July 29, 2019

EXECUTIVE SUMMARY

Buckingham in Amsterdam – *Forbes Baltic Cruise* Comes to an End
Week in Review – Dow Lags, But Broad-Based Averages Jump
Cruise Selections – 25 Undervalued Higher-Yielding Names
Stock Updates – GT, HAL, ZBH, BMY, WHR, FITB, NSC, IP, CE, TRN, CAT, INTC, GOOG, BHE & T

Market Review

Greeting from Amsterdam where your Editor will be completing another *Forbes Cruise* this morning. As usual, this was a very enjoyable voyage, with the sailing made all the better by the fact that the equity markets turned in a terrific week, as opposed to the turbulence that has accompanied several of the sailings over the last few years. Indeed, while the Dow Jones Industrial Average gained only 0.14%, the broad-based indexes climbed more than 1% on the strength of generally strong Q2 earnings reports and little in the way of negative market-related news.

The cruisers generally appreciated the optimistic Buckingham view for the U.S. equity markets, a stance that we think is supported by generous dividend yields and low interest rates. Speaking of which, we put together a listing of 25 stocks for the cruise folks that we believe are undervalued AND which offered dividend yields not only in excess of the 10-year U.S. Treasury (2.07%), but above the 30-year (2.59%) as well. We share said selections below.

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THE PRUDENT SPECULATOR
Forbes Cruise Selections

2019 Forbes Baltic Cruise: Undervalued Dividend Payers Yielding > 30-Year U.S. Treasury

Symbol	Common Stock	7.26.19 Price	Target Price	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
ADM	Archer-Daniels-Midland	$40.59	$56.03	Food, Beverage & Tobacco	12.4	0.4	1.7	8.8	11.8	-17.8	62%	3.4%	22,737
AMGN	Amgen	$175.34	$221.24	Pharma, Biotech	12.1	4.5	nmf	61.1	9.4	8.7	nmf	3.3%	106,946
BBT	BB&T Corp	$51.65	$69.03	Banks	12.2	nmf	2.2	11.4	nmf	nmf	nmf	3.1%	39,564
BMY	Bristol-Myers Squibb	$45.37	$67.02	Pharma, Biotech	10.5	3.1	8.7	44.0	9.2	8.5	293%	3.6%	74,215
CAT	Caterpillar	$132.92	$179.55	Capital Goods	11.9	1.4	11.0	42.2	6.9	6.0	359%	3.1%	76,014
CCL	Carnival Corp	$47.27	$74.17	Consumer Services	11.2	1.6	1.6	12.4	7.9	3.2	45%	4.2%	32,220
CVS	CVS Health	$55.54	$103.87	Health Care Equip/Srvcs	7.7	0.3	nmf	-0.3	19.6	10.1	nmf	3.6%	72,152
DAL	Delta Air Lines	$62.16	$79.09	Transportation	9.7	0.9	nmf	33.6	6.6	6.6	nmf	2.6%	40,416
DLR	Digital Realty Trust	$111.53	$132.20	Real Estate	16.2	nmf	4.7	2.9	nmf	nmf	nmf	3.9%	24,286
DOC	Physicians Realty Trust	$17.16	$22.13	Real Estate	16.0	nmf	1.3	2.3	nmf	nmf	nmf	5.4%	3,179
ETN	Eaton Corp PLC	$81.57	$96.52	Capital Goods	14.7	1.6	nmf	13.0	10.7	6.5	nmf	3.5%	34,512
GM	General Motors	$40.77	$55.10	Automobiles	6.3	0.4	1.6	24.0	3.1	10.8	212%	3.7%	57,828
HFC	HollyFrontier	$49.60	$72.12	Energy	8.0	0.5	2.9	18.5	5.4	13.1	96%	2.7%	8,470
IBM	Int'l Business Machines	$151.36	$185.92	Software & Services	11.0	1.7	nmf	48.3	9.6	9.9	nmf	4.3%	134,202
IP	International Paper	$45.30	$66.97	Materials	8.3	0.8	4.5	22.3	7.0	12.6	256%	4.4%	17,999
JNPR	Juniper Networks	$26.68	$36.69	Technology Hardware	14.9	2.1	8.8	11.0	12.0	5.9	158%	2.8%	9,187
JPM	JPMorgan Chase	$116.22	$138.96	Banks	12.2	nmf	2.0	13.9	nmf	nmf	nmf	3.1%	377,015
KSS	Kohl's Corp	$52.30	$85.26	Retailing	9.4	0.4	1.6	14.6	6.1	13.7	106%	5.1%	8,474
NTAP	NetApp	$59.11	$86.77	Technology Hardware	13.1	2.3	nmf	69.5	8.5	7.8	nmf	3.2%	14,188
PRU	Prudential Financial	$103.27	$136.65	Insurance	8.9	nmf	0.8	6.8	nmf	nmf	nmf	3.9%	41,928
QCOM	Qualcomm	$75.22	$90.05	Semiconductors	19.4	4.3	nmf	17.7	28.4	2.0	nmf	3.3%	91,445
TGT	Target	$87.06	$97.40	Retailing	15.5	0.6	4.3	27.1	8.4	5.3	129%	3.0%	44,604
TOT	Total SA	$53.63	$90.09	Energy	11.7	0.8	1.4	10.0	5.6	8.6	43%	4.4%	143,025
VZ	Verizon Comm	$57.08	$65.90	Telecom Services	12.0	1.8	nmf	30.0	9.0	7.8	nmf	4.2%	236,066
WHR	Whirlpool	$148.94	$199.32	Consumer Durables	9.6	0.5	nmf	35.7	9.5	4.1	nmf	3.2%	9,462

As of 7.26.19. nmf=Not meaningful. ROCE = Return on Common Equity. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

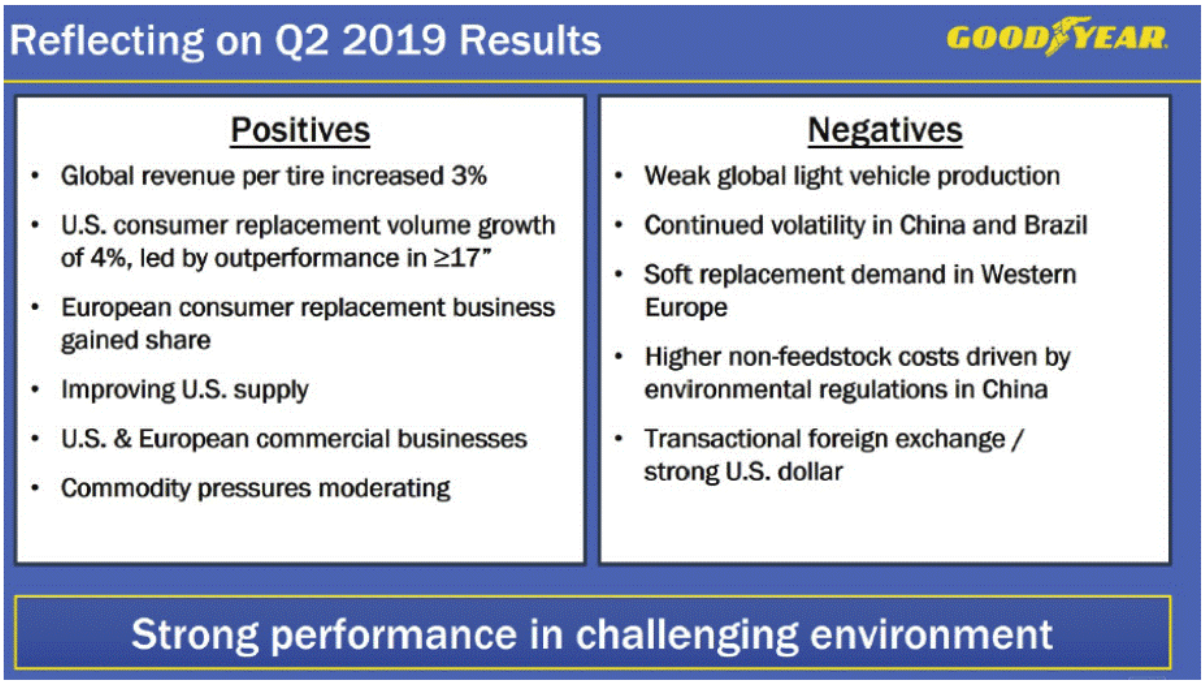
Stock Updates

Given the hectic Buckingham travel schedule and the fact that there were so many market-moving second quarter numbers to discuss, we dedicate the balance of this missive to Chris Quigley and Jason Clark offering updates on numerous companies that had news last week that was of sufficient importance to trigger a review of their Target Price. 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/.

Shares of **Goodyear Tire** (GT – $14.16) dropped as much at 16% Friday morning, before recovering to close down some 5%, following report of much weaker-than-expected Q2 results. For the quarter, the tire maker posted adjusted EPS of $0.25, compared to estimates of $0.33, on revenue of $3.63 billion, which fell short of the $3.76 billion forecast. GT's global tire sales fell 4% to 37.4M in Q2, as OEM tire sales plummeted 11%, but replacement tire sales were down less than 1%. While results came in considerably worse than expected, management stated that it was encouraged that several external factors that have impacted results in recent quarters are beginning to moderate, and also reported positive news regarding new OEM contract wins.

Chairman and CEO Richard J. Kramer commented, “At the beginning of the year, we indicated that a challenging macroeconomic environment for the industry, would limit our performance in 2019, especially through the first 6 months of the year. Given these factors, our results do not reflect the true long-term capabilities of our assets, our people and our brand. Our product portfolio, distribution network, retail presence and brand are all stronger than ever. While we wait for the environment to improve, we are investing, innovating and forming strategic partnerships to build a stronger business capable of winning today and in the future…Product innovation and vitality are top on our list. We’re investing in our product portfolio, guided by our market backed approach to innovation and design. We have good momentum on several fronts. Our engineers continued to raise the bar on what is possible in the areas of product design, compounds and performance.”

Considering a few brighter points during Q2, Mr. Kramer said, “Our U.S. consumer replacement and commercial businesses continued to perform well in a challenging environment, aided by recent product launches. We have continued our focus on strengthening our business by investing in premium supply and enhancing our OE pipeline and cost competitiveness. I am encouraged that several of the external factors that have impacted our business in recent quarters are beginning to moderate, positioning us to deliver stronger results going forward…We will see a recovery in margins in the coming years, as we’ve seen in prior cycles. I don’t see anything that would change that point of view. We are continuing to work on our forward plans, and we’ll share more with you as they develop, but we continue to see a lot of opportunity to create value.”



Not surprisingly, given the dismal performance the last couple of year, and the latest less-then-stellar numbers, GT has become a hot topic internally. While we aren't ready to give up on it yet, as we feel we are fairly close to the bottom of the cycle, its tread is wearing thin. Operational headwinds are still blowing, but we believe that GT's cautiously optimistic tone largely reflects lower oil prices, which should help provide some margin support, as more than 60% of the company's raw materials costs are petroleum-based.

Further, GT's shares are now down 30% this year, so a tremendous amount of additional bad news is baked into the price, yet respective consensus analyst adjusted EPS estimates for 2019, 2020 and 2021 now stand at $1.82, $2.42 and $2.63. Flying cars are still fantasy, even Elon Musk's vehicles need tires and a multitude of new automobiles will be driven in the expanding emerging economies around the globe. Of course, our patience isn't permanent, even as we appreciate manage¬ment's ongoing efforts to restructure factories in Europe, modernize infrastructure, reduce headcount and adjust production volume to higher-margin tires. True, trade tensions with China and Europe can keep headwinds elevated, but GT now trades for just 9 times arguably trough earnings and yields 4.5%. While top- and bottom-line growth should re-sume in 2020, considering its struggles, we have cut our Target Price to $25.

While WTI crude and natural gas are down 18% and 23%, respectively, over the last year, shares of energy concern **Halliburton** (HAL – $23.03) has endured a total return of -43.5%, which we

think is well overdone. That said, it was nice to see shares rebound almost 6% last week after the oilfield services giant reported Q2 bottom-line results that surprised investors. While revenue for HAL during the period of $5.93 billion came in less than 1% below expectations, adjusted EPS of $0.35 was 17% ahead of consensus analyst forecasts.

"Halliburton's execution in the second quarter was outstanding and I am pleased with our results. We continue to build on the growth momentum internationally and successfully manage the market dynamics in North America," commented CEO Jeff Miller. "Total company revenue was $5.9 billion and adjusted operating income was $550 million, representing increases of 3% and 29%, respectively, compared to the first quarter of 2019."

Mr. Miller continued, "International revenue increased 6% sequentially, confirming our expectation of high single-digit international growth for all of 2019. Momentum is building internationally, and activity improvement should continue into 2020. Halliburton has the footprint and the expanded technology portfolio to capitalize on this international growth. I'm pleased with how Halliburton performed in North America in the second quarter. Both of our divisions made meaningful contributions to growing North America revenue and margins in the second quarter. We are successfully executing our strategy of controlling what we can control and managing our business to perform well in any market conditions. As international growth continues and North American unconventionals mature, we remain focused on delivering consistent execution, generating superior financial performance and providing industry-leading shareholder returns."

Even though Halliburton and its competitors will continue to face numerous challenges in 2019, we still think that long-term exposure to the energy industry will prove quite profitable, especially when shares of a best-of-breed company can be purchased at a discount. We like that HAL is focused on capital discipline, and that the international market seems to be doing much better. The company has meaningful leverage to the up cycle and could generate free cash flow of over $1 billion in the coming year despite the tough operating environment. HAL shares carry a dividend yield of 3.1%, and our Target Price is presently $54.

Shares of **Zimmer Biomet Holdings** (ZBH – $134.50) jumped almost 9% last week as the medical equipment and device manufacturer reported a solid Q2. ZBH posted adjusted EPS of $1.93 on revenue of $1.99 billion, both slightly better than consensus analyst estimates.

Q2 was a solid step forward for the company as revenue growth accelerated due to progress in its most important product segment (knees). Zimmer raised revenue guidance for the full year and said the company expects to be at market growth six months ahead of schedule. ZBH has a long way to grow to even approach the growth rate of peers, but we believe that the new management team has the company on the right track. If operational momentum continues to build, we would expect the valuation discount to its peers to start closing.

"My level of confidence in our turnaround increases with every quarter," said CEO Bryan Hanson. "Our team is focused, engaged and has positioned the company for offense in the second half of 2019. I'm truly excited by the momentum we are seeing and we have updated our guidance to reflect the progress we made in the first half of the year."

Even with the solid performance year for the stock, we still like ZBH, as it is the king of hip and knee implants and we believe favorable demographics, which include aging "Baby Boomers" and (unfortunately) high obesity rates, will drive solid demand for large-joint replacement over the coming years. Additionally, we like that Zimmer has a history of strong relationships with the orthopedic surgeons that use its products. The doctors in this specialty have frequently shown resistance to efforts by hospitals or health systems to limit their ability to choose their brand. ZBH shares currently trade at 16.6 times NTM adjusted EPS expectations, which is still materially lower than the average of its key competitors of 27.2. Our Target Price has been lifted to $169.

Shares of **Bristol-Myers Squibb** (BMY – $45.35) rose more than 4% last week after the pharmaceutical giant reported better than expected top- and bottom-line results. Adjusted EPS came in more than 10% above estimates ($1.18 vs $1.07), and revenue of $6.27 billion outpaced consensus analyst estimates of $6.11 billion. The quarterly results were lifted by contributions from Opdivo, Eliquis, Sprycel and Orencia combined with lower than expected R&D. While Opdivo has suffered a couple of setbacks in recent trials, it still has upside to sales.

"We had a very good second quarter where we delivered strong financial results while also advancing our integration planning for the acquisition of Celgene," said CEO Giovanni Caforio, M.D. "Through strong commercial execution and financial discipline, we are establishing a solid foundation from which we can build the leading biopharma company, well-positioned to address the unmet needs of our patients and create long-term shareholder value."

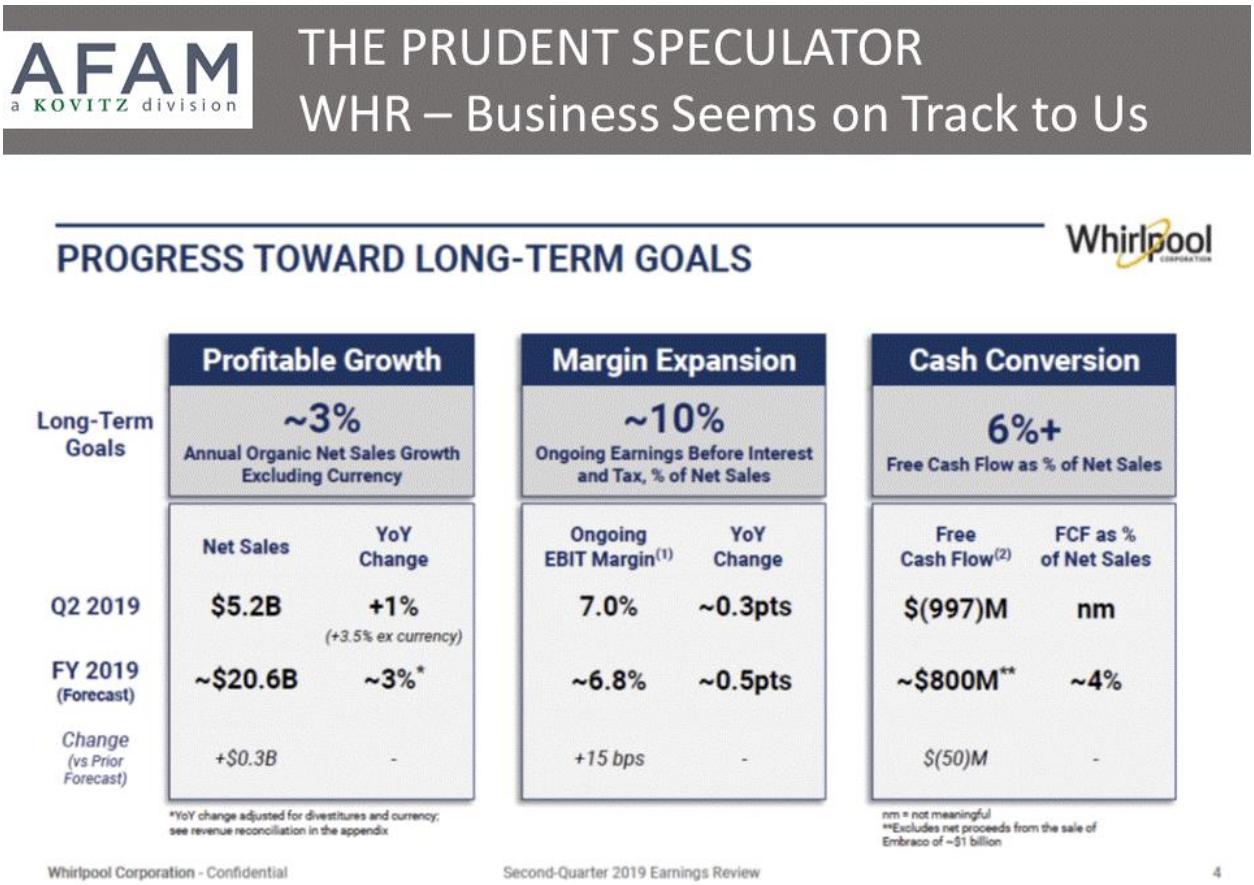
The company also increased its adjusted EPS guidance from a range of $4.10 to $4.20 to a range of $4.20 to $4.30. We continue to like BMY's valuation and 3.6% dividend yield. We also like that a large portion of Bristol's late-stage pipeline focuses on immunology and cancer indications, areas with strong pricing power and where the FDA has been aggressively approving drugs. BMY has a heritage of supporting its pipeline by bringing in partners to share the development costs and diversify the risks of clinical and regulatory failure. We also think the Celgene purchase will be a long-term positive, as it moves Bristol further into the specialty pharma segment. Now trading for 10.6 times trailing-12-month earnings and yielding 3.6%, we have hiked our BMY Target Price to $67.

Shares of **Whirlpool** (WHR – $148.94) endured a wild week after the major appliance manufacturer reported its Q2 earnings Monday after market close. On Tuesday, the stock price fell as much as 6.5% from the Monday close, then rallied throughout the remainder of the week, recouping all of the losses and actually gaining a smidge, finishing the week up about 0.5%). The quarter was again led by strong performance in North America. For Q2, WHR reported revenue of $5.19 billion, 3.3%% above analyst expectations, and adjusted EPS of $4.01 topped consensus estimates by more than 8%.

CEO Marc Bitzer commented, "Our excellent second-quarter results impressively demonstrate that we are on track. Our strong momentum allows us to raise our full-year guidance despite continued global macro uncertainties." For the full-year 2019, WHR now expects ongoing earnings per diluted share of $14.75 to $15.50. Management expects to generate cash provided

by operating activities of approximately $1.4 billion and free cash flow of approximately $800 million.

“We are pleased to have completed the sale of our Embraco compressor business and expect to repay a $1 billion term loan with those net proceeds,” said CFO Jim Peters. “As we strengthen our balance sheet, drive margin expansion and generate cash, we will maintain our disciplined approach to capital allocation with continued investments in our business and solid returns to our shareholders.”



WHR currently trades at 9.3 times NTM adjusted EPS expectations and offers a 3.2% dividend yield. While we are encouraged by the progress, the company must continue to transform and invest in some of its international businesses, while dealing with slowing new and existing home sales in the U.S., competitive pressures, rising input costs and fluctuating currency values. Our Target Price has been inched up to $199.

Shares of **Fifth Third Bancorp** (FITB – $30.04) jumped 7.5% last week after the Ohio-based banking concern reported Q2 financial results. FITB posted adjusted earnings per share of $0.71, beating the average analyst estimate of $0.66. Revenue during the period was $1.93 billion versus forecasts of $1.90 billion. The bank seems to be delivering on the expense synergies that helped justify the recent MB Financial acquisition and the company realized an improved

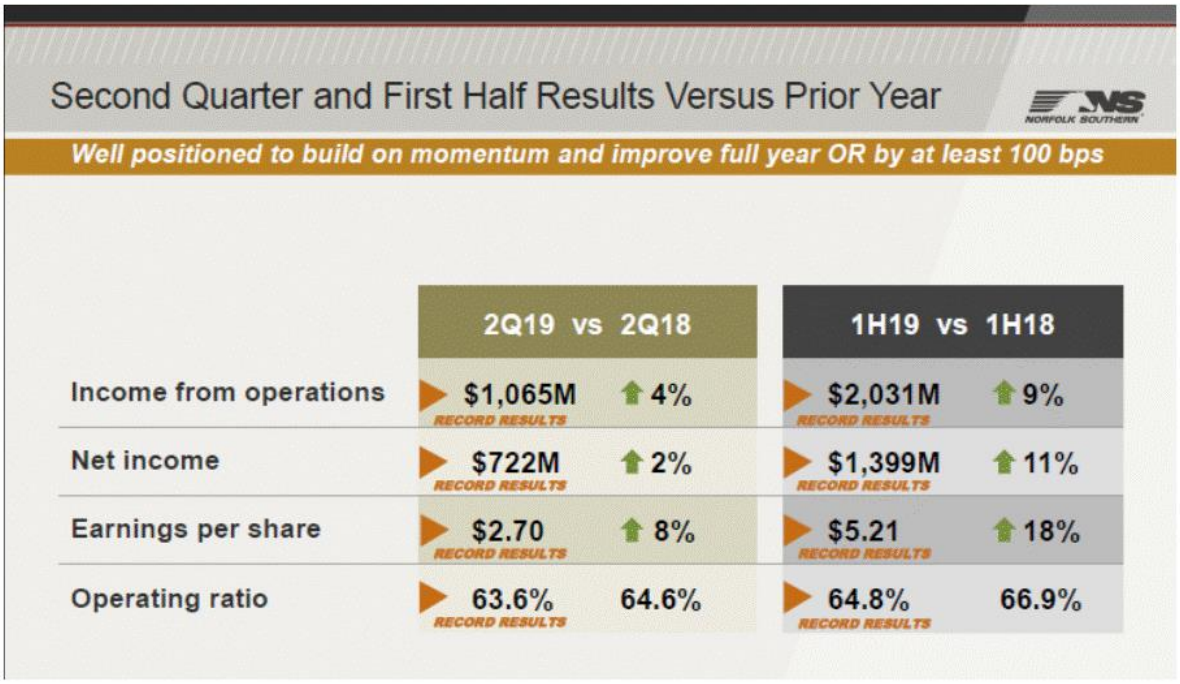
efficiency ratio during the quarter (58.5%). Unlike many competitors, adjusted net interest margin expanded, increasing 4 basis points to 3.32%, as the acquired portfolio's asset yields were higher than the existing portfolio's yields, which was somewhat impressive given the current rate environment and the possibility of Federal Reserve rate cuts. Finally, we were also encouraged by the fact that the cost of interest-bearing deposits expanded by only 4 basis points this quarter, seemingly pointing to a strong deposit base across the FITB standalone portfolio and a maybe better-than-expected deposit base for MB.

CEO Gary Carmichael commented on the quarter, "Our second quarter performance reflected continued positive momentum throughout our businesses as well as the impact of integrating MB Financial. Excluding merger-related expenses, second quarter financial results exceeded our prior expectations, reflecting diligent expense management throughout the company and strong net interest income growth. The net charge-off ratio also improved both sequentially and year-over-year, reflecting the generally stable macroeconomic environment during the quarter…During the quarter, we completed the conversion of substantially all systems associated with our acquisition of MB Financial. We remain on track to achieve the previously stated financial synergies from the transaction, which will meaningfully improve our key profitability metrics."

We continue to believe that FITB is a good regional banking name to own in a diversified equity portfolio, and while the MB Financial acquisition was a bit pricey, the integration seems to be going fairly well and in the long run it should improve the combined company's operating leverage potential. Shares are trading at 10.2 times forward earnings estimates and carry a dividend yield of 3.2%. Our Target Price for FITB has been boosted to $41.

East coast railroad transportation company **Norfolk Southern** (NSC – $189.99) posted earnings per share of $2.70, versus the $2.79 estimate, in fiscal Q2 2019. NSC had sales of $2.9 billion (vs. $3.0 billion est.). While shares retreated just over 5% on the miss, they're up more than 25% YTD and 118% over the past three years.

"With the results in the second quarter and first half of 2019, we are on track to meet the commitments we made to shareholders in February, namely, an operating ratio this year, at least 100 basis points below 2018 and a 60 OR by 2021. Our railroad is performing very well. The transition to our new PSR-based operating plan, TOP21, went flawlessly, and we are already seeing the financial benefits with more to come. TOP21 and Clean Sheeting exposed numerous opportunities for cost savings in the second half of this year and beyond, which we are now aggressively pursuing. These savings, coupled with the modest top line growth we expect in the back half, give us confidence we will achieve our stated goals even amidst economic uncertainty," explained CEO Jim Squires. "Turning to our outlook for the balance of 2019. We expect modest volume and revenue growth. The growth is expected to come from select merchant — merchandise lines of business and from a resumption of intermodal growth, consistent with commentary by our channel partners. Even as we pursue growth, we are determined to exploit every efficiency we uncover from the new operating plan. As a result of TOP21, we see opportunities for additional cost savings in serving yards, local operations and locomotive maintenance, among other areas."



NSC was adversely impacted by factors beyond its control, including declines in steel, coal and general merchandise volumes, but careful cost controls and improved service allowed the company to string together a just-broken record of 15 consecutive quarterly EPS beats. Despite the blip, we think that Norfolk remains solidly positioned to expand margins and improve its operating ratio given strides in labor productivity, asset utilization, strong intermodal volumes, pricing power and overall improved operational fluidity. It will always be difficult, if not impossible, to control headwinds, yet NSC's systematic mitigation of them has been a winner in our view. While position sizes have grown in our broadly diversified portfolios, we think that shares remain attractive. The just increased dividend has pushed the current yield to 2.0%. Nonetheless, our Target Price has been trimmed to $209.

Paper and packaging materials firm **Int'l Paper** (IP – $45.30) earned $1.15 per share in fiscal Q2 2019 (vs. $1.00 est.). IP had revenue of $5.7 billion, versus the $5.8 billion estimate. Shares climbed 4.2% following the announcement, as the company also said it will sell some small assets, divest its paper business in India and offload a packaging business in Brazil. A wet spring in the U.S. adversely affected wood output in the southeast, but CEO Mark Sutton sees plenty of room to grow organically.

Mr. Sutton commented, "Through the first half, International Paper has been able to navigate very well, delivering results better than might be expected in this environment, including a strong

level of free cash flow generation, and this didn't occur by happenstance. Instead, our results are the product of the work we've done to improve our portfolio, we've established advantaged positions with low-cost flexible manufacturing systems and we have a laser focus on customers. As we enter the second half of the year and face continuing challenges, we are well positioned to navigate through them as we work on further improving our company. Our focus is on the free cash flow generation, which is the basis of shareholder value creation. Our expectation for free cash flow generation is strong at $1.9 billion. This enables us to further improve our balance sheet and return cash to shareholders. I'm confident that the company we build will allow us to succeed in practically any set of conditions at any point in time."

IP sports solid free cash flow and EPS estimates north of $4.00 next three years, while the company's focus on its core business is encouraging. Sure, competition is likely to remain stiff and the packaging markets are seemingly changing rapidly, but we think dominant players like IP are able to push the envelope within key success factors, making it tougher for new players to challenge. Also, IP currently trades for just 11.2 times NTM earnings projections and sports a dividend yield of 4.4%. Our Target Price for IP has been bumped up to $67.

Celanese (CE – $111.16) saw its shares rise almost 4% last week after the specialty chemicals manufacturer reported Q2 financial results. Celanese announced adjusted EPS of $2.38, which outpaced consensus estimates of $2.35. Revenue, however, fell short of expectations ($1.59 billion versus $1.66 billion).

"Our teams successfully executed on the unique business models we have in place to again deliver solid earnings performance amid a very challenging economic backdrop," said CEO Lori Ryerkerk. "The Acetyl Chain flexed its global network to drive incremental value downstream and deliver robust foundational earnings despite weak industry fundamentals. Engineered Materials worked the project pipeline model to deliver results in excess of underlying end market demand conditions. Acetate Tow again displayed a stabilized earnings profile, generating adjusted earnings consistent with last quarter. Looking forward, we continue to see a path to 2019 adjusted earnings of approximately $10.50 per share based on an expectation that underlying fundamentals will improve as we progress through the end of the year. We continue to strengthen our businesses by executing on our continuous productivity programs and strategically investing in high-return organic projects."

Despite near-term operational headwinds including the standoff between the U.S. and China, we continue to like Celanese 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 which allows it to continue to strengthen its financial base, while returning capital to shareholders (CE has repurchased 4.9 million shares year to date and bought back 7.9 million shares in 2018). While the consensus analyst projection for full-year 2019 EPS sits around $10.24, it is worth noting that shares currently trade at 10.6 times the company's target of $10.50. Shares of CE yield 2.2%. Our Target Price now stands at $154.

Manufacturer of transportation, construction and industrial products **Trinity Industries** (TRN – $18.56) reported earnings per share of $0.17, versus the $0.31 estimate, in fiscal Q2 2019. TRN

had sales of $736.0 million, versus the $781.0 million estimate. Shares fell 11.6% following the announcement, as big top- and bottom-line misses weighed on the stock. Despite the Q2 challenges, management reaffirmed full-year EPS guidance of $1.15 to $1.35.

CEO Timothy R. Wallace commented, "Economic headlines continued to impede railcar demand momentum during the quarter. There were a number of transactions in the market for new railcars during the second quarter where the economic terms did not align with the financial criteria we have established. Our commercial decisions resulted in a lower level of railcar orders for the quarter. Fortunately, we did not have a large need for orders in the second half of the year. At this point, we expect to deliver at least 35% more railcars in the second half of the year compared to the first half of the year."

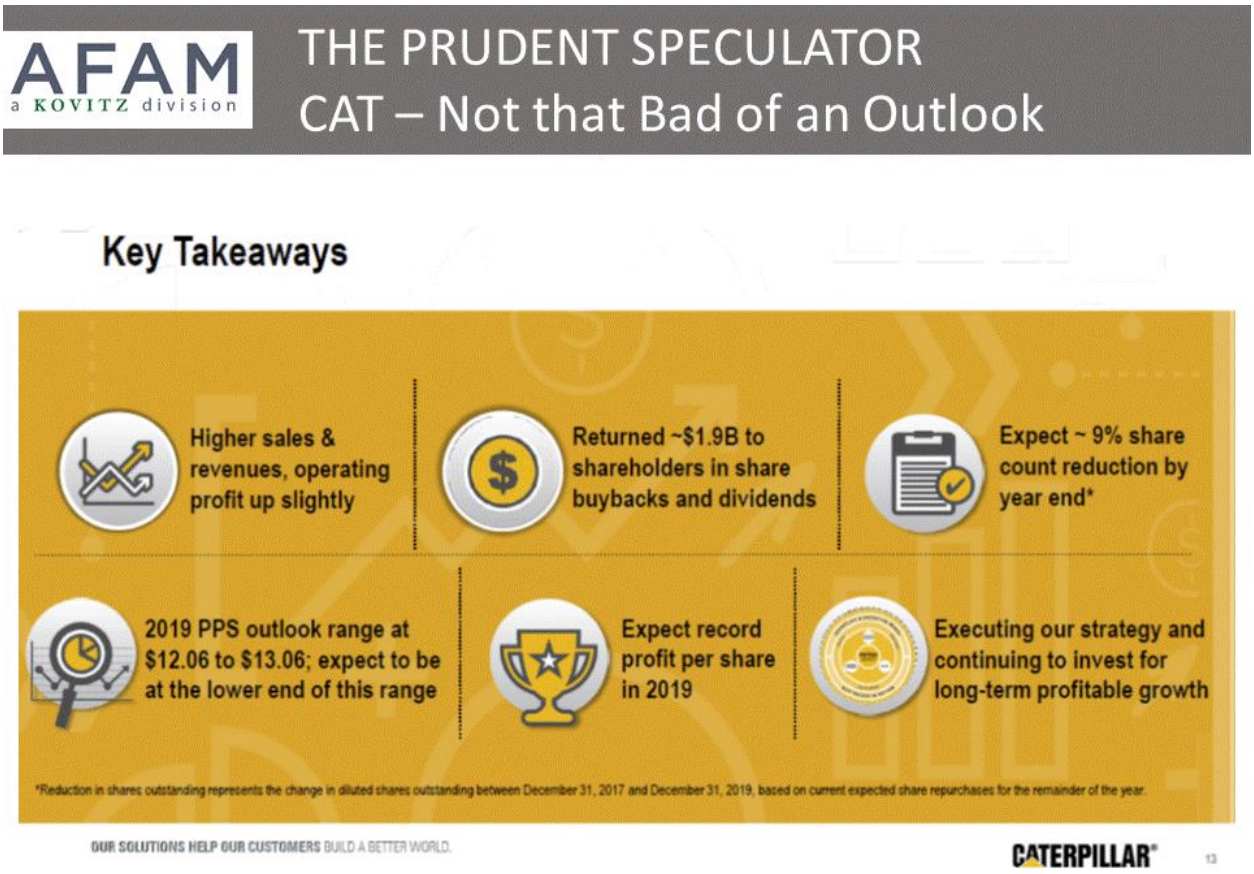
TRN Director Brandon Boze remained positive, "We have a great organization and a strong leadership team that is highly motivated to create value for our customers and our stockholders. I have a high degree of confidence in our company's ability to generate positive results, improve our company and grow our platform. Our vision for TrinityRail is to be the premier provider of railcar products and services in North America while generating high-quality earnings and returns for shareholders. We want to be the go-to source for companies that rely on railcars to transport bulk freight."

Mr. Boze continued, "We believe our integrated platform works well for us. Doing business in our platform is like being a member of a club. Our customers have access to TrinityRail's expertise as well as a wide range of premier products and services. We have proven the value of our integrated platform over the past 40 years and continue to perfect it. Our platform differentiates TrinityRail in the marketplace today. It's designed to generate substantial benefits for our shareholders and is a great vehicle to carry us into the future. We have a highly capable team that is excited about the opportunities for our company. I'm very confident in their ability to convert these opportunities into value for our customers and our shareholders. In my experience, when we set our minds on accomplishing something, we deliver."

TRN repurchased $44 million worth of shares in the quarter, bringing the YTD total to $133 million. The company has $287 million or 10.7 million shares, whichever is lower, left on its share repurchase authorization, a hefty amount given that there are presently only 127.9 million shares outstanding. TRN has had a challenging year, with every share price improvement met with a decline. However, we think that the company's leasing fleet expansion and backlog growth are reasons to be bullish. TRN shares trade for 12.3 times forward EPS estimates, with a 3.7% yield. Our Target Price for TRN has been reduced to $26.

Construction machinery & heavy equipment firm **Caterpillar** (CAT – $132.92) earned $2.83 per share in fiscal Q2 2019 (vs. $3.12 est.). CAT had sales of $14.4 billion (vs. $14.4 billion est.). Shares fell 4.5% following the announcement due to investor disappointment about the company's big EPS miss and lowering of full-year guidance. A slowdown in the U.S. shale business along with higher manufacturing costs weighed on the equipment maker, which now expects to be "on the lower end" of the $12.06 to $13.06 FY 2019 EPS guidance range.

“While some customers appear to be more cautious about making large capital expenditures, including in oil and gas, we continue to expect modest sales growth for the year. We are only 2.5 years into a recovery in many of our end markets. While we had strong top line sales, we experienced some unfavorable changes in mix and higher-than-expected restructuring charges. Andrew will discuss both of these items later in the call. Although we are guiding you to the lower end of the profit per share range, we still expect 2019 profit per share to be higher than the record we set in 2018,” said CAT CEO Jim Umpleby. “We also continue to expand our offerings, enable us to continue to grow by addressing the diverse needs of our customers around the world. This year, we introduced the first Cat articulated truck GC model, the 740 GC. As you may know, the GC designation means the machine targets a segment that we refer to as life cycle value. This segment is for customers who have lighter duty applications or work in less extreme conditions. They value simple, tough machines that perform well with Caterpillar quality and product support. The 740 is particularly attractive in the North American rental market where it offers an additional value proposition in its size class. That said, the machine is also gaining traction in every region of the world. Interest in the 740 GC has been strong with year-to-date demand exceeding our initial forecast.”



It has been a year since the tariffs were implemented. Although they have functioned as a headwind to CAT, CFO Andrew Bonfield noted that “input prices are moderating” and “freight costs have stabilized,” both of which we see as positives. With almost $7.4 billion in cash and

billions more in FCF expected over the next few years, we see CAT being able to better withstand changing business environments and becoming more aggressive in buying back shares and boosting the dividend. The quarterly payout is now $1.03 per share (was $0.86), resulting in a yield of 3.1%. CAT trades at just 11.3 times NTM adjusted EPS, and our Target Price has been adjusted to $180.

Semiconductor giant **Intel** (INTC – $51.59) reported earnings per share of $1.06, versus the $0.93 estimate, in fiscal Q2 2019. INTC had sales of $16.5 billion (vs. $15.9 billion est.). Surprisingly, shares dipped slightly on Friday, but remained ahead 2.6% for the week, as investors also factored in Intel's deal with **Apple** (AAPL – $207.74) to buy the now-mothballed 5G modem business.

The Apple press release said, "Intel and Apple have signed an agreement for Apple to acquire the majority of Intel's smartphone modem business. Approximately 2,200 Intel employees will join Apple, along with intellectual property, equipment and leases. The transaction, valued at $1 billion, is expected to close in the fourth quarter of 2019, subject to regulatory approvals and other customary conditions, including works council and other relevant consultations in certain jurisdictions. Combining the acquired patents for current and future wireless technology with Apple's existing portfolio, Apple will hold over 17,000 wireless technology patents, ranging from protocols for cellular standards to modem architecture and modem operation. Intel will retain the option to develop modems for non-smartphone applications, such as PCs, internet of things devices and autonomous vehicles."

On the subject of Q2, CEO Bob Swan commented, "The second quarter was significantly stronger than we forecasted in April, and our results demonstrated our customers' preference to the performance of Intel XPUs as workloads grow, diversify and become increasingly complex. That leads for performance manifested in strong mix in ASPs across the business. Our Q2 results are proof points for the megatrends that underpin our strategy. The world's insatiable appetite for data is driving demand for solutions to process, store and move it faster and better. Customers want to work with partners who can deliver performance and platforms to address their most important technology challenges. Our data-centric businesses overall performed roughly in line with our April expectations. Data center and IoTG customers chose our highest-performing products leading to strong mix in ASPs. While our cloud customers absorb capacity they put in place over the last year, we continue to expect cloud demand to improve in the second half. Enterprise and government spending remains weak, however, particularly in China."

Mr. Swan also gave a 10-nanometer update, "We expect to be in production on Snow Ridge, Intel's 10-nanometer system-on-chip technology for 5G base stations early next year. We've already announced that 2 large telecom equipment manufacturers have committed to this architecture, and we're on track to 40% share in this market segments by 2022. Both yield and defect density are ahead of schedule for our 10-nanometer data center products. Cascade Lake, which is ramping now, is on track to be one of our fastest ramping products ever, and we have a great solution for our customers in the first half of 2020 with Cooper Lake in the same platform as Icelake. We are working more deeply with our customers to understand their needs and become the partner that they rely on to innovate and grow their businesses. They challenge us. It's producing results, and it's making us better."

Intel has had a tumultuous first part of the year, with shares dropping at least 5% on both Q4 results (January 24) and Q1 results (April 25), while the 5G exit sent shares up 5% and another little bit when the unit was announced to be sold to Apple. We are glad that former CFO and former interim CEO Bob Swan was offered the full-time CEO spot. Intel has significant ground to make up after facing numerous challenges getting 10-nanometer chip to production, but we are keeping our faith. We also like the company's strong balance sheet and deep bench of talent. We continue to like the company's diversified revenue stream, low levels of debt, forward P/E ratio below 11.4 and 2.4% dividend yield. Our Target Price has been fine-tuned to $63.

Search engine and internet technology leader **Alphabet** (GOOG – $1,250.41) posted earnings per share of $11.48, versus the $11.19 estimate, in fiscal Q2 2019. GOOG had sales of $31.7 billion, versus the $30.8 billion estimate. Shares soared more than 10%, propelled by the company's strong earnings and new $25 billion share repurchase program.

CEO Sundar Pichai explained, "We made several big announcements at I/O, YouTube's Brandcast and Google Marketing Live. They're all part of our broader vision to build a more helpful Google for everyone. When we say everyone, we mean users, developers, creators, partners, advertisers and all the customers of our growing cloud business and the communities we call home. From the beginning, Google's mission has been to organize the world's information and make it universally accessible and useful. Over the years, we have evolved from a company that helps people find answers to a company that helps you get things done. Today, I'll share how we are approaching this work. Building a more helpful Google starts with advancing our core information mission. In Q2, we have made a number of improvements to our founding product, Search. We redesigned our mobile search page and brought our popular full coverage feature to Search to better organize news results. We are also integrating augmented reality into Search. So if say, you're searching for new shoes online, you can view the shoes in 3D or even superimpose them onto your wardrobe to see if they match. At Google, we feel incredibly privileged to have the opportunity to help so many people every day in moments big and small. There are many reasons to be optimistic about the direction technology is taking from the applications of AI to address disease to the potential of quantum computing to deepen our understanding of the world."

CFO Ruth Porat added, "Based on the strength of the U.S. dollar to date relative to the third quarter of last year, we expect continued FX headwinds again in the third quarter. As a reminder, FX headwinds affect both revenues and operating income given the majority of our expenses are in the U.S. Turning to revenues. We are pleased with the ongoing momentum in our revenue growth, especially on a base of nearly $150 billion in revenues over the last 12 months. With respect to Sites revenues. The strength in the second quarter again reflects our ongoing innovation in part from the benefits of applying machine learning. We remain confident about the ongoing opportunity set. And within other revenues, once again, Cloud was the largest driver within other revenues and the third largest driver of revenue growth for Alphabet overall. In fact, in the second quarter of 2019, as Sundar mentioned, the annual run rate for Cloud revenues was over $8 billion and Cloud continues to deliver significant growth. In terms of our hardware business, we were pleased with the reception of the Pixel 3a lineup of mid-tier smartphones in the second quarter and look forward to the fourth quarter launch of our newest devices, some of which we showcased at I/O."

While total cost of revenue and traffic acquisition costs (TAC) have crept up, both are lower on a percentage of revenue basis, helped by YouTube traffic. Even after the surge, we think GOOG has relatively reasonable valuation metrics (including a forward P/E of 24.7, with adjusted EPS expected to grow from $43.00 in 2017 to $73.86 in 2021) and a terrific balance sheet ($108 billion in net cash or $155 per share). While Alphabet still doesn't pay a dividend, we see the big share buyback as a near-equal. Our Target Price has been raised to $1597.

Electronic manufacturing services firm **Benchmark Electronics** (BHE – $27.38) earned $0.36 per share in fiscal Q2 2019 (vs. $0.32 est.). BHE had total revenue of $602.0 million, versus the $570.0 million estimate. Shares moved up 10% last week, as investors were pleased with the company's operational improvements, despite weaker-than-expected guidance for Q3. Benchmark expects revenue between $525 million and $555 million, and adjusted EPS between $0.33 and $0.39 (est. $0.38).

CEO Jeff Benck said, "Revenue was higher than our expectations, driven by year-over-year increases in the higher values, A&Ds and medical markets, along with higher-than-expected revenues from the legacy computing contract. Our non-GAAP gross margins improved 10 basis points sequentially to 8.9% on a higher-value market mix, despite continued softness in the semi-cap market sector, which was down 41% from the second quarter of 2018. More importantly, non-GAAP gross margins were over 10% when you exclude the legacy computing contract revenue, which reflects the potential leverage in our model with an improving portfolio."

CFO Roop Lakkaraju said for Q3 2019, "Overall, we expect industrial revenues to be flat with persistent demand softness in the transportation and facility infrastructure market and lack of growth from new programs. A&D is expected to be up high single digits in Q3 based on continued strength across multiple new and existing programs supported by a strong U.S. defense budget. We expect Medical revenues to be up low single digits, driven from sustained demand with existing customers and the continued ramp of a new imaging program. Semi-Cap is expected to be flat. Turning now to the traditional market. We expect Computing revenues to be down greater than 50% due to our exiting from our legacy computing contract. We expect Telco to be flat, strength in existing programs is offset by end-of-life program. Implied in our guidance is a 3.1% to 3.7% non-GAAP operating margin range for modeling purposes. The guidance provided does exclude the impact of amortization of intangible assets and estimated restructuring and other costs."

We like that Benchmark had been using the stock price weakness to buy back chunks of shares, but management indicated it would likely not add in Q3 to the $100 million spent YTD. Despite the headwinds, we are optimistic that the Mr. Benck will make positive changes, like that Benchmark continues to expand its product offerings and appreciate that it has been pushing for growth outside of its original markets. Shares trade with a forward P/E ratio of 19 and we remain very enthused about the balance sheet, which boasts about $4.40 per share of net cash. The yield is 2.2%. Our Target Price now stands at $32.

Integrated telecom services firm **AT&T** (T – $34.15) reported earnings per share of $0.89, versus the $0.89 estimate, in fiscal Q2 2019. T had total revenue of $45.0 billion, versus the $44.7 billion estimate. The company reported net wireless postpaid additions of -154,000 versus

the Bloomberg estimate of -40,250, while in Q2 the net video subscriber loss was 946,000, compared with a gain of 79,000 last year and an estimated loss of 586,000. While the cord-cutting exodus continues, the Mobility segment added 3.93 million subscribers, compared with an estimate of 3.2 million. Since the release, shares have moved up 5.4%.

CEO Randall Stephenson updated investors on the 5G buildout, “FirstNet continues to be the driver of our network performance as well as our 5G leadership. And at the end of the quarter, we were about 60% complete with our FirstNet coverage, ahead of plan, and we’re now targeting 70% completion by year-end. And our FirstNet build is accelerating our 5G deployment. As we deploy FirstNet, we’re installing hardware that can be upgraded to 5G with a simple software release. As a result, we’re on track for nationwide 5G coverage by the first half of 2020.”

CFO John Stephens said, “The number of premium TV customers on the 2-year price lock declined by more than 600,000 in the quarter. Video subscriber numbers were in line with what we said to expect for the quarter, premium declined 778,000, and DIRECTV NOW declined 168,000. Later this summer, we’ll begin piloting AT&T TV, our thin client broadband TV product, the best important milestone with our fiber deployment reaching 14 million customer locations and satisfying our fiber build commitments. This will be an important driver of growth going forward. In fact, we had more than 300,000 AT&T fiber net adds in the quarter, and IP broadband revenue grew by 6.5%. We expect AT&T Fiber penetration to grow as the service matures.” AT&T still expects EPS growth to be in the “low-single digits” for fiscal 2019, with free cash flow of $28 billion.

T – Positive Momentum Change

Delivering on our commitments

Net debt lowered
On track with deleveraging goals; $18 billion since merger close

Strong wireless execution
Service revenues up 2.4% in 2Q with margin expansion
Continued smartphone net adds on the nation's best and fastest network

FirstNet helps drive network and 5G leadership

WarnerMedia synergies and merger plan on track
Award-winning original content drives digital subscriber growth
HBO Max slated to launch in spring 2020

Stable Entertainment Group EBITDA
2Q EBITDA up 1.1%, driven by broadband revenue gains
Focusing on long-term value as video customer base evolves

As streaming takes chunks of subscribers from the country's legacy television providers, AT&T's DIRECTV NOW streaming service has been able to pick up some of the losses. Subscribers are less sticky, though, by virtue of the contract-free setup and steaming companies are beginning to have content battles with the respective content owners. Naturally, that drives the profitability down. Fortunately, AT&T has wireless and internet service businesses that are strong cash generators, and we believe they'll carry the team the foreseeable future. After all, cord-cutters need the internet to run their monthly paid streaming services. To us, AT&T is a better-than-utility-like exposure with a solid 6.0% yield and a single-digit (9.3) P/E ratio. Our Target Price has been raised to $40.