Market Commentary Monday, August 10, 2020

August 9, 2020

EXECUTIVE SUMMARY

Newsletter Buys – Seven Stocks for Three Portfolios
Value vs. Growth – Historical Review & Catalysts for Return to Historical Norms
Econ News – Very Good Numbers…Relative to Expectations
Sentiment – No Love for Stocks
The Case for Equities – Low Interest Rates Support Higher Prices
Earnings Season – 84% of the S&P 500 Beating the Street
Target Prices – Still Holding AAPL & TGT
Stock News – Updates on DIS, TSN, SIEGY, TKR, DPSGY, ALL, NLOK, PRU, HFC, CVS, CAH, WRK & MOS

Market Review

A little housekeeping before this week's missive. As discussed in the August edition of *The Prudent Speculator*, we bought the following on Thursday morning, August 6, for Buckingham Portfolio:

68 **Acuity Brands** (AYI – $105.27) at $102.2752
137 **Citigroup** (C – $52.12) at $50.77

In our hypothetical accounts, also on Thursday, August 6, we added:

Millennium Portfolio

648 **Nordstrom** (JWN – $16.00) at $15.43 per share
64 **3M** (MMM – $158.33) at $155.93
109 **Exxon Mobil** (XOM – $43.44) at $43.40

PruFolio

90 **Gilead Sciences** (GILD – $69.35) at $69.02
117 **Seagate Tech** (STX – $45.31) at $44.50

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Unlike in recent five-trading-day periods, the last day of the latest week was a good one, with Value stocks surging on Friday, and the Russell 3000 Value index beating for a change the Russell 3000 Growth index. While one day hardly a trend makes, and the gap between Value and

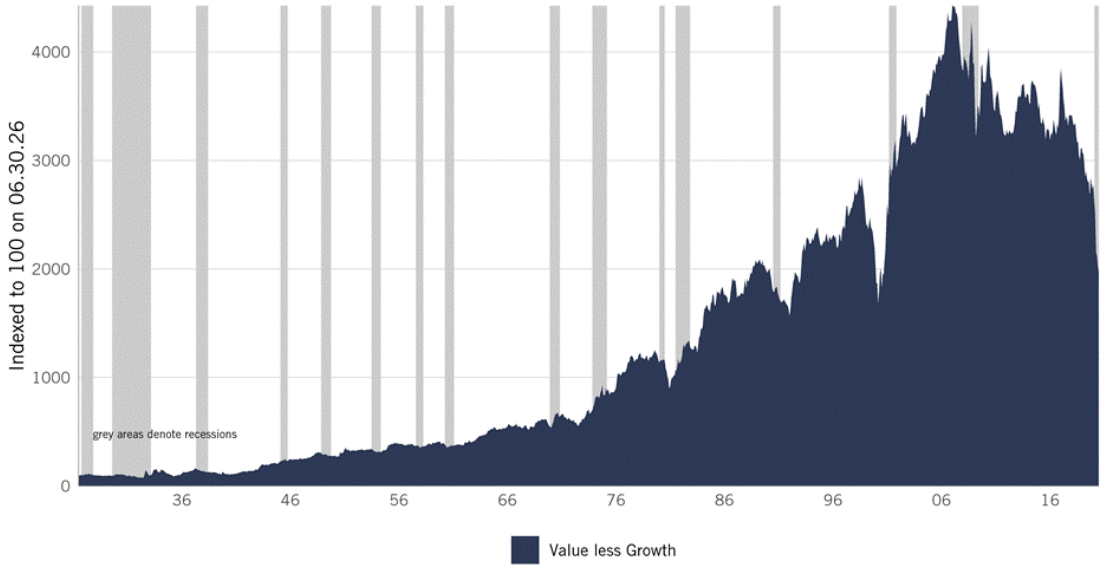
Growth in terms of performance is even greater than what was seen right before the Tech Bubble burst in 2000,…

…there are those who believe, including yours truly, that better news on the health front can be a catalyst for Value to reassert its historical outperformance.

THE PRUDENT SPECULATOR

FAMA/FRENCH CUMULATIVE VALUE VERSUS GROWTH

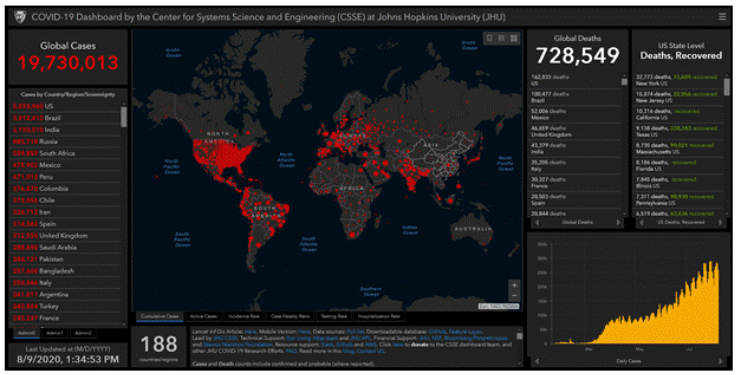
Certainly, we respect that we live in a what-have-you-done-for-me-lately world, but Value has crushed Growth over the long haul, with the best time to buy inexpensive stocks through the years being after periods of lagging performance.

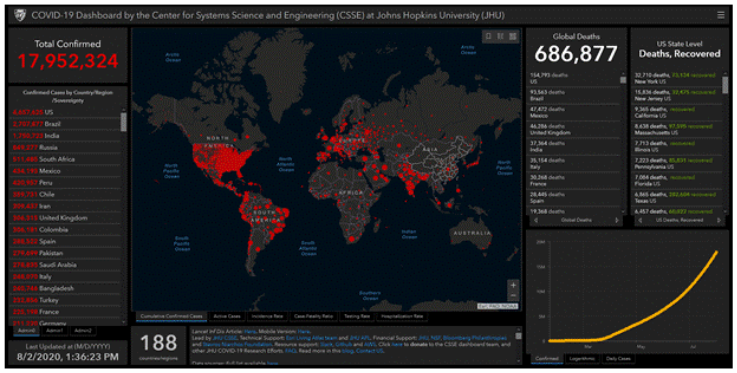


From 06.30.26 through 06.30.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

While coronavirus cases continue to increase and the death count continues to rise,…

COVID-19 GLOBAL SPREAD





https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942346 7b48e9ecf6

With access to testing markedly higher, there was another jump of nearly 1.8 million in global COVID-19 confirmed cases in the latest week. Case counts have surged as economies have reopened, social distancing has waned and mask wearing has been inconsistent, and the U.S. is now up to more than 162,000 fatalities. With deaths lagging cases, we would expect to see a big jump in the former, but the global mortality increase over the last seven days equaled "just" 6.1%, down from 6.2%, 7.2% and 6.6%, respectively, for the three weeks prior.

…data out last week suggested that the COVID-19 spread in the U.S. was easing somewhat. To be sure, there are still "hot spots" around the country, but as *The Wall Street Journal* reported on Saturday, "The seven-day average for new cases has been falling for about two weeks, from around 67,000 on July 22 to 55,510 on August 6. Since July 26, the seven-day average has been less than the 14-day average, a signal that case counts broadly are coming down."

Obviously, there is no assurance that news on the health front doesn't get worse before it gets better, even as there are numerous promising vaccines in development, but another likely factor in favor of equities in general and Value stocks in particular is historical returns after the economy has hit a trough.

VALUE STOCKS HAVE OUTPERFORMED COMING OUT OF RECESSION

U.S. Recession Trough (per NBER) & Equity Returns

S&P 500 and Fama/French Value Performance

Recession Trough Date	1 Year Post S&P 500 TR	1 Year Post FF Value TR	1 Year Post FF Growth TR	3 Year Post S&P 500 TR	3 Year Post FF Value TR	3 Year Post FF Growth TR	5 Year Post S&P 500 TR	5 Year Post FF Value TR	5 Year Post FF Growth TR
Mar-33	81.5%	88.7%	82.9%	155.7%	135.3%	169.1%	62.4%	69.5%	96.2%
Jun-38	-1.7%	-14.5%	2.7%	0.8%	4.6%	14.5%	43.9%	129.3%	65.5%
Oct-45	-7.2%	-2.2%	-6.8%	14.7%	26.6%	-1.3%	64.8%	76.2%	38.5%
Oct-49	35.1%	43.8%	29.9%	92.8%	96.5%	66.3%	177.8%	174.6%	131.2%
May-54	36.1%	60.2%	34.4%	83.7%	95.5%	69.4%	145.2%	200.3%	143.0%
Apr-58	37.2%	61.0%	51.4%	66.4%	94.4%	86.4%	89.9%	128.4%	84.1%
Feb-61	13.6%	16.9%	8.6%	35.2%	49.1%	12.1%	68.4%	137.0%	55.6%
Nov-70	11.2%	11.0%	20.5%	20.6%	13.5%	-0.7%	25.1%	44.4%	1.5%
Mar-75	28.3%	51.5%	31.3%	22.1%	98.6%	44.4%	55.6%	157.8%	96.9%
Jul-80	13.0%	22.9%	22.8%	56.1%	113.6%	69.7%	100.5%	207.7%	75.2%
Nov-82	25.6%	39.8%	21.1%	66.8%	99.7%	36.4%	103.0%	123.9%	38.2%
Mar-91	11.0%	25.5%	16.7%	29.8%	73.2%	25.8%	98.0%	154.7%	82.9%
Nov-01	-16.5%	-11.9%	-18.5%	8.4%	39.8%	13.7%	34.3%	93.7%	33.5%
Jun-09	14.4%	25.5%	14.7%	57.7%	53.2%	62.3%	136.9%	158.2%	140.8%
Averages	**20.1%**	**29.9%**	**22.3%**	**50.8%**	**71.0%**	**47.7%**	**86.1%**	**132.6%**	**77.4%**

Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

There are no guarantees, of course, that we don't see another leg down in GDP growth in the near future, but the current data suggest that we will see a significant economic rebound this quarter,…

THE PRUDENT SPECULATOR

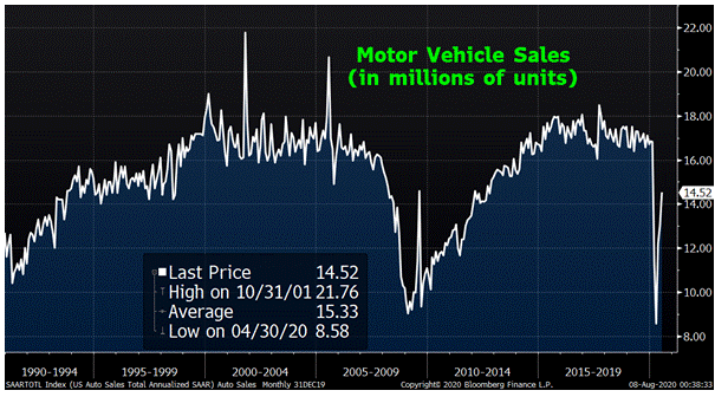
SIGNIFICANT BOUNCE IN U.S. GDP EXPECTED IN Q3

While a rebound is almost a mathematical certainty, given the magnitude of the massive Q2 economic contraction, the Atlanta Fed is now projecting a 20.5% increase in GDP in Q3 on an annualized basis.

…with upbeat numbers out last week on factory orders and auto sales,…

THE PRUDENT SPECULATOR

UPBEAT ECONOMIC NUMBERS



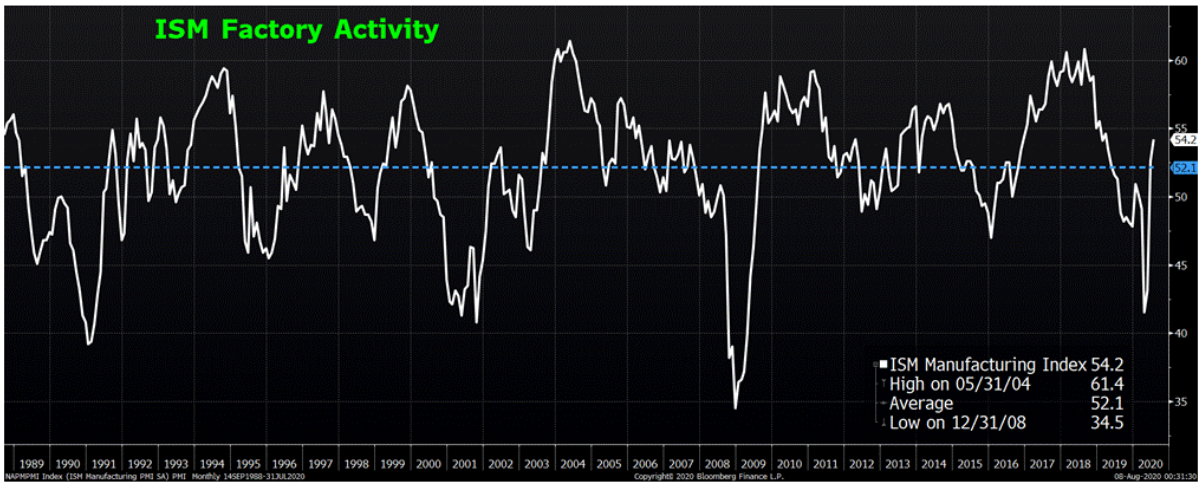
Continuing the sharp bounce back in the manufacturing sector after the coronavirus-related shutdowns, factory orders for June increased for a second straight month, this time by 6.2%, well above projections for a 4.6% gain. Meanwhile, consumers went car shopping in July, with the seasonally adjusted annualized rate for light vehicles sold estimated at 14.52 million units, according to Wards Intelligence, which was above analysts' forecasts.

…and the latest surveys from the Institute for Supply Management on the health of the manufacturing sector…

THE PRUDENT SPECULATOR

ISM MANUFACTURING CLIMBS: 3.3% ANNUALIZED GDP GROWTH

The latest read on the health of the manufacturing sector climbed to a better-than-expected 54.2 in July, rebounding further from the 11-year-low of 41.5 set three months prior and hitting a 15-month high, with the Institute for Supply Management stating, "The past relationship between the PMI and the overall economy...corresponds to a 3.3% increase in real gross domestic product (GDP) on an annualized basis."

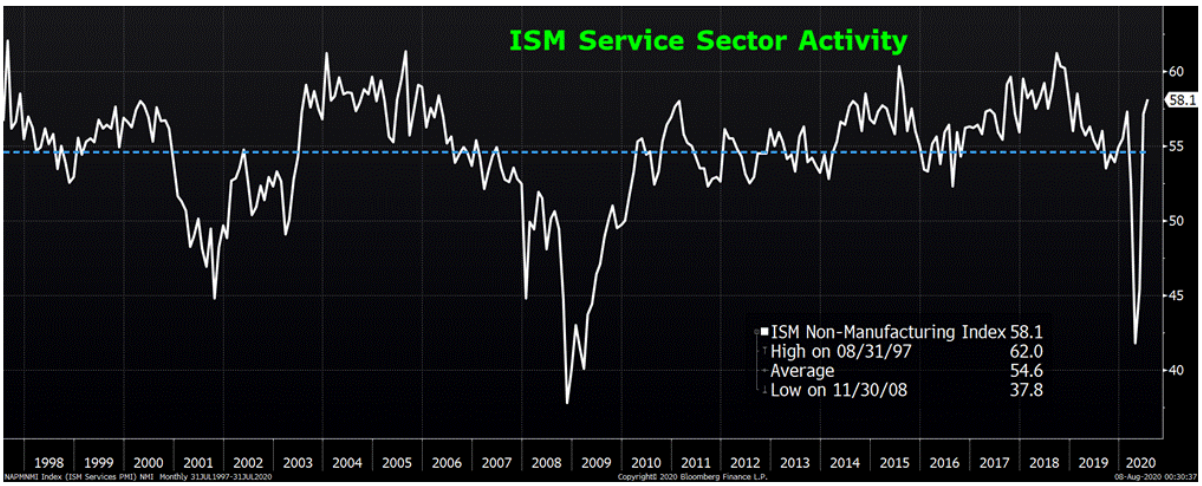


…and the health of the service sector,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING RISES: 3.3% ANNUALIZED GDP GROWTH

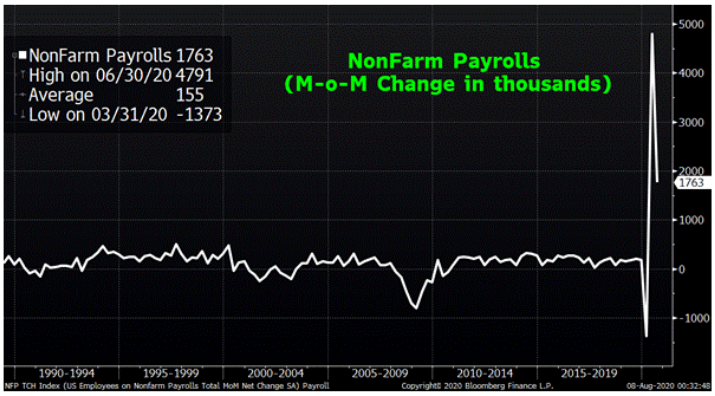
The latest read on the health of the service sector rose to a much-better-than-expected 58.1% in July, up from 57.1% in June and the highest monthly reading since November 2018, with the Institute for Supply Management stating, "The past relationship between the Services PMI and the overall economy...corresponds to a 3.3% increase in real gross domestic product (GDP) on an annualized basis."

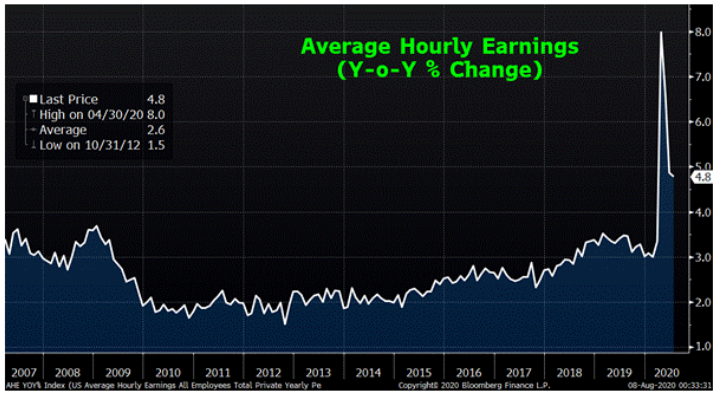


…both pointing to real GDP growth of 3.3% on an annualized basis. Further, and perhaps more importantly, the all-important jobs report for July brought relatively good news,…

THE PRUDENT SPECULATOR

BETTER-THAN-EXPECTED EMPLOYMENT SITUATION REPORT





While economists were looking for a pullback from June's big 4.8 million gain, the payrolls increase of 1.8 million in July exceeded expectations, thanks to big jumps in hiring in the retail trade, leisure & hospitality and government industries. Of course, there are still millions out of work, but given that a lot of the recent layoffs were for lower-paying jobs, average hourly earnings comparisons remained high, jumping 4.8% on a year-over-year basis.

…even as the absolute tallies on the unemployment rate and first-time filings for jobless benefits remain stunningly high.

AWFUL JOBS STATS…BUT SHOWING SURPRISINGLY STRONG IMPROVMENT

While questions remain about the calculation methodology, the jobless rate for July came in better than expected at 10.2%, continuing to improve from April's record 14.7% level. Adding to that relatively good news, first-time filings for unemployment benefits declined to 1.19 million, a much smaller figure than forecast, even as the total for the last 20 COVID-19-impacted weeks now stands at more than 55 million.

That said, the financial markets are discounting mechanisms, and the economy generally is in a better place than what many had envisioned just a few months back, while health news is not as dire as some had predicted, so the rebound in stock prices we have witnessed over the last four-plus months should not be of great surprise,…

The New York Times

The Coronavirus Outbreak › | LIVE Latest Updates | Maps and Cases | Vaccine Tracker | F.A.Q. | Markets & Economy

New Unemployment Claims Decline, but Remain 'Alarmingly High'

Nearly 1.2 million filed for state benefits last week, the lowest total since March, as economic readings offer only limited encouragement.

A2 | Friday, August 7, 2020 THE WALL STREET JOURNAL.

U.S. NEWS

Jobless Claims Are Lowest Since March

Unemployment is still high across the country as Covid-19 remains widespread

By Eric Morath

Filings for jobless benefits fell to their lowest level since the coronavirus hit the U.S. in March—a sign layoffs eased somewhat in a still struggling labor market—but remained at historically high levels for the 20th straight week.

Initial unemployment claims fell by a seasonally adjusted 249,000 to 1.2 million for the week ended Aug. 1, the Labor Department said Thursday, well above the pre-pandemic record of 695,000 in 1982. The decline came as an extra $600 a week in pandemic-related unemployment benefits ended.

The number of people receiving benefits through regular state programs, which cover the majority of workers, also decreased, by 844,000 to 16.1 million for the week ended July 25. Those continuing claims, reported with a week lag, fell to the lowest level since April.

"It's promising that initial unemployment claims number ticked down, but we're certainly not out of the woods," said AnnElizabeth Konkel, an economist at job search site Indeed.com. "The magnitude of layoffs is so much higher than in the pre-Covid era."

The Labor Department separately will release its broadest picture of July employment on Friday in the monthly jobs report. Economists surveyed by The Wall Street Journal forecast the report to show 1.5 million jobs were added last month and the unemployment rate fell to 10.6% from 11.1% in June.

Those numbers, if they bear out in the report, would be a marked slowdown from the pace of gains from the prior two months. Overall employment would also remain well below pre-pandemic levels when the unemployment rate hovered around a 50 year low.

That report will be a snapshot of the labor market in mid-July, and it won't reflect last week's decline in unemployment applications.

Before last week, applications had plateaued in recent weeks, halting what had been a steady decline from a peak of 6.9 million in late March.

Analysts were split on the degree to which the end of enhanced unemployment benefits caused the decline in new applications. Lawmakers and the White House continue to negotiate benefit levels as part of a broader stimulus package.

"The elimination of those benefits—which has gotten widespread press coverage—may have discouraged some workers from filing," Nancy Vanden Houten, economist at Oxford Economics, wrote in a note to clients. "If that's the case, claims may increase when those benefits are renewed."

Others disagreed. "For those who are unemployed, they need every dollar possible...and claims numbers remain at extremely elevated levels," said Andrew Stettner, a senior fellow at the left-leaning Century Foundation who studies the unemployment system. He said last week's drop wasn't large enough to attribute it to the cutoff of the $600 weekly enhancement.

Without the $600 weekly boost, payments dropped to the level set by states, which averaged $332.11 a week, for the 12 months ended June 30, according to the Labor Department.

Other data also point to an easing of hiring. Payroll processor ADP said Wednesday private-sector payrolls grew by 167,000 last month. Employees reported for 1% more shifts in July from the month before, a slowdown from a 5.9% increase in June and an 8.7% gain in May, according to Kronos, a Massachusetts workforce management software company. The number of job postings remains well below last year, according to Indeed.com.

"The labor market is still underwater," said Monica Garcia-Perez, a labor economist at St. Cloud State University in Minnesota.

After employers shed 21 million jobs earlier this year, hiring surged in May and June, adding a combined 7.5 million jobs, according to the Labor Department. That was largely because workers temporarily laid off were recalled, she said.

Ms. Garcia-Perez said gains aren't likely to persist at that rate, and the future path of hiring will be closely tied to whether or not the virus is controlled and people have confidence to resume normal activities. "If we see a new wave of cases this fall and new restrictions, you'll see layoffs move back up," she said.

However, some businesses say the decreased unemployment benefits are spurring new job searches.

Patti Mellard, chief executive of Key Staffing in Topeka, Kan., said the employment firm has seen a rise in applicants in the past week since the $600-a-week federal benefit ended. The company is seeking to fill customer-service, accounting and warehouse jobs, she said, adding that some prospective workers are concerned about becoming ill with the virus or say they don't have available child care.

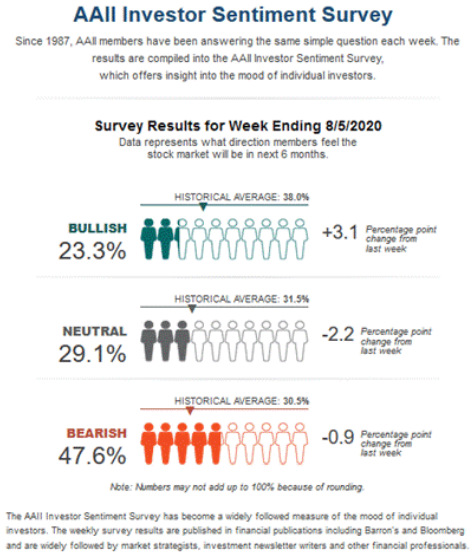
It is hardly surprising that the country's leading newspapers would offer differing headlines related to this past week's jobless claims tally. The jobs picture is hardly pretty, so *The New York Times* is not wrong in proclaiming that the 1.2 million figure remains "Alarmingly High," nor is *The Wall Street Journal* incorrect in trumpeting the fact that the number is the "Lowest since March."

…yet we remain perplexed that so many find equities to be unattractive these days.

SENTIMENT: NO ENTHUSIASM FOR STOCKS

Pessimism among individual investors continues to be unusually high, remaining more than 17 points above normal in the latest AAII Sentiment Survey. Bullish sentiment is nearly 15 percentage points below normal.

We remain perplexed that many supposed market experts continue to argue that investors are piling into stocks, given that the latest data on mutual and exchange traded fund flows from ICI shows a massive exodus from U.S. stocks and a continued infatuation with bonds.



Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	7/29/2020	7/22/2020	7/15/2020	7/8/2020	7/1/2020
Total Equity	-14,420	-11,396	-18,772	-9,310	-22,863
Domestic	-10,909	-7,889	-16,781	-6,050	-14,309
World	-3,510	-3,507	-1,991	-3,259	-8,554
Hybrid	-925	-641	-1,732	-293	-1,841
Total Bond	18,496	23,099	14,523	23,235	18,739
Taxable	15,617	19,477	12,780	21,391	16,438
Municipal	2,879	3,622	1,743	1,844	2,300
Commodities	3,388	2,229	1,035	1,575	1,036
Total	6,540	13,291	-4,947	15,207	-4,929

Source: Investment Company Institute

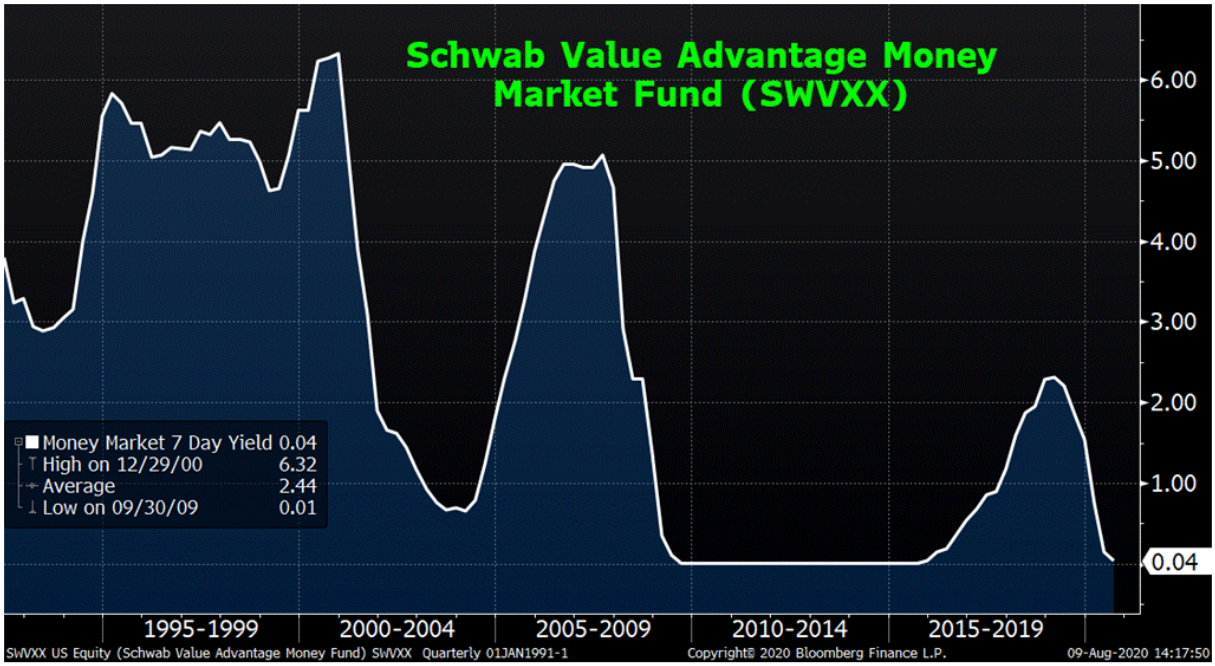
Yes, the large-cap-dominated averages are near all-time highs, and we are three months from the Elections, but in 33 years with *The Prudent Speculator*, your editor has seldom seen so much concern expressed by readers, with those fears vividly illustrated by the above sentiment reading and fund flow data.

Incredibly, there also is $4.6 trillion (up from $3.6 trillion in mid-February) now sitting in money market funds where the yield is not much better than one basis point unless one wants to assume a little risk to get something like a four-basis-point yield. Of course, money doubles in “only” 1,734 years at a 0.04% annualized return, compared to 6,932 years at 0.01%!

THE PRUDENT SPECULATOR

MONEY MARKET FUND YIELDS OVER TIME

The yield on the Schwab Value Advantage Prime Money Market Fund has cratered to 0.04% today, which sharply contrasts to the respective 5.00%+ and 6.00%+ at prior market peaks in 2000 and 2007.



And, even if one is willing to assume more risk, such as in holding a 10-year Treasury, the dividend and earnings yields on equities still are extraordinarily compelling, even after the massive rebound in the major market averages,…

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

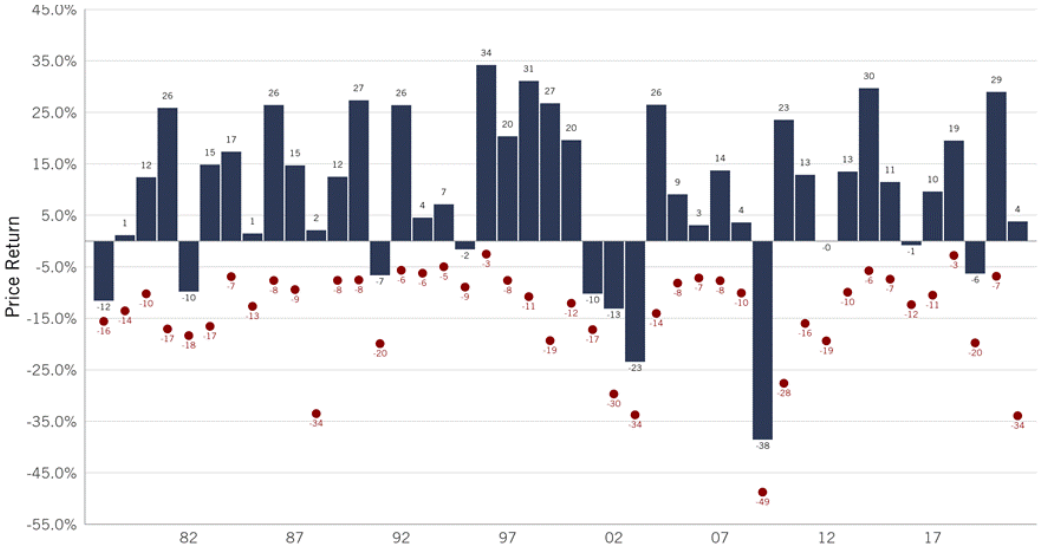
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, we like today's rich (and temporarily depressed) relative earnings yield (3.79% vs. 0.56% 10-Year) and generous S&P 500 dividend yield of 1.80%.

… though one must always be braced for stock price volatility.

THE PRUDENT SPECULATOR

A BIG SELLOFF HAPPENS ALMOST EVERY YEAR

While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 27 of the 44 years, including a 34% one (on a closing basis) this year.



From 12.31.76 through 08.07.20. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

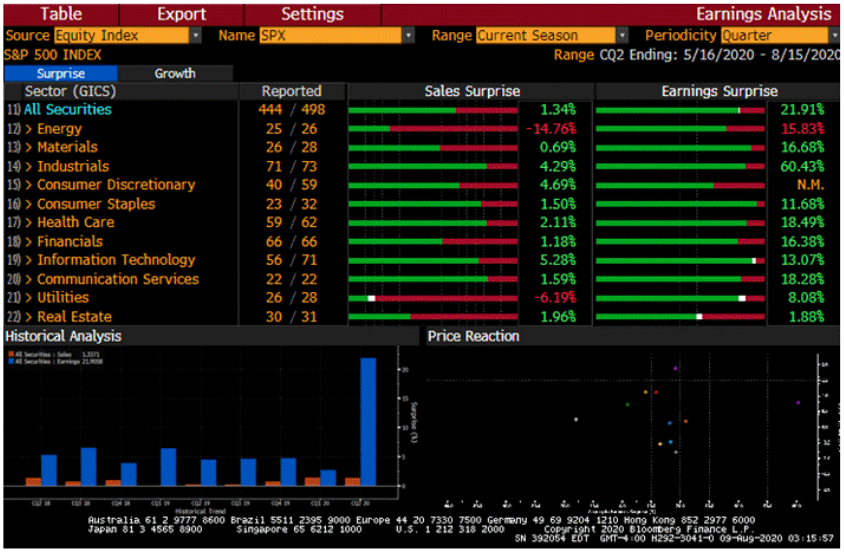
No, we are not Pollyanna, nor do we somehow think that COVID-19 vanishes soon, but the average stock remains well off its highs, with many Value stocks in particular having discounted an awful business environment for as far as the eye can see.

Stock Updates

Second quarter earnings reporting season remained in high gear last week. We are now four weeks in, and the numbers continued to be very good relative to subdued expectations. With 444 members of the S&P 500 having announced results, per data from Bloomberg, 84.4% have topped analyst projections, much better than the usual 70% or so that beat Wall Street forecasts.

EPS LIKELY TO PLUNGE IN 2020 BUT REBOUND SHARPLY IN 2021

Q2 reporting season has been very good, relative to analyst projections that have been a little too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS likely will be miserable, but a significant rebound is projected next year.



S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$44.91	$163.46
9/30/2021	$42.16	$154.27
6/30/2021	$39.52	$143.93
3/31/2021	$36.87	$128.18
12/31/2020	$35.72	$110.81
9/30/2020	$31.82	$114.27
6/30/2020	$23.77	$122.26
ACTUAL		
3/31/2020	$19.50	$138.63
12/31/2019	$39.18	$157.12
9/30/2019	$39.81	$152.97
6/30/2019	$40.14	$154.54
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60
9/30/2018	$41.38	$150.42
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26

Source: Standard & Poor's. As of 8.6.20

Management team outlooks have been very subdued and forward guidance ranges have been broad if they are provided at all, but Jason Clark, Chris Quigley and Zach Tart look at a baker's dozen of our companies that posted quarterly results last week. Readers should keep in mind that all stocks are rated as a "Buy" until such time as they are a "Sell." A listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/, and we offer the reminder that any sales we make for our newsletter strategies are announced via our Sales Alerts.

We note that Target Prices have been boosted for several of our holdings, including **Apple** (AAPL – $444.45) and **Target** (TGT – $131.75), though portfolio management decisions (i.e. company, industry or sector weightings) can sometimes make partial sales prudent.

Movies, entertainment and theme park powerhouse **Walt Disney** (DIS – $129.93) reported adjusted earnings per share of $0.08, versus the -$0.63 estimate, in fiscal Q3 2020. DIS had sales of $11.8 billion, versus the $12.4 billion estimate. Shares have gained nearly 11% since the report despite the lower revenue, as some of the company's COVID-19 mitigation strategies showed signs of success. The company's Parks segment had revenue of $983 million (vs. $6.575 billion in Q3 last year) and Studio Entertainment saw a similar drop to $1.7 billion (vs. $3.8 billion in Q3 last year), while revenue for Media Networks and Direct-to-Consumer segments

was roughly flat year-over-year. Although DIS did post a positive adjusted EPS number, we note that it is adjusted for non-cash goodwill and intangible impairment charges nearing $5 billion and the GAAP diluted loss per share is -$2.61. There is some leeway in the adjusted financials, but they are generally not expected to be recurring.

CEO Bob Chapek commented, "Despite the harsh realities we are facing today, we have made some encouraging progress. Since our last earnings call, we've begun a responsible phased reopening of our parks in Shanghai, Paris, Tokyo and Orlando as well as our shopping and dining area, Downtown Disney in Anaheim. We have prioritized the health and safety of our cast members and guests and have instituted protocols that include: a mandatory mask policy, temperature screenings, increased cleaning and disinfecting as well as capacity restrictions to promote social distancing. We continue to work with national and local health and government officials in this very fluid situation and are making adjustments as necessary. Along with millions of fans, we're also pleased with the return of major live sports on ESPN, including the successful resumption of the NBA and MLS seasons within the Walt Disney World Bubble and restarts of the WNBA and MLB."

Mr Chapek continued, "Given the rapid changes in consumer behavior, we believe it is more important than ever that we continue to grow our direct relationship with our customers. And to this end, I am also pleased to announce that we plan to launch an international, direct-to-consumer, general entertainment offering under the Star brand in calendar year 2021. Mirroring the strategy we successfully pursued with Disney+, the offering will be rooted in content we own from the prolific and critically acclaimed production engines and libraries of ABC Studios, Fox Television, FX, Freeform, 20th Century Studios and Searchlight."

We think Disney's performance in the current environment has been remarkable, with the help of good fortune getting the timing right on the Disney+ launch. While the major sports leagues have restarted or are nearing a restart, we believe that the entertainment landscape will look very different for the foreseeable future and we have been impressed with Disney's ability to pivot quickly. The company's streaming services, Hulu and Disney+ in particular, have been crucial during the pandemic and we think that the momentum is unlikely to abate as the restrictions are lifted. This is especially true as management announced that the oft-delayed premiere of the live-action potential-blockbuster *Mulan* will happen not in theaters but on Disney+ on September 4…for an additional $29.99 fee. While the company claims this is only a one-off decision to skip theaters due to the pandemic, it will be an interesting test case…and the market was very enthused about this development. DIS has discontinued its July dividend payment in order to preserve cash and expects to revisit a decision for the back half of fiscal 2020 late this year, but our enthusiasm for the company remains strong as ever. Our Target Price for DIS has been hiked to $147.

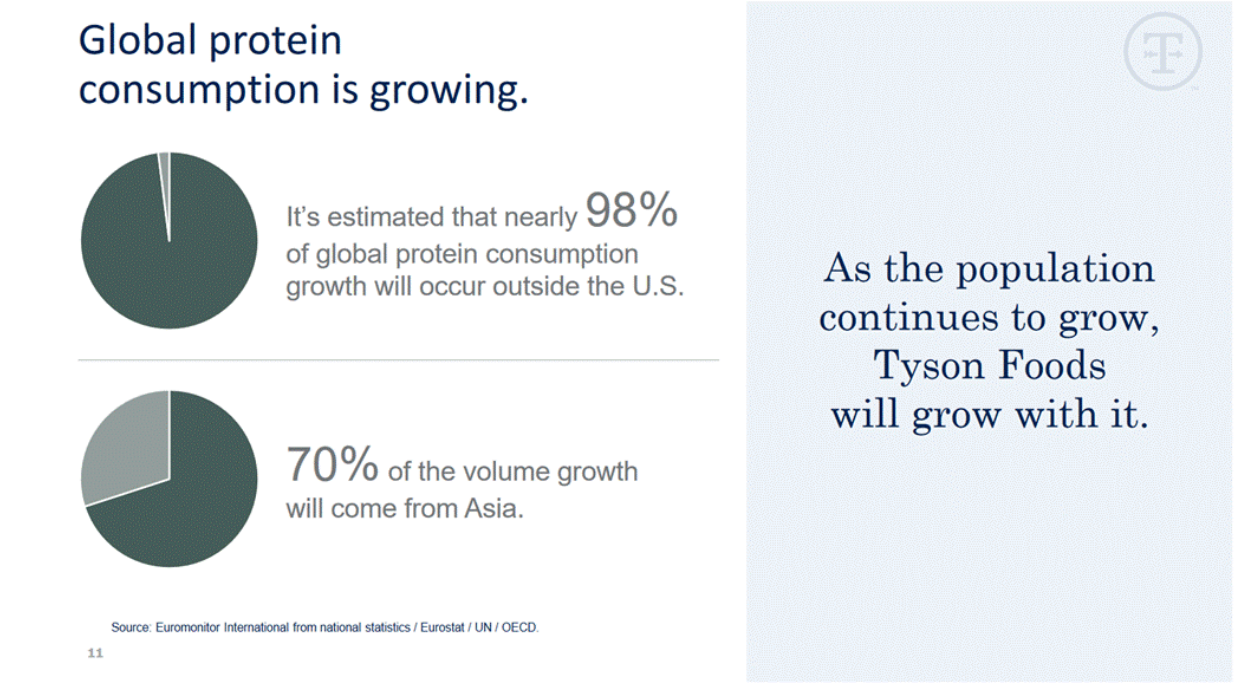
Despite overall revenue coming in almost 5% below the consensus analyst estimate, shares of protein producer **Tyson Foods** (TSN – $62.80) rose 2% last week as its fiscal Q3 financial release included bottom-line results that were 50% higher than expected ($1.40 vs. $0.93). Chicken and prepared foods remained under pressure during the period, but we were pleased to see the overall strength in the Beef and Pork segments. Additionally, the company announced that President Dean Banks will take on the role of CEO beginning in October of 2020. While

from what we can tell, the news wasn't a big disappointment to investors, we do acknowledge that there have been a number of senior leadership changes that have occurred over the past few years. Current CEO Noel White will become the Vice Chairman.

"Without a doubt, our third fiscal quarter was one of the most volatile and uncertain periods I've seen during my time in the industry," commented Mr. White. "However, our commitment to team member health and safety and investments in operations and portfolio strategy effectively positioned us to weather unprecedented COVID-19 marketplace volatility while allowing us to support our farmers, ranchers and producers and meet our customers' needs."

He continued, "Within each of our segments, we absorbed higher-than-normal operating costs related to COVID-19. Nonetheless, Tyson delivered strong results during the third quarter led by strength in our Beef and Pork segments. Despite short-term challenges, we're maintaining a clear focus on the long term. Our fourth quarter is off to a solid start, and while COVID-19 has been disruptive, we have a strong long-term outlook for Tyson Foods."

During its fiscal Q3 TSN incurred COVID-19 related expense of approximately $340 million. These expenses primarily included team member costs associated with worker health and availability and production facility downtime, including direct costs for personal protection equipment, production facility sanitization, COVID-19 testing, donations, product downgrades, rendered product, certain professional fees and $114 million of thank you bonuses to frontline employees, partially offset by CARES Act credits.



While operational headwinds aren't going anywhere, and a prolonged challenging environment for consumers could weaken demand for TSN products, we believe Tyson should benefit from positive trade developments as the African Swine Fever has caused a global pork shortage especially in Asia. We believe that TSN is well positioned to supply China with pork and other proteins and backfill other markets. The near term is definitely murky, but we like the long-term potential across its product lines, including prepared foods and plant-based offerings. Also, we can't ignore the likelihood of long-term increasing protein consumption around the globe, especially in emerging economies as citizens step up in socioeconomic class. Tyson's dividend yield is now 2.7% and our Target Price now resides at $88.

German industrial conglomerate **Siemens AG** (SIEGY – $68.52) earned $0.68 per share in Q3 2020 (vs. an estimated loss). SIEGY had total revenue of $14.9 billion, versus the $15.0 billion estimate. Shares moved up 2.9% as Siemens reported benefits from cost reductions, a resurgence of industrial production in China and build-out of a digital ecosystem with SAP.

CEO Josef Kaeser said, "As expected, COVID-19 related shutdowns and restrictions caused a deep slump in demand, with very different prospects of recovery. Also, as expected, we saw very diverging regional and end market development…. Some of the regions and/or sectors may take quite some time to recover to pre-COVID levels. Even though intensive stimulus programs were

initiated around the globe, there is still limited visibility, mostly on the back of a material probability that we'll see a second wave of COVID-19-related volatility going forward. This is especially the case for DI, where we do expect modest top line growth sequentially on a comparable base but considerably lower levels year-over-year."

CFO Ralf Thomas added, "We expect the economic consequences of COVID-19 pandemics to continue to strongly impact our fiscal fourth quarter's financial results. Macroeconomic developments and the influence on Siemens still cannot be reliably assessed. Furthermore, we cannot reliably forecast the amount of the spin-off gain within discontinued operations; confirm our book-to-bill and revenue outlook for fiscal 2020. Guidance for basic EPS from net income remains suspended."

Analysts expect Siemens to earn about $3.18 per share in fiscal 2020, growing to more than $4.50 by fiscal 2022. The company still expects to maintain its annual dividend (management targets a 40% to 60% payout ratio), but there is lots of time left to decide to make different capital allocation decisions. We believe the near-term headwinds could be stiff, but the giant infrastructure projects that Siemens specializes in are decisions that are made in terms of years or decades. Therefore, we see no reason at present to dampen our enthusiasm for SIEGY. Our Target Price has been boosted to $80.

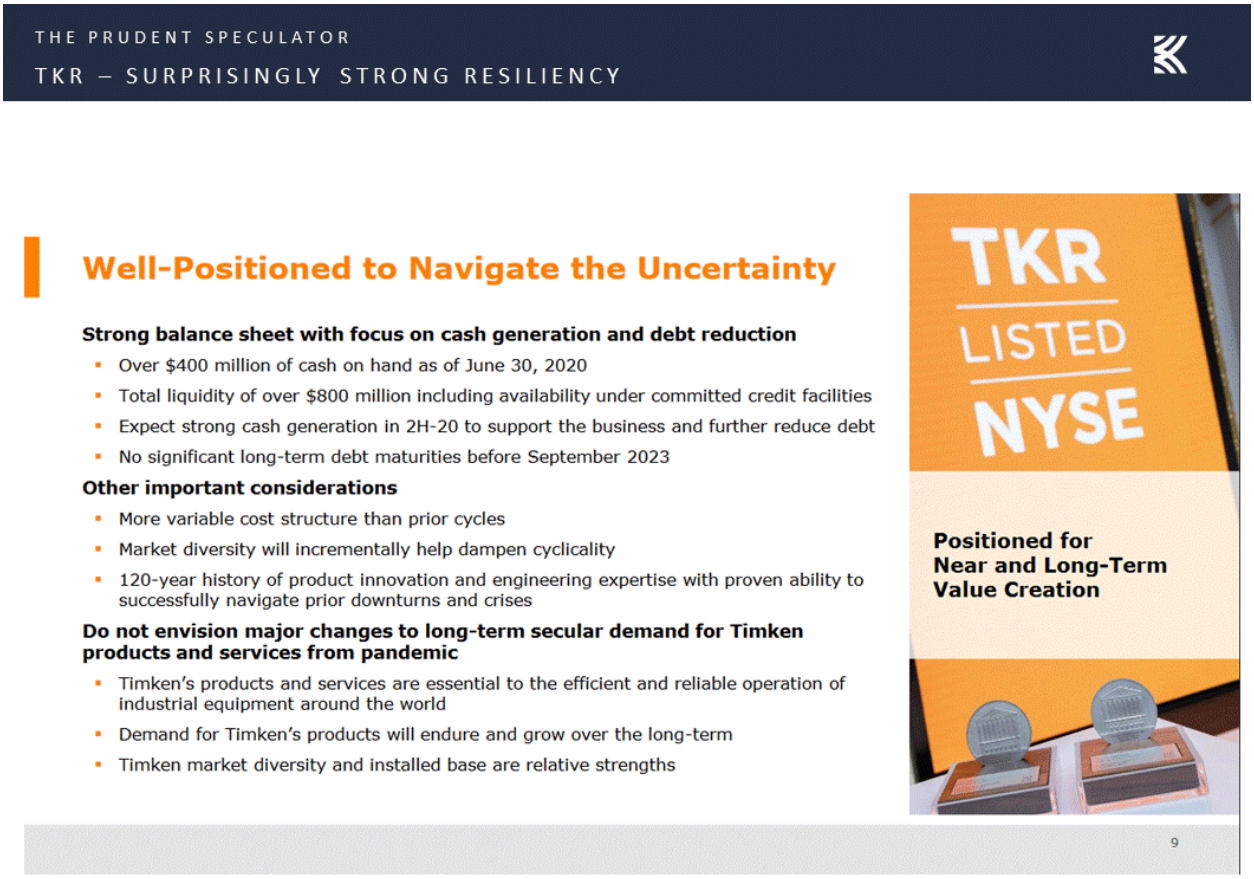
Shares of bearing and alloy steel manufacturer **Timken** (TKR – $51.81) rocketed more than 13% last week after the company reported a far-better-than expected quarter and received multiple analyst upgrades. For Q2, TKR said revenue came in at $803.5 million, more than 11% above estimates. Adjusted EPS for the three-month period was reported at $1.02, a whopping 200% more than the consensus analyst forecast of $0.34. While OEM & Auto, Heavy Truck and India were hit by more than 40% in the quarter, sizeable growth was seen in Renewables and the Chinese market. Free cash flow for the period came in at a surprising +$223 million.

"We performed very well in the quarter despite the unprecedented impact from the COVID-19 pandemic, generating strong operating margins and cash flow, and delivering solid earnings per share," said CEO Richard G. Kyle. "The company responded quickly to the pandemic by taking decisive actions to protect employees and other stakeholders, adapt to rapid changes in customer demand, reduce costs and bolster liquidity. The advances we have made over the past several years have transformed Timken into a more resilient and higher performing company, as evidenced by our second-quarter and year-to-date results."

TKR ended Q2 with a net debt to EBITDA ratio of 2.1 times, an improvement from 2.2 times as of March 31, 2020. The company has solid liquidity, with $416 million of cash on hand and over $400 million of availability under committed credit facilities as of June 30, 2020. Management expects to generate strong free cash flow over the rest of the year and will continue to reduce net debt.

Mr. Kyle added, "Timken remains well positioned to advance as a global industrial leader despite this period of heightened uncertainty. We took immediate cost reduction measures across the enterprise in the second quarter in response to the pandemic and are implementing additional structural cost actions in the second half of the year. While the slope of the recovery and the

impact from the pandemic remain uncertain, we will continue to focus on our customers and our strategy to drive strong performance and shareholder value through the business cycle."



With Q2 lending support, we think TKR has good long-term return potential for investors as organic investments and strategic M&A over the past several years have improved operating performance and will help reduce the cyclicality of the business. We also like Timken's business mix and that revenue is diversified across several end-market sectors, ranging from industrial to aerospace to renewable energy. We are constructive on the company's free-cash-flow growth potential, which should further support diversification investments and return of capital to holders via buybacks and dividends. TKR yields 2.2% and trades at 13.5 times NTM adjusted EPS estimates. We have increased our Target Price to $62.

German letter and parcel carrier **Deutsche Post AG** (DPSGY – $43.00) earned $0.47 per share in fiscal Q2 2020 (vs. $0.38 est.). DPSGY had revenue of $17.6 billion, versus the $17.3 billion estimate. Since the report, shares have gained nearly 4% as investors were encouraged by the carrier's execution amid an unusually rocky environment.

CFO Melanie Kreis commented on the impacts of COVID-19, "In the beginning of the pandemic, our focus has been very much on preserving liquidity, keeping us in a super safe

balance sheet position. In early July, based on good performance we had seen in the second quarter, we had a discussion in the corporate Board to reassess our cash allocation. And as you will have seen on that basis, we took the decision to reward our employees with a bonus for their exceptional efforts throughout the last months. And we also scheduled a date for our AGM (Annual General Meeting) and on our commitment to dividend continuity with a proposal of EUR 1.15 dividend to the AGM. Overall, for the first half of the year 2020. This is both a confirmation of the fundamentally sound operating performance in our divisions but it's also the result of our strong internal focus on improved cash generation."

Ms. Kreis continued, "It has been a challenging and unusual year, I guess, for all of us. I think on the positive side, it has shown our mission-critical logistics services are to keep the world moving. And for us as a company, it has shown how our leading and diversified propositions across the industry provide us with a resilient base for sustainable success. And that is what gives me strong confidence beyond this second quarter. Our stable strategic logistics footprint in combination with our agility, which we proven now in the second quarter, where we really had to respond rapidly to unforeseeable events and the colleagues out there have done an amazing job. And I think the fundamental basis for this success has actually what we have worked on continuously over the last years, and that is our company culture and the values. We have had our purpose connecting people, improving lives out there for many years now. And our people across the organization have probably never felt this contribution, this purpose so real and firsthand, like under the pandemic circumstances now in the second quarter."

With EBIT turning back to growth in the quarter and Deutsche Post's guidance from July reaffirmed (about $4.3 billion of EBIT), we think that DPSGY and the other parcel carriers may have already moved past the worst of pandemic. Of course, every business is different and many companies have a long road ahead, but the strong e-commerce activity in Europe as a result of the regional shutdowns demonstrated the value of delivery services that had been otherwise slow to resonate with European shoppers. No doubt, the outbreak in Europe continues and macroeconomic weakness will continue to have an effect on shipments and mail as businesses restructure or unfortunately fold, but we expect that trend to reverse as the continent opens back up with some of the online shopping staying permanently. The shares now sport a net forward yield of 3% and trade and for less than 70% of projected sales, while offering our broadly diversified portfolios unique European exposure. Our Target Price for DPSGY has been increased to $55.

Property and casualty insurer **Allstate** (ALL – $96.91) saw its shares rise 2.7% last week following Q2 financial results that included adjusted EPS that were 55% higher than the consensus analyst estimate. The quarter was carried by better auto underwriting margins as Americans drove far fewer miles than they did pre-COVID-19. While we would expect some reversion on driving, that may play out more slowly than originally thought as more companies talk about extending work-from-home plans for their employees, and as consumers of all ages become more comfortable having their goods delivered to them.

"Allstate's strong results reflect a resilient strategy and rapid adaptation to the coronavirus pandemic," said CEO Tom Wilson. "Customer satisfaction increased as we maintained high service levels and helped customers, including almost $1.0 billion in Shelter-in-Place Payback,

payment deferrals and extended coverage. The Allstate brand personal property-liability Transformative Growth Plan is gaining momentum with broader customer access and continued expense ratio reductions, excluding the impacts of customer-facing coronavirus programs. Allstate Protection Plans continued its rapid growth through major retailers with policies in force increasing 43% from the prior year to over 120 million. The independent agent personal property-liability business' strategic position will be significantly improved with the pending acquisition of National General Holdings Corp., which will be accretive to earnings."

Mr. Wilson continued, "Financial results for the quarter were excellent, with revenues of $11.2 billion generating net income of $1.2 billion and adjusted net income* of $2.46 per common share. The Property-Liability combined ratio was 89.8 in the second quarter, which more than offset the negative pandemic impact on reported investment income and life mortality. The total return on the $89.6 billion investment portfolio was 5.0% in the quarter and 5.7% over the last 12 months. Allstate Protection Plans' adjusted net income of $35 million in the quarter was 84% higher than the prior year quarter. Shareholders also benefited from the 17.9% adjusted net income return on equity with $563 million of dividends and share repurchases in the quarter."

THE PRUDENT SPECULATOR

ALL – FANTASTIC Q2

Allstate Quickly Adapts to Pandemic and Delivers Excellent Operating Results

- **Revenues of $11.2 billion reflect higher realized capital gains and Property-Liability premium growth**
- **Net income of $1.2 billion and adjusted net income* of $780 million ($2.46 per share) due to strong underwriting results**
- **Adjusted net income return on common shareholders' equity* of 17.9% for the latest 12 months**

	Three months ended June 30,			Six months ended June 30,		
($ in millions, except per share data and ratios)	2020	2019	Change	2020	2019	Change
Total revenues	$11,197	$11,144	0.5%	$21,273	$22,134	(3.9%)
Property-Liability insurance premiums	8,863	8,681	2.1%	17,744	17,188	3.2%
Net investment income	409	942	(56.6%)	830	1,590	(47.8%)
Realized capital gains and losses	704	324	NM	242	986	NM
Income applicable to common shareholders:						
Net income	1,224	821	49.1%	1,737	2,082	(16.6%)
per diluted common share	*3.86*	*2.44*	*58.2%*	*5.43*	*6.17*	*(12.0%)*
Adjusted net income*	780	735	6.1%	1,920	1,511	27.1%
*per diluted common share**	*2.46*	*2.18*	*12.8%*	*6.00*	*4.48*	*33.9%*
Return on common shareholders' equity (trailing twelve months)						
Net income applicable to common shareholders				18.2%	11.2%	7.0 pts
Adjusted net income*				17.9%	13.5%	4.4 pts

NM = not meaningful

Allstate Earnings Conference Call Presentation: August 5, 2020

3

We continue think Allstate is well-positioned due to its vast and increasing distribution network, scale and resulting cost advantages, pricing sophistication and product design. Shares continue to

offer an intriguing entry point at 8.1 times expected NTM adjusted earnings, while the firm's share-repurchase program remains intact. The yield is 2.2% and our Target Price for ALL now stands at $134.

NortonLifeLock (NLOK – $23.36) earned $0.31 per share in fiscal Q1 2021 (vs. $0.22 est.). The cyber safety concern had revenue of $615.0 million, versus the $600.0 million estimate. NLOK reported 400,000 net new customers and 4% year-over-year revenue growth, as well as substantial cost reductions and a 47% operating margin (improved 15 points year-over-year). Shares rose 5.4%.

NLOK CEO Vincent Pilette explained, "Our vision is to keep people around the world cyber safe. We believe it is our responsibility to provide everyone with innovative products and solutions to protect and control their digital lives. That vision was the impetus for creating the Norton 360 integrated platform, and we believe customers are starting to see it. The vast majority of new customers are now coming directly to Norton 360. And as of the end of Q1, over 40% of our installed base was on Norton 360, up from approximately 25% at the end of Q4. This penetration is important as it enables us to offer comprehensive cybersafety and the one common experience to seamlessly upgrade our platform with new features like home title protection and to increase the engagement and with that, the retention of our customers."

Mr. Pilette continued, "Even before the world was tossed into turmoil, our mission was relevant as the digital world is taking over how we work, learn, shop and basically live our lives. Now with COVID-19, our mission is more important than ever. Clearly, this pandemic has accelerated people's reliance on technology, and we are seeing the impact of that increased activity online to the number and variety of attacks on consumers. Attackers have elevated their techniques on stealing information, disrupting sites and cascading malware through phishing attacks, camouflaged test tracing apps, social engineering for trained COVID vaccines and poisoned websites emulating stimulus benefits, all resulting in an increased need for security, identity protection and restoration and privacy solutions. These are just a few of examples of the many threats facing us now that more of our everyday activities are done digitally. While there is a lot of uncertainty at the macro level, one thing is certain: There is a real need for cybersafety for individuals, families and homes. Through innovative products and expanding distribution channels, our mission is to meet that need and provide cybersafety to everyone."

We believe that Norton's prospects in data security remain relatively bright, and we continued to be impressed with management's ability to drive down operating costs. Admittedly, we had some concern that **Broadcom** (AVGO – $325.93) CEO and shrewd negotiator Hock Tan only took the good stuff when NortonLifeLock split from Symantec. It seems those worries were unfounded, as both AVGO and NLOK have turned in solid results so far this year. As we suspected, NLOK has been a beneficiary as individuals are seeking online protection as the world rapidly has become more digitized and cybercrime is showing no signs of abating. We have revised our Target Price for NLOK upward to $27.

Prudential Financial (PRU – $67.96) shares jumped more than 7% last week as investors seemingly took notice of the financial services firm's decent Q2 results. Revenue for the period of $13.1 billion was better than expected, and adjusted EPS of $1.85 was nicely higher than the

$1.71 for which investors were looking. Prudential's investment management unit, PGIM, was the bright spot of the quarter with adjusted operating income increasing 23% to $324 million. Assets were up 9% and the unit saw positive third-party net inflows. Also, PRU said its adjusted book value per share edged down to $92.07 in Q2, leaving its shares trading at just 73% of that figure.

CEO Charles Lowrey commented, "During the second quarter, we displayed resiliency amidst the effects of the pandemic and economic and market shocks while continuing to execute against our 2020 priorities with urgency, benefiting from our complementary business mix, our rock-solid balance sheet, and our carefully constructed risk profile. We remain on track to achieve our targeted $140 million of cost savings for the year and are making progress in transitioning our international earnings base to higher-growth markets…We also continue to address the impact of the low interest rate environment through aggressive repricing and by pivoting to less rate-sensitive products. We are examining ways to further reduce the sensitivity to interest rates and exploring the potential to generate cost savings on top of our existing 2022 target of $500 million."

While the low interest rate environment continues to be a concern to us, we like the strong financial foundation. We still think PRU shares offer investors significant long-term upside,

especially as the forward P/E ratio stands at just 6.2. The dividend has not been altered, and the yield is currently 6.5%. All things considered, our Target Price for PRU now resides at $118.

Oil and gas refiner **HollyFrontier** (HFC – $25.51) announced this past Thursday that it produced a loss of $0.25 per share in Q2, less than half of the $0.52 of red ink expected by analysts. Shares have been nearly cut in half year-to-date, but are 37% above the March 23 low. Reduced economic activity contributed to weak demand for refined products in the period. Adjusted EBITDA for the period was $100 million, a decrease of $547 million compared to the second quarter of 2019. Crude throughput was 349,580 barrels per day (BPD), a massive decrease compared to the 453,030 BPD in Q2 2019, while gross margins of $8.44 per barrel were less than half of those a year ago. Management says that demand for fuels and lubricants began to stabilize late in the quarter, while a benefit from contango in the oil market (mentioned in our Q1 commentary) amounted to around $3 per barrel.

CEO Michael Jennings commented, "During the second quarter, our focus remained on the safety of our employees, contractors and communities as we all continue to face the COVID-19 pandemic. Despite this challenging environment, HollyFrontier demonstrated its financial strength and we have taken prudent steps to preserve cash. Our strong balance sheet and the superior quality of our assets provides us with a competitive advantage through the cycle."

Mr. Jennings added, "We are capitalizing on these strengths to continue growth in our renewables business. On June 1, we announced plans to convert the Cheyenne Refinery to renewable diesel production and to construct a pre-treatment unit which will provide feedstock flexibility for the previously announced renewable diesel unit at our Navajo Refinery. With the completion of these projects, HollyFrontier will become one of the largest producers of renewable diesel in the U.S., allowing us to capitalize on the increasing consumer demand for renewable fuels."

The Cheyenne refinery in Wyoming produced its final barrel of crude in the quarter as the firm plans to convert the facility to renewable diesel production. The Cheyenne project and others at the Navajo complex in New Mexico are expected to result in conversion costs between $650 million and $750 million over the next 18 months, but they are expected to ultimately generate an aggregate internal rate of return of 20%-30%.

Even after accounting for the lower contribution from the facilities in turnaround, management expects a stronger economic environment to support a throughput in Q3 similar to that of the prior quarter. We continue to like the firm's strong liquidity position, with over $2.2 billion comprised of an $890 million cash balance and a $1.35 billion unsecured credit facility that remains undrawn as of last week. At the end of Q2, Holly had $1 billion of stand-alone debt outstanding, excluding obligations owed by the company's pipeline Holly Energy Partners, which aren't due until 2026 (although the firm may raise additional capital in the next 6-12 months to fund its renewables expansion). Holly is smaller than its peers on average, but we think the complexity (particularly given the expansion of the renewables business) and geographical positioning of its refineries will continue to be advantageous. Shares yield 5.5% and we've adjusted our Target Price to $50.

Despite what we saw as another strong quarter, shares of **CVS Health** (CVS – $64.96) were up only 3% last week, as some investors pointed to earnings being supported by the company's PBM and insurance arms that benefitted from fewer doctor's visits, prescriptions written and elective procedures during Q2 as the COVID-19 pandemic raged on. That said, CVS reported top-line results for Q2 of $65.34 billion, ahead of expectations, and adjusted EPS of $2.64, which outpaced the consensus estimate by 38%.

CEO Larry J. Merlo stated, "We're a health innovation company that is built to meet the evolving needs of the millions we serve every day. That's been made clear as we continue to navigate the health, social and economic impacts of COVID-19. Our earnings in this environment demonstrate the strength of our strategy and the power of our diversified business model…We have a strong foundation of clinical expertise, data analytics and digital capabilities, and unmatched consumer and community reach which has allowed us to rapidly bring our strategy to life at an unprecedented time. The environment surrounding COVID-19 is accelerating our transformation, giving us new opportunities to demonstrate the power of our integrated offerings and the ability to deliver care to consumers in the community, in the home and in the palm of their hand which has never been more important. We have stayed true to our purpose of helping people on their path to better health, and we remain focused on creating value for all our stakeholders."

Financial Highlights

Second quarter revenue of $65.3B and Adjusted EPS of $2.64 demonstrate the advancement of our integrated health care strategy

Q2 Adj EPS growth of ~40% YoY; $7.1B Cash Flow from Operations

- **Health Care Benefits:** Adj operating income up ~141% driven by unprecedented MBR of 70.3% related to deferral of discretionary utilization; ~6% revenue growth driven by ~22% membership growth in Government products
- **Pharmacy Services:** Adj operating income up ~2% driven by growth in Specialty pharmacy and slight gross margin expansion due to improved purchasing economics
- **Retail/LTC:** ~1% YoY revenue growth. Adj operating income declined (~37%) primarily from COVID-19 related impacts, including incremental operating expenses and decreased volume

Impact of COVID-19

- **Contributed estimated $0.70 – $0.80** to Q2 GAAP diluted and Adj EPS
  - PSS (~$50M)
  - Retail/LTC (~$525 - $575M); (~$240M) in incremental COVID-19 related expenses for employees and customers
  - HCB ~$1.8 - $2.1B
- **During FY 2020, expect to incur ~$2B** in COVID-19 related investments:
  - ~$1.5B in HCB benefitting customers and members, including premium credits, minimum MLR rebates and contractual requirements
  - ~$400M in Retail/LTC
  - Support for our providers

Raising FY20 Adj EPS guidance to $7.14 – $7.27; Raising FY20 Cash Flow from Operations guidance to $11B – $11.5B

- **FY20 Adj EPS guidance raised $0.10** to reflect an update to the estimated full-year effective income tax rate
- Integration synergies and cost savings initiatives on track
- Strong liquidity position, with access to ~$13B in cash, short-term investments and commercial paper or borrowing
- Remain committed to target leverage ratio in low 3x's in 2022

CVSHealth.

While there could continue to be alterations to management's full-year projections, CVS raised its outlook and is now expecting 2020 adjusted EPS of $7.14 to $7.27, with cash flow from operations in the range of $11 billion to $11.5 billion. Although the competitive landscape is challenging, COVID-19 is still impacting operations, the regulatory environment presents questions and opioid litigation remains, we continue to believe that CVS is a free-cash-flow generating behemoth with strong potential to evolve its business to a broader health care delivery model. We think CVS shares are very underappreciated as they trade for less than 10 times NTM adjusted earnings estimates and yield 3.1%. Our Target Price for CVS is now $110.

Shares of **Cardinal Health** (CAH – $52.58) ebbed nearly 9% as the health care distributor released its fiscal Q4 and full year financial results last week. Cardinal earned $1.04 in the quarter (better than the $0.90 analysts expected), pushing the full-year number to $5.45, a 3% increase over 2019. Revenue for all of 2020 was $152.9 billion, 5% higher than $145.5 billion in 2019. The firm paid down $1.4 billion of debt over the past four quarters.

Cardinal CEO Michael Kaufmann commented on the quarter, "In fiscal '20, we delivered on our commitments and demonstrated these traits. We grew operating earnings, exceeded our EPS guidance range, surpassed our enterprise cost savings target and strengthened our balance sheet, all while continuing to execute our long-term strategic priorities in a rapidly changing environment. We made strategic portfolio decisions, including divesting our remaining equity interest in naviHealth as well as investing and partnering in the evolving growth areas of specialty at-Home and Services…We achieved these results as we adapted our operations to address the unique challenges presented by COVID-19. We successfully transitioned our office employees to a remote work model, and we continuously maintained operations in all of our distribution facilities, nuclear pharmacies and global manufacturing plants. Through all of this, we kept our primary focus, delivering critical products and services to our customers and, at the same time, prioritizing the safety of our employees."

CFO Jason Hollar described the firm's assumptions for recovery from COVID-19 as "a flatter more elongated curve than initially anticipated." He further elaborated, "We are assuming a more significant impact from the ongoing deferral and cancellation of elective procedures and physician office visits in the first half of the fiscal year with an eventual recovery to pre-COVID-19 levels as we exit fiscal '21. On average, we believe elective procedures will be down relative to pre-pandemic levels in the high single-digit range, and physician office business will be down in the mid-single-digit range for the full year. Additionally, while we are working diligently to address global PPE supply challenges, we are assuming demand will continue to outpace available supply for the balance of fiscal '21. We are incurring higher costs procuring certain PPE products for our customers during the pandemic, and this will be a headwind for us in fiscal '21, especially in the first half of the year. Keep in mind, our outlook is subject to considerable uncertainty, and at this time, does not assume additional widespread shutdowns like we saw in the spring. We are closely monitoring key variables such as the trajectory of the virus itself, patient psychology in returning to sites of care, our customers' capacity and the overall health of the economy."

Management anticipates earnings per share in the range of $5.25 to $5.65 for fiscal '21, which incorporates an incremental net headwind related to COVID-19 of a similar year-over-year

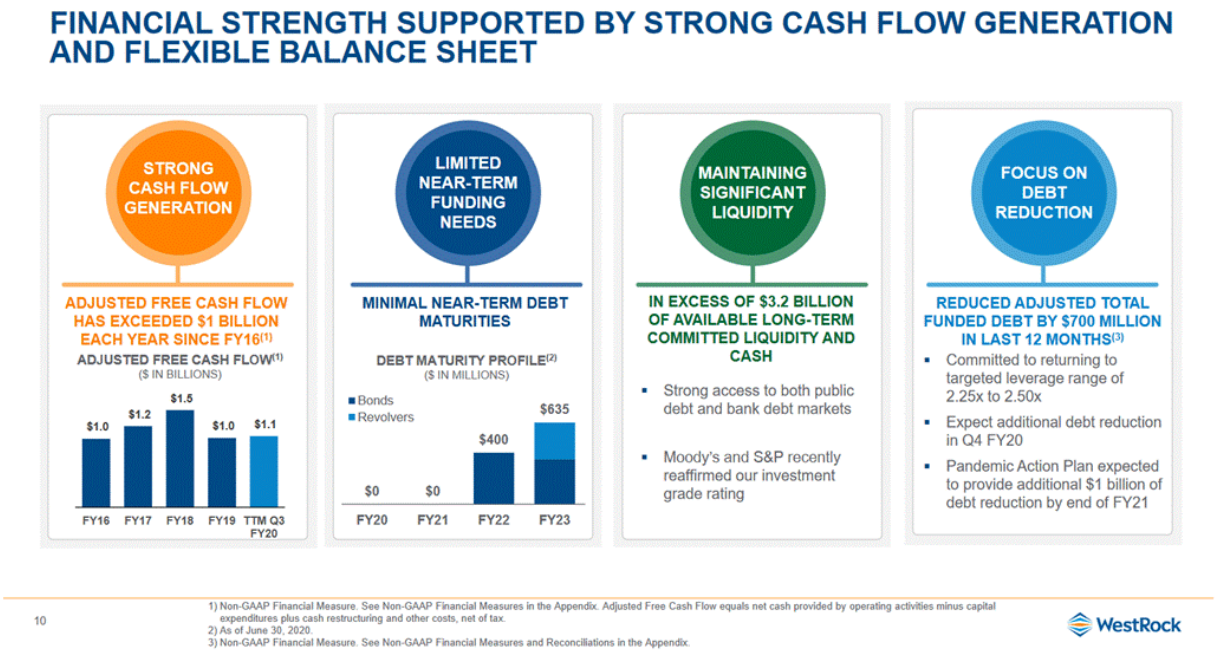
magnitude as experienced in fiscal ’20. True, Cardinal continues to experience headwinds from COVID-19, given weakness in elective procedures, while opioid litigation remains a wildcard. However, we still expect that the company will benefit in the long term from demographic trends in the U.S. as the population continues to age and requires greater health care usage. CAH continues to generate strong free cash flow, which can be used to increase the dividend (the yield is currently 3.7%), buy back stock and invest in the business via research & development and mergers & acquisitions. CAH shares trade for 9.5 times NTM earnings expectations, below that of peers and at a 31% discount to the 10-year average. Our Target Price is now $80.

Shares of corrugated and consumer packaging manufacturer **WestRock** (WRK – $29.07) rebounded 8% last week as the firm reported fiscal Q3 financial results. WRK earned $0.76 per share, beating the $0.44 analysts had expected, on net sales of $4.2 billion (vs. $4.3 billion est.). Income from corrugated packaging (64% of sales) fell by 42% to $227.9 million, due to lower volumes and gross margin compression. Income from consumer packaging (36% of sales) rose nearly 5% year-over-year to $95.3 million as productivity improvements outweighed marginally lower volumes and compressed margins. WRK won business from Nestle, Anheuser-Busch InBev and Coca-Cola as customers prioritize paperboard over plastic rings and shrink wrap that is typical in beverage packaging. The firm will also provide secondary and tertiary packaging products for Red Bull at a new location in Glendale, Arizona.

CEO Steve Voorhees provided color to segment performance, “COVID-19 had a significant impact on Corrugated Packaging sales during the third quarter. Sales for e-commerce, agricultural and pizza end market segments were up significantly sequentially. E-commerce sales increased 18% from an already strong fiscal second quarter. This market remains strong. Other markets, such as industrial and protein, declined due to our customers’ plant closures early in the quarter. We saw these markets recovering as these operations came back online. Export containerboard shipments declined 51,000 tons sequentially. Over the past 12 months, approximately 55% of our exports have gone to Latin America, about 25% to Europe, the Middle East and Africa, with the remainder going to Asia and other parts of the world. As we integrate more containerboard tons, this end market is likely to become a smaller portion of our total corrugated packaging shipments. In an environment of declining demand and rising recycled fiber cost, our North American Corrugated Packaging businesses’ adjusted segment EBITDA margins improved to 19.8%. This is 80 basis points more than the second quarter. We moved quickly to control cost and balance our supply with our customers’ demand.”

He continued, “Demand in our food, foodservice, beverage and health care end market segments increased sequentially, and our team performed well to meet increasing demand in these markets. Increased demand in these categories was offset by significantly lower demand in commercial print and softness in the high-end consumer markets. These include beauty, cosmetics and high-end spirits. We’ve seen a pickup in these markets coincident with the reopening of the economy. Our Consumer Packaging mill system volumes, excluding commercial print, were stable, and our system backlogs are currently between 3 to 4 weeks…We’ve seen strength in food, food service and beverage in this category during the pandemic, and this represents 59% Consumer Packaging revenue.”

WRK – MAKING IT THROUGH WITH SOLID FREE CASH FLOW



The current environment certainly remains challenging, but we appreciate the ability for WRK to lean out operations while demand is particularly soft. The implementation of various measures to cut costs in the short run should support prices for the entire packaging space once weakness abates. Shares now trade for 11.7 and 10.7 times 2021 and 2022 respective earnings estimates. Our Target Price presently sits at $56 and the dividend yield is 2.8%.

Shares of fertilizer and agricultural chemical firm **Mosaic** (MOS – $19.19) have soared some 25% since announcing Q2 results last week. Mosaic posted $0.11 of earnings per share, against the $.01 loss expected by analysts. Sales trends are heading in the right direction, with volumes in all three businesses in both the first and second quarters of 2020 higher than the same periods a year ago. The volume gains contributed to a 13% increase in gross profits year-over-year, despite significant pricing declines over the same period.

CEO Joc O'Rourke commented on the quarter, "This was a very good quarter for Mosaic, and our momentum is increasing. The key points about our performance are: our cash flow generation this quarter is the result of the past 5 years of work by our team to transform our cost structure and strengthen our franchise; we're succeeding even earlier than we expected; we've already achieved 5 of our 7 2021 cost targets. In potash, we continue to invest in the accelerated K3 project, hitting a major milestone of connecting the K3 shafts to the K1 mill. We continue to

reduce our brine management costs and we achieved the lowest cash cost per tonne of production in over a decade. Mosaic Fertilizantes had an excellent quarter, hitting both real-based cost targets and achieving further cost benefits from the weakening real as well as realizing over 80% of our targeted full year transformation benefits. We are continuing to transform. The quarter's accelerating earnings and cash flow clearly reflect our efforts to date, and we are driving additional future savings. Mosaic is more competitive than ever before, and with fertilizer markets improving, we have significant earnings leverage to the future."

While we respect that a lot of patience has been required to stay invested in the crop nutrients space, we are delighted that several years of work to lower production costs are starting to bear fruit. Mosaic's products continue to be a vital element of plant development and aid in boosting crop yields necessary to feed the world's growing population. In addition, we like that the company has enough cash to cover debt owed out to 2022. Gaining almost 150% since bottoming in March, shares trade at 18.9 times 2021 EPS estimates, but at a very reasonable 11.6 times the 2022 figure. The yield is a modest 1.2% and our Target Price is $24.