8-9-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 8-6-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	35,208.51	+0.8%	+15.0%
S&P 500	4,436.52	+0.9%	+18.1%
NASDAQ	14,835.76	+1.1%	+15.1%

New weekly jobless claims dipped last week to 385,000, trending down but still coming in well above pre-pandemic levels of about 200,000 as the labor market's uneven recovery continues. Continuing claims for the week ended July 24 were 2.930 million, falling below 3 million for the first time since March 2020.

The U.S. Labor Department released its July jobs report with jobs up 943,000 for the month and the unemployment rate declining to 5.4% from 5.9% in June. Payrolls grew last month the most since August 2020. Leisure and hospitality employers were again the leaders in bringing back jobs last month, with payrolls rising by 380,000 to comprise more than a third of the total July jobs gains. In the private sector, education and health services employment also contributed notably, with payrolls increasing by nearly 90,000. Average hourly earnings, month-over-month increased 0.4% and 4.0% year-over-year.

The July ISM Manufacturing Index came in at 59.5% in July, which marked the 14th straight month of expansion for the manufacturing sector. Manufacturers and suppliers continue to struggle to meet increasing demand levels due to a range of factors that includes record-long raw material lead times, shortages of basic materials, transportation difficulties, worker absenteeism, and difficulty filling positions.

The ISM Non-Manufacturing Index for July increased to 64.1% as the services sector activity is running at a record pace while prices aren't far behind. The report is a testament to the unleashing of pent-up demand, which is running headlong into supply challenges on the labor and product fronts.

Total construction spending increased 0.1% with total private construction up 0.4% while total public construction spending fell 1.2%. On a year-over-year basis, total construction spending was up 8.2% on **the** ongoing strength in private residential construction spending, which is a byproduct of strong demand driven by a scarce supply of existing homes for sale.

Factory orders for manufactured goods increased 1.5% in June as orders for durable and nondurable manufactured goods remained solid in June, with business spending continuing to increase at a healthy clip that is supportive for economic growth.

Consumer credit increased by $37.6 billion in June. The expansion in consumer credit in June was the largest since December 2010 with healthy demand for both revolving and nonrevolving credit.

Positive economic news, especially on the jobs front, led to a rise in all major indices during the week with the Dow and the S&P 500 rising .8% and .9%, respectively, to record levels with the NASDAQ up 1.1%.

Berkshire Hathaway-BRKB reported the company's net worth during the first half of 2021 increased 6%, or $27.2 billion, to $470.4 billion with book value equal to about $311,300 per Class A share as of 6/30/21. Berkshire earned $28.1 billion in the second quarter, including $6.7 billion of operating earnings and $21.4 billion of investment and derivative gains.

Berkshire's four major equity investment holdings represent 69% of total equities, including American Express at $25.1 billion (which charged 37% higher during the first half or $6.8 billion), Apple at $124.3 billion (which gained 3% in the first half or $3.9 billion), Bank of America at $42.6 billion (which deposited a 36% gain in value during the first half or $11.3 billion), and Coca-Cola at $21.6 billion (fizzling 1% or $300 million since year end).

Berkshire's revenues increased 22% during the second quarter to $69.2 billion with operating earnings rising 21% to $6.7 billion as many of Berkshire's businesses experienced a significant recovery in revenues and earnings following the pandemic.

During the second quarter, Berkshire's insurance underwriting profit declined 53% to $376 million as underwriting losses from reinsurance operations offset underwriting earnings from the primary insurance operations. Underwriting results in the second quarter reflected the effects of the premium reductions from the GEICO Giveback program, higher private passenger automobile claims frequencies as people began to drive more following the pandemic and higher losses in the life reinsurance business. Insurance investment income declined 11% during the second quarter to $1.2 billion, reflecting the significant decline in interest rates resulting in lower interest income on substantial holdings of cash and U.S. Treasury Bills. Berkshire expects interest rates, which are historically low, to negatively affect earnings from fixed-income investments for the remainder of 2021. The float of the insurance operations approximated $142 billion as of 6/30/2021, an increase of $4 billion since year end 2020. The average cost of float was negative during the first half as the underwriting operations generated pre-tax earnings of $1.4 billion.

Burlington Northern Santa Fe's (BNSF) revenues chugged 26% higher during the second quarter to $5.6 billion with net earnings roaring 34% higher to $1.5 billion reflecting overall higher freight volumes and lower costs due to improved productivity. Volume was up a smoking 25% during the quarter driven by double-digit gains in volume in all business sectors led by a 27% volume increase in consumer products and a 32% rebound in coal.

Berkshire Hathaway Energy reported revenues charged ahead 31% during the second quarter to $6.1 billion. Net earnings rose 17% during the quarter to $740 million reflecting increased earnings from all the energy business units and the real estate brokerage business, except for the Northern Powergrid due in part to an increase in the United Kingdom tax rate.

Berkshire's Manufacturing businesses reported second quarter revenues rose 34% to $17.4 billion with operating earnings up 94% to $2.7 billion. The Industrial Products segment rebounded with revenues rising 24% and operating earnings more than doubling from the pandemic lows in the prior year second quarter. Precision Castparts still experienced lower financial results in the second quarter due to the decline in commercial air travel and aircraft production. While air travel in the U.S. is increasing, Berkshire does not expect significant increases in the level of aircraft production to occur in the near term with Precision Castparts' revenues and earnings in 2021 expected to remain below pre-pandemic levels. On a more positive note, both Building and Consumer Products generated strong 20+% sales and earnings growth during the quarter as residential housing construction demand remains strong with consumer product sales also demonstrating recoveries from the pandemic led by strong demand for Forest River, Brooks Sports and Duracell products.

Service and Retailing revenues increased 23% during the second quarter to $21.3 billion with pre-tax earnings nearly tripling to $1.3 billion. Earnings at most of the services businesses increased significantly compared to last year with the biggest increases from TTI, reflecting accelerating demand across all electronic component markets, and the aviation business services due to higher training hours at FlightSafety and significantly higher customer flight hours at NetJets. Thanks to strong demand for home furnishings and new and pre-owned vehicle sales at Berkshire Hathaway Automotive, retailing operations reported strong increases in sales and earnings during the second quarter. McLane's revenues and earnings also rebounded sharply due to growth from the foodservice and beverage business as restaurants reopened and ongoing cost management efforts.

Berkshire's balance sheet continues to reflect very significant liquidity and a very strong capital base of $470 billion as of 6/30/21. Excluding railroad, energy and utility investments, Berkshire ended the first half with $485.6 billion in investments allocated approximately 63.4% to equities ($307.9 billion), 4.2% to fixed-income investments ($20.5 billion), 3.4% to equity method investments ($16.5 billion), and 29.0% in cash and equivalents ($140.7 billion).

Free cash flow rose 23% during the first half to $13.9 billion. During the first half, capital expenditures declined 8% to $5.7 billion, including $4.1 billion in the capital-intensive railroad, utilities and energy businesses. Berkshire expects capital expenditures for the remainder of 2021 to approximate an additional $6.2 billion for BNSF and Berkshire Hathaway Energy. During the first half, Berkshire purchased a net $11.4 billion in Treasury Bills and fixed-income investments and sold a net $5.0 billion of equity securities. The $1.3 billion acquisition of the remainder of the Dominion pipeline business was terminated due to uncertainty regarding regulatory approvals.

Berkshire repurchases its shares at prices below Berkshire's intrinsic value, as conservatively determined by Warren Buffett and Charlie Munger. **During the first half, Berkshire repurchased $12.6 billion of its common stock including $6 billion in the second quarter.** These repurchases included 8,646,680 Class B shares acquired at an average price of $279.94 per share and 2,250 Class A shares purchased at an average price of $432,132 per share during June 2021. After quarter end, it appears Berkshire has acquired about $1.8 billion in additional shares of its common stock based on its lower share count on the 10-Q as of 7/26/21. Berkshire revised its buyback policy to note that repurchases would not be made if they would reduce the total value of Berkshire's consolidated cash below $30 billion from the previous $20 billion benchmark.

MAXIMUS
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For the quarter ended June 30, 2021, **Maximus-MMS** reported record revenue of $1.24 billion, up 38% from last year, with net earnings and EPS rebounding from pandemic lows to $139.6 million and $1.51, respectively, compared to $87.3 million and $1.04 last year. COVID-19 response work including vaccination distribution support services, unemployment insurance program support, disease investigation, contact tracing and other key initiatives drove the results, contributing $460 million to revenue during the quarter. By segment, U.S. Services Segment revenue increased 29% to $436.3 million with COVID-19 response work contributing nearly 40% of segment revenue. Segment operating margins declined 380 basis points to 14.3%, reflecting continued headwinds experienced on core programs, including those impacted by the pause of Medicaid redeterminations and delays in non-COVID new work, which is now expected to begin next fiscal year. U.S. Federal Services Segment revenue increased 37% to $617.6 million. An expected decline in Census contract revenue was more than offset by an increase of COVID response work that exceeded management's expectations. Segment operating margin expanded 520 basis points from higher-than-expected volumes on the COVID-19 response work. Outside the U.S., segment revenue increased 66% to $189.6 million. Segment operating margin of 4.4% rebounded from last year's pandemic-related loss, largely driven by strong demand for employment services in Australia. During the quarter, Maximus generated negative free cash flow of $41.6 million as revenue increases required additional investment in working capital. Maximus expects fourth quarter fiscal 2021 cash flows to be strong. The company ended the quarter with $96.1 million in cash, $1.6 billion in long-term debt taken on to finance two recent acquisitions and $1.45 billion in shareholder equity. Over the next few quarters, Maximus will use free cash flow to pay down debt and pay the regular quarterly dividend which is targeted to yield between 1% and 2%. Given the robust year-to-date results and planned losses on multiple startup contracts, most notably the UK Restart program, Maximus updated its guidance for the full fiscal year. Revenues are expected in the $4.2 billion to $4.25 billion range, up from $4.0 billion to $4.2 billion previously guided, with EPS in the $4.65 to $4.75 range, up from prior guidance of $4.20 to $4.40. **Free cash flow is expected in the $375 million to $405 million range**, up from $360 million to $410 million previously guided. Looking ahead to fiscal 2022, management expects earnings to be backend loaded with the first fiscal quarter expected as a low point followed by sequential improvement as core programs and startup contract costs outside the U.S. begin to gain traction.

UPS-UPS announced its regular quarterly dividend of $1.02 per share on all outstanding Class A and Class B shares. The dividend is payable September 9, 2021 to shareowners of record on August 23, 2021. In addition, the Company announced that its **Board of Directors has approved a new share repurchase program of $5.0 billion**, replacing its existing $2.1 billion authorization. Carol Tomé, UPS chief executive officer, commented, "Commitment to the dividend is one of UPS's core principles and a hallmark of the company's financial strength. As previously disclosed, we expect to continue paying regular cash dividends, with a targeted dividend payout ratio, starting in 2022, of approximately 50% of our prior year's adjusted net income. In addition, we are pleased that the Board has increased our flexibility to engage in share repurchases. UPS will deploy a disciplined and balanced approach to capital allocation, including returns to shareowners through dividends and share repurchases."

Regeneron-REGN reported second quarter revenues rose 163% to $5.1 billion with net income jumping 245% to $3.1 billion and EPS up 268% to $27.97. This outstanding performance included $2.76 billion in revenue attributable to REGN-COV, the company's COVID-19 antibody cocktail which has proven potent against all known variants. Excluding REGN-COV sales, revenues still rose a healthy 22% as the company generated record global sales from its core products such as EYLEA and Dupixent. Regeneron has approximately 30 product candidates in clinical development, including six marketed products for which it is investigating additional indications. Regeneron continues to advance Dupixent's potential to help new patient groups with recent positive Phase 3 data that reported Dupixent significantly improved itch and hives in patients with chronic spontaneous urticaria, marking the fifth disease to show positive pivotal data. The Phase 3 trial of Libtayo combined with chemotherapy showed significant improvement in overall survival in patients with first-line advanced non-small cell lung cancer. During the past quarter, the Regeneron Genetics Center provided landmark clinical data with the discovery of a promising new obesity target which may protect patients from obesity and Type 2 diabetes. With more than 20 gene editing programs under consideration, Regeneron may change the progress of medicine with future gene therapies. Free cash flow during the first half of the year declined 23% to $1.0 billion although the company expects a significant increase in free cash flow in the third quarter as the company has collected all amounts due from the U.S. government in July in connection with delivering 1.25 million doses of REGN-COV. During the second quarter, Regeneron repurchased $289 million of its common stock and will remain opportunistic on future share repurchases. The company plans to invest about $1.8 billion over six years to expand its research and preclinical manufacturing facilities as it advances its promising pipeline of new products. As of quarter end, Regeneron's strong balance sheet boasted a healthy $7.8 billion in cash and investments, $2.0 billion in long-term debt and $15.1 billion in shareholders' equity.

Check Point® Software-CHKP announced that **its board of directors has authorized a $2 billion expansion of the company's on-going share repurchase program.** Under the extended share repurchase program, Check Point is authorized to continue repurchasing its shares up to $325 million each quarter. As of June 30, 2021, Check Point has approximately 133 million ordinary shares outstanding. Since the beginning of the share repurchase program, Check Point has repurchased approximately 188 million shares for a total purchase price of approximately $11.1 billion.

Gentex-GNTX announced a new 25 million share repurchase program. “Despite the issues created by the pandemic over the last 18 months, we have been focused on creating and implementing the financial discipline that was needed to support profitability, cash generation and new product development,” said Gentex President and CEO Steve Downing. “Our capital allocation strategy is designed to supplement our company’s growth with consistent and appropriate utilization of the company’s cash flow. This strategy prioritizes reinvestment into the company by funding capital expenditures and provides the ability to acquire new and exciting technologies that fit well with our technology portfolio. Beyond that, our strategy focuses on M&A, a consistent dividend and a very meaningful repurchase philosophy. In fact, since 2015 the Company has repurchased around 86 million shares and paid nearly $720 million dollars in dividends to our shareholders. We have also acquired several new technology companies, formed strategic relationships with several other organizations, and continued to invent new technologies organically from our own research and development efforts. These successes combined with our customer awards and high levels of cash generation have provided the board with the confidence it needed to further commit to this capital allocation philosophy.”

Regeneron Pharmaceutical-REGN announced that the New England Journal of Medicine published "positive" detailed results from a Phase 3 trial that assessed the ability of REGEN-COV to prevent COVID-19 infection among household contacts of SARS-CoV-2 infected individuals. The trial met its primary endpoint, reducing the risk of symptomatic infections by 81%. The robust REGEN-COV development program has reported "positive" Phase 3 trial results across the spectrum of COVID-19 infection, from prevention to hospitalization.

NVR, Inc.-NVR announced that its **Board of Directors has authorized the repurchase of $500 million of its outstanding common stock.** The Company indicated that the authorization is a continuation of the stock repurchase program that began in 1994 and is consistent with NVR's strategy of maximizing shareholder value.

Roche-RHHBY announced that the US Food and Drug Administration (FDA) has accepted the company’s supplemental Biologics License Application (sBLA) and granted Priority Review for Tecentriq® (atezolizumab) as adjuvant treatment following surgery and platinum-based chemotherapy for people with non-small cell lung cancer. “New treatment options are urgently needed in early-stage non-small cell lung cancer to help the nearly 50% of people who currently experience a recurrence following surgery,” said Levi Garraway, M.D., Ph.D., Roche’s Chief Medical Officer and Head of Global Product Development. “Tecentriq is the first cancer immunotherapy to show a clinically meaningful benefit in the adjuvant lung cancer setting, and we’re working closely with the FDA to bring this significant advancement to patients as quickly as possible.”

PepsiCo-PEP announced that it has entered into an agreement with PAI Partners (PAI) **to sell Tropicana, Naked and other select juice brands across North America,** and an irrevocable option to sell certain juice businesses in Europe, **which will result in combined pre-tax cash proceeds of approximately $3.3 billion while retaining a 39% non-controlling interest in a newly formed joint venture.** PAI, a leading private equity firm with strong experience in the food and beverage space, will be the majority shareholder of the transferred business, with PepsiCo retaining exclusive U.S. distribution rights to the portfolio of brands in its best-in-class, chilled Direct Store Delivery for small-format and foodservice channels. These juice businesses delivered approximately $3 billion in net revenue in 2020 with operating profit margins that were below PepsiCo's overall operating margin in 2020. PepsiCo expects to use the proceeds from the sale of these assets primarily to strengthen its balance sheet and to make organic investments in the business. The transaction is expected to close in late 2021 or early 2022.

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This past week was a share buyback bonanza among our ***HI***-quality companies thanks to strong free cash flows generated by these businesses. If management teams can repurchase shares below a conservative estimate of the company's intrinsic value, then shareholder value is maximized as remaining investors own a higher percentage of a wonderful business. No one estimates intrinsic value better than Warren Buffett and Charlie Munger so the fact that **Berkshire Hathaway's biggest investment during the first half of the year was the repurchase of $12.6 billion of Berkshire's own shares** is a strong indication that Buffett felt Berkshire's stock was attractively valued. **Berkshire's buyback activity has continued subsequent to quarter end with another approximate $1.8 billion of its shares repurchased** based on the lower share count revealed in the 10-Q filing. **Other *HI*-quality companies expanding their share repurchase programs during the past week included $5 billion for UPS, $2 billion for Check Point Software, $500 million for NVR and Gentex announcing a new 25 million share repurchase program.**

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

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President