

# Hendershot Investments

## MANAGING THROUGH A GLOBAL PANDEMIC

### This issue:

**Stock Performance**  
Pages 2-3

**Portfolio Review**  
Pages 4-5

**Fundamentals**  
Pages 6-7

**Portfolio HI-Lites**  
Pages 8-9

**Under the Spotlight**  
SEI Investments  
Page 10

**Johnson & Johnson**  
Page 11

**UPS**  
Page 12

As the tragic and heartbreaking death count continues to rise, the COVID-19 global pandemic is unlike any other crisis in recent history. With the worldwide economy locked down for weeks, unemployment soared with people worried not only about their livelihoods but also their lives. Unprecedented health and economic challenges resulted in extraordinary uncertainty about the depth and duration of the global recession.

Reacting to the initial feverish stages of the crisis, the S&P 500 index plunged 35% in just 33 days amid extreme volatility—from an all-time high on Feb. 19th to a low on Mar. 23rd. As **T. Rowe Price** noted, “The swiftness of the decline in risk assets due to the coronavirus pandemic was breathtaking.” Though the stock market has rebounded sharply, volatility remains elevated and economic uncertainty is unabated.

With most firms withdrawing financial guidance for 2020 due to the uncertainty, we rely on **HI**-quality company hallmarks to manage through the global pandemic. These include excellent management teams supported by businesses with strong financial positions, high profitability and the ability to generate long-term sales, earnings, dividends and free cash flow growth.

Reporting strong double-digit growth in the fiscal third quarter, **Microsoft** CEO, Satya Nadella, said, “We’ve seen two years’ worth of digital transformation in two months. From remote teamwork and learning, to sales and customer service, to critical cloud infrastructure and security – we are working alongside customers every day to help them adapt and stay open for business in a world of remote everything.”

**Alphabet** expects to see a long lasting increase in online work, learning, shopping, telemedicine and entertainment. Management remains confident about long-term growth opportunities with \$117 billion in cash on its fortress balance sheet.

**Cisco’s** strong balance sheet boasts \$28 billion in cash, along with healthy year-to-date free cash flow generation of \$11 billion, providing the firm with competitive advantages. Cisco remains

committed to returning at least 50% of free cash flow to shareholders through dividends and share repurchases.

Even though the COVID-19 pandemic has caused a dramatic shift in consumer behavior, operational disruptions and extreme volatility in raw material markets, **Hormel Foods** remains confident it is financially well-positioned to successfully weather the pandemic outbreak just as it has weathered a myriad of challenges during the company’s 127-year history.

Since its founding in 1870, **Brown-Forman** has ably navigated through two World Wars, Prohibition, the Great Depression and the Great Recession by focusing on building the business and its strong brands for the long term.

**Mastercard** management said as this healthcare crisis is met with effective treatments and vaccines, global economies will recover through containment, stabilization, normalization and growth. In the U.S., we are still in the containment and stabilization stages.

Most **HI**-quality companies believe the worst will be behind them in the second quarter from the impact of COVID-19 on their operations. The pandemic will adversely impact second quarter financial results. Growth should gradually resume in the second half of the year, although valid concerns about a second wave of infection exist. The management teams of our companies remain confident they will emerge from this crisis even stronger than before thanks to their strong business models and financial flexibility.

Along with governments around the globe, healthcare and technology companies are working at warp speed to develop medical treatments and vaccines. At the same time, global governments are providing massive monetary and fiscal stimulus to support the economy. America is mobilizing both on the economic and healthcare fronts like it has never done before to combat the coronavirus. As Warren Buffett repeated at **Berkshire Hathaway’s** recent annual meeting, “It never pays to bet against America!”