Market Commentary Monday, April 6, 2020

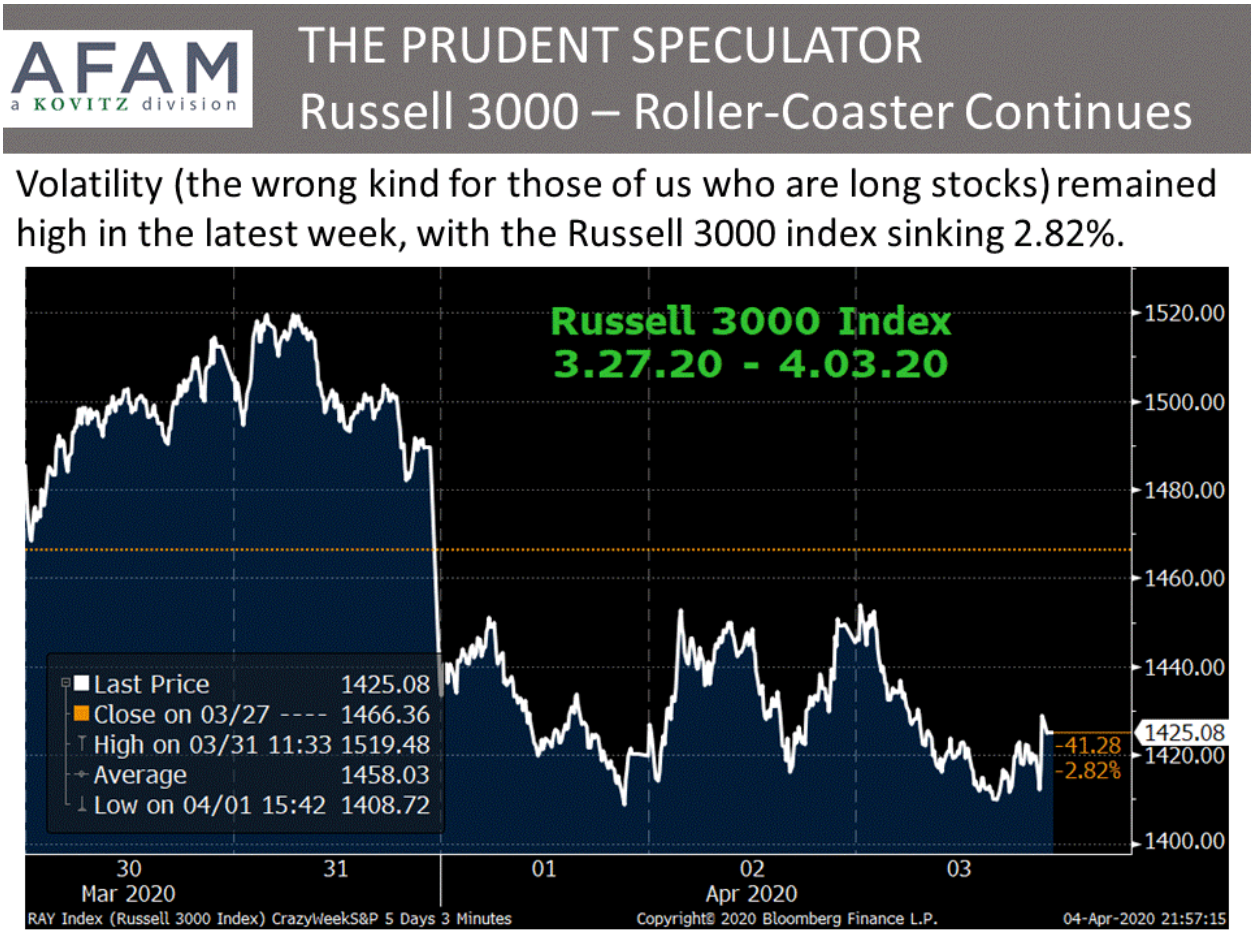
April 6, 2020

EXECUTIVE SUMMARY

Volatility – Another Down Week
COVID-19 – News Still Bad, But a Few Less Bad Data Points Emerging
Econ Data – Awful Statistics and Near-Term Outlook
Dividends – Corporate America Tightening Belts
Contrarian Buy Signals – AAII Sentiment & VIX
Stock News – Updates on CCL, FDX, KIM, REG & WBA

Market Review

We trust that folks have had a chance to peruse the April edition of *The Prudent Speculator*, which was emailed on Friday morning. As we wrote in *TPS 462*, health is far more important than wealth (the latest trading week did little to help the latter),…



…and we hope readers are staying safe – our California team is heading into week number four of working from home, and if the news reports are to believed, it would seem the Golden State has been fortunate to have mandated social distancing policies early on in the COVID-19 battle.

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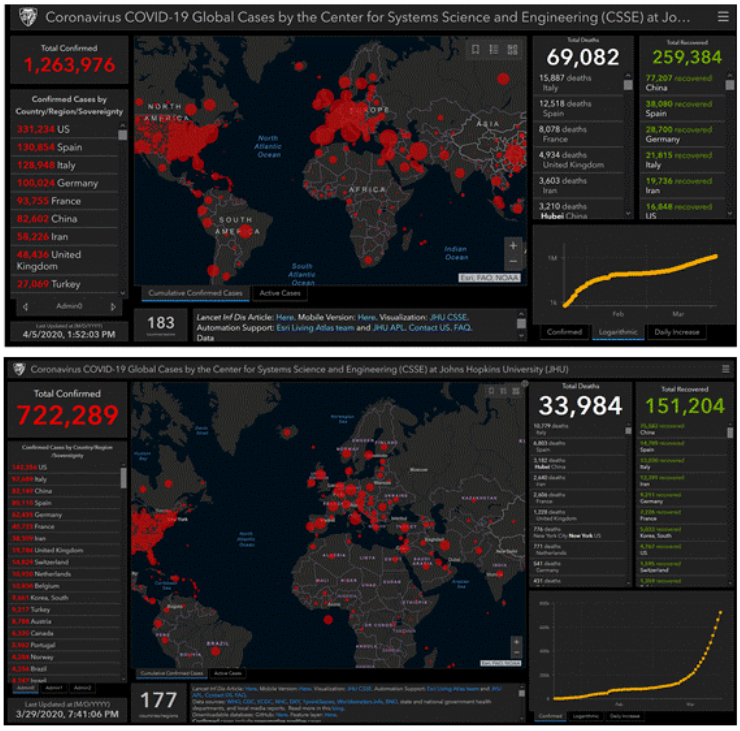
THE PRUDENT SPECULATOR
COVID-19's Global Spread



Sadly, Covid-19 confirmed cases and deaths continue to rise around the world, with the U.S. now leading in the number of those infected. The mortality count will move markedly higher in the days and weeks to come, but so too will the number of recoveries, while new diagnoses and deaths, per *Worldometer,* have declined the last few days in hard-hit Italy and Spain.

https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

No doubt, the news on the coronavirus front continues to dominate the headlines, with President Trump stating this weekend, "This will be probably the toughest week between this week and next week, and there will be a lot of death." U.S. Surgeon General Jerome Adams added, "This is going to be the hardest and the saddest week of most Americans' lives, quite frankly." And, it was disconcerting to hear on Sunday that British Prime Minister Boris Johnson had been admitted to the hospital for tests over "persistent coronavirus symptoms."

However, there was some less bad news over the weekend as well, and the equity futures are as of this moment pointing toward a higher opening when trading resumes this week. Dr. Anthony Fauci, director of the National Institute of Allergy and Infectious Diseases, conceded that the death toll this coming week is "going to be shocking to some." However, he went on to say, "But that's what is going to happen before it turns around, so just buckle down," suggesting also that conditions will eventually improve, "We've seen that in Italy. We're going to hopefully be seeing that in New York very soon, and that's the first sign of that plateau and coming down."

Illustrating Dr. Fauci's points, per *Worldometers*, the COVID-19 numbers for Italy on April 5 were 4,316 new cases and 525 new deaths vs. April 4's 4,805 new cases and 681 new deaths, while the number of patients hospitalized in intensive care declined for the first time since the beginning of the pandemic. And in Spain, the counts were also trending in the right direction – April 5: 5,478 new cases and 694 new deaths; April 4: 6,969 new cases and 749 new deaths; April 3: 7,134 new cases and 850 new deaths and April 2: 7,947 new cases and 961 new deaths.

New York Governor Andre Cuomo also said on Sunday that the number of deaths in his state over the past few days have been dropping "for the first time." While he was quick to assert, "The significance of that is too early to tell," he indicated that ICU admissions were down, daily intubations are down "slightly" and the hospital discharge rate is "way up" and that's "great news."

Certainly, there is a long way to go before an upper hand can even be hoped to be gained in the COVID-19 battle, and the near-term outlook for the economy is abysmal, to say the least. The Congressional Budget Office (CBO) was out with ugly projections this past week,…

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Congressional Budget Office Forecasts

Updating CBO's Economic Forecast to Account for the Pandemic - April 2, 2020

CBO expects that the economy will contract sharply during the second quarter of 2020 as a result of the continued disruption of commerce stemming from the spread of the novel coronavirus. The following are CBO's very preliminary estimates, which are based on information about the economy that was available through this morning and which include the effects of an economic boost from recently enacted legislation.

- ***Gross domestic product is expected to decline by more than 7 percent during the second quarter. If that happened, the decline in the annualized growth rate reported by the Bureau of Economic Analysis would be about four times larger and would exceed 28 percent. Those declines could be much larger, however.***
- ***The unemployment rate is expected to exceed 10 percent during the second quarter, in part reflecting the 3.3 million new unemployment insurance claims reported on March 26 and the 6.6 million new claims reported this morning. (The number of new claims was about 10 times larger this morning than it had been in any single week during the recession from 2007 to 2009.)***
- ***Interest rates on 10-year Treasury notes are expected to be below 1 percent during the second quarter as a result of the Federal Reserve's actions and market conditions.***

…reflecting the expected massive jump in joblessness,…

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THE PRUDENT SPECULATOR
Historic Spike in Jobless Numbers

The jobs number in March was bad and the jobless rate jumped to 4.4%, soaring from February's reading of 3.5%, which was a 50-year low, but far better than where the unemployment percentage will climb in the coming months. After all, the latest figures on initial claims for unemployment benefits saw a whopping 6.6 million, doubling the 3.3 million in first-time filings the week prior.

…that is only starting to flow through to the monthly economic statistics,…

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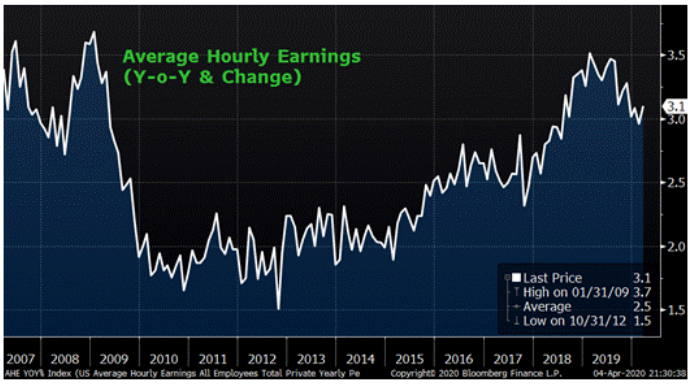
Miserable Employment Report



The number of jobs lost in March totaled a much-worse-than-expected 701,000, the biggest drop in payrolls since March 2009, and we know that the COVID-19-related contraction in the labor market will grow far worse over the next couple of months. Interestingly, those that still had a job saw a slightly better-than-expected pick-up in average hourly earnings to a 3.1% year-over-year rate.

…as the Institute for Supply Management's reads for March on the health of the factory sector…

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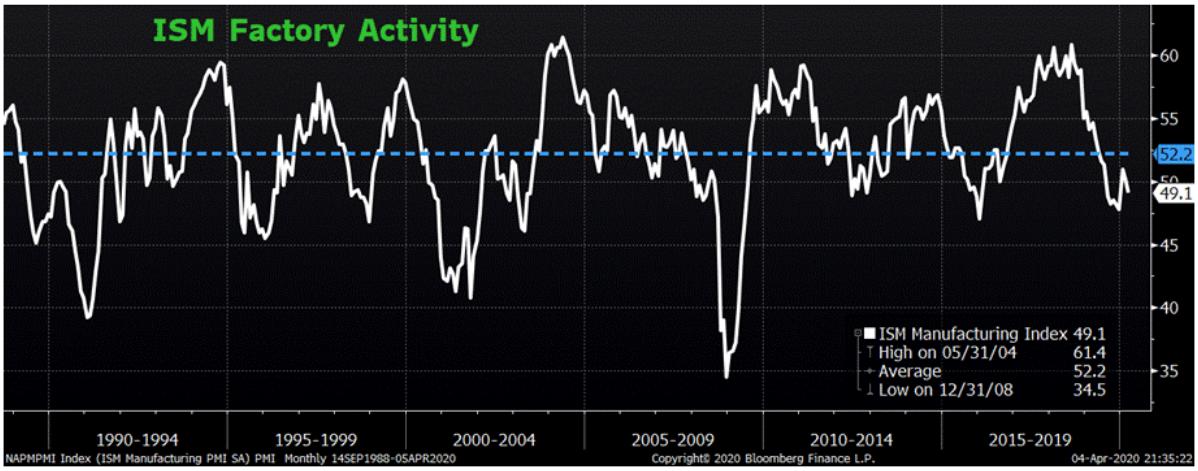
ISM Manufacturing

The latest read on the health of the manufacturing sector eased to 49.1 in March. The measure was better than expected but no doubt will weaken considerably in the months ahead. Still, per the Institute for Supply Management, "The past relationship between the PMI and the overall economy…corresponds to a 1.8% increase in real gross domestic product (GDP) on an annualized basis."



…and the service sector,…

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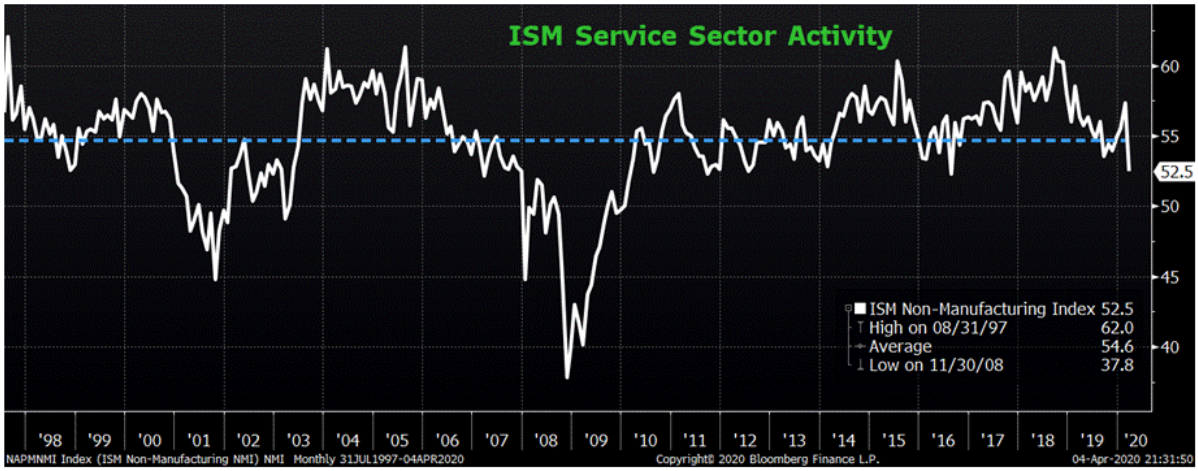
THE PRUDENT SPECULATOR
ISM Non-Manufacturing

The March reading on the health of the service sector (NMI) came in much better than expected at 52.5, though future readings will likely fall off a cliff due to the impact of the economic shutdown. Still, the Institute for Supply Management said, "The past relationship between the NMI and the overall economy…corresponds to a 1.4% increase in real gross domestic product (GDP) on an annualized basis."



…were still pointing to domestic GDP growth, though the collapse in automobile sales was more indicative of what is very likely to happen.

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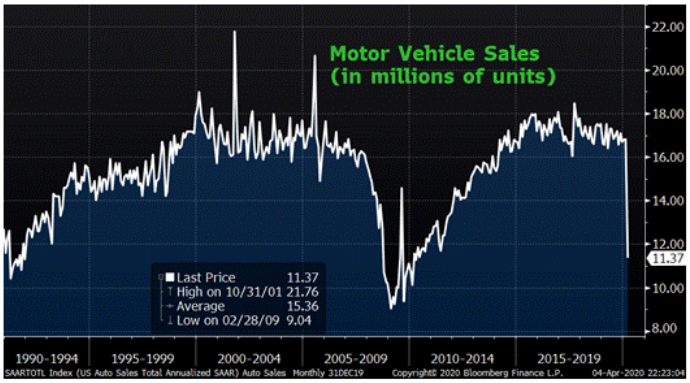
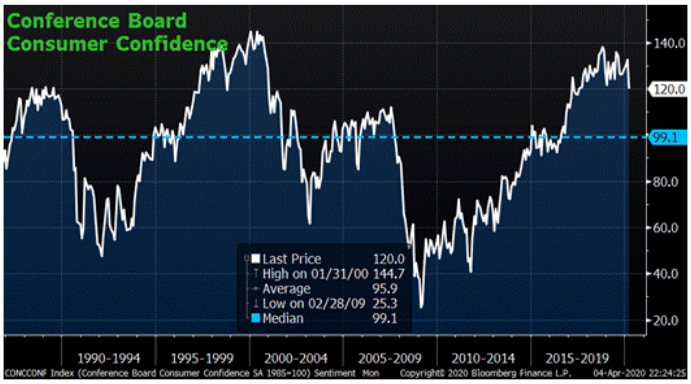
Consumer Spending Plummeting





Not surprisingly, given the stay-at-home orders that gripped much of the country, sales of automobiles plunged in March to a seasonally adjusted annual rate of 11.4 million vehicles, though General Motors did manage to show *only* a 7% drop in sales for the full first quarter. No doubt, Q2 will be awful for consumer spending, though the March consumer confidence gauge fell less than expected to 120.0.

Of course, as the CBO admits, the outlook for the economy is extremely fluid,…

CBO's economic projections, especially for later periods, are highly uncertain at this time.
Updates Incorporated in Today's Cost Estimate

To estimate the costs of legislation that is especially sensitive to economic conditions, such as provisions affecting unemployment insurance benefits, CBO is taking into account as much economic information as possible. Later today, CBO will publish a preliminary estimate of the costs of H.R. 6201, the Families First Coronavirus Response Act, which was enacted as Public Law 116-127 on March 18. The estimate incorporates an updated projection of the unemployment rate that was based on information that was available about the economy through March 27. It was not based on all information available as of this morning because of the time needed to process new information about economic developments and incorporate it into cost estimates. (Also, following the conventions of cost estimating, the economic projections used for the estimate do not include the effects of the act itself or the larger effects of P.L. 116-136, the subsequently enacted CARES Act.)

The unemployment rate underlying the cost estimate for H.R. 6201 was 12 percent in the second quarter of 2020. The extent of social distancing was a key factor in that projection. The analysis incorporated an expectation that the current extent of social distancing across the country would continue—on average, and with local variation—for the next three months. That expectation was broadly consistent with the projections of the virus's spread that have been reported by the Administration's coronavirus task force.

CBO's projections also included the possibility of later outbreaks of the virus. To account for that possibility, social distancing was projected to diminish by only three-quarters, on average, during the second half of the year. And CBO expected the effects of job losses and business closures to be felt for some time; the unemployment rate underlying the cost estimate was 9 percent at the end of 2021.

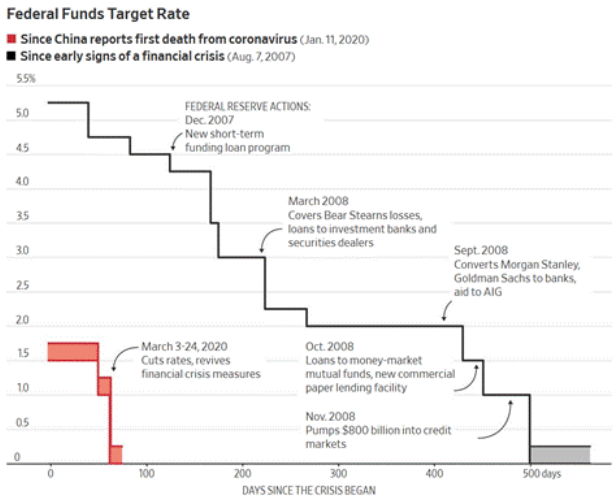
…with St. Louis Fed President James Bullard illustrating the difficulty in economic prognosticating by stating a week or so ago that unemployment might hit 30% in the short run and that "The numbers for the second quarter will be unparalleled compared to U.S. macroeconomic history."

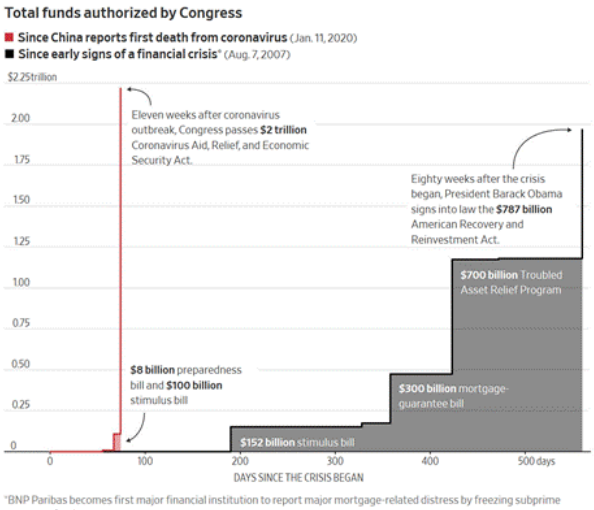
But, he was quick to compare the economy to a driver taking his or her foot off the gas as a car slows down for a construction zone: "The car has to slow down and go half-speed to navigate the lane shifts, but there is nothing inherently wrong with the engine." Mr. Bullard added that the U.S. economy might recover strongly by autumn, with some businesses reopening in Q3, and by the start of Q4, work resuming on projects delayed since the spring, leading to a possible "boom" period that lasts into 2021.

While we are investing for a time horizon well beyond 2021, we realize that the near-term is going to be brutal for Corporate America. As such, our research efforts continue to focus on ensuring that the businesses in which we are invested have the wherewithal to make it through to the eventual recovery. Certainly, the country is getting plenty of help from Washington,…

Washington's Incredibly Swift Response

As *The Wall Street Journal* reported, "The Fed and Congress sped up the response to the coronavirus pandemic using strategies tested a decade ago in the financial crisis, while a united GOP and less concern for the deficit smoothed way for $2 trillion legislation."





…but there will be a lot of belt-tightening, with more than a few companies already having put on hold their stock repurchase programs and reducing or suspending their common stock dividends. On the subject of income payouts, the unprecedented nature of the current situation (the aforementioned Mr. Bullard states, "This shouldn't be labeled a recession because the slowdown is intentional as businesses pull back to save lives from the coronavirus.") means that we are cutting our companies much more slack in terms of their continued residency in our dividend-oriented strategies.

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THE PRUDENT SPECULATOR
Dividends Payouts in Question

While we seek capital appreciation in equities first and foremost, dividends are a sizable component of total return, and we have to be braced for a (temporary) retreat in the overall income we receive.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2020 (as of 3.31.20)	125	1	3	10
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2021 (Est.)	$64.44
2020 (Est.)	$61.30
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73

Source: Bloomberg. As of 4.4.20

It is hard to imagine that the roller-coaster stocks have been riding will slow down any time soon, but we remain sanguine about the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks. True, the ups and downs have been stomach-churning, but we always remember the Warren Buffett admonition, “Be greedy when other are fearful and fearful when others are greedy!” The good news today, whether it is folks on Main Street…

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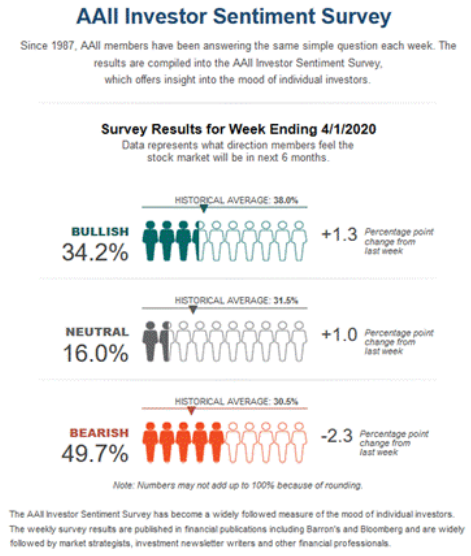
Sentiment: Very Fearful

The latest Sentiment Survey of AAII members continues to show that Bearishness is much higher than average.



While it hardly is a surprise to see an acceleration in the long-playing flight from U.S. stocks, the massive exodus out of bonds illustrates how fearful folks have become, per ICI numbers on exchange traded and mutual funds.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

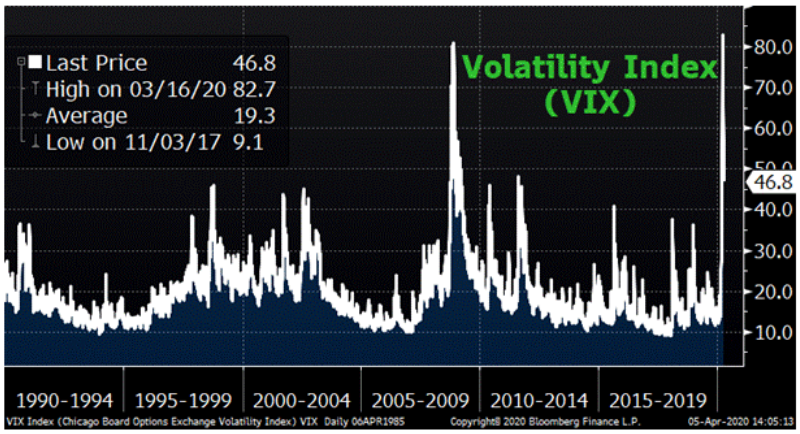
Week Ended	3/25/2020	3/18/2020	3/11/2020	3/4/2020	2/26/2020
Total Equity	-40,783	-11,381	16,012	-20,214	-13,916
Domestic	-30,198	-6,407	17,616	-17,254	-13,536
World	-10,585	-4,974	-1,604	-2,960	-380
Hybrid	-17,765	-25,617	-5,777	-6,464	-1,421
Total Bond	-100,798	-114,401	-32,300	-17,762	3,198
Taxable	-80,717	-94,046	-29,228	-17,244	204
Municipal	-20,081	-20,355	-3,072	-518	2,993
Commodities	2,814	-1,483	2,344	318	229
Total	-156,532	-152,882	-19,721	-44,122	-11,912

Source: Investment Company Institute

…or Wall Street,…

Contrarian Buy Signal: Sky-High VIX

While every reading of 46.8 or higher, save one in 2011, on the Volatility Index (VIX) occurred during the 2008/2009 Global Financial Crisis, the average subsequent one-year price gain for the S&P 500 has been 26.9%, with only one of the 70 annual periods in the red. And, if we look at VIX figures of 40 or greater, the average annual forward return is even better at 28.8%, though there are 8 negative instances. Not surprisingly, this investor "fear" gauge suggests that it is time to be greedy.



Subsequent S&P 500 Price Gain

Metric	Volatility Index >= 46.8	Volatility Index >= 40.0
Average	26.9%	28.8%
Median	25.2%	29.1%
Max	68.6%	68.6%
Min	-0.2%	-17.0%
Positive	69	161
Negative	1	8
Count	70	169

Does Not Include Dividends

Source: Kovitz Investment Group using data from Bloomberg.

…investors are about as scared as they ever have been!

Stock Updates

To be sure, company-specific news is very much overshadowed by market, economic and health-related headlines, but Jason Clark, Chris Quigley and Zach Tart take a look at several of our companies that posted quarterly results or had updates out last week. Not surprisingly, our work has had to shift toward financial liquidity and business viability, versus the usual focus on price-related financial metrics.

Note that all stocks are rated as a "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/.

Cruise operator **Carnival Corp** (CCL – $8.49) announced the details of its plans to raise $4 billion of additional debt and equity capital last week, which consists of an equity offering and secured and convertible debt. Issuance of 62,500,000 shares is planned to close on April 6 at a price of $8.00 per share. Underwriters also have an option to purchase up to 9,375,000 of additional shares that expires May 1, 2020. Carnival's original plan was to raise $1.25 billion of equity, but the amount was reduced to $500 million as the company elected to raise its secured

debt issuance to $4 billion from the $3 billion announced the day prior and to issue $1.75 billion of senior convertible notes due in 2023. Interestingly, there was overwhelming demand for the debt offering, given that the secured notes will pay interest at a rate of 11.5% per year, maturing on April 1, 2023. The convertible notes carry a rate of 5.75% with an option to convert bonds to shares at a $10 strike.

Obviously, the equity issuance and the convertible notes will significantly dilute our current ownership, but the additional liquidity increases the chances that Carnival will survive to see what we continue to think will be a rebound of the cruise business. Of course, we very much understand that such a recovery is far from certain, as COVID-19 is still presenting an enormous challenge to the firm as it works to return current passengers and their crew to their home destinations. And, even once the clouds have parted, damage to the Carnival brand will likely hang over the stock as extensive litigation ensues and prospective passengers only tiptoe gingerly back onto the water.

Needless to say, the scenario is still fluid and the range of potential outcomes is very wide, while the company has already suspended the dividend. Shares remain well below our amended target price of $24, and we note that the overall weighing in our portfolios is now very small, so the risk from here of continuing to hold is diminished, while CCL CEO Arnold Donald thinks that some of his boats will be back in business before year end and he might turn to Europe for additional financing, if necessary. That said, our continued ownership of CCL remains tenuous, as we assess other options for our exposure in the Consumer Discretionary sector. Should we choose to sell, we will keep readers posted via our *Sales Alerts*.

FedEx (FDX – $109.22) dropped on Friday in response to the cargo carrier and package delivery specialist's announcement that it will slash CEO Fred Smith's pay 91% and will draw down on a line of credit, as the coronavirus outbreak continues to take its toll. The company had already suspended its outlook on March 17.

As of April 3, FedEx had $1.5 billion outstanding under its credit facilities and $136 million of outstanding commercial paper, leaving $1.86 billion available under its existing credit agreements for future borrowings, so financial liquidity would appear to be sound, even without tapping into any of the programs currently being offered by Uncle Sam to FedEx and its competitors.

While the uncertainty for virtually all businesses is likely to continue for the foreseeable future, we think that drawing on a credit line is a logical move. We also think that there is a big difference between a company with a strong balance sheet drawing on a credit line and a company drawing on a credit line at a high interest rate as a last-ditch effort to save the firm. While FedEx's debt has increased over the past few years as the company used a low-interest-rate and high-fuel-price environment to rebuild its fleet, we think management's focus will shift towards business optimization, fleet changes and spending cuts. And for the time being, FDX and rival UPS are likely to gain from the grounding of most passenger flights, as the cargo capacity in the bellies of those flights all but dried up.

Of course, the dividend and buyback program could be at risk depending on funding or subsidies the company receives from Washington, but we think the longer term has a much brighter future than the near-term outlook would suggest. Our Target Price for FDX is now $200 as though the company has been seeing increased U.S. demand at FedEx Ground, a shift in the mix of freight will hurt margins and its operating results in the near-term. Nevertheless, we think this is a very opportune time for those without exposure to be considering a purchase of a long-time industry leader.

Kimco Realty (KIM – $7.77) has seen its share price drop more than 55% since equity market highs on 2.19.20, and more than 62% year-to-date, as investor concern continues to mount about the liquidity of real estate investment trusts and their ability to collect rent from tenants whose businesses have been materially impacted or even shut down during the COVID-19 scare. No surprise to us, but evidently to short-sighted market participants, the REIT announced last week that it was pulling its forward guidance.

Of course, Kimco's announcement was accompanied by news that the shopping center operator obtained a new $375 million unsecured term loan facility aimed at enhancing the company's liquidity position. "Kimco has decades of experience navigating economic crises, natural disasters and other challenges with the support of a world-class group of associates and a high-quality, mixed-use portfolio concentrated in the top U.S. markets with 78% of our annual base rent coming from grocery-anchored centers," stated CEO Conor Flynn. "We know firsthand, through our ownership position in Albertsons, how valuable the grocery component has been in this time of need, and we appreciate the efforts of all medical professionals, grocers, pharmacies, and other heroes that are going above and beyond."

With the proceeds of the term loan, Kimco will have approximately $800 million of cash on its balance sheet. This strong cash position, together with the over $1.3 billion available under its revolving credit facility and more than 300 unencumbered properties, provides sufficient financial capacity to meet the company's $172 million in pro-rata debt obligations maturing during 2020, all of which is secured non-recourse debt.

KIM CFO Glenn Cohen added, "Our balance sheet serves as a significant source of strength supported by the largest liquidity level in the shopping center sector. Further, with ample availability on our revolving credit facility, a solid cash position, and a large pool of unencumbered properties, we are well positioned to meet our 2020 obligations. In addition, we have one of the longest weighted-average debt maturity profiles in the industry at 10.6 years, and a flexible approach to value creation that has allowed us to defer approximately $90 million to $100 million in capital spending originally planned for this year. We wish to thank our lenders for their confidence, support and speed exhibited in completing this facility."

The proceeds from the unsecured term loan facility are to be used for general corporate purposes, which may include but is not limited to repayment of indebtedness and working capital. The new facility, which has an accordion feature for an additional $750 million, subject to further syndication of the term loan, is scheduled to mature April 2021, extendable at Kimco's option for one year until April 2022. Interest on the term loan borrowings under the Credit Agreement accrues at a spread (currently 1.400%) to LIBOR or, at the company's option, a spread (currently

0.400%) to the base rate defined in the Credit Agreement, that in each case fluctuates in accordance with changes in Kimco's senior debt ratings.

No doubt, there is increased uncertainty at this time for Kimco beyond its tenants competing with the likes of Amazon and growing e-commerce enterprises, but we like KIM's bolstered liquidity position, and the recent stimulus package should help some small businesses make lease payments. Longer term, we are positive on KIM's continued transformation and rejuvenation, including a higher quality portfolio of assets and a pipeline of development and redevelopment that can produce attractive long-term growth. The sustainability of the 14%+ current dividend yield is obviously in question, but we remain fans of management and the company. Our Target Price for KIM is presently $19.

Regency Centers (REG – $32.27) has seen its share price almost cut in half this year, including a drop of 20% last week, on the same concerns that have hit KIM. And, like Kimco, the shopping center REIT announced that it was pulling its forward guidance. CEO Lisa Palmer commented, "First and foremost, thank you to all of the people who are placing their lives at risk by going to work every day to help provide our country with essential goods and services, such as healthcare workers, grocery store employees, delivery personnel and public service workers, just to name a few. You have our deepest gratitude and our thoughts and prayers are with you. As to Regency, our priority is the well-being of our team members, tenants, and the people in the communities that our properties serve. Our dedicated teams are committed to working with our tenants and vendors to ensure that our properties continue to seamlessly provide the essential goods and services that the surrounding neighborhoods need during this time. Although the impacts of this unprecedented crisis are evolving rapidly and are difficult to quantify, Regency is built to withstand challenges and adversity with its strong balance sheet, exceptional people and a high quality portfolio of open air shopping centers that are 80% grocery anchored."

Regency has approximately $350 million of development and redevelopment projects currently in process and in various stages of construction. Approximately $225 million remains to be spent to complete them. Due to impacts of COVID-19, construction has been suspended at some projects due to municipal orders or has slowed substantially due to health concerns and labor limitations. Regency is assessing the impact of these project delays and will provide additional updates with its Q1 earnings results. The company is also closely assessing all pipeline development and redevelopment projects as well as non-essential capital expenditures.

To further strengthen the balance sheet and liquidity, the company settled its forward equity offering from September 2019 at $67.99 per share resulting in net proceeds of approximately $125 million. REG also drew down $500 million from its existing $1.25 billion revolving credit facility, giving the company a cash balance of approximately $720 million and an additional $545 million available under its revolving credit facility, which together represent total liquidity of approximately $1.27 billion. Regency has no unsecured debt maturities until 2022.

While the near-term is overflowing with uncertainty, we like REG's current liquidity position, and the recent stimulus package should help some small businesses make lease payments. Longer term, we continue to like that Regency's national portfolio of shopping centers is primarily anchored by productive grocers located in affluent and attractive more-populated metro

areas. Despite having grocery store tenants and other service tenants that drive foot traffic to its centers (fitness centers, restaurants, etc.), online shopping continues to be a threat to REG and its competitors' tenants, but all in all, we think through a long-term lens there is material upside in REG shares relative to the current price. Our Target Price for REG is presently $79.

Drug and retail concern **Walgreens Boots Alliance** (WBA – $40.72) reported fiscal 2020 second quarter earnings of $1.52. The figure beat consensus analyst estimates of $1.46 but was lower than the previous year quarter by 7.3% on a constant currency basis. Sales in the second quarter were $35.8 billion, an increase of 3.7% from the year-ago quarter, and an increase of 4.1% on a constant currency basis. Management claims that effects from the COVID-19 pandemic largely fell outside of the quarter and were not material to Q2 results.

It also stated that the firm is currently on track to meet the guidance previously given for 2020, but has elected to revisit progress next quarter in hopes that more visibility would be available. WBA has kept stores open throughout the pandemic and has taken steps to ensure locations are safe for customers and team members. The company has begun to provide free home delivery of prescriptions and certain products in the U.S., expanded the use of drive-thru for certain items and is partnering with U.S. and UK governments to initiate patient testing for COVID-19. Walgreens has partnered with UnitedHealthcare to open 5 of 14 planned primary care facilities as a part of its VillageMD program to increase patient access.

CFO James Kehoe offered the following color on the effects of COVID-19 on the first three weeks of March: "In Walgreens, comp retail sales grew by around 14% in the month led by 32% growth in health and wellness and 28% growth from our grocery category, partially offset by declines in discretionary categories, such as beauty and seasonal. But there were 2 very distinct periods in March. We delivered comp sales growth of 26% in the first 21 days of the month. However, post March 21, the comp sales trends turned negative with the last week of the month running at a mid-teens rate of decline. Obviously, if this trend continues for an extended period, it will quickly offset the sales uplift seen in the first 21 days of March. Prescriptions saw similar trends, though less pronounced, with declines post March 21 reflecting the pull forward of scripts into the earlier part of the month and lower foot traffic. In the U.K., we also saw strong initial sales trends. But the U.K. is now effectively on lockdown, and this has led to a significant decline in high street footfall."

He continued, "But it is the exit trends that are concerning. Retail sales declined by 65% over the last 10 days as high street foot traffic reduced significantly and consumers diverted spending away from discretionary products. That being said, we are confident that this is a temporary situation and we would expect to see some stabilization of sales trends over time, given that our pharmacies are designated essential services and are, therefore, among the few retail locations remaining open. With regard to other businesses, we have seen a spike in demand across our main Pharmaceutical Wholesale markets throughout the month of March. Our hospital supply business contributed to an increase in sales in the high teens on the back of additional investments to support customer demand. You're also well aware of the stock availability restrictions in a number of categories. And we have significantly increased our purchases across a number of key categories to provide availability of critical products for our customers. Obviously, we may see some impact on inventory levels as supply and demand realign over the

coming months. Finally, and importantly, managing through COVID-19 requires a huge investment of time and resources across the entire enterprise. Faced with the current situation, we are very focused on mitigating COVID-19, and sometimes we are pulling resources and management time away from other value-added activities."

Not surprisingly, perhaps, the worries about exit trends knocked the already hard-hit stock down several more notches, and the shares are off by a third since the start of 2020. Looking further than a quarter out, however, the firm says it is still on track to reach $1.8 billion annual costs savings (roughly a 7% reduction of 2019 SG&A) by 2022 and continues to purchase its own shares (driving the share count down 5% year-over-year). We continue to watch the debt levels, but we are comforted in the weighted average maturity of nearly 8 years and average coupon of under 4%. In addition, as credit markets have been quite volatile, management has taken steps to secure a bilateral funding of about $750 million, in a measure that it calls "black swan funding for events [they] actually don't think will happen."

We expect that a hoarding of supplies by anxious consumers pulled demand forward as COVID-19 began to spread in the U.S. and think this was largely the cause for the plunge in demand for the last week of March. As consumers adapt to the current (admittedly abnormal) environment, we expect demand for certain in-store product categories like grocery to slightly normalize given the convenience they provide in times of need and as some grocers struggle to remain fully-stocked. A volatile business environment is nearly certain to remain in the short-run, but we are constructive on the firm's growth and cost-saving initiatives. Shares yield nearly 4.5% and our Target Price has been adjusted to $86.