Hendershot INVESTMENTS

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WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 4-23-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,043.49	-0.5%	+11.2%
S&P 500	4,180.17	-0.1%	+11.3%
NASDAQ	14,016.81	-0.3%	+8.8%

Initial jobless claims for the week ending April 17 decreased by 39,000 to 547,000 as continuing claims decreased by 34,000 to 3.674 million. That is the lowest initial claims have been since the week of March 14, 2020, and the lowest continuing claims have been since the week of March 21, 2020. While the absolute level of claims is still high, there are clear signs of improvement for the labor market and the economy.

Existing home sales decreased 3.7% in March to a seasonally adjusted annual rate of 6.01 million. The supply of existing homes for sale remains near all-time low levels. That is driving up the pace of price increases well beyond the pace of income gains, which is going to create affordability pressures for prospective buyers along with rising mortgage rates.

New home sales surged 20.7% in March to a seasonally adjusted annual rate of 1.021 million, rebounding from the deep freeze in February. March marked the highest annual rate for new home sales since August 2006. On a year-over-year basis, new home sales were up a robust 66.8%, having lapped a very depressed comparison period due to the pandemic.

The Conference Board's Leading Economic Index (LEI) increased 1.3% in March as all ten components made positive contributions, which is a testament to the recovery/reopening momentum that is being aided by increasing vaccine adoption rates.

During the past week, the markets took a breather with the Dow declining 0.5%, the S&P 500 dipping 0.1% and the NASDAQ falling 0.3% as Mr. Market fretted about potential increases in the capital gains tax rate (see below for more details).

HI-Quality Company News

GENTEX CORPORATION

Gentex-GNTX reported first quarter revenues rose 7% to $483.7 million with net income trucking 27% higher to $113.5 million and EPS motoring 28% higher to $.46. These results were especially impressive given the parts shortages in the light vehicle production market and driven by 15% growth in international auto mirror shipments, including significant growth in the China market. During the first quarter, gross margin expanded 340 basis points to 37.9% driven by structural cost savings, product mix tailwinds and Full Display Mirror unit shipment growth. Management expects to see further improvement in gross margins based on the higher sales levels that are forecasted for the remainder of the year. Total light vehicle production is expected to increase 10% in 2021 and an additional 7% in 2022. Gentex expects fiscal 2021 revenue in the range of $1.94 billion to $2.02 billion with 2022 revenue expected to grow between 8%-13%. During the first quarter, Gentex repurchased 2.8 million shares of its common stock at an average price of $35.46 per share. The company has about 6.7 million shares remaining authorized for future share repurchases. The company ended the quarter with a strong balance sheet with more than $655 million in cash and investments, no long-term debt and shareholders' equity of $2 billion.

Intel-INTC reported first quarter revenues dipped 1% to $19.7 billion with net income declining 41% to $3.4 billion and EPS down 37% to $0.82. Excluding restructuring and other charges, EPS declined 1.4% to $1.39. By business segment, Client Computing Group revenue increased 8% to $10.6 billion on strong PC demand with PC and Notebook unit volumes increasing 38% and 54%, respectively. Data Center Group revenues declined 20% to $5.6 billion on a 29% decline in Cloud Service Provider revenue due to difficult year-over-year comparisons and a 20% decline in Enterprise & Government sales that began recovering during the quarter. Internet of Things revenue increased 4% to $914 million on higher demand while Mobileye revenue increased 48% to a record $377 million, driven by the automotive recovery. During the quarter, Intel completed the CEO transition to Pat Gelsinger who unveiled Intel's new, differentiated IDM 2.0 strategy for manufacturing, innovation and product leadership, including $20 billion capacity expansion plans in Arizona and new Intel Foundry Services. **Intel generated $1.6 billion in free cash flow during the quarter with the company returning $3.7 billion to shareholders through dividend payments of $1.4 billion and share repurchases of $2.3 billion at an average cost of $57.50 per share.** While the company is committed to growing the dividend, given Intel's $20 billion plant expansion plans, management anticipates lower future stock repurchases. Intel ended the quarter with $7.6 billion in cash and investments, $33 billion in long-term debt and $79.8 billion in shareholders' equity. Given the solid first quarter results that exceeded expectations, **management raised guidance** with 2021 revenue now expected to decline 1% year-over-year to $72.5 billion with EPS down 10% to $4.60. Capital expenditures are expected in the $19-$20 billion range and free cash flow is expected to be $10.5 billion.

Tractor Supply-TSCO reported first quarter sales plowed ahead by 42.5% to a record $2.8 billion with net earnings sprouting 117% higher to $181 million and EPS growing 118% to $1.55. Comparable store sales increased 38.6% on a 21% increase in customer traffic and a 17.6% increase in average ticket. All geographic regions had positive comparable store sales growth of at least 30%, reflecting strong demand for consumable, usable and edible products and robust growth for seasonal categories. In addition, Tractor Supply's e-commerce sales experienced triple-digit percentage growth for the fourth consecutive quarter. During the quarter, the company opened 21 new Tractor Supply stores and two new Petsense stores and ended the quarter with 1,944 Tractor Supply stores and 177 Petsense stores. The company generated $177 million in operating cash flow during the quarter and $76 million in free cash flow, up 41% from last year. During the quarter, the company returned $313.6 million to shareholders through share repurchases of $253.4 million at an average cost per share of $158.38 and dividends of $60.6 million. **In January, the company increased its dividend by 30%** to $0.52 per share. Tractor Supply ended the quarter with nearly $1.2 billion in cash, $3.4 billion in long-term obligations and $1.9 billion in shareholders' equity. Given the strong performance during the first quarter, **the company increased its guidance** with revenues now expected in the range of $11.4 billion to $11.7 billion, up 38% at the midpoint, on 5% to 8% comparable store growth. Earnings per share are expected in the range of $7.05 and $7.40, up 13% from last year at the midpoint. Management expects share purchases in the range of $700 million to $800 million during 2021.

Genuine Parts-GPC reported strong first quarter results with sales up 9% to $4.5 billion and net income and EPS from continuing operations both motoring 78% higher to $217.7 million and $1.50, respectively. The positive sales growth was driven by the overall rebound in the economy, stimulus payments and the execution of key initiatives. The Automotive business posted the strongest growth with positive sales comparisons in each region of the operations. The Industrial business continued its recovery with the third consecutive quarter of improving sales trends. Genuine Parts produced its 14th consecutive quarter of gross margin expansion while managing operating costs closely leading to a substantial increase in earnings with the positive momentum expected to continue through the year. Free cash flow jumped to $253 million during the quarter driven by the higher earnings and working capital improvement with the company paying $114 million in dividends. **The 2021 dividend was increased 3%, reflecting the 65th consecutive year of increased dividends.** While the company did not repurchase any shares in the first quarter, it has 14.5 million shares authorized for future share repurchases which management expects to immediately resume. Genuine Parts has a strong cash position exceeding $1 billion and ample financial strength to pursue strategic growth opportunities through its disciplined capital allocation strategy. The company is well positioned to benefit from the strong economic recovery and **raised its financial outlook for the full year**. Total sales growth is expected to increase 5% to 7% in 2021 with EPS expected in the range of $5.85 to $6.05 with cash flow from operations in the range of $1 billion to $1.2 billion.

Biogen

Biogen-BIIB reported first quarter revenues declined 24% to $2.7 billion with net income down 71% to $410.2 million and EPS dropping 67% to $2.69. These results were in line with management's expectations and reflected the impact of generic competition on key products. Biogen is ready to launch aducanumab, its treatment for Alzheimer's disease, in the U.S. if approval is received from the FDA with the decision expected by June 7, 2021. Regulatory approval filings for aducanumab have been submitted in additional global markets. Biogen is advancing its neuroscience pipeline with a Phase 2 study of BIIB124 meeting its primary endpoint in essential tremor. In April 2021, the European Commission granted marketing authorization for a subcutaneous injection of TYSABRI to treat relapsing-remitting MS. Free cash flow declined 49% in the first quarter to $676 million with **the company repurchasing about 2.2 million shares for $600 million at an average price of $272.72 per share. The company plans to repurchase another $4 billion of its stock throughout 2021.** Biogen expects revenue in 2021 to be between $10.45 to $10.75 billion with the outlook for non-GAAP EPS raised to a range of $17.50 to $19.00.

SEI New ways. New answers.®

SEI Investments-SEIC reported first quarter revenues rose 10% to $455.7 million with net income increasing 19% to $129.5 million and EPS up 24% to $.89, reflecting capital market appreciation and positive cash flows from existing and new clients. The company experienced strong growth with average assets under administration increasing by 21% to $821.6 billion during the quarter. Average assets under management, excluding LSV, increased 18% to $280.4 billion. SEI Investments generated free cash flow of $126 million during the quarter and **repurchased 1.2 million shares of its common stock for $66.9** million at an average price of about $55.75 per share. The company ended the quarter with a strong balance sheet with cash and investments topping $930 million, no long-term debt and shareholders' equity of $1.8 billion.

Johnson & Johnson

Johnson & Johnson-JNJ reported strong first quarter performance with revenues up 8% to $22.3 billion and net earnings and EPS each up 7% to $6.2 billion and $2.32, respectively. Market share gains in the Pharmaceutical business and continued recovery in Medical Devices contributed to these results. Worldwide Pharmaceutical sales increased 10% to $12.2 billion driven by double-digit growth in seven key products. Sales jumped 11% in Medical Devices to $6.6 billion with growth driven by the market recovery in Asia Pacific and the U.S. following deferred procedures last year related to COVID-19. Worldwide Consumer Health Sales decreased 2% to $3.5 billion due to negative prior year comparisons related to the COVID-19 pantry loading last year in over-the-counter products. As of quarter end, JNJ's balance sheet remained strong with $25 billion in cash and investments and $34 billion in long-term debt. During the quarter, the company invested $3.2 billion in research and development to advance its promising pipeline and paid $2.7 billion in dividends to shareholders. In addition, **Johnson & Johnson announced that its Board of Directors declared a 5.0% increase in the quarterly dividend**, from $1.01 per share to $1.06 per share, **marking the 59th consecutive year of dividend increases.** For the full year 2021, JNJ expects reported sales to increase 9.7%-10.9% to a range of $90.6 billion to $91.6 billion with adjusted EPS expected to increase 17.3%-19.2% to a range of $9.42 to $9.57.

In other news, Johnson & Johnson announced that the European Medicines Agency's (EMA) Pharmacovigilance Risk Assessment Committee (PRAC) has provided updated guidance for use of the Company's COVID-19 vaccine and confirmed the overall benefit-risk profile remains positive. The guidance follows PRAC review of a small number of cases of a very rare adverse event involving blood clots in combination with low platelet counts that can occur within approximately one to three weeks following injection with the Company's COVID-19 vaccine. Following the PRAC recommendation, the company will resume shipment of the Janssen COVID-19 vaccine in the European Union (EU), Norway and Iceland and remains committed to supplying 200 million doses.

JNJ also confirmed that the CDC Advisory Committee on Immunization Practices (ACIP) voted to resume use of the Johnson & Johnson COVID-19 vaccine in persons 18 years of age and older in the US population. JNJ stated, "We are grateful to the Advisory Committee and its medical experts for the rigorous evaluation of our COVID-19 vaccine. The Committee's recommendation is an essential step toward continuing urgently needed vaccinations in a safe way for millions of people in the U.S. As the global pandemic continues to devastate communities around the world, we believe a single-shot, easily transportable COVID-19 vaccine with demonstrated protection against multiple variants can help protect the health and safety of people everywhere. We will continue to collaborate with the CDC, FDA and health authorities around the world, including the European Medicines Agency and the World Health Organization, to ensure this very rare event can be identified early and treated effectively. We remain committed to the health and safety of people worldwide."

Canadian National Railway-CNI announced that it has made a proposal to combine with Kansas City Southern (KCS) in a cash-and-stock transaction valued at $33.7 billion, or $325 per share. CNI proposes to pay $200 per share in cash and 1.059 share of CNI for each share of KCS. The cash portion of the consideration will be funded through a combination of cash-on-hand and approximately $19.3 billion of new debt. Upon closing of the transaction and including the assumption of approximately $3.8 billion of KCS debt, CNI expects to have outstanding debt of approximately $33.6 billion. With strong cash flows, the company plans to pay down the debt rapidly while pausing share repurchases until leverage is reduced. Management expects to maintain its dividend and investment grade credit rating. The combination is expected to be accretive to CNI's adjusted diluted EPS, excluding incremental transaction-related amortization, in the first full year following CNI's acquisition of control of KCS, and is expected to generate double-digit accretion upon the full realization of synergies thereafter. CNI currently estimates that the combination would result in EBITDA synergies approaching $1 billion annually, with the vast majority of synergies coming from additional revenue opportunities.

Maximus-MMS announced that it signed an agreement to acquire the parent company of Veterans Evaluation Services, Inc. (VES) for a purchase price of $1.4 billion. Privately held VES serves the U.S. Federal Government and has established a strong reputation with the U.S. Department of Veterans Affairs as a leading provider of Medical Disability Examinations to determine Veterans' eligibility for compensation and pension benefits. The VES business will be part of the U.S. Federal Services Segment of Maximus and is expected to generate revenue of $160 million to $175 million for the last four months of fiscal 2021. This implies an annual run rate in the range of $480 million to $525 million. The impact to earnings is dependent on the valuation of acquired intangible assets and the resulting amortization. Due to the nature of the acquired entity and underlying contract types, the addition of VES will blend up the company's average margin. The transaction will have one-time expenses, including financing charges, and ongoing interest charges. As a result, the transaction is expected to be slightly dilutive for the remainder of fiscal 2021 and should be accretive in future periods. The acquisition is expected to close in the company's third fiscal quarter.

Mastercard-MA took steps to advance its identity verification efforts with the acquisition of Ekata for $850 million. Ekata's identity verification data, machine learning technology and global experience combined with Mastercard's fraud prevention and digital identity programs will help businesses confidently know who their customers are and, in turn, help those customers safely interact online. Mastercard and Ekata's integrated services will build on both companies' commitments to ensure trust and the responsible use of data. As with past acquisitions, Mastercard does not expect this acquisition to be dilutive to its business for greater than 24 months. This dilution is driven by investments in the business, including the impact of purchase accounting and integration related costs. The transaction is anticipated to close within the next six months.

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News from our ***HI***-quality companies last week reflected first quarter earnings reports which came in well ahead of expectations with many companies increasing their financial outlooks for the full year. Strong cash flows from our businesses also led to dividend increases, share repurchases and acquisition announcements—all ways companies reward us as shareholders. Johnson & Johnson announced a 5% dividend increase, marking the 59th straight year of dividend increases. Biogen, Gentex, Intel, SEI Investments and Tractor Supply all repurchased common stock during the past quarter indicating management teams have increasing confidence in future growth and cash flows as the economy reopens. On the acquisition front, animal spirits appear high as Canadian National announced a proposal to acquire Kansas City Southern for $33.7 billion, Maximus plans to buy Veterans Evaluation Services for $1.4 billion and Mastercard is scooping up Ekata for $850 million.

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The stock market temporarily sold off last week on news that President Biden is planning to more than double the capital gains tax rate to 43.4% for Americans earning more than $1 million annually to help fund childcare and education. This would be the highest tax rate on investment gains since the 1920's and higher than the tax rate on ordinary income which is also expected to be boosted for the highest tax brackets. However, economists at Goldman Sachs predict that a 28% capital gains tax rate may be a more likely compromise as it will be very difficult to get the higher 43.4% rate through Congress.

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Berkshire Hathaway's annual meeting will be held on Saturday, May 1. The question and answer period with Warren Buffett and Charlie Munger will begin at 1:30 pm EST. You may tune into the meeting as Yahoo will live stream it here: https://finance.yahoo.com/brklivestream

If you can't tune in, Larry Cunningham provides a good preview of what might be expected to be discussed in this short article which is worthwhile reading:

https://www.marketwatch.com/story/warren-buffett-could-teach-traders-in-dogecoin-gamestop-and-other-hot-trends-a-few-things-about-mr-market-11619079021?mod=article_inline&__source=newsletter%7Cwarrenbuffettwatch

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President