2-8-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 2-5-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	31,148.24	+3.9%	+1.8%
S&P 500	3,886.83	+4.6%	+3.5%
NASDAQ	13,856.30	+6.0%	+7.5%

New weekly unemployment claims dropped more than expected last week to 779,000 but remain at historically high levels**.** Continuing claims for the week ended January 9, declined to 4.592 million.

The U.S. economy added a minimal 49,000 jobs in January as easing stay-in-place restrictions and fiscal stimulus measures out of Washington alleviated some of the pressure on the labor market. However, the number of jobs regained fell short of expectations, and the number of jobs lost in December was revised to be greater than previously reported. The unemployment rate fell to 6.3% in January vs 6.7% in December.

The ISM Manufacturing Index for January slipped to 58.7% from a downwardly revised 60.5% for December although manufacturing activity overall remained at a healthy level.

Total construction spending increased 1.0% in December after increasing an upwardly revised 1.1% in November. Total private construction spending rose 1.2% as residential construction spending continued at a solid clip, fueled by robust demand for new homes.

The ISM Non-Manufacturing Index rose to 58.7% in January from an upwardly revised 57.7% in December as the pace of activity in the services sector accelerated in January despite the surge in coronavirus cases, the political tumult, and shutdown measures aimed at curbing the spread of the coronavirus.

Productivity in the fourth quarter decreased from the previous quarter at an annual rate of 4.8%. Unit labor costs jumped at an annual rate of 6.8%. The drop in productivity was the largest quarterly decline since the second quarter of 1981.

During the past week, the stock market rebounded strongly boosted by optimism over better than expected earnings, stimulus talk and the rollout of more vaccines with the Dow gaining 3.9%, the S&P 500 rising 4.6% and the NASDAQ jumping 6.0%.

HI-Quality Company News

Regeneron-REGN reported fourth quarter revenues rose 30% to $2.4 billion with net income jumping 45% to $1.1 billion and EPS up 48% to $10.24. Fourth quarter EYLEA sales increased 10% to $1.34 billion with Dupixent sales, which are recorded by Sanofi, up 56% to $1.17 billion in the quarter. During the fourth quarter, the company signed a new agreement with the U.S. government to provide up to 1.25 million additional doses of the REGEN-COV antibody cocktail which is expected to be delivered by the first half of 2021 resulting in payments of up to $2.625 billion to Regeneron. For the full year 2020, revenues rose 30% to $8.5 billion with net income increasing 66% to $3.5 billion and EPS jumping 65% to $30.52. Return on shareholders' equity was an impressive 31.8% for the year. The company generated $2 billion in free cash flow during the year and completed its $1 billion share repurchase program. Regeneron announced a new $1.5 billion share repurchase program which will be executed opportunistically when management believe the share price is less than the intrinsic value of the business. The priority in capital allocation is investing in research and development with 30 product candidates in clinical development to diversify the revenue and earnings stream and provide for long-term sustainable growth. In 2021, management plans to invest $3.0 billion to $3.175 billion in research and development.

MAXIMUS
HELPING GOVERNMENT SERVE THE PEOPLE®

Maximus-MMS reported first quarter revenue increased 15.6% to $945.6 million with net income up 9.1% to $64.1 million and EPS up 13.2% to $1.03. Growth was driven by new COVID-response work such as contact tracing, disease investigation, vaccination support, unemployment insurance support and other key initiatives. Year-to-date signed contracts as of 12-31-20 were $594 million with contracts pending (awarded but unsigned) totaling $1.1 billion. The sales pipeline at quarter end was $31.6 billion, comprised of $3.6 billion in proposals pending, $1.4 billion in proposals in preparation and $26.7 billion in opportunities tracking. Free cash flow increased 16% during the first quarter to $89 million with the company paying $17.2 million in dividends and repurchasing $3.4 million of its common stock. With a strong balance sheet and cash flows, liquidity is not a concern at the company. The capital allocation strategy is biased toward merger and acquisition activities to drive long-term organic growth while remaining committed to future dividends and opportunistic share repurchases. Based on recent awards, scope increases and contract extensions, Maximus raised their fiscal 2021 outlook for sales, earnings and cash flows with revenues now expected in the range of $3.4 billion to $3.525 billion, EPS expected in the range of $3.55 to $3.75 and free cash flow expected in the range of $310 million to $360 million.

Cognizant

Cognizant-CTSH reported fourth quarter revenues declined 2% to $4.2 billion with net income down 20% to $316 million and EPS down 18% to $.59. These results include the exit of a large financial services engagement in Europe. For the full year 2020, revenues were relatively flat at $16.7 billion with net income down 24% to $1.4 billion and EPS down 22% to $2.57. Return on shareholders' equity for the year was 12.8%. Free cash flow increased 38% to $2.9 billion with the company paying $480 million in dividends and repurchasing $1.6 billion of its common stock. The company recently announced a new $2 billion share repurchase program and increased its dividend for 2021 by 9%. In 2021, the company expects revenues of $17.6 billion to $18.1 billion, representing growth of 5.5% to 8.5%. Adjusted operating margin is expected to expand from 14% in 2020 to 15.2% to 16.2% in 2021, resulting in adjusted EPS of $3.90-$4.02.

Biogen

Biogen-BIIB reported fourth quarter revenues declined 22% to $2.85 billion with net income plummeting 75% to $357.9 million and EPS falling 71% to $2.32. A $331 million fourth quarter operating loss was offset by $684 million in other income, thanks to gains booked on strategic equity investments. Global revenues for multiple sclerosis (MS) drugs dropped 24% from last year's fourth quarter to $1.8 billion as Biogen's principal MS drug, TECFIDERA, fell off the U.S. patent cliff. Global sales of SPINRAZA, a treatment for spinal muscular atrophy (SMA), declined 8% to $498 million due to competition exacerbated by COVID-19 as patients switched from Biogen's drug that is injected into the spinal cord at specially equipped centers to competitors' oral treatments. Global sales of Biosimilars increased slightly from last year to $197 million. During the quarter, Biogen reported negative cash flows from operations of $367.1 million with $453 million in negative free cash flow, compared to positive free cash flow of $1.9 billion generated last year. For the year, Biogen reported revenues declined 6.5% to $13.4 billion with net income dropping 32% to $4.0 billion and EPS declining 21% to $24.80. During 2020, Biogen generated a healthy 37.4% return on shareholders' equity and $3.8 billion in free cash flow, down 42% from last year. Biogen repurchased about 22.4 million shares of its shares during 2020 for $6.7 billion, or $298.17 per average share. Biogen ended the year with $3.4 billion in cash and marketable securities, $7.4 billion in long-term debt and $10.7 billion in shareholders' equity. Looking ahead to 2021, management expects revenues in the $10.45 billion to $10.75 billion range, down 21% from 2020 at the mid-point, with non-GAAP EPS of $17.00 to $18.50, down 53% from 2020 at the mid-point.

Check Point Software-CHKP reported fourth quarter revenue rose 4% to $563.8 million with net income relatively flat at $271 million and EPS up 6% at $1.95. Business grew across cloud, network and remote access security with subscriptions revenue growth of 10%. This reflects the importance of cyber security during these unprecedented times. The global pandemic and accelerated digital transformation created security challenges across all types of organizations and increased demand for the company's cyber security services and products. For the full 2020 year, revenues rose 4% to $2.1 billion with net income up $846.6 million and EPS up 10% to $5.96. Return on shareholders' equity for the year was a strong 24.4%. Free cash flow increased 5% to $1.1 billion during the year with the company repurchasing 11.4 million shares of its common stock during the year for $1.3 billion or an average price of about $114 per share. Check Point ended the year with an outstanding balance sheet with nearly $4 billion of cash and investments, no long-term debt and shareholders' equity of $3.5 billion. For fiscal 2021, revenues are expected to increase to a range of $2.080 million to $2.180 million with EPS expected in a range of $5.55 to $5.95. Earnings will be adversely impacted by increased investments in growth opportunities, a weaker dollar and lower interest income to the tune of about $.52 per share.

Alphabet-GOOGL reported fourth quarter results with revenues up 23% to $56.9 billion with net income jumping 43% to $15.2 billion and EPS up 45% to $22.30. For the full 2020 year, revenues rose 13% to $182.5 billion with net income up 17% to $40.3 billion and EPS up 19% to $58.61. Return on shareholders' equity for the year was a solid 15.4%. This strong performance was driven by Search and YouTube as consumer and business activity recovered from earlier in the year. Google advertising revenue increased 22% in the fourth quarter, including 46% growth in YouTube ads. With consumers flocking to online shopping, advertisers are following them and increasing their advertising in a digital world. Google Cloud revenues increased 47% during the fourth quarter to $3.8 billion with full year cloud revenues growing 46% to $13.1 billion. The company ended the year with a $30 billion backlog for Google Cloud as companies are increasingly shifting their business to the cloud. A good example is the new strategic partnership Alphabet recently announced with Ford. The Google Cloud Platform will serve as Ford's preferred cloud services provider. The tie-up includes plans for Google's Android operating system to power all of Ford and Lincoln's in-car infotainment systems by 2023. Alphabet's free cash flow during the year increased 38% to $42.8 billion with the company repurchasing $31.1 billion of its common shares during the year. Alphabet ended the year with a fortress balance sheet with more than $157 billion in cash and investments, $25 billion in long-term debt and liabilities and $222.5 billion in shareholders' equity.

In other news, Google Cloud announced a new, multi-year, strategic partnership with Twitter. The company will deepen its initial work with Google and move its offline analytics, data processing, and machine learning workloads to Google's Data Cloud. This will allow Twitter to analyze data faster and improve the experience for people who use the service every day. Using Google's Data Cloud, Twitter will be able to democratize data access by offering a range of data processing and machine learning tools to better understand and improve how Twitter features are used.

Alphabet and BNY Mellon announced plans to collaborate to help transform U.S. Treasury Market settlement and clearance process. The Bank of New York Mellon announced a collaboration with Google Cloud to help market participants better predict billions of dollars in daily settlement failures, generate significant capital and liquidity savings, and unlock operational efficiencies. The initiative, which helps to extend BNY Mellon's growing portfolio of emerging technology capabilities, will leverage Google Cloud's data analytics, artificial intelligence (AI) and machine learning (ML) technologies to develop new collateral management and liquidity solutions built on Google Cloud.

In a pandemic year that no one will ever forget, **UPS-UPS** reported fourth quarte revenues rose 21% to a record $24.9 billion with growth across all business segments. Average daily volume increased 10.6% due to the best peak shipping season in corporate history as e-commerce sales increased significantly. Amazon is the company's largest customer and accounted for 13% of total sales. Operating profit was up 1.6% to $2.2 billion with adjusted profit up 26%, which was much better than management expected. The company reported a fourth quarter net loss of $3.3 billion primarily due to a $5.6 billion non-cash pension charge and a $545 million impairment charge related to the decision to sell UPS Freight. The company plans to use the proceeds of the UPS Freight sale to pay down debt. For the full 2020 year, revenues increased 14% to $84.6 billion with operating profit relatively flat at $7.8 billion and net income and EPS each down 68% to $1.4 billion and $1.64, respectively, due to the charges. Free cash flow more than doubled during the year to $5.1 billion which includes $3.1 billion in pension contributions. UPS paid out $3.6 billion in dividends, an increase of 5.2% over the prior year. In 2021, the company plans to spend $4 billion on capital expenditures including a further investment in its vaccine distribution infrastructure. UPS has already delivered 36.5 million vaccines around the world. UPS expects to continue to increase its dividend in 2021 with no plans to repurchase shares. Long-term debt maturities of $2.5 billion during the year will be repaid when they come due to strengthen the balance sheet. While the company is not providing revenue or earnings guidance in 2021 due to the continued uncertainty around the pandemic, management does expect operating margins and return on invested capital to increase during the year.

3M Science. Applied to Life.™

The **3M-MMM** Board of Directors declared a dividend on the company's common stock of $1.48 per share for the first quarter of 2021, an increase of 1 percent over the quarterly dividend paid in 2020. This marks the 63rd consecutive year 3M has increased its dividend. 3M has paid dividends to its shareholders without interruption for more than 100 years.

FASTENAL

Fastenal-FAST reported that January sales declined 3.2% to $448 million with average daily sales up 6.5% to $22.4 million on two fewer business days. Manufacturing sales increased 4.8% with non-residential construction sales down 8.9%. Safety sales were up 26.1% with fastener sales dipping 0.2% and other sales up 3.9%.

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MasterCard

Mastercard-MA SpendingPulse, which measures in-store and online retail sales across all forms of payment, reported that 2021 kicked off with retail gains across nearly all sectors and all 50 U.S. states. U.S. retail sales, excluding automotive and gasoline, increased 9.2% year-over-year, with online sales growing 62.1% compared to 2020. The momentum of a stronger-than-anticipated holiday season continued throughout the month, with consumer spending buoyed by an infusion of stimulus payments, particularly in the first two weeks of the year. Spending in and around the home remains a top consumer priority, with Furniture & Furnishings (+16.6%) posting its eighth straight month of solid gains. Home categories, along with Grocery, have seen some of the biggest category lifts following stimulus payments. Consumers are starting to refresh their wardrobes again with Specialty Apparel online sales up +52.5% in January. No sector has been a clearer bellwether of consumers' mobility this past year than Gasoline sales, with negative year-over-year growth since mid-March 2020. While the declines eased over the summer months, Covid-19 restrictions as well as winter weather led to a further deterioration in gasoline demand in January. "We're living in a digital world. For consumers, e-commerce has emerged as a lifeline and a lifestyle. January's numbers are just further proof of this ongoing trend," said Steve Sadove, Mastercard senior advisor and former CEO of Saks, Inc. "A big, bright note from January is that consumers are spending. While we know that consumers are also saving their stimulus funds and paying down debt, these numbers show that stimulus is helping to boost sales for retailers around the country."

With consumption 70% of U.S. GDP, the Mastercard report is a positive sign for the economic recovery. If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President