cash flow generation."

MDT – Very Good Fiscal Q4

Management expects revenue growth in its fiscal year 2020 to approximate 4% on an organic basis. If current exchange rates hold, revenue growth would be negatively affected by 1% to 1.5%. Additionally, adjusted EPS is expected to be in the range of $5.44 to $5.50, including an estimated 10 cent negative impact from foreign exchange based on current rates. Mr. Ishrak added, “The company continues to make significant progress on our pipeline. We expect our revenue growth to accelerate over the course of fiscal year 2020 and into fiscal year 2021, driven by the anniversary of recent headwinds, combined with a series of major product launches over the next 12 months.”

We continue to believe that MDT offers appealing long-term returns and think that the acquisition of Covidien a few years ago has produced a stronger and more appealing company. Pairing MDT’s diversified product portfolio aimed at a wide range of chronic diseases with Covidien’s breadth of products for acute care in hospitals has strengthened the firm’s position as a key partner for its hospital customers, which boosts our optimism about the long-term growth prospects. We remain fans of Medtronic’s diverse portfolio, as when certain product lines wane, new offerings are seemingly always rolled out to help offset slowdowns and foster growth. With domestic demographic trends in its favor, we like its products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders. MDT yields 2.2% and trades at 17 times NTM adjusted EPS projections. Our Target Price for MDT has been bumped up to $110.