7-26-21

**WEEKLY UPDATE**

*Economic and Market Performance*

| MARKET INDEX | CLOSE 7-23-21 | WEEK GAIN/LOSS | Y-T-D GAIN/LOSS |
|---|---|---|---|
| **DJIA** | 35,061.55 | +1.1% | +14.6% |
| **S&P 500** | 4,411.79 | +2.0% | +17.5% |
| **NASDAQ** | 14,836.99 | +2.8% | +15.1% |

Initial unemployment claims for the week ending July 17 increased by 51,000 to 419,000, which was the highest it has been since mid-May. Continuing claims for the week ending July 10 decreased by 29,000 to 3.236 million, which is the lowest level since March 21, 2020.

Existing home sales increased 1.4% month-over-month in June to a seasonally adjusted annual rate of 5.86 million. Total sales in June were up 22.9% from a year ago. The supply of existing homes for sale remains extremely limited. That is driving up the pace of price increases well beyond the pace of income growth, which is creating affordability pressures for prospective buyers, particularly first-time buyers.

Total housing starts rose 6.3% month-over-month to a seasonally adjusted annual rate of 1.643 million while building permits declined 5.1% month-over-month to a seasonally adjusted annual rate of 1.598 million. Permits, a leading indicator, declined across all regions for single-family units, suggesting there will be a slowdown in building activity that could be related to a variety of factors, including higher costs, a lack of available labor, and/or high selling prices curtailing buyer demand.

The Conference Board's Leading Economic Index (LEI) increased 0.7% in June, the slowest pace since February. Overall, growth remained widespread. However, the pace of growth in the leading indicators is slowing, having gone from 1.4% in March to 0.7% in June with the decline in building permits and the average workweek making negative contributions.

Despite a turbulent Delta flight last Monday, Mr. Market strapped on his seat belt and rocketed to record highs by the end of the week with the Dow closing above 35,000 for the first time on strong earnings reports. During the past week, all major indices hit record highs as the Dow gained 1.1%, the S&P 500 rose 2.0% and the NASDAQ jumped 2.8%.

*HI-Quality Company News*

GENTEX CORPORATION

**Gentex-GNTX** reported second quarter sales increased 86% to $428 million with the company swinging to an $86.5 million profit or $.36 per share compared to a loss in the prior year period resulting from the pandemic. Gentex is experiencing tremendous volatility in its business due to industry-wide part shortages and global supply chain constraints in the auto industry. This led to an estimated 2 million unit push out of mirror shipments during the quarter due to a shortfall in industry vehicle production. Over the past 18 months, the auto industry has faced significant challenges related to the COVID-19 pandemic. During the first half of last year, the impact was felt in terms of very low sales levels due to shutdowns, but this year, the impact has been felt in the form of massive order changes and reductions to planned volumes due to supply related issues that are affecting the auto manufacturer's ability to achieve the production levels needed to satisfy strong demand. For the second half of 2021, Gentex expects orders to improve but supply constraints are expected to continue to cause disruptions that are leading to higher commodity pricing, higher freight expenses and inefficiencies in operations. Despite all the challenges, Gentex remains optimistic that the next 18 months has the potential to produce record levels of revenue and profitability for the company. For the second half of 2021, Gentex expects revenues in the range of $970 million to $1.07 billion with a gross margin in the range of 37.5% to 38.5%. For fiscal 2022, Gentex expects revenue to be about 10%-15% higher than the updated 2021 revenue estimates of $1.88 billion to $1.98 billion. While industry supply shortages are expected to continue into the first half of 2022, Gentex is encouraged that the overall demand for vehicles should still provide opportunities for the company to continue to outperform the underlying market. Gentex remains cash-rich and debt-free as of quarter end and repurchased 3.4 million shares of its common stock during the quarter for $115.9 million or at an average price of $34.09 per share as management views the stock as undervalued. **Gentex plans to continue to return 100% of its strong free cash flows to shareholders through dividends and share repurchases unless a strategic and attractive acquisition opportunity appears.**

**Biogen-BIIB** reported second quarter sales declined 25% to $2.8 billion with net income dropping 71% to $448.5 million and EPS declining 69% to $2.99 which included impairment charges of $542 million. Generic competition resulted in a 24% decline in Multiple sclerosis (MS) revenue to $1.8 billion. SPINRAZA revenue increased 1% to $500 million while biosimilar revenues increased 18% to $202 million**. During the quarter, Biogen received accelerated FDA approval for ADUHELM for initiation of treatment in patients with mild cognitive impairment or mild dementia due to Alzheimer's disease.** The FDA approval has been swirled in controversy due to much confusion on the science and data on the drug. Several large medical sites that specialize in Alzheimer's have announced they will not administer the drug. ADUHELM revenue during the quarter was minimal at $2 million as it will take time, resources and planning to get medical sites to administer the drug and for Medicare to approve the $56,000 treatment. Biogen is working to provide additional clarity on ADUHELM and is continuing engagement with worldwide regulators on the drug. Free cash flow declined 42% to $1.8 billion during the first half due primarily to the lower earnings. During the second quarter, Biogen repurchased 1.6 million shares of its common stock for $450 million at an average price of $281.25 per share with $3.55 billion remaining authorized for future share repurchases throughout 2021. **Biogen updated its full year 2021 guidance and raised revenue expectations to a range of $10.65 billion to $10.85 billion** and non-GAAP EPS estimated in the range of $17.50 to $19.00. This guidance assumes modest ADUHELM revenue in 2021, ramping higher thereafter. This guidance also assumes erosion of Biogen's MS drugs in the U.S. with the decreased revenue from these high margin products expected to reduce gross margins.

**Genuine Parts-GPC** reported strong second quarter results with sales up 25% to $4.8 billion with net income and EPS from continuing operations increasing from prior year losses to $196 million and $1.36, respectively. By business segment, Automotive parts group sales increased 28% to $3.2 billion, representing 67% of total company revenues. The Industrial business sales increased 20% to $1.6 billion, representing 33% of total revenues. Genuine Parts produced its 15th consecutive quarter of gross margin expansion while further improving productivity via ongoing expense initiatives. The company generated cash flow from operations of $614 million during the first half of 2021**. During the first half, the company repurchased $184 million of its common shares and paid dividends of $232 million, marking 65 consecutive years of increasing dividends.** Genuine Parts has a strong balance sheet with $987 million in cash, $2.5 billion in long-term debt and $3.2 billion in shareholders' equity. **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 10% to 12% in 2021 with EPS expected in the range of $5.81 to $5.96 with cash flow from operations in the range of $1.2 billion to $1.4 billion.

**NVR, Inc.-NVR** reported second quarter revenues increased 41% to $2.3 billion with net income jumping 96% to $321 million and EPS increasing 94% to $82.45, respectively. New orders decreased by 6% during the quarter to 5,521 units. However, the average sales price of new orders increased by 20% to $440,200. The cancellation rate in the second quarter was 8% compared to 16% in the prior year period. Settlements increased 32% during the quarter to 5,685 units. **The backlog of homes sold but not settled as of June 30, 2021, increased on a unit basis by 19% to 12,527 units and increased on a dollar basis by 35% to $5.41 billion.** Mortgage loan closings increased 37% to $1.57 billion during the quarter. During the first half of the year, the company repurchased 165 million shares for an average price of $4,572 per share and ended the quarter with $2.6 billion in cash, $1.5 billion in long-term debt and $3 billion in shareholders' equity on its sturdy balance sheet.

**SEI Investments-SEIC** reported a 19% increase in revenues to $475.7 million with net income increasing 32% to $133.8 million and EPS up 37% to $0.93**. Over 90% of the company's revenues are recurring and customer retention rates are in the high 90s.** By segment, Private Banks revenues increased 15% to $123.7 million with operating margins of 5%; Investment Advisors revenues increased 27% to $119.4 million with operating margins of 50%; Institutional Investors revenues increased 12% to $85.7 million with operating margins of 51%; and Investment Managers revenues increased 20% to $142.8 million with operating margins of 40%. Average assets under management, excluding LSV, increased 28% to $858.2 billion, primarily due to market appreciation. During the second quarter, SEI Investments generated $188.4 million in cash flow from operations and $171.3 million in free cash flow, representing a robust 128% of reported earnings. During the quarter, the company repurchased $129 million shares at an average cost per share of $61.93. Given the current market value of SEI shares, the company expects to remain active in the repurchase space. SEI Investments ended the quarter with $911 million in cash and $32 million in long-term obligations on its clean balance sheet.

**Johnson & Johnson-JNJ** reported second quarter sales increased 27% to $23.3 billion with net income and EPS both rebounding a healthy 73% to $6.3 billion and $2.35, respectively. Growth was driven by the Medical Devices unit which reported sales increased 63% to $7 billion during the quarter due to the COVID-19 related market recovery and innovation. Pharmaceutical sales increased 17% to $12.6 billion during the quarter driven by double-digit growth in key products led by 22% growth in oncology products. Consumer Health sales increased 13% during the quarter to $3.7 billion with strong growth across multiple franchises primarily due to the market recovery. JNJ continued to generate strong free cash flow of $8 billion during the quarter and ended the quarter with $25 billion in cash and investments and $33 billion in long-term debt on its strong balance sheet. **A key priority for deploying cash is the dividend with $2.8 billion paid in dividends during the quarter.** JNJ also invested $3.4 billion in R&D during the quarter to advance its promising pipeline of new products. Based on strong first half performance, **JNJ increased its outlook for full year 2021 results** with revenues expected to increase 13.5%-14.5% to a range of $93.8 billion to $94.6 billion with adjusted EPS expected to increase 19.6% to 20.8% to a range of $9.60 to $9.70.

**Canadian National Railway-CNI** reported second quarter revenues chugged ahead 12% to $3.6 billion with net income and EPS rebounding 90% to $1.034 billion and $1.46, respectively. Adjusted net earnings and EPS increased 16% to $1.058 billion and $1.49, respectively.  Revenue ton miles increased 13% year-over-year to

59.2 billion and volume grew in virtually every business unit, with notable strength in industrial products, international and domestic intermodal and propane. During the first half of the year, the company generated $1.3 billion in free cash flow, down $300 million from last year, mainly due to the sale of assets last year and timing of tax payments. Canadian National paid $872 million in dividends during the first half of the year and ended the quarter with $569 million in cash, $12 billion in long-term debt and $20.3 billion in shareholders' equity. During the conference call, **management reiterated its confidence in its ability to obtain the necessary approvals for the proposed $33.6 billion merger with Kansas City Southern** and has filed shelf registration to issue up to $6.0 billion of debt financing. Management also reaffirmed 2021 guidance with high-single digit RTM volume growth, overall pricing above rail inflation, double-digit adjusted EPS growth, capital expenditures of $3.0 billion and free cash flow in the range of $3.0 billion to $3.3 billion.

**Maximus-MMS has been awarded two contracts from the Internal Revenue Service (IRS) worth a combined $151 million.** Under the contracts, Maximus will conduct a variety of work for IRS, including implementing legislation such as the American Recovery Plan, training IRS employees and moving specific content to the cloud for the first time. With the implementation of new technology and the work completed through these two contracts, Maximus will help the IRS turn its modern vision for the agency into reality. Throughout the COVID-19 pandemic, Maximus helped the IRS meet the increased needs of citizens through the distribution of relief payments in 2020 and 2021, as well as extensions and special exemptions during filing season, including support for the IRS Call Center for information on Economic Impact Payments (EIP).

**Tractor Supply-TSCO** rang up a 13.4% increase in second quarter sales to $3.6 billion with net income plowing ahead 9.2% to $370 million and EPS up 10% to $3.19. Comparable store sales increased 10.5% during the second quarter, driven by transaction count and average ticket growth of 4.5% and 6.0%, respectively. The increase in comparable store sales was driven by robust growth in everyday merchandise, including consumable, usable and edible products and solid demand for spring and summer seasonal categories. All geographic regions and major merchandising categories reported comparable store sales growth. In addition, Tractor Supply experienced record e-commerce sales. Operating margins declined 61 basis points to 13.5% as commodity inflation and increased freight and wage costs were mostly offset by price increases. Management expects inflation to persist in the back half of the year and will continue to ably manage through it. During the first half of the year, Tractor Supply generated $592.9 million in free cash flow, representing more than 100% of net income, a sign of high-quality reported earnings. During the second quarter, the company returned $263.2 million to shareholders through share repurchases of $203.3 million at an average cost per share of $184.82 and cash dividends totaling $59.9 million. During the second quarter of 2021, the company opened 11 new Tractor Supply stores and one new Petsense store and closed four Petsense stores. Tractor Supply ended the quarter with $1.4 billion in cash and investments and $3.5 billion in long-term obligations on its sturdy balance sheet. Given the robust first half results, **Tractor Supply upped its guidance with sales now expected in the $12.1 billion to $12.3 billion range. Comparable store sales are now expected to increase between 11% and 13%, up from prior guidance of 5% to 8%. EPS are now expected in the range of $7.70 to $8.00, up from previous guidance of $7.05 to $7.40.**

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As expected, second quarter financial results are showing strong growth compared to last year when the pandemic shut down the economy. The good news is that many of our ***HI***-quality companies, such as **Genuine Parts, Johnson & Johnson and Tractor Supply,** not only generated strong growth but continued to raise their sales and earnings outlook for the balance of the year based on the strong economic recovery powered by low interest rates and monetary and fiscal stimulus. This week will be another busy week for earnings reports, and we expect further strong financial results from our ***HI***-quality businesses.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President