Hendershot INVESTMENTS

11-23-20

**WEEKLY UPDATE**

*Economic and Market Performance*

| MARKET INDEX | CLOSE 11-20-20 | WEEK GAIN/LOSS | Y-T-D GAIN/LOSS |
|---|---|---|---|
| **DJIA** | 29,263.48 | -0.7% | +2.5% |
| **S&P 500** | 3,557.54 | -0.8% | +10.1% |
| **NASDAQ** | 11,854.97 | +0.2% | +32.1% |

U.S. states saw another 742,000 Americans file for first-time unemployment benefits last week, reversing a recent five-week downtrend as COVID-19 cases surged. Continuing claims for the week ended November 7, declined to 6.372 million. The coronavirus pandemic continues to keep tens of millions out of work.

October retail sales were softer than expected with total retail sales up 0.3% month-over-month with a pullback in spending across several discretionary categories like clothing (-4.2%), general merchandise stores (-1.1%), furniture and home furnishing stores (-0.4%), and food services and drinking places (-0.1%).

Industrial production increased 1.1% month-over-month in October. The capacity utilization rate improved to 72.8% as industrial production has recovered most of the 16.5% decline seen from February through April, although output is still 5.6% below its pre-pandemic February level.

The Conference Board's Leading Economic Index increased 0.7% month-over-month in October, marking the sixth straight month of positive readings reflecting more widespread strength.

The NAHB Housing Market Index increased to a new all-time high of 90 in November following the previous all-time high of 85 in October. Housing starts in October increased 4.9% month-over-month and 14.2% year-over-year to a seasonally adjusted annual rate of 1.53 million units, hitting their highest pace since February when they stood at 1.567 million. This reflects the strong demand for new homes that has been driven by the pandemic, low mortgage rates, and the tight supply of existing homes for sale. Existing home sales increased 4.3% month-over-month in October to a seasonally adjusted annual rate of 6.85 million. October marked the fifth consecutive month of positive sales gains. Total sales in October were up nearly 26.6% from a year ago reflecting robust demand for existing homes.

For the week, the Dow declined 0.7%, the S&P 500 dropped 0.8% and NASDAQ gained 0.2%. Despite positive vaccine news, the broader markets pulled back on renewed concerns over the coronavirus surge and economic restrictions being reinstituted by hotspot cities and states.

*HI-Quality Company News*

ROSS DRESS FOR LESS

**Ross Stores-ROST** reported third quarter sales declined 2% to $3.8 billion with net earnings and EPS falling approximately 64% to $131 million and $0.37, respectively. These results include a one-time debt refinancing charge of $240 million. Comparable store sales were down 3% for the fiscal quarter. Comparable store sales during the quarter were impacted by several factors. Barbara Rentler, CEO, commented, “Sales trends accelerated during the third quarter following a slower start in August, driven by an improvement in our merchandise assortments, a later

back-to-school season, stronger performance in our larger markets, and our return to more normal store hours." Year-to-date, Ross generated free cash flow of $1.4 billion, a 43% increase over last year due to working capital management and lower capital expenditures. As previously announced, the company has suspended its dividend and share repurchases. Before shareholder distributions will resume, management requires greater visibility on future sales and the sustainability of those sales. Ross Stores ended the quarter with $5.2 billion in liquidity, including $4.4 billion in cash and $800 million in an untapped line of credit, $2.5 billion in long-term debt and $3 billion in shareholders' equity. Management did not provide sales or earnings guidance for the fourth quarter due to the high level of uncertainty related to the worsening health crisis and uncertainty on how the upsurge of this pandemic might impact consumer demand during the important holiday season.


**Maximus-MMS** reported fourth quarter revenues rose 22% to $923.8 million with net income up 6% to $63.7 million and EPS up 10% to $1.02. For the full fiscal year, revenues increased 20% to $3.5 billion with net income down 11% to $214.5 million and EPS down 9% to $3.39. Maximus generated a solid 17.3% return on shareholders' equity for the year. The Census contract in the U.S. and new COVID-19 response work to assist governments in supporting families during the pandemic helped drive the revenue growth for the year. Organic growth, excluding the Census contract, was a still strong 15.7% in fiscal 2020. Earnings declined for the year due to reduced volumes on core programs in the U.S. that were curtailed due to the pandemic, a greater mix of cost-plus work with lower margins and unfavorable pandemic-related impacts in operations outside the U. S. Signed contract awards during the year totaled $2.7 billion with contracts pending (awarded but unsigned) of $774 million. The sales pipeline as of 9/30/20 was $33 billion (comprised of $2 billion in proposals pending, $1.5 billion in proposals in preparation and $29.6 billion in opportunities tracking). Free cash flow declined 30% during 2020 to $204 million due to the lower earnings and increased working capital needs. During the year, the company paid $70 million in dividends and repurchased $167 million of its common stock. For fiscal 2021, Maximus expects free cash flow to increase substantially in the range of $300 million to $350 million. The company's capital allocation strategy is to manage the business conservatively with more than adequate liquidity while continuing to pay its dividend, repurchasing shares opportunistically and resuming merger and acquisition activities to grow the business. For fiscal 2021, Maximus expects revenues in the range of $3.2 billion to $3.4 billion, which represents 10% organic growth when adjusting for the Census contract that is winding down, and EPS in the range of $3.45-$3.70.


**The TJX Companies-TJX** reported third quarter revenues declined 3%, with comp store sales down 5%, to $10.1 billion. Net income rose 5% to $866.7 million with EPS up 4% to $.71. These results significantly exceeded management's plans on both the top and bottom lines as consumers shopped the company's compelling brands and values. All the divisions drove sales growth but especially the home, beauty and activewear businesses. HomeGoods generated strong 15% comparable store sales growth among open stores. Given TJX's strength in the home category, management plans to roll out e-commerce on HomeGoods.com later next year. Free cash flow more than tripled during the first nine months thanks to improved working capital, tight expense controls and lower capital expenditures. The company ended the quarter with more than $10 billion in cash and investments and also announced plans to refinance its debt at lower rates. Given the improved liquidity of the business, management plans to resume its dividend with a 13% increase in the dividend to an annualized rate of $1.04 per share beginning with the March 2021 dividend payment. The company currently has 470 stores that are temporarily closed primarily in Europe due to the renewed surge in the coronavirus. Given the significant uncertainty around COVID-19, TJX will face sales and cost headwinds going into the holiday season. Once vaccines are broadly available and we are past this healthcare crisis, management is very confident that the company will continue to gain market share and drive the successful growth of TJX well into the future.


**Brown-Forman-BFB** announced today that its Board of Directors increased its quarterly cash dividend on its Class A and Class B Common Stock by 3.0% to an annual cash dividend of $0.7180 per share. This marks the 37th consecutive year of dividend increases at Brown-Forman and the 76th year of paying quarterly dividends in the

company's 150-year history. Lawson Whiting, President and Chief Executive Officer of Brown-Forman said, "In this uncertain environment, we are pleased to increase our dividend and continue our long-term track record of regular quarterly dividend payments. This reflects the strength of our cash flows, the health of our balance sheet, and our confidence in the long-term growth prospects for the company."

**Fastenal-FAST** declared a special one-time dividend of $.40 to be paid on December 22 to shareholders of record on December 2.

**NIKE-NKE** announced a 12% increase in its quarterly cash dividend to $0.275 per share. "Today's announcement marks NIKE's 19th consecutive year of increasing dividend payouts," said John Donahoe, President and CEO, NIKE, Inc. "This dividend increase reflects NIKE's financial strength and strong track record of returning capital to shareholders while continuing to invest in capabilities that will accelerate our digital transformation and fuel long-term profitable growth."

**Apple-AAPL** announces an App store small business program by reducing App Store commission rates to 15 percent for small businesses earning up to $1 million per year. The App Store Small Business Program, which will launch on January 1, 2021, comes at an important time as small and independent developers continue working to innovate and thrive during a period of unprecedented global economic challenge. Apps have taken on new importance as businesses adapt to a virtual world during the pandemic, and many small businesses have launched or dramatically grown their digital presence in order to continue to reach their customers and communities. The program's reduced commission means small developers and aspiring entrepreneurs will have more resources to invest in and grow their businesses in the App Store ecosystem.

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Warm wishes to you and your family for a safe and Happy Thanksgiving!

Sincerely,

*Ingrid R. Hendershot*

Ingrid R. Hendershot, CFA
President