Market Commentary Monday, April 27, 2020

EXECUTIVE SUMMARY

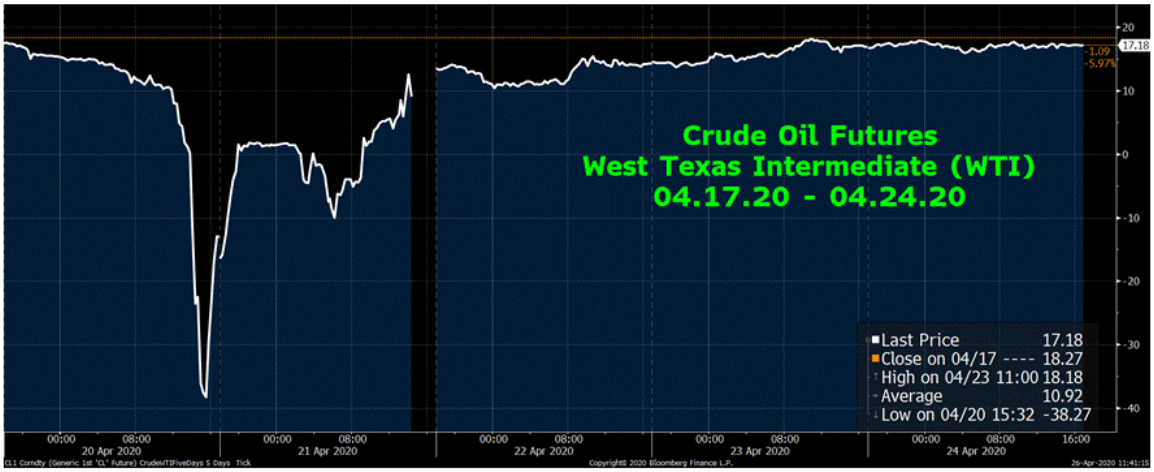
Week in Review – Wild Ride for Crude
COVID-19 – Gilead's Drug Disappoints; Death-Rates Stabilizing; Countries and States (a Few) Start to Tentatively Reopen
The Great Lockdown – Awful Econ Numbers
2020 Bull Market – Looking Toward a Rebound
2020 Bear Market – Discounting Significant Bad News Yet to Occur
Sentiment – AAII Buy Signal
Econ Outlook – Mnuchin & Moynihan Relatively Upbeat
Dividends & Interest Rates – Equities Remain Very Attractive Relative to Fixed Income
Stock News – Updates on INTC, STX, LRCX, VZ, T, TFC, SYF, CMA, COF, LMT, MAN SNY & BIIB

Market Review

It was a lousy start and a solid ending to another volatile trading week for equities, with stock market participants having to contend with a wild and unprecedented ride in the price of crude oil (if only we had a fleet of tanker trucks at our disposal to head to Cushing to catch the black gold…and dollars…falling from the sky in Oklahoma on Monday)…

THE PRUDENT SPECULATOR
Oil Futures - Bizarroland

The stunning plunge to below minus $35 (that is not a misprint) in the price of the May oil futures contract on 4.20.20 was an anomaly related to physical delivery of West Texas Intermediate (WTI) crude at Cushing, Oklahoma, where virtually no storage remains, but even the June contract's current price near $17 is extraordinarily low. Believe it or not, a barrel of WTI fetched $60 in early-January.

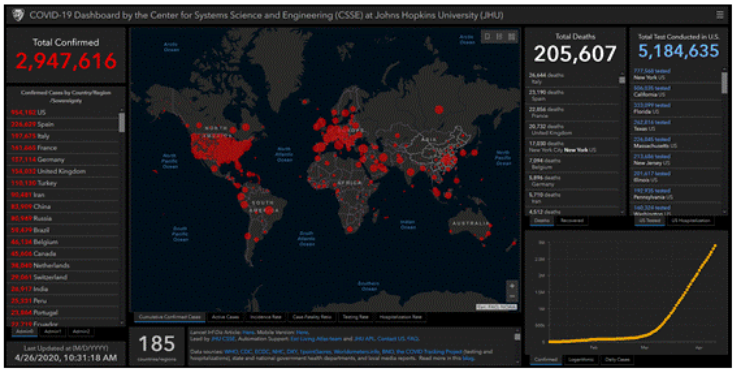


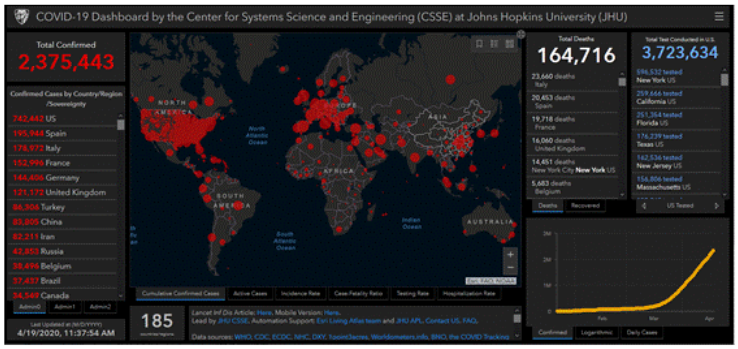
…and the usual deluge of coronavirus headlines that included the premature release by the World Health Organization (WHO) of a report suggesting that the promising antiviral drug remdesivir from **Gilead Sciences** (GILD – $79.64) failed to provide a benefit in a placebo-controlled trial in Chinese patients with severe COVID-19.

Gilead responded in a statement that the WHO posting included inappropriate characterizations of the study, which was terminated early due to low enrollment and, as a result, cannot be used to make statistically meaningful conclusions. "The study results are inconclusive, though trends in the data suggest a potential benefit for remdesivir, particularly among patients treated early in disease," the company said. And, more importantly, the biotech giant should be out by the end of this week with its own data on the first 400 severely ill coronavirus patients being treated with remdesivir in an open-label study.

AFAM
a KOVITZ division

THE PRUDENT SPECULATOR
Slowing COVID-19 Global Spread





Covid-19 confirmed cases and deaths continue to rise around the world, with the U.S. now up to 55,000 fatalities, but the "curve" is flattening and attention is shifting to reopening economies, with even Gov. Andrew Cuomo of very-hard-hit New York stating on 4.26.20, "We are going to reopen in phases…look at the regional analysis, make a determination and then monitor whatever you do."

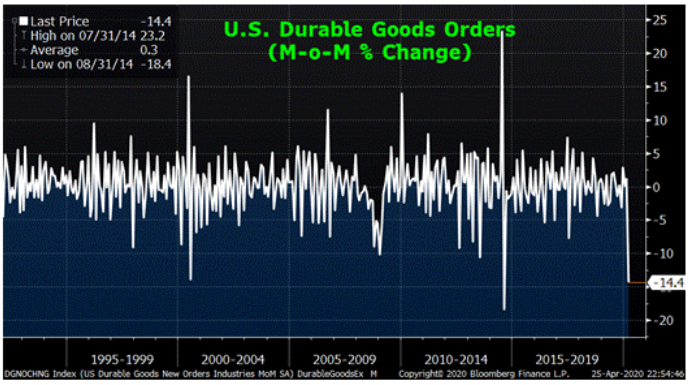
https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

Obviously, twists and turns on the COVID-19 news front will drive stock price gyrations in the short run, but it was good to hear on Sunday that coronavirus deaths slowed the most in more than a month in Spain, Italy and France while fatalities reported in the U.K. and New York were the lowest since the end of March. Of course, countering those relative positives were statements from the WHO that having had COVID-19 may not prevent a second infection and from the Centers for Disease Control (CDC) that as any vaccine won't be available by winter, a second wave could be even more problematic.

And, though various countries and U.S. states have now begun to gradually reopen non-essential business, we are continuing to see the economic devastation inflicted by the mandatory stay-at-home policies enforced around the world. Here in the U.S., the latest statistics were ugly when it came to the health of the nation's factories and labor market,…

AFAM
a KOVITZ division

THE PRUDENT SPECULATOR
Terrible Economic Numbers



The headline number for durable goods orders in March came in well below estimates at -14.4%, the second-worst monthly downturn on record dating back to 1990. Excluding volatile transportation orders, durable goods orders fell just 0.2%, however. First-time filings for unemployment benefits continue to be abysmal, with 4.4 million claims in the latest week, bringing the total for the last five weeks to 26 million.

…not to mention the housing sector.

AFAM
a KOVITZ division

THE PRUDENT SPECULATOR
Housing Statistics Sharply Reversing

Sales of new homes skidded by more than 15% in March to a seasonally adjusted annual rate of 627,000. The fact that this number is based on contract signings better reflects the COVID-19 fallout than the sales of existing home figures, which sank a more modest 8.5% last month, to a seasonally adjusted annual rate of 5.27 million. Of course, one has to expect both tallies to fall further in the months ahead.

To be sure, the outlook for the U.S. economy over the next few months the worst in recorded history, which no doubt has many wondering why stocks have rebounded as much as they have since the lows of 03.23.20,…

2020 Bull Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
3/23/2020	4/17/2020	24.32%	Russell 3000 Average Stock	3/23/2020	4/17/2020	25.62%	NASDAQ Composite Average Stock
3/23/2020	4/17/2020	30.39%	Dow Jones Industrial Average	3/23/2020	4/17/2020	31.38%	S&P 500 Pure Growth Index
3/23/2020	4/17/2020	26.08%	NASDAQ Composite Index	3/23/2020	4/9/2020	32.32%	S&P 500 Pure Value Index
3/23/2020	4/17/2020	28.70%	Russell 1000 Index	3/23/2020	4/17/2020	19.55%	S&P 500 Communication Services
3/23/2020	4/9/2020	24.37%	Russell 2000 Index	3/23/2020	4/17/2020	29.45%	S&P 500 Consumer Discretionary
3/23/2020	4/17/2020	28.35%	Russell 3000 Index	3/23/2020	4/17/2020	24.19%	S&P 500 Consumer Staples Secto
3/23/2020	4/17/2020	28.48%	S&P 500 Index	3/23/2020	4/24/2020	46.11%	S&P 500 Energy Sector GICS Lev
3/23/2020	4/17/2020	28.97%	Russell 1000 Growth Index	3/23/2020	4/9/2020	32.27%	S&P 500 Financials Sector GICS
3/23/2020	4/17/2020	28.36%	Russell 1000 Value Index	3/23/2020	4/17/2020	34.78%	S&P 500 Health Care Sector GIC
3/23/2020	4/24/2020	25.98%	Russell 2000 Growth Index	3/23/2020	4/9/2020	29.64%	S&P 500 Industrials Sector GIC
3/23/2020	4/9/2020	25.84%	Russell 2000 Value Index	3/23/2020	4/17/2020	26.76%	S&P 500 Information Technology
3/23/2020	4/17/2020	28.71%	Russell 3000 Growth Index	3/23/2020	4/9/2020	33.73%	S&P 500 Materials Sector GICS
3/23/2020	4/9/2020	27.99%	Russell 3000 Value Index	3/23/2020	4/9/2020	39.01%	S&P 500 Real Estate Sector GIC
3/23/2020	4/17/2020	28.33%	S&P 500 Growth Index	3/23/2020	4/9/2020	35.83%	S&P 500 Utilities Sector GICS
3/23/2020	4/17/2020	28.67%	S&P 500 Value Index				

Price Returns for Indexes and Total Returns for Average Stock. Source: Bloomberg

…but we remain perplexed why many pundits seem convinced that equities today are not adequately discounting the bad news we are presently seeing and the worrisome outlook still to come, yet they think that the massive five-week Bear Market that saw the average stock plummet more than 40% was perfectly rational.

2020 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
2/19/2020	**3/23/2020**	**-40.54%**	**Russell 3000 Average Stock**	**2/19/2020**	**3/23/2020**	**-34.03%**	**NASDAQ Composite Average Stock**
2/12/2020	3/23/2020	-38.40%	Dow Jones Industrial Average	2/19/2020	3/23/2020	-38.19%	S&P 500 Pure Growth Index
2/19/2020	3/23/2020	-32.60%	NASDAQ Composite Index	1/17/2020	3/23/2020	-51.78%	S&P 500 Pure Value Index
2/19/2020	3/23/2020	-36.23%	Russell 1000 Index	2/19/2020	3/23/2020	-31.26%	S&P 500 Communication Services
1/17/2020	3/18/2020	-43.66%	Russell 2000 Index	2/19/2020	3/18/2020	-36.94%	S&P 500 Consumer Discretionary
2/19/2020	3/23/2020	-36.66%	Russell 3000 Index	2/18/2020	3/23/2020	-26.15%	S&P 500 Consumer Staples Secto
2/19/2020	3/23/2020	-35.41%	S&P 500 Index	4/26/2019	3/18/2020	-65.24%	S&P 500 Energy Sector GICS Lev
2/19/2020	3/23/2020	-33.50%	Russell 1000 Growth Index	2/12/2020	3/23/2020	-43.93%	S&P 500 Financials Sector GICS
2/12/2020	3/23/2020	-39.57%	Russell 1000 Value Index	1/22/2020	3/23/2020	-24.47%	S&P 500 Health Care Sector GIC
2/19/2020	3/18/2020	-42.64%	Russell 2000 Growth Index	2/12/2020	3/23/2020	-27.66%	S&P 500 Industrials Sector GIC
1/17/2020	3/23/2020	-46.76%	Russell 2000 Value Index	2/19/2020	3/23/2020	-13.61%	S&P 500 Information Technology
2/19/2020	3/23/2020	-33.98%	Russell 3000 Growth Index	1/2/2020	3/18/2020	-38.12%	S&P 500 Materials Sector GICS
1/17/2020	3/23/2020	-39.97%	Russell 3000 Value Index	2/21/2020	3/23/2020	-21.17%	S&P 500 Real Estate Sector GIC
2/19/2020	3/23/2020	-33.35%	S&P 500 Growth Index	2/18/2020	3/23/2020	-17.66%	S&P 500 Utilities Sector GICS
2/12/2020	3/23/2020	-38.34%	S&P 500 Value Index				

Price Returns for Indexes and Total Returns for Average Stock. Source: Bloomberg

After all, it is not like happy days are here again as the average stock in the Russell 3000 index is still down 23.90% on a total-return basis since the start of 2020, so there remain plenty of coronavirus headwinds in equity prices. Further, it isn't as if awful periods never overshoot to the downside as sizable rebounds are hardly unusual.

AFAM
a KOVITZ division

THE PRUDENT SPECULATOR
Good (on average) Has Followed Ugly

While Q1 2020 was awful, with the S&P 500's 20.0% plunge far better than the loss on the average stock, the fourth quarter of 2018 also had a sizable price decline of -14.0%. Quarterly losses of that magnitude or greater have now occurred 22 times previously over the past 90 years, but the 21 prior ensuing quarters have enjoyed an average gain of 10.8%.

S&P 500 Bad Quarters

Quarter Ending	Quarterly Gain/Loss	Next Quarter Gain/Loss
6/30/1932	-39.4%	82.4%
9/30/1931	-34.5%	-16.4%
12/31/1929	-28.9%	17.2%
9/30/1974	-26.1%	7.9%
12/31/1937	-23.3%	-19.4%
12/31/1987	-23.2%	4.8%
12/31/2008	-22.6%	-11.7%
6/29/1962	-21.3%	2.8%
3/31/1938	-19.4%	36.0%
6/30/1970	-18.9%	15.8%
9/30/1946	-18.8%	2.3%
6/30/1930	-18.6%	-9.1%
6/28/1940	-18.1%	6.8%
9/30/2002	-17.6%	7.9%
12/31/1930	-17.5%	8.8%
3/31/1939	-16.4%	-1.1%
12/31/1931	-16.4%	-10.0%
3/31/1933	-15.5%	86.5%
9/28/2001	-15.0%	10.3%
12/31/1941	-14.8%	-7.8%
12/31/2018	-14.0%	13.1%
Averages:	**-21.0%**	**10.8%**

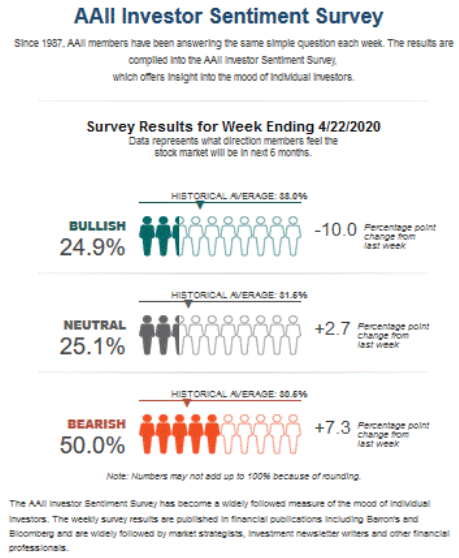
Since 1927. Price Return. Source: AFAM using data from Bloomberg

The stock market is an anticipatory mechanism, so while there is still a lot of pessimism in terms of investor sentiment, at least based on what the good folks at the American Association of Individual Investors were saying last week,…

AFAM
a KOVITZ division

THE PRUDENT SPECULATOR
Sentiment: Saying & Doing

The latest Sentiment Survey of AAII members saw the Bull-Bear spread (-25.1) fall to levels seen during the 2018 market plunge.



The flight from fixed income, per data from ICI, ended in the latest week, though mutual and exchange traded fund investors evidently continue to practice what is preached in rebalancing into U.S. equities.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	4/15/2020	4/8/2020	4/1/2020	3/25/2020	3/18/2020
Total Equity	4,585	6,461	12,498	-40,783	-11,381
Domestic	8,846	8,504	12,502	-30,198	-6,406
World	-4,261	-2,043	-4	-10,585	-4,975
Hybrid	4,853	-2,655	3,911	-17,765	-25,623
Total Bond	6,110	-10,521	-30,432	-100,811	-114,400
Taxable	4,796	-7,618	-28,983	-80,717	-94,045
Municipal	1,314	-2,903	-1,449	-20,094	-20,355
Commodity	4,012	2,192	3,064	2,814	-1,483
Total	19,560	-4,524	-10,960	-156,545	-152,887

Source: Investment Company Institute

…which is what we want to see from a contrarian perspective, given the historical evidence of this 33-year old gauge,…

AFAM a KOVITZ division

THE PRUDENT SPECULATOR
AAII Sentiment – Contrarian Buy Signal

The big 10.0-point drop in Bullishness and sizable 7.3-point jump in Bearishness for the week ending 04.22.20 sent the AAII Bull-Bear Spread to a reading of -25.1, pushing the sentiment indicator into the lowest decile, which history shows offers investors the best near-term returns!

AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 8.0										
BELOW	-54.0	8.0	870	0.24%	0.20%	1.15%	1.02%	3.27%	2.90%	6.45%	5.73%
ABOVE	8.1	62.9	837	0.15%	0.13%	0.43%	0.34%	1.84%	1.59%	4.51%	4.03%
	Ten Groupings of 1707 Data Points										
1	-54.0	-14.8	171	0.44%	0.37%	1.67%	1.42%	4.51%	3.94%	8.36%	7.10%
2	-14.8	-7.0	180	0.41%	0.38%	1.14%	1.01%	3.73%	3.39%	6.85%	6.20%
3	-6.8	-1.1	161	0.28%	0.25%	1.32%	1.22%	2.89%	2.51%	6.17%	5.49%
4	-1.0	3.0	171	0.05%	0.01%	1.09%	1.00%	2.88%	2.54%	6.30%	5.84%
5	3.1	8.0	187	0.05%	0.03%	0.58%	0.49%	2.39%	2.14%	4.67%	4.15%
6	8.1	12.2	154	0.08%	0.06%	0.35%	0.22%	1.62%	1.38%	4.81%	4.31%
7	12.2	16.5	171	0.18%	0.15%	0.65%	0.56%	2.48%	2.24%	5.22%	4.79%
8	16.5	22.0	174	0.16%	0.15%	0.62%	0.55%	1.89%	1.61%	5.79%	5.36%
9	22.0	29.2	167	0.07%	0.05%	0.22%	0.14%	1.78%	1.50%	4.14%	3.55%
10	29.2	62.9	171	0.26%	0.24%	0.29%	0.22%	1.42%	1.19%	2.62%	2.17%

From 07.31.87 through 4.16.19. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg

…there is likely to be a significant economic rebound later this year or in 2021. Ever-upbeat U.S. Treasury Secretary Steven Mnuchin was out this past weekend stating, "As we begin to reopen the economy in May and June, you're going to see the economy really bounce back in July, August and September." He added that the trillions of dollars in government stimulus will have a significant impact on growth, saying, "As businesses begin to open, you're going to see the demand side of the economy rebound."

Certainly, Mr. Mnuchin must be a cheerleader, but **Bank of America** (BAC – $22.18) CEO Brian Moynihan was also somewhat optimistic in his comments on Sunday, saying that company numbers are showing that consumer spending has "leveled off" in recent days and is starting to grow in certain areas after plunging in March and earlier this month. Mr. Moynihan added, "That actually provides some hope that, as the economy opens up in pieces and safely, you'll see that consumer spending continue to grow which will help fuel the U.S. economy."

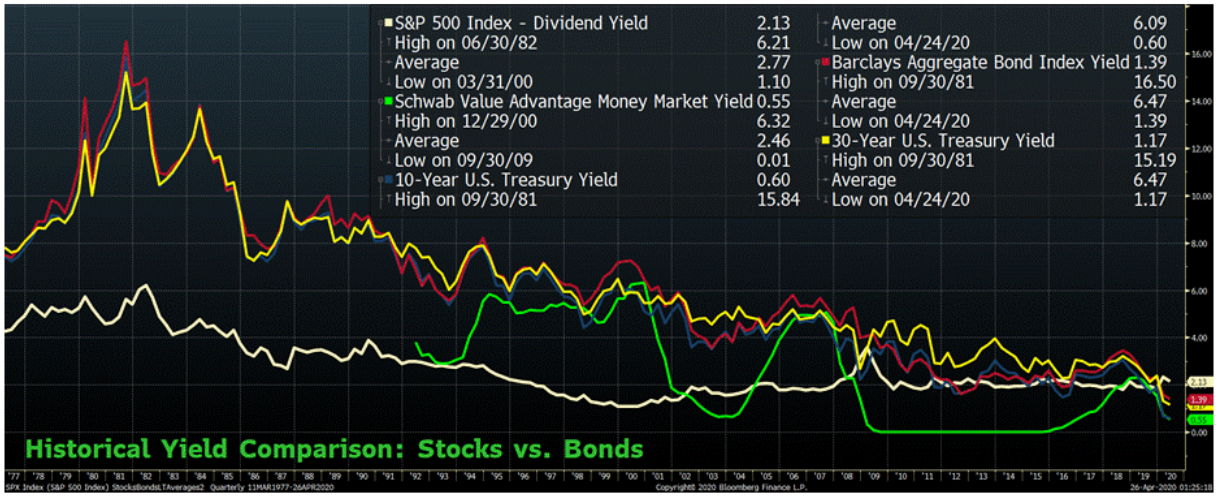
Yes, there is tremendous uncertainty about the next few quarters, and we respect that White House economic advisor Kevin Hassett also said on Sunday that the COVID-19-related shutdown is "the biggest negative shock that our economy has ever seen," with the unemployment rate potentially hitting 16% and "terrible" economic data likely over the next couple of months. So, we remain braced for additional equity market downside volatility in the

near term, but we think that the massive plunge in interest rates makes stocks extraordinarily attractive from an income perspective,…

AFAM
a KOVITZ division

THE PRUDENT SPECULATOR
Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for government or corporate bonds, the current payout on the S&P 500 (2.13%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, equities yield more than three times as much today as does the 10-Year U.S. Treasury!



…even as overall dividend payout growth may be small or even non-existent this year.

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 4.23.20)	138	1	11	20
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.)	$63.57
2020 (Est.)	$60.88
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 4.24.20

And, we also remember what Warren Buffett had to say a few years back: "The most important item over time in valuation is obviously interest rates. If interest rates are destined to be at low levels…it makes any stream of earnings from investments worth more money. The bogey is always what government bonds yield."

Stock Updates

Q1 earnings reporting season is now in high gear, and Jason Clark, Chris Quigley and Zach Tart look at a baker's dozen of our companies that posted quarterly results 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. Readers should keep in mind 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/.

Semiconductor giant **Intel** (INTC – $59.26) posted earnings per share of $1.45, versus the $1.28 estimate, in fiscal Q1 2020. INTC had sales of $19.8 billion (vs. $18.8 billion est.). Even though shares finished Friday's session slightly higher, it was perplexing to watch them trade down more than 7% in the after-hours session on Thursday afternoon, given the company's huge top- and bottom-line beats. Of course, the only ding was that INTC withdrew its FY2020 guidance,

but how that came as a shock at this point in the coronavirus pandemic is difficult to understand. For Q2, Intel expects revenue of $18.5 billion and adjusted EPS of $1.10.

CEO Bob Swan commented, “Intel’s purpose is to create world-changing technology that enriches the lives of every person on earth. Never before has our delivery of that purpose been more essential. Intel technology runs 95% of the world’s Internet communication and government digital infrastructure. And in a world where many of us are working remotely and socially distancing, the PCs and networking technologies delivered by Intel and our customers are providing a unifying fabric that’s bringing us closer together, helping those directly struggling with the virus or caring for those who are enabling remote classrooms so that our children can continue to learn and connecting governments and businesses so they can operate and deliver goods and services. Around the world, Intel platforms that support telemedicines have also taken on greater importance since the outbreak of COVID-19 as hospitals and health care workers scale to meet the increasing demand for care. Our products and capabilities are also delivering vital computing power for medical research, robotics for assisted patient care and artificial intelligence and data analytics for public health.”

Mr. Swan continued, “Even as COVID-19 drives significant disruptions across the globe, our long-term strategy, to deliver the world’s best semiconductors for an increasingly data-centric world, is unchanged. And the environment is uncertain, but our priorities are unwavering. We are focused on accelerating the growth of the company, improving our execution and continuing to thoughtfully deploy your capital. Over the last several years, we’ve transformed the company and are now positioned to grow our share in the largest market opportunity in our history. We live in a world where everything increasingly looks like a computer, including our homes, our cars, our cities, our hospitals and our factories. Additionally, we have redefined Intel Inside to include much more than the CPU as we’ve expanded our silicon offering to include ASICS, FPGAS, GPUs and Optane, among other capabilities. Our opportunity set is more and more Intel silicon inside more and more computers so that we can have a larger impact on our customers’ success. And our quarterly results demonstrate the benefits of that diversity. Nowhere is growth accelerating more than in our cloud and networking businesses where we are helping our customers transform the way they move, store and process data.”

Mr. Swan gave a company health update, “We generate significant cash flow and have an excellent balance sheet. We’re committed to our dividends, and we repurchased $4.2 billion in shares during the quarter. In light of the uncertainty, we took some actions to dramatically strengthen our liquidity position that we felt were prudent. We raised $10.3 billion in debt to further underpin an already strong balance sheet, and we suspended our share buybacks. We think this level of conservatism is appropriate at this phase, and we intend to reinstate our buyback program as circumstances warrant. Our focus now is on investing in our products and process technology and ensuring we have the capacity to meet our customer needs. To use Andy Grove’s words, bad companies are destroyed by crises. Good companies survive them. Great companies are improved by them. Guided by our cultural values, competitive advantages and financial strength, we will emerge from this situation even stronger.”

Intel had significant trouble getting its 10-nanometer chips to production, but the company expects to make some big launches in the middle of this year. Long-serving as a disappointment

for analysts, the notebook segment finally grew, a meaningful 14% year-over-year, as PC volumes surged amid widespread shelter-in-place orders. The company says that its customers have more than 50 notebook designs based on the chips. We continue to favor the company's diversified revenue stream, low levels of debt, forward P/E ratio near 13 and 2.2% dividend yield (the quarterly payment was increased from 31.5 cents per share to 33 cents in January). Our Target Price has been elevated to $74.

Hard disk drive maker **Seagate Technology PLC** (STX – $48.63) posted earnings per share of $1.38, versus the $1.28 estimate, in fiscal Q3 2020. STX had sales of $2.7 billion (vs. $2.6 billion est.). Despite the better-than-expected results, shares tumbled over 5% following the announcement, before regaining a bit by the end of the week.

STX CEO Dave Mosley said, "For Seagate, the health and well-being of our employees, customers and suppliers have always been the top priority. Throughout this crisis, we have taken decisive actions to safeguard our global workforce and maintain continuity of the business to support our customers. In this period of unprecedented uncertainty, the Seagate teams performed very well. We delivered March quarter revenue and non-GAAP EPS above the midpoint of our guided ranges, supported by record sales of our nearline products and strong cost discipline, and we also continued to generate healthy free cash flow."

AFAM a KOVITZ division

THE PRUDENT SPECULATOR

STX – Nothing Wrong With Q3 Numbers

Supplemental Financial Information Fiscal Q3 2020 (quarter ended April 3, 2020) April 22, 2020

Quarterly Financial Trends

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
GAAP Results					
Revenue ($M)	2,313	2,371	2,578	2,696	2,718
Gross Margin %	26.0%	26.3%	26.0%	28.1%	27.4%
Operating Expenses ($M)	365	292	398	374	370
Operating Margin %	10.2%	14.0%	10.6%	14.2%	13.8%
Net Income ($M)	195	983	200	318	320
Diluted EPS	$0.69	$3.54	$0.74	$1.20	$1.22
Non-GAAP Results[1]					
Revenue ($M)	2,313	2,371	2,578	2,696	2,718
Gross Margin %	26.8%	27.1%	26.7%	28.7%	28.0%
Operating Expenses ($M)	327	330	359	350	340
Operating Margin %	12.7%	13.2%	12.8%	15.7%	15.5%
Net Income ($M)	263	265	278	359	363
Diluted EPS	$0.93	$0.95	$1.03	$1.35	$1.38
End of Qtr Actual Share Count (M)	277	269	263	261	257
Diluted Shares O/S for EPS (M)	284	278	270	265	263
Dividends Per Share Paid	$0.63	$0.63	$0.63	$0.63	$0.65
Shares Repurchased (M)	7.2	7.8	9.2	2.5	4.0
Fiscal YTD Shares Repurchased (M)	13.4	21.2	9.2	11.7	15.7
Revenue by Product Line ($M)					
HDD	2,124	2,204	2,390	2,482	2,526
Enterprise Data Solutions, SSD & Other	189	167	188	215	192
Revenue by Channel					
OEM	68%	71%	71%	68%	73%
Distributors	18%	17%	18%	17%	17%
Retail	14%	12%	12%	15%	10%

NOTE: Minor changes and calculation variances are due to rounding.

1. See 'Reconciliation Tables' section for GAAP reconciliation. Effective Q1FY20, share-based compensation is excluded from non-GAAP results, and the estimated useful lives of our manufacturing equipment changed from three to five years to three to seven years. Prior periods have been adjusted to reflect the exclusion of share-based compensation.

Seagate | FY20 | 5

Mr. Mosley continued, "Today, our supply chain in certain parts of the world are almost fully recovered including China, Taiwan and South Korea, and we see indications for conditions to begin improving in other regions of the world. We are engaging with our suppliers and manufacturing partners on a daily basis, and we'll continue to take action to mitigate supply risks, including building inventory levels on critical components, supplementing our own supply with external sources where possible and utilizing external labor resources to support our workforce needs. Based on our current assumptions, we do expect some supply-related impact in the June quarter. The demand environment was equally dynamic. At the surface, the quarter played out largely as expected, with a seasonal slowdown in the consumer-facing legacy markets, offset by growing demand for mass capacity storage, supporting cloud and data center growth. However, the underlying drivers and customer buying patterns were shaped more by the onset of the coronavirus outbreak rather than any historical trend."

Seagate said that the mass capacity storage increased 18% quarter-over-quarter and 68% year-over-year, with record sales of nearline products. Demand from cloud customers continues to grow, a result of the massive work-from-home shift due to the coronavirus outbreak. STX expects to generate sufficient cash flow to fund the dividend and repurchase shares, with the next dividend payment of $0.65 confirmed on April 22, resulting in a yield of 5.4%. We like the company's strong cash flow and solid balance sheet. Our Target Price for STX has been boosted to $66.

Semiconductor equipment firm **Lam Research** (LRCX – $266.67) earned $3.98 per share in fiscal Q3 2020 (vs. $3.90 est.). LRCX had sales of $2.5 billion (vs. $2.5 billion est.). Shares had a roller-coaster ride last week, but ultimately ended the five days down more than 4%, even as the company had already pulled its guidance on March 17, citing COVID-19 issues.

CEO Tim Archer commented, "The impact from the globally spreading virus began to materialize in our manufacturing and supply chain operations in the latter part of the March quarter as shelter-in-place orders went into effect across many regions. We've responded effectively to these disruptions. And while near-term predictability remains more difficult than usual, I am pleased to say that our essential manufacturing facilities and labs are operating, allowing us to focus on critical customer deliverables. I am very grateful to our Lam employees and partners around the world, who with tremendous commitment and dedication have risen to meet extraordinary challenges…From our perspective, customer demand for equipment continues to remain very strong in the first half of 2020. We believe that WFE spending is largely being driven by customers investing in strategic initiatives, including both foundry and memory technology transitions that will be critical to both capability and competitiveness when global markets eventually emerge from the effects of the pandemic. The equipment industry is currently supply constrained. We exited the March quarter with record backlog and would expect to fulfill this unmet demand over the coming months."

Mr. Archer added, "We continue to execute on these opportunities in the March quarter with additional ALD metallization wins for advanced logic nodes, and new dielectric gapfill penetrations in 3D NAND. In both cases, we displaced older process technologies from our competitors with a more extendable Lam solution. Overall, we are confident in the strength of Lam's position in the market and our opportunities for growth when the current crisis subsides.

The company is executing well during a very difficult time. Our global teams are working tirelessly to mitigate operational impacts from COVID-19. And while near-term visibility is low, we believe that long-term secular demand for semiconductors will continue to drive sustainable WFE growth across cycles. Thank you all again for joining and for your support."

While we let some of our Lam shares go back in February, we continue to like the full position remaining in our broadly diversified portfolios. The near term continues to be uncertain for LRCX due to the coronavirus, yet there's plenty of opportunity for long-term execution success. The company is sitting on $5.4 billion in cash, which is offset by $5.1 billion of debt, a formula for opportunistic spending we believe particularly valuable in this environment. Management repurchased $164 million worth of shares in the latest quarter, leaving $1.8 billion on the $5 billion share repurchase program. The program has been extended, with management reporting that they are "not likely" to buy back any stock in the June quarter. Our Target Price for LRCX is $331.

Telecommunications and wireless phone service provider **Verizon Communications** (VZ – $57.93) earned $1.26 per share in fiscal Q1 2020 (vs. $1.22 est.). VZ had sales of $31.6 billion (vs. $32.4 billion est.). Shares rose 0.6% following the announcement, as shareholders shrugged at the company's subscriber numbers, including Verizon's internet service 59,000 net new additions and 300,000 net postpaid phone service losses. VZ said the negative impact of COVID-19 was $0.04 in the quarter.

CFO Matt Ellis stated, "Over the past few years, we have strengthened our balance sheet, and the results of those actions have put us in a good position to manage through the impacts of the COVID pandemic. We ended the first quarter with $7 billion of cash on hand. Carrying a higher cash balance during a market crisis is part of our liquidity planning strategy, and we executed on that strategy with a $3.5 billion bond offering completed in March. In addition, we started and ended the first quarter with no commercial paper outstanding but have accessed this market in the second quarter to further enhance our liquidity. During the first quarter and before the market disruption, we also completed one of our largest device payment securitizations of $1.6 billion. Having a cash cushion is prudent right now for many reasons, including our expectation that certain customers may have difficulty making timely payments as a result of the crisis. We are closely monitoring these trends with regard to their impact on our ABS programs."

Mr. Ellis said of the company's financial foundation, "In the second quarter, we had some nonrecurring cash outflows including $2.7 billion of maturities and $1.3 billion of spectrum licenses from Auction 103. Scheduled unsecured bond maturities for the rest of 2020 are 0 as a result of our continued liability management strategy that keep near-term maturities low. Additionally, at the end of 2019, given our funded status and prior discretionary contributions, we expect no mandatory contributions to our pension plan until 2026, subject to market conditions. Our pension funded status has been further protected in recent years as we have increased the hedge ratio of our liability to about 50%. This resulted in the funded status of our pension plan only declining from 92% at year-end to 87% at the end of first quarter. Our standby credit facility with our bank group of $9.5 billion provides further assurance of our liquidity. Our balance sheet is strong, and our liquidity position has been further strengthened as we navigate this difficult period for our customers and the markets. We have demonstrated the ability to

access the bond and commercial paper markets in recent weeks. Our strong financial position gives us confidence to continue to invest, while also supporting all of our stakeholders."

Verizon continues to face a tough competitive landscape, with significant churn related to the coronavirus-related shutdowns. But we think that the 5G roll out will continue, as it definitely counts as critical infrastructure, and VZ has done a good job moving towards a sustainable, long-term business model. VZ trades with a forward P/E below 12 and a yield of 4.3%, metrics that are very attractive relative to the company's historical norms. Our Target Price now resides at $68.

Integrated telecom services firm **AT&T** (T – $29.71) posted earnings per share of $0.84, versus the $0.84 estimate, in fiscal Q1 2020. T had sales of $42.8 billion (vs. $44.0 billion est.). Shares fell nearly 5% last week on that announcement as well as news that CEO Randall Stephenson is going to retire. He will be replaced by Chief Operating Officer John Stankey, who has been a leading proponent of the company's turn toward entertainment.

Mr. Stephenson commented on the results, "Let's talk about how we're addressing the COVID-19 situation. We have about half of our employees working from home, and this ranges from our front-line customer support teams to our executives. For our folks who cannot work from home because they're on the front lines providing essential services, we've instituted several policies to help keep them safe, everything from personal protection protocols and equipment to social distancing and additional cleaning. And we gave all our employees 4 weeks of additional paid excused time off for a broad range of COVID-related needs. Turning to our customers. It all begins with the AT&T network, the best and fastest wireless network in the country. We're seeing unprecedented volumes of voice calls, text and video streaming, and our network is performing very well. And FirstNet is doing exactly what it was designed to do: Provide critical connectivity to our first responders, health care providers, governments, military, police, fire and EMS. The demand from our FirstNet customers has been tremendous. These first responders are the true heroes, and it's an honor to serve them."

Mr. Stephenson continued, "It's impossible to overstate the impact of COVID-19 on all of us. I expect it will have long-lasting implications for many things we used to take for granted, like how we congregate, work, travel, and interact. The economic impact has been swift and there is no consensus on how long this downturn lasts. A lot hinges on when and how we open things back up, when do we have sufficient testing and protocols in place so people feel comfortable returning to work or school or even going shopping. Bottom line, we have very little visibility into the broader economic situation, which makes it impractical to provide detailed financial guidance at this time. But here's what we've done and what you can expect. As you know, we've suspended share retirements. We have a strong cash position, a strong balance sheet, and our core businesses are solid and generating good cash flow. We're sizing our operations to reflect the new economic activity level, and we're leaning into our cost and efficiency initiatives."

CFO John Stephens added, "As a result, you should expect the following. We will continue investing in our critical growth areas, like 5G, broadband and HBO Max. We remain committed to our dividend. In fact, we finished last year with our dividend as a percent of free cash flow a little over 50%. And even with the current economic crisis, we expect the payout ratio in 2020 to

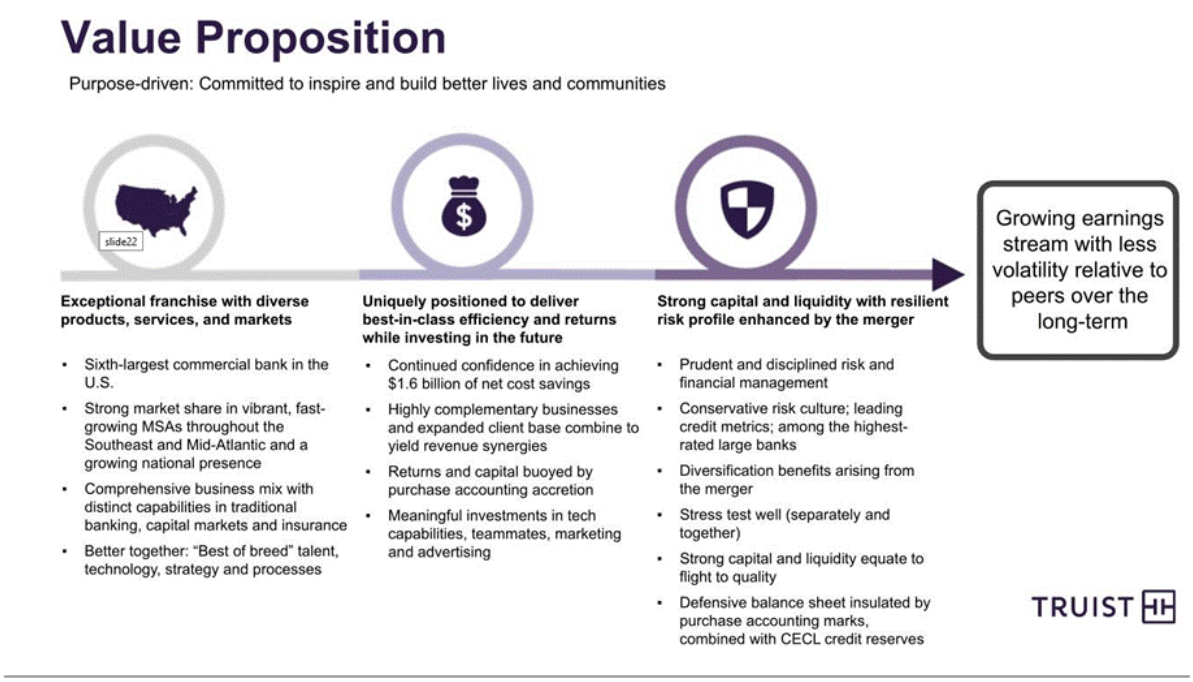
be in the 60s, and we're targeting the low end of that range, which is a very comfortable level for us. And last, we'll continue to pay down debt and maintain high-quality credit metrics. AT&T has been through a lot of other crises before. And each time, you've seen us emerge in a stronger position, and I'm confident we'll do it again with this one."

With the company's 7.0% dividend yield not in jeopardy at this point and the business not seeing major adverse impacts from the coronavirus outbreak (compared to many other companies), we like the stability AT&T brings to our broadly diversified portfolios. There are sure to be challenges on the horizon, including customer nonpayment revenue dings, but we like the long-term, better-than-utility-like exposure (and entertainment focus) with a big yield and a very reasonable sub-10 times P/E ratio. Our Target Price is now $42.

BB&T and Suntrust combination **Truist Financial** (TFC – $35.48) released its first quarter financial results last Monday. The bank earned $0.87 per share (vs. $0.78 expected by analysts), excluding merger-related expenses and some discretionary restructuring charges related to COVID-19. Although the bottom line was roughly 60% below what each entity reported individually in the same quarter a year ago, this was mostly to be expected as TFC mirrored other large banks in reserving for losses due to the pandemic. Even still, performance continued at a high level as deposit growth (~6%) and a declining efficiency ratio (53.4 vs. 57.5 in Q4 '19) drove adjusted return on common tangible equity to 15.5 percent.

With the merger in rear view mirror, CEO Kelly S. King enumerated the bank's new priorities, "Number one priority is focusing on COVID-19. We are laser-focused on taking care of our teammates, making sure everybody is safe and well. We're doing everything we can possibly do to support our clients, not only in terms of their safety in terms of interaction with us but also in terms of helping them sustain the economic challenges that are going along with this terrible experience we're all going through. We're trying to be very willing to invest and be creative in terms of how to support our communities. And we're doing some really interesting things there in terms of broadband and all types of things that we could do to help communities that are really, really struggling."

He continued, "So the second priority, of course, is keeping the integration and conversion on track. We believe we are in a good place there. It's hard to know exactly what may happen with regard to any delays. We — it really depends on the depth and the length of the health crisis. But at this point, we still feel good about where we are in terms of our planned conversion and integration activities. In terms of our performance targets, we still believe in the medium term, we would project a return on tangible common equity in the low 20s, adjusted efficiency in the low 50s. You can see we're already pretty much there. And we still remain very confident in terms of our $1.6 billion in net cost saves. You know exactly when we achieve that kind of depends on the — obviously, the environment we are living in. If it's a V, then we'll recover pretty quickly, and we'll hit these in the not-too-distant medium-target type of range. If it's a U, it will take a little bit longer, and that's just pretty obvious. Regardless, we believe that we will be a top-tier performer whatever the absolute numbers are. I will say to you that all of the benefits of the merger look better now than they did a year ago."



Truist certainly has its work cut out as integration efforts ensue in the midst of the global health pandemic. Uncertainties still abound in our economy, but we take comfort in management's confidence regarding the bank's reserve status, as both Suntrust and BB&T were said to have de-risked leading into the merger. Longer-term, we are hard-pressed to imagine TFC doesn't benefit from the massive sum of cash poured into the economy via Federal Reserve and Congressional stimulus programs. The bank remains committed to its dividend and the yield is now 5.1%. We've adjusted our Target Price for TFC to $60.

Shares of **Synchrony Financial** (SYF – $16.97) rose more than 8% last week and are up 32% since the March 23 lows, after falling more than 60% from 2.19.20 to 3.23.20. On Tuesday, the consumer financial services concern announced Q1 adjusted EPS of $0.45, versus analyst expectations of $0.00. Like its competitors, SYF added to credit reserves (but evidently far less than forecasts) and noted that transactions slowed in the back half of March and continued into April. The trends this month would seem to suggest a weak Q2, which could lead to additional credit provisions and non-performing loans.

That said, management explained that the estimated Common Equity Tier 1 capital ratio was 14.3%, and the estimated Tier 1 Capital ratio was 15.2%. Synchrony's balance sheet remained solid with total liquidity (liquid assets and undrawn credit facilities) of $24.8 billion, or 25.3% of total assets. CEO Margaret Keane commented, "I am encouraged and inspired by the resolve of

our society to come together in moments of crisis. To all those working around the clock – especially our healthcare professionals and first responders on the front lines, and those behind the scenes, including our dedicated employees who are working to serve our customers and partners, thank you. Supporting our communities is paramount and Synchrony will continue to do all we can to support those who support us."

She continued, "The underlying strength of our business and balance sheet, combined with our experience, heritage, culture and talented employees will enable us to navigate these uncertain times. Our focus is clear, and we have prioritized to deliver on the most critical initiatives to ensure success: we will protect our employees while continuing to deliver for our cardholders, retailers, merchants and providers."

We still believe that SYF offers significant long-term upside, especially after the drubbing shares have endured, though we are undoubtedly concerned about its partnerships with JCPenney and the Gap. However, we are quite constructive on its partnerships with PayPal, Amazon and Sam's Club, and newer programs with Venmo and Verizon, as SYF continues to improve its long-term potential to benefit from growing digital shopping. Outside of near-term credit quality erosion and transaction losses, SYF will be needing to make some technological enhancements in the future, but the generally solid financial footing and strong experienced leadership should help the company to not only survive, but to thrive. Our Target Price is now $46.

Comerica Inc. (CMA – $32.13) released first quarter earnings that came in well below consensus estimates (-$0.46 vs. $1.19) as the bank took almost $3.00 per share in loan loss provisions (3/4 of which was toward future loss reserves) to account for current and expected economic conditions. Given the (modest) exposure to energy companies, shares appeared to trade somewhat in tandem with the plunge and rebound in West Texas Intermediate oil throughout the week.

CMA – "At-Risk" Industry Exposure

Credit

Exposure to "at risk" industries well reserved

Category	Period-end loans	% of total loans	% Category criticized[1]	Comments
Hotels/Casinos	$736	1.4%	1.4%	Strong liquidity; Well capitalized
Retail CRE	$560	1.0%	0.0%	Well capitalized developers (low LTV)
Arts / Recreation	$377	0.7%	1.7%	Larger, well-established entities
Retail goods & services	$357	0.7%	9.3%	Granular portfolio
Sports franchises	$320	0.6%	0.2%	Primarily professional league teams
Total all Other[2]	$1,320	2.5%	6.1%	13 distinct categories
Social Distancing Total	**$3,670**	**6.9%**	**3.6%**	
Energy	**$2,114**	**4.0%**	**23.2%**	See Energy slide 10
Auto Production[3]	**$1,278**	**2.4%**	**16.5%**	Primarily Tier 1 & Tier 2 suppliers; $9MM nonaccrual loans
Leveraged Loans[4]	**$2,107**	**3.9%**	**10.5%**	83% are middle market companies

Areas with very little or no exposure:
- Restaurant franchise lending
- Consumer credit card
- Student loans
- Indirect auto
- Mass market residential mortgages
- Agricultural
- Very highly leveraged/covenant lite deals

Taking action:
- Proactive, frequent customer dialogue
- Closely monitoring most vulnerable customers
  - Review liquidity & cashflow forecasts
  - Track receivable & inventory levels
- Working with customers, as warranted
  - Payment deferrals & other accommodations
  - Financial support, including PPP loans

3/31/20; in millions categories • [1]Period-end category criticized loans / category loans • [2]Includes airlines, restaurants/bars, childcare, coffee shops, cruise lines, education, gasoline/C stores, religious organizations, senior living, freight, travel arrangement, wineries/breweries • [3]Auto production is as of 2/29/20 • [4]Higher-risk commercial & industry total $2.5B, eliminated overlap with other categories

Comerica Bank

CMA CEO Curt C. Farmer commented, "Comerica has quickly adapted to the COVID-19 crisis. I am proud of the work our team has done to ensure we continue to deliver products and services. During times of stress, our conservative approach to banking, including liquidity and capital management, serves us well. Over our 170-year history, we have managed through many economic cycles, demonstrating our resiliency and our ability to work cohesively and leverage our ingenuity and entrepreneurial spirit. Helping our customers navigate changing environments by providing our expertise, products and services is at the heart of Comerica's relationship banking strategy."

He continued, "Our first quarter results reflect a large increase in our credit reserves and, to a much lesser degree, the net impact of the decline in interest rates. We prudently increased our credit reserves in light of the economic outlook, particularly as it relates to Energy. Loans increased over $3 billion in the latter half of March to a record level, as we appropriately supported customers' borrowing needs. Relative to the first quarter last year, average deposits were up $2.8 billion, or 5 percent. Compared to the previous quarter, noninterest income included a decline in noncustomer-related activity as well as lower loan syndication volume. Expenses were well controlled and resulted in an efficiency ratio of under 57 percent. We have suspended our share repurchase program and remain focused on deploying our capital to meet our customers' financing requirements."

Mr. Farmer concluded, “The tone of recent conversations I’ve had with customers across our markets, reflects the challenges of the current environment. It is important to note that in general, over the past several years, our customers have remained cautious. Prudently managing expenses and reducing leverage in anticipation of an eventual economic downturn. And while the environment has turned abruptly, we all remain hopeful that COVID-19 will be contained soon, and with the economic stimulus that has been provided globally, business will return to normal quickly.”

With persistently low interest-rates, a weak energy market and Corporate America at a standstill, the current environment is sort of a perfect storm hitting Comerica, but the stock price, in our view, discounts a far more dire outcome than we think will occur. While we are and have been well aware of the risks, we think the bank will work to limit its energy exposure from here and we like the potential upside if long-term rates move materially higher. In addition, management remains committed to the dividend for now (the yield is presently 8.5%) and could likely sustain one or two more ugly quarters. A higher-risk bank in our portfolios, we continue to closely monitor CMA, even as it trades significantly below our revised Target Price of $73.

After falling more than 46% from mid-February highs, shares of consumer finance firm **Capital One Financial** (COF – $56.15) continued to bounce back last week from multi-year lows reached on April 3. Q1 financials that the company reported on Wednesday looked to be a mess versus expectations as bottom-line results were demolished by additions to loan loss reserves. The company reported an adjusted loss of $3.02 per share, as a result of credit provisions of $5.4 billion. Of course, its initial reserve installment was based on a peak unemployment rate of 9.5%, so if we see the rate go above that for an extended period of time, we expect Capital One to take additional reserves.

COF saw loan growth and cash increases during the period, and, not surprisingly, a card purchase volume decline of about 30% in April. However, the company said the economic shutdown had limited impact on credit quality metrics in Q1, but given the large credit provision, we would expect that to change in Q2. “In the first quarter, Capital One rapidly mobilized to respond to COVID-19 and the disruption it is causing, with a focus on our associates, our customers, and our communities,” said CEO Richard D. Fairbank. “We are well positioned to navigate and manage through these uncertain times, and to emerge with strength on the other side.”

While there will be no shortage of near-term headwinds, we think there is material upside available in COF shares for those that can stay focused on the long-term. We are more concerned about a smaller credit card portfolio than we are about credit losses when we move to the other side of this pandemic and the economy starts to reaccelerate. However, we continue to be long-term fans, liking that COF in a more normal environment is a willing and opportunistic asset acquirer in efforts to bolster returns and diversify. Additionally, we like the firm’s focus on managing risks, while improving efficiency, even as it invests to grow and transform itself as banking goes digital. Based on the last few years, we would expect to get information on the quarterly dividend in the next week or two. Currently, COF shares are yielding 2.8%. Our Target Price has been lowered to $120.

Global defense contractor and security company **Lockheed Martin** (LMT – $381.77) saw is shares pull back last week despite turning in a strong Q1 in the midst of the COVID-19 pandemic. Revenue for the three-month period came in at $15.7 billion, versus consensus estimates of $15.1 billion. Adjusted EPS was $6.08, almost 5% better than investor expectations. The Aeronautics segment enjoyed a strong quarter driven by F-35 revenues. Free cash flow for the quarter came in at a robust $2 billion.

The company slightly grew its record backlog ($144 billion), which gives us continued confidence in its future revenue-generating ability. Although full-year sales guidance fell a touch (from a range of $62.75 billion – $64.25 billion to a range of $62.25 billion – $64 billion), management maintained its guidance for adjusted EPS ($23.65 – $23.95) and cash from operations (greater than or equal to $7.6 billion).

AFAM a KOVITZ division

THE PRUDENT SPECULATOR

LMT – Outlook Essentially Unchanged

2020 Outlook Update
($M, Except EPS)

	Prior Outlook	April 2020 Outlook
Sales	$62,750 – 64,250	$62,250 – $64,000
Segment Operating Profit*	$6,800 – $6,950	$6,800 – $6,950
Net FAS / CAS Pension Adjustment*	~$2,090	~$2,090
Diluted EPS	$23.65 – $23.95	$23.65 – $23.95
Cash From Operations	≥ $7,600	≥ $7,600

Chart 8 *See Chart 14 for Definitions of Non-GAAP Measures April 21, 2020

"As we confront the challenges introduced by the global pandemic, our corporation remains focused on providing vital national security solutions for our customers while maintaining a safe and healthy environment for our employees," said CEO Marillyn Hewson. "I'm so proud of the work the dedicated men and women of Lockheed Martin are doing as part of our strong portfolio to deliver critical products and services for our customers and long-term value for our shareholders."

While the risk of budget cuts on defense spending will always exist, we believe that the U.S. continues to see a great power competition with both Russia and China, while the world remains an uncertain place. The COVID-19 pandemic adds adds risk, especially given the amount of money the government has shelled out to counteract the widespread economic shutdown. That said, we think currently there is a nice opportunity to pick up a blue-chip defense contractor with strong cash flow generation and significant long-term growth potential, driven by the production ramp of the F-35 program, international sales, and additional contract wins in hypersonics and classified content. Liking the propensity to use its cash flow for share buybacks and generous dividends (the yield is 2.5%), we note that the board of directors confirmed the company's next quarterly dividend of $2.40, which pays on 6.26.2020. Our Target Price for LMT is now $478.

Shares of staffing solutions company **ManpowerGroup** (MAN – $68.75) continued to rebound last week from their March 23 low. On Tuesday, the company reported Q1 financial results that were largely down as expected as the initial impact of the COVID-19 pandemic took hold. Revenue for Q1 came in well above lowered expectations ($4.62 billion vs. $4.15 billion), while EPS was just $0.03 versus consensus expectation of $0.72. However, the quarter included restructuring costs, which reduced earnings per share by $0.68, and a previously disclosed non-cash pension settlement charge, which reduced earnings per share by $0.11.

"The COVID-19 crisis has significantly disrupted the global economy, our clients and the demand for our services. The speed and magnitude of change in market conditions in the last few weeks of March was unlike anything we have seen in our over 70-year history. Our organization moved swiftly to execute our business continuity plans and to provide necessary support to our people, our clients and our communities," said CEO Jonas Prising. "I want to thank our more than 28,000 employees for remaining steadfast in supporting our clients and associates through a very challenging environment."

Considering that several European countries, where MAN has a material presence, are targeting early to late-May for beginning to remove the shelter in place orders, we would expect Q2 to be heavily impacted, too. Management announced that the firm has $1.1 billion in cash and a $600 million revolving credit facility that has not been drawn against. Also, free cash flow in was very strong at $172 million in the first quarter, representing an $80 million increase from the year ago period.

Mr. Prising added, "We have a very experienced global management team that has gone through a number of recessions and we come into this crisis with clear strategic priorities and a strong balance sheet. I am very confident we will manage through this difficult period while continuing to advance key strategic initiatives. I believe this will allow us to emerge from this crisis better positioned to capture growth and market share. As we cannot forecast when governments in certain major markets will be lifting current work restrictions, we will not be providing guidance for our second quarter earnings."

While the near-term will be filled with operational headwinds, we continue to like MAN's broad geographic footprint, wide range of offerings, good expense management and solid balance sheet. MAN's dividend is paid twice a year, and we expect management to announce something on this in the next few weeks. The current dividend yield is 3.2%. We also note that management

had some optimistic remarks on the company's earnings call. CFO Jack McGinnis explained, "We see some growth opportunities and particularly food and consumer goods are an area where we continue to see good activity; logistics, transportation, we continue to see good activity, and there are parts of manufacturing related to those segments that are continuing to be quite strong. So I think, what we've seen is our model is working for a lot of our clients, continues to be an important part of their workforce, and we don't see that changing. I think, if anything as we emerge from this crisis, I think we'll start to see an increase and I think a lot of employers will continue to see the benefits of temporary staffing on their business models as a result of this crisis and as we continue to emerge from it." Our Target Price for MAN is now $111.

French health and pharmaceutical concern **Sanofi** (SNY – $49.85) released its first quarter financial results last week. SNY earned $0.90 in the quarter, nearly 14% ahead of analyst forecasts. Revenue came in at $9.6 billion, up 6.9% year over year, although nearly half of the growth was reportedly the result of stocking due to COVID-19. Dupixent (eczema, asthma and chronic rhinosinusitis therapy) sales continue to grow rapidly, representing 8% of revenue, compared to 3.8% a year ago. On April 14, Sanofi and Glaxo SmithKline announced a partnership to develop an adjuvanted vaccine for COVID-19, with technology from both companies to help address the ongoing pandemic. Sanofi will contribute its S-protein COVID-19 antigen, which is based on recombinant DNA technology, while GSK will contribute its pandemic adjuvant technology.

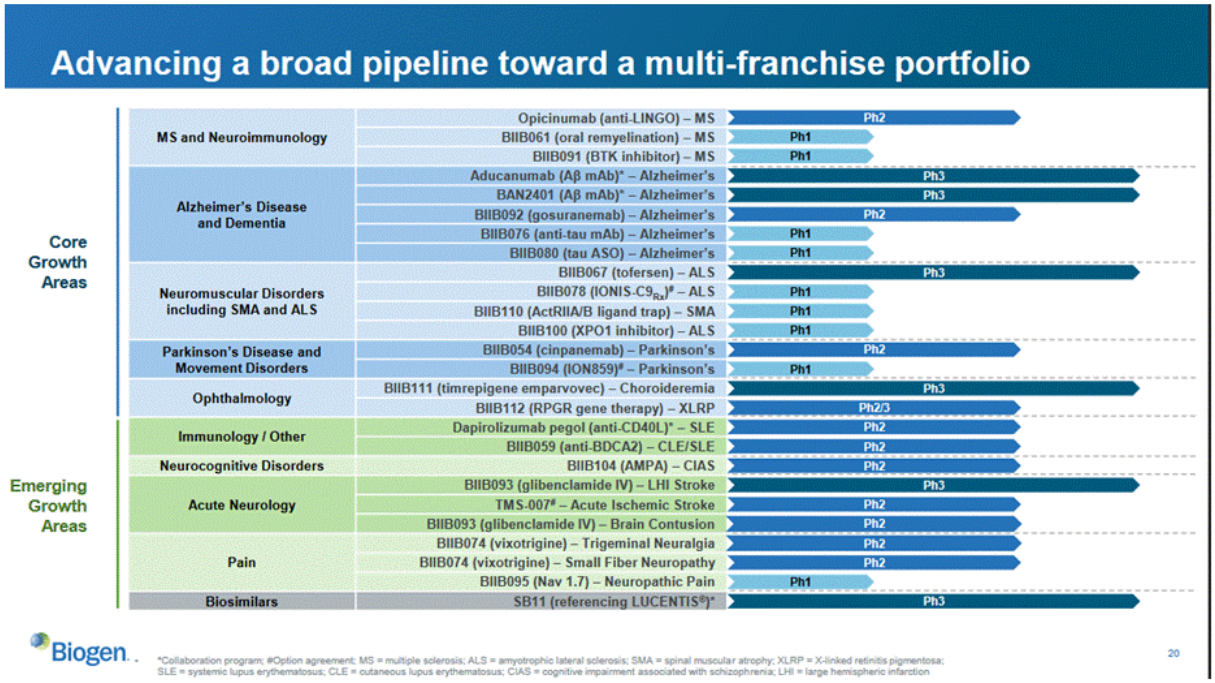
CEO Paul Hudson commented on the how the current environment has affected the firm, "We have, clearly, like most companies, reinvented how we worked during this Q1. And strangely, that's almost perfectly aligned with what we outlined at the Play to Win strategy meeting back in December at Capital Markets Day. We're fully remote but continue to function. We're recruiting patients for studies. We're delivering on our objectives. We've let go of some of the old behaviors, which as a new CEO in a wonderful organization that I've described as a hidden gem, it's been a privilege to see how we've blown away the politics and are just focusing on trying to do our very best across the business and in COVID-19. As for manufacturing and supply, we've mobilized our unique strengths and kept 100% of our sites operational and leveraged our global sourcing in order to avoid any product shortage. We've had careful and meticulous business continuity planning, which has allowed us to continue with our studies and enabled our field force to be fully digitally engaged with physicians and with health care professionals in general. In fact, just to add, our own organization has completed over 0.5 million hours of digital training, which has been a good use of their time during this crisis and will stand us in good stead as we modernize the company going forward. We've done this whilst offering our gratitude and our support for the safety and effectiveness of over 20,000 employees, who work every day on our industrial sites across the world. We've added to that a premium to thank them for their work in providing these essential medicines through difficult times."

We remain excited about Sanofi's progress and expect the firm to continue to benefit from a pipeline that is increasingly more focused on areas of unmet medical need, such as oncology and immunology. We also expect Dupixent to continue growing rapidly as new indications come online. Shares have taken a V-shaped ride since December 31 and now are virtually unchanged for the year. The stock currently trades for less than 15 times estimated earnings with a net yield of 2.9%. Our Target Price is $60.

Shares of **Biogen** (BIIB – $297.80) stumbled badly last week, skidding 13% after the company announced Q1 results and gave an update on its potential blockbuster Alzheimer's treatment, aducanumab. The biotech giant earned $9.14 per share in Q1, a 31% increase versus the prior year, handily beating analyst estimates of $7.64. Biogen saw 1% top-line growth in the quarter, driven by the firm's multiple sclerosis and spinal muscular atrophy franchises, but that number was 8% higher year-over year after excluding a one-time benefit from hemophilia inventory sales in Q1 2019. Despite the strong quarter, the company delayed its timeline for submitting aducanumab to the FDA for approval. Management also repurchased approximately 7.3 million shares in the first quarter at an average price of $303, while the company said that its well-documented approximately 100 cases of COVID-19 that had been linked to a Biogen corporate meeting in Boston has seen all employees affected recovered or recovering, and that most have continued to work and fulfill their duties.

CEO Michel Vounatsos detailed a number of things the company has done to aid in the containment of COVID-19, "We took a number of actions early on to support our stakeholders and society at large, including committing $10 million from the Biogen Foundation to support global response efforts; launching a consortium with Broad Institute of MIT and Harvard and Partners HealthCare to build and share a biobank and giving Biogen employees who have recovered as well as their close contacts, the opportunity to donate samples and medical data; pursuing a process development and manufacturing collaboration with Vir Biotech, which is developing potential antibody therapies for COVID-19; providing medical equipment and supplies to Partners HealthCare in Massachusetts and developing and donating 3D-printed personal protective equipment in Massachusetts and North Carolina; engaging with investigators who may want to evaluate the potential of our interferon therapies or our anti-TNF biosimilars to treat COVID-19; facilitating volunteers' efforts by our medically trained employees to serve as health care workers on the front lines and by other employees to serve the community; and implementing policies and practices to safeguard our employees and communities, including asking almost all the employees to work from home at this stage. These are our initial commitments, and we will continue to look for additional ways to help."

CFO Jeffrey D. Capello gave the following outlook: "As we think about the balance of the year, we acknowledge that these are unprecedented times and there's significant uncertainty. Let me now outline what we do know. We again performed well operationally in the first quarter and saw some benefit from accelerated sales that occurred relative to COVID-19. We expect some volatility in revenues between the quarters. We have seen some disruptions start to materialize, particularly for Tysabri and Spinraza due to physician administration and facility capacity, as we have seen some delays in dosing. We believe our therapies are essential for patients, and we're actively working to help patients maintain their dosing schedules. We are also mindful of the potential macro risks from the economic environment and the impact on the health care systems, including the potential impact on payer mix. At the same time, as demonstrated in the past, we remain focused on strong commercial execution, which we believe may in part help mitigate these risks. We also may benefit from a potential decrease in competitive pressures across several business areas and potentially renewed interest in our interferon therapies."



Despite the aducanumab delays, we like that Biogen is still generating strong free cash flow which can aid in strengthening a pipeline that we already think has solid long-term potential keying on cancer and neurology disorders. All are important because BIIB still faces looming pressure from generics in the coming years for its MS drug Tecfidera and potential competition from Novartis for its spinal muscular atrophy treatment Spinraza. Biogen shares trade for 9 times NTM adjusted earnings expectations and our Target Price has been adjusted to $465.