



7-13-20

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 7-10-20	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	26,075.30	+1.0%	-8.6%
S&P 500	3,185.04	+1.8%	-1.4%
NASDAQ	10,617.44	+4.0%	+18.3%

Another 1.314 million Americans filed for unemployment benefits in the week ending July 4. Weekly jobless claims have decelerated for 14 consecutive weeks. However, nearly 50 million Americans have filed for unemployment insurance over the past four months.

The U.S. economy added a record 4.8 million jobs in June from May, as regions across the country eased social distancing restrictions and allowed more businesses to reopen. The June total is the largest single-month gain in U.S. history. Meanwhile, the unemployment rate fell from May's level of 13.3% to 11.1% but held at a historically high level, as millions of Americans remained out of work with the pandemic still underway.

St. Louis Fed President James Bullard said that the jobless rate could fall substantially by the end of 2020. He said, "I think we're tracking very well right now. Seems to me like by the end of the year you can get down certainly to single digits, probably even below 8%, maybe 7% by the end of the year."

In U.S. economic data, the Institute for Supply Management (ISM) reported its index of service sector companies jumped to 57.1 in June from 45.4 in May, marking the single-biggest increase since the survey was created in 1997. In addition, the ISM Manufacturing index recorded a 52.6 reading in June. With both indexes back above the 50 midpoints, it signals economic activity is expanding again.

Jay Powell noted that the economic recovery had begun sooner than expected, but the path forward is "extraordinarily uncertain and will depend in large part on our success in containing the virus."

Last week, the Dow gained 1.0%, the S&P 500 rose 1.8% and the NASDAQ jumped 4.0% to a record high.

HI-Quality Company News



Johnson & Johnson plans to begin clinical testing of its COVID-19 vaccine in the coming weeks and produce billions of doses in 2021. However, Alex Gorsky, CEO, cautioned that it will take more than one vaccine to rein in the virus because different vaccines might work better in different groups of people. "None of us should be thinking that this is the single solution that is going to take us back to the old normal. I think it's going to take multiple vaccines," Gorsky said. Even if several vaccines are approved next year, the industry will still need to develop distribution systems, train medical personnel, and research ideal dosage levels for different patients. The global scale of the pandemic poses additional challenges. "The world has never attempted something quite that large, quite that complex. That's why I think a vaccine, while a very critical element to bringing an end to this

pandemic, is part of the puzzle," Gorsky stated. More than 100 vaccines are being developed and tested around the world to stop the COVID-19 pandemic.



Walgreens Boots Alliance reported fiscal third quarter sales were relatively flat at \$34.6 billion with the company reporting a loss of \$1.7 billion or <\$1.95> per share. The quarterly performance was significantly impacted by the COVID-19 pandemic stay-at-home orders, especially in the United Kingdom, which resulted in a \$2 billion non-cash impairment charge. As consumer behavior rapidly shifts, the company is increasing its investments in its digital infrastructure in partnership with *Microsoft* and *Adobe*. Walgreens' digital sales increased 23% during the quarter with Boots.com digital sales up 78%. Free cash flow increased 24% year-to-date to \$2.4 billion with the company paying \$1.3 billion in dividends and repurchasing \$1.4 billion of its common shares. Walgreens has suspended its share buyback program for the time being. At the same time, the company increased its dividend 2.2% to an annual rate of \$1.87 per share, which marks the 45th consecutive year of dividend increases and the 87th year a dividend has been paid. The dividend currently yields a healthy 4.8%. For fiscal 2020, Walgreens expects adjusted EPS in the range of \$4.65-\$4.75 including an estimated adverse COVID-19 impact of \$1.03-\$1.14. Despite significant current challenges, Walgreens is expected to come out of the crisis in a strong position with a path set for long-term sustainable growth.

In separate news, Walgreens Boots Alliance and VillageMD announced that Walgreens will be the first national pharmacy chain to offer full-service doctor offices co-located at its stores at a large scale. This expanded partnership will open 500 to 700 "Village Medical at Walgreens" physician-led primary care clinics in more than 30 U.S. markets in the next five years, with the intent to build hundreds more thereafter. Under the terms of the agreement, WBA will invest \$1 billion in equity and convertible debt in VillageMD over the next three years. It is anticipated that WBA will hold an approximately 30% ownership interest in VillageMD at the completion of the investment.



Paychex reported fourth quarter revenue decreased 7% to \$915.1 million with net income down 4% to \$220.7 million. Results were impacted by COVID-19 causing worldwide business shutdowns directly impacting small and medium-sized businesses and their payrolls. Since the end of April, Paychex has seen sequential improvement in their key business metrics such as number of paid employees, sales leads and sales productivity. For the full fiscal 2020 year, revenue increased 7% to \$4 billion with net income up 6% to \$1.1 billion and EPS up 6% to \$3.04. Client retention hit an all-time high of 83%. Return on shareholders' equity was an impressive 39.5% for the year. Free cash flow increased 14% during the year to \$1.3 billion with the company paying \$889 million in dividends and repurchasing two million shares of its common stock for \$171.9 million at an average price of \$85.95 per share. Paychex ended the year with a strong financial position with more than \$900 million in cash. Paychex's strong balance sheet and operational flexibility allowed the company to successfully manage through the initial impact of COVID-19 while protecting its cash flow and liquidity. In fiscal 2021, Paychex plans to accelerate cost-savings and the reduction of its geographic footprint which will result in a one-time charge of about \$40 million. Excluding these one-time costs, Paychex expects total revenue for fiscal 2021 to decline 2% to 5% with adjusted EPS expected to decline 6% to 10%.

BERKSHIRE HATHAWAY INC.

Dominion Energy announced that it has executed a definitive agreement to sell substantially all of its Gas Transmission & Storage segment assets to an affiliate of **Berkshire Hathaway** in a transaction valued at \$9.7 billion, including the assumption of \$5.7 billion of existing indebtedness. Warren Buffett, chairman of Berkshire Hathaway, said: "I admire Tom Farrell for his exceptional leadership across the energy industry as well as within Dominion Energy. We are very proud to be adding such a great portfolio of natural gas assets to our already

strong energy business." These assets include more than 7,700 miles of natural gas storage and transmission pipelines and about 900 billion cubic feet of gas storage. Berkshire will make a cash payment of approximately \$4 billion to Dominion Energy upon closing which is expected to occur during the fourth quarter.

In separate news, Berkshire Hathaway has reduced its share count by 1.2% since April 23, which was revealed in a regulatory filing related to Buffett's \$2.9 billion donation of Berkshire stock to five nonprofits as part of his pledge to give away nearly all his fortune. If Berkshire repurchased those shares, the buyback totaled about \$4.9 billion to \$5.9 billion, depending on the price paid over 2 1/2 months.



Biogen and Eisai Co., Ltd. announced that Biogen has completed the submission of a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) for the approval of aducanumab, an investigational treatment for Alzheimer's disease. As part of the completed submission, Biogen has requested Priority Review. If approved, aducanumab would become the first therapy to reduce the clinical decline of Alzheimer's disease and would also be the first therapy to demonstrate that removing amyloid beta resulted in better clinical outcomes.

Earnings season is upon us, and we will be providing summaries of the financial results and conference calls for all our **HI**-quality companies. We expect second quarter results will be dismal as they will reflect the full brunt of the COVID-19 lockdown. However, keep in mind that the market looks forward to what is likely to happen to earnings 1-5 years down the road. As the economy recovers, so will corporate earnings which will likely be substantially higher than those reported in the second quarter. The higher earnings should lead to higher stock prices especially with interest rates at all-time lows. We will be monitoring second quarter financial results closely and listening to how our management teams are adjusting and navigating through these uncertain times to emerge stronger than before thanks to their **HI**-quality business models.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President