Hendershot INVESTMENTS

8-2-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 7-30-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,935.47	-0.4%	+14.1%
S&P 500	4,395.26	-0.4%	+17.0%
NASDAQ	14,672.68	-1.1%	+13.8%

Weekly jobless claims totaled 419,000 for the week ended July 17, which represented a surprising gain from the previous week's 368,000. Despite the jump in claims, multiple factors point to a strong potential for labor gains ahead as 9.8 million job openings outpace the 9.48 million workers counted as unemployed. Continuing claims declined by 29,000 to 3.24 million for another pandemic-era low.

Growth in U.S. economic activity (GDP) accelerated in the second quarter to 6.5% compared to the first quarter. Personal consumption rose at an 11.8% rate in the second quarter, handily topping expectations for a 10.5% increase. However, other areas of the economy served as drags to second-quarter economic growth including net exports and government spending. Soaring demand has sparked supply chain constraints and rising input costs during the quarter, offsetting GDP growth as well. In addition, residential fixed investment slowed as fast-rising home prices and tight inventory weighed on the housing market. While second quarter GDP growth may mark the peak rate of growth, economic growth should remain strong into next year.

New home sales declined 6.6% month-over-month in June to a seasonally adjusted annual rate of 676,000. On a year-over-year basis, new home sales were down 19.4%. New home sales, which are counted when contracts are signed, are being squeezed by affordability pressures that have increased with prices and mortgage rates.

Total durable goods orders for June were up 0.8% month-over-month as business spending continues to increase.

The Conference Board's Consumer Confidence Index was 129.1 in July, which marked the highest level for the index since February 2020. Consumer spending activity is expected to remain robust in the short-term, evidenced by a larger percentage of consumers saying they plan to buy homes, automobiles, and major appliances in the coming months.

Personal spending increased 1.0% month-over-month in June. Personal income was up 0.1% month-over-month with a 0.7% increase in compensation helping to offset a 2.0% decline in personal current transfer receipts.

The PCE Price Index was up 0.5%. On a year-over-year basis, the PCE Price Index held steady at 4.0%. The inflation rate, while better than feared, is still running well above 2.0% and is eroding the purchasing power of personal income gains. Real disposable personal income was down 3.0% on a year-over-year basis.

Despite strong earnings reports, worries over the rapid spread of the Delta variant of the coronavirus put a damper on the market with all major indices pulling back during the week with the Dow and the S&P 500 each dipping 0.4% and the NASDAQ down 1.1%.

T. Rowe Price-TROW reported strong second quarter results with revenues rising 36% to $1.9 billion, net income gaining 35% to $815.7 million and EPS up 36% to $3.46. The company ended the quarter with assets under management (AUM) of $1.62 trillion, a 33% increase over the prior year period thanks to strong long-term investment performance. During the second quarter, AUM increased $105.1 billion primarily due to market appreciation with $600 million in net cash outflows as some large subadvised clients trimmed their holdings of U.S. equities. During the quarter, T. Rowe Price announced a transformation of its retirement recordkeeping business with the expansion of its 30-year partnership with FIS, a global technology leader. This led T. Rowe Price to increase its operating expense growth expectations from a range of 10%-14% to a range of 12% to 15% for 2021. T. Rowe Price remains debt-free and cash-rich with total cash and investments of about $7.5 billion as of quarter end. During the first half of the year, T. Rowe Price repurchased 1.9 million of its common stock for $308.9 million at an average cost of $166.57 per share. **The company also paid a special dividend on July 7, 2021 of $3.00 per share, or $699.8 million, which was in addition to its regular quarterly dividend of $1.08 per share, which was up 20% from the prior year.** In separate news, T. Rowe Price announced that CEO Bill Stromberg will retire at the end of 2021 and will be succeeded by Rob Sharps, TROW's current president, head of Investments and group CIO. Additionally, effective 7/31/2021, CFO and COO Céline Dufétel will be stepping down from her roles to assume a leadership position with a fintech company. Jen Dardis, currently head of Finance, will become CFO and treasurer effective August 1, 2021. COO responsibilities will transition on an interim basis to Robert Higginbotham.

Mastercard-MA reported second quarter revenue rose 36% to $4.5 billion with net income charging 46% higher to $2.1 billion and EPS up 48% to $2.08. This solid growth reflected the continued recovery in domestic and cross-border spending. Domestic spending is showing strength due to increased consumer mobility and stimulus payments. International travel is still in the early stages of recovery and represents additional upside potential. Cross-border spending is normalizing as border restrictions are easing. Mastercard expects more borders to open in the second half of the year depending on the impact of the Delta variant. Approximately 35 countries have greater than 50% vaccinated populations so there is a long runway of people who want to travel. Gross dollar volume was up 33% during the quarter to $1.9 trillion on a local currency basis. Mastercard reported cross-border volume growth of 58% and switched transaction growth of 41% as the company lapped last year's weak results due to the pandemic. As of June 30, 2021, the company's customers had issued 2.9 billion Mastercard and Maestro-branded cards. During the first half of the year, Mastercard's free cash flow increased 15% to $3.6 billion with the company paying $873 million in dividends and repurchasing $3.1 billion of its common stock, including 4.6 million shares in the second quarter for $1.7 billion at an average cost of $369.56 per share. After quarter end, Mastercard repurchased an additional $398 million of its common stock with $6.4 billion remaining authorized for future share repurchases. During the first half of the year, Mastercard also invested $4.2 billion in acquisitions which are contributing to revenue growth. Revenue growth in the third quarter should be in the mid-20% range.

Roche-RHHBY announced that the U.S. Food and Drug Administration (FDA) has accepted the company's Biologics License Application (BLA), under Priority Review, for faricimab for the treatment of neovascular or "wet"

age-related macular degeneration (nAMD) and diabetic macular edema (DME). The FDA has also accepted the company's submission for diabetic retinopathy. "If approved, faricimab would be the first in a new class of eye medicines targeting two key pathways that drive retinal disorders, with the potential to offer durable vision outcomes with fewer eye injections than the current standard of care," said Levi Garraway, M.D., Ph.D., Roche's Chief Medical Officer and Head of Global Product Development. "Therefore, we hope faricimab will become a new treatment option for millions of people living with nAMD and DME."

Cognizant Technology Solutions-CTSH reported second quarter revenue increased 15% to $4.6 billion with net earnings and EPS surging more than 40% to $512 million and $0.97, respectively. Digital revenue grew 20% from last year and now represents 44% of total revenue, up from 28% when CEO Brian Humphries took the helm two years ago. Cognizant ended the quarter with a solid 1.2 book to bill ratio. By business segment, Financial Services (33% of total revenue) increased 7.6%, Healthcare (29% of total revenues) increased 15%, Products and Resources (23% of total revenue) jumped 22% and Communications, Media and Technology (15% of total revenue) increased 21%. Operating margin increased 350 basis points to 15.2% thanks to the lapping of last year's COVID and ransomware related expenses. Cognizant's headcount increased 7% from last year despite an elevated 29% attrition rate during the quarter, mainly of junior digital engineers based in India. Management is focused on reducing attrition through merit salary increases, quarterly promotions, job rotation, reskilling and supporting higher education for some employees. Cash flow from operations and free cash flow declined more than 40% year-over-year to $541 million and $466 million, respectively, due to the COVID-related deferral of tax payments last year and a payment made this year for settlement from Cognizant's decision to exit the content review business. During the quarter, Cognizant paid $127 million in dividends and repurchased $296 million shares at an average cost of $74.00 per share, leaving $2.3 billion remaining under the current share repurchase authorization. Cognizant ended the quarter with $2.3 billion in cash and investments, $645 million in long-term debt and $11.2 billion in shareholders' equity. **Given the solid first half performance, management increased its full year guidance with revenues now expected to increase 10% to 11%** with adjusted operating margin of 15.4% and adjusted EPS in the $4.00 to $4.06 range. Management expects to retain its current capital allocation strategy with 50% of free cash flow applied to acquisitions to build its digital business, 25% to share repurchases and 25% to dividend payments.

Facebook-FB reported second quarter revenue rose 56% to $29.1 billion with net income and EPS each doubling to $10.4 billion and $3.61, respectively. This strong growth reflected the very strong macro environment in all geographic regions as the company lapped the weak pandemic results from a year ago. Advertising growth was driven by a 47% increase in the average price per ad and a 6% increase in the number of ads delivered compared to the prior year period. Facebook daily active users and monthly active users each increased 7% year-over-year to 1.91 billion on average and 2.9 billion on average, respectively. Family daily active people and family monthly active people each increased 12% year-over-year to 2.76 billion and 3.51 billion as of June 30, 2021. **Free cash flow more than doubled during the first half of the year to $16.6 billion with the company repurchasing $11 billion of its common stock, including $7.1 billion in the second quarter.** The company ended the quarter with $64 billion in cash and investments, no long-term debt and $138.2 billion in shareholders' equity on its fortress balance sheet. In 2021, Facebook expects total expenses to be in the range of $70 billion to $73 billion with capital expenditures expected in the range of $19 billion to $21 billion as the company is investing ahead of the compelling long-term growth opportunities management sees across its product portfolio and as it builds the metaverse, its virtual environment which will become the next generation of the Internet. In the second half of the year, Facebook expects revenue growth to decelerate as the company laps periods of increasingly strong growth. In addition, Facebook expects increased ad targeting headwinds from regulatory and platform changes, notably the recent operating system update from Apple regarding privacy of data.

Automatic Data Processing-ADP reported fourth quarter revenue rose 11% to $3.7 billion with net income and EPS each up 31% to $538.2 million and $1.26, respectively. With more than 920,000 clients around the world, ADP paid 1 in 6 U.S. workers last year and processed $2.3 trillion in payrolls and taxes. For the full year, revenue increased 3% to $15 billion with net earnings up 5% to $2.6 billion and EPS up 6% to $6.07. These results were impressive given the unprecedented change for employers and workers around the world during the pandemic. New business bookings increased 23% for the year to $1.5 billion with productivity for the year at about 90% of pre-pandemic levels. Client retention increased to a record 92.2% for the year**. Return on shareholders' equity for the year was an impressive 45.8%**. Free cash flow increased 7% during the year to $2.8 billion with the company paying $1.6 billion in dividends and repurchasing $1.4 billion of its common stock during the year. **ADP has increased its dividend for 46 consecutive years.** Encouraged by signs of economic recovery in a supply-constrained labor market, ADP expects another solid year of growth in fiscal 2022 with revenue growth of 6%-7%, new business bookings of 10%-15%, operating margin expansion of 25 to 50 basis points and EPS growth of 8% to 10%.

General Dynamics-GD reported second quarter revenue dipped slightly to $9.2 billion with net earnings increasing 18% to $737 million and EPS soaring 20% to $2.61 as margins at all segments expanded year-over-year and sequentially. Quarter-end backlog of $89.2 billion increased 8% from last year's second quarter. By segment, Aerospace revenue dropped 18% to $1.6 billion as the negative impact of COVID-related production cuts hit the low point during the quarter. However, aerospace backlog of $13.5 billion is the highest since 2015 and second quarter Gulfstream orders of $3.3 billion were the highest since 2008 resulting in a 2.0 book-to-bill ratio. Marine Systems revenue increased 2% to $2.5 billion, marking the 15th consecutive quarter of growth. Combat Systems revenue increased 8.3% to $1.9 billion, driven by combat vehicles. Technologies revenue increased 3.2%, powered by the expansion of IT services which expanded close to a double-digit pace. During the quarter, General Dynamics generated $943 million in free cash flow, representing 128% of net income with the company repurchasing $600 million of common stock**. During the first half of the year, General Dynamics returned $2.0 billion to shareholders through dividend payments of $651 million and share repurchases of $1.35 billion at an average cost per share of $173 per share.** General Dynamics ended the quarter with nearly $3.0 billion in cash, $11.5 billion in long-term debt and $15.3 billion in shareholders' equity. During the second quarter conference call, management raised its full-year EPS guidance by $0.45 to $0.50 to about $11.50 with free cash flow conversion expected in the 95% to 100% range.

Starbucks-SBUX reported third quarter fiscal 2021 sales increased 78% to a record $7.5 billion with net income of $1.153 billion, or $0.97 per share, compared to last year's net loss of $678.4 million, or $0.58 per share. Global comparable store sales increased 73%, driven by a 75% increase in comparable transactions due to the lapping of the pandemic-related business disruption last year, partially offset by a 1% decrease in average ticket. By region, Americas revenues increased 92% to $5.4 billion on an 84% increase in comp store sales, International revenues increased 41% to $1.7 billion on a 41% increase in comp store sales and Channel Development sales dipped 7% to $414 million due a 20% unfavorable impact of Global Coffee Alliance transition-related activities. Loyalty program members grew 48% to 24.2 million. Starbucks opened 352 net new stores during the June quarter, yielding 3% year-over-year unit growth, ending the quarter with a record 33,295 stores globally, with 46% located in the U.S. and 15% in China. **During the first nine months of the fiscal year, Starbucks generated**

$3.5 billion in free cash flow, compared to a negative $1 billion last year, **with the company returning $1.6 billion to shareholders through dividend payments.** Starbucks ended the quarter with $5.4 billion in cash and investments, $13.6 billion in long-term debt and a shareholders' deficit of $6.8 billion. For the full fiscal year, Starbucks expects revenues of about $29 billion on a same store sales lift of 20% to 21%. Starbucks increased its Americas and U.S. comp store growth to 21% to 22% from 17% to 22% previously and lowered its forecast for China comp store sales growth to 18% to 20% from 27% to 32% with international comp store sales now expected to grow in the 15% to 17% range from 25% to 30% previously guided. EPS are expected in the range of $2.97 to $3.02 and capital expenditures are expected to total $1.7 billion with the company opening about 1,100 net new stores globally including 600 net new stores in China.

Apple-AAPL rang up a juicy 36% jump in fiscal 2021 third quarter sales to a record $81.4 billion with net income increasing 93% to $21.7 billion and EPS doubling to $1.30. Apple's June quarter operating performance included new revenue records in each geographic segment, double-digit growth in each of product categories and a new all-time high for the installed base of active devices. Product revenues rose 37% to $63.9 billion and Services revenue increased 33% to $17.5 billion. By product category, iPhone sales surged nearly 50% to $39.6 billion thanks to the iPhone 12 lineup and its 5G connectivity. Mac sales increased 16.3% to $8.2 billion, iPad sales increased 12% to $7.3 billion and Wearables, Home and Accessories sales jumped 36% to $8.8 billion. By reportable segment, sales in the Americas, 44% of the total, jumped 33%, sales in Europe, 23% of the total, rose 34%, sales in Greater China, 18% of the total, rose an impressive 58%, while Japan, 8% of the total, increased 30% and Rest of Asia Pacific, 7% of the total, increased 29%. Apple returned $29 billion to shareholders during the quarter through dividend payments of $3.8 billion and share repurchases of $17.5 billion at an average cost per share of $128.68 per share**. During the first nine months of the fiscal year, Apple generated nearly $76.0 billion in free cash flow, up 39% from last year, with the company returning $77.1 billion to shareholders through dividends of $10.8 billion and share repurchases of $66.2 billion.** Apple ended the quarter with $193.6 billion in cash and investments, $105.8 billion in long-term debt and $64.3 billion in shareholders' equity on its shiny balance sheet. Given the uncertainty related to the pandemic, Apple suspended quarterly guidance. However, management expects solid double-digit revenue growth, albeit at a slower pace than the June quarter due to less favorable tailwinds from foreign currency, a slowdown in the torrent growth in services due to more difficult comps and the higher impact of supply constraints that will especially impact iPhone and iPad sales. The company had predicted a $3.0 billion to $4.0 billion supply constraint impact on sales during the June quarter, but management was able to mitigate the impact to slightly below the bottom of the range.

Microsoft-MSFT reported strong fourth quarter results with revenue up 21% to $46.2 billion and net income jumping 47% to $16.5 billion and EPS up 49% to $2.17. Cloud strength fueled growth during the quarter with revenue in Intelligent Cloud increasing 30% to $17.4 billion driven by Azure revenue growth of 51%. During the quarter, revenue in Productivity and Business Processes increased 25% to $14.7 billion driven by Office 365 Commercial and LinkedIn. Revenue in More Personal Computing rose 9% to $14.1 billion driven by Search advertising. Microsoft is meeting customer needs in large and growing markets, notably commercial cloud. In addition, Microsoft is building new franchises including gaming, security and LinkedIn, all of which surpassed $10 billion in annual revenue over the past three years. For the full fiscal 2021 year, Microsoft's revenue increased 18% to $168.1 billion with net income jumping 38% to $61.3 billion and EPS up 40% to $8.05. Return on shareholders' equity for the year was an impressive 43.2%. **Free cash flow increased 24% during the year to $56.1 billion with Microsoft paying $16.5 billion in dividends and repurchasing $27.4 billion of its common stock during the year.** Microsoft ended the year with more than $130 billion in cash and investments, $50 billion in long-term debt and $142 billion in shareholders' equity on its strong balance sheet. For the first fiscal quarter of 2022, Microsoft expects revenues in the range of $43.3 billion to $44.2 billion, representing better than 20% growth over the prior year period. For the full 2022 year, Microsoft expects to generate double-digit growth in revenues and operating income with expanding profit margins.

Stryker-SYK reported second quarter net sales jumped 55% to $4.3 billion with net income and EPS increasing from prior year losses to $592 million and $1.55, respectively. By segment, Orthopaedics net sales of $1.6 billion increased 82% in the quarter, MedSurg net sales increased 32% to $1.7 billion and Neurotechnology and Spine net sales of $0.9 billion increased 67%. During the first half of the year, Stryker reduced long-term debt by $1.2 billion and generated $1.1 billion in free cash flow with the company returning $475 million to shareholders through dividend payments. Stryker ended the quarter with $2.3 billion in cash and investments, $12.7 billion in long-term debt and $13.8 billion in shareholders' equity. **Management raised its 2021 outlook expecting organic net sales growth of 9% to 10% and adjusted EPS of $9.25 to $9.40.** "Business momentum continues to build as the pandemic moderates and the integration of Wright Medical is pacing ahead of plan. Our positive outlook is reflected in our raised guidance," said Kevin Lobo, Chairman and Chief Executive Officer.

Alphabet-GOOGL reported strong second quarter results with revenues jumping 62% to $61.9 billion and net income and EPS both up more than 165% to $18.5 billion and $27.26, respectively. These excellent results reflect Alphabet lapping weak pandemic results last year, a rising tide of online activity in many parts of the world, broad-based advertising spending and excellent management execution during the quarter. Google advertising revenue increased 69% to $50.4 billion including 84% growth in YouTube ads. Retailers led advertising growth followed by travel, financial and entertainment ads. Google Cloud generated 54% growth during the quarter to $4.6 billion in revenues as the company's security, real-time data and analytics and artificial intelligence and machine learning are attracting growing customer interest. **Free cash flow more than doubled during the first half of the year to $29.7 billion with the company repurchasing about $24.2 billion of its common stock as part of its $50 billion share buyback authorization.** Alphabet ended the quarter with a fortress balance sheet with more than $161 billion in cash and investments, $14 billion in long-term debt and $237.6 billion in shareholders' equity.

UPS-UPS delivered a 14.5% increase in second quarter revenue to $23.4 billion with net earnings and EPS increasing more than 50% to $2.676 billion and $3.05, respectively. U.S. Domestic revenue increased 10.2% to $14.4 billion, driven by a 13.4% increase in revenue per piece on double-digit growth in both ground and Next Day Air products. Domestic operating margins dipped to 10.9% from 11.6% last year due to fuel increases, network enhancements and employee benefit increases, partially offset by productivity improvements that reduced direct labor hours by 1.4%. International revenue jumped 30% to $4.8 billion, with all major regions growing double digits, led by Europe. International segment adjusted operating margins expanded 200 basis points to 24.7% as revenue per piece increased 15.5% on an adjusted cost per piece of 12.4%. Supply Chain Solutions revenue increased 14.3% to $4.2 billion with adjusted operating margins increasing 240 basis points to 9.7%. Ocean freight forwarding more than doubled its profit margins. In healthcare supply chain solutions, clinical trails along with cell and gene solutions delivered record top- and bottom-line results. **During the first half of the year, UPS generated $8.5 billion in operating cash flow, up 42.2% from last year, and free cash flow of $6.8 billion--more free cash flow generated than during any prior full year.** This robust free cash flow enabled the company to strengthen its balance sheet by paying down debt (thereby completing its $2.55 billion debt repayment target for the year) and reducing its pension liability by a total of $10 billion. UPS returned $1.7 billion to shareholders during the first half of the year, ending the quarter with nearly $10 billion in cash and investments, $21 billion in long-term debt and $10.8 billion in shareholders' equity. Management views company

cash as “belonging to shareowners” and aims to return 50% of earnings to shareholders through dividend payments. While share repurchases were suspended due to the pandemic, the company expects to soon reinstate share buybacks. While UPS suspended quarterly guidance due to uncertainties surrounding the pandemic and supply chains (one brick and mortar customer has 50 containers stuck in port), it projects full year operating margins of 12.7% and return on invested capital of 28%. Capital expenditures are projected at $4 billion during 2021, compared to $5.4 billion in 2020 and $6.4 billion in 2019.

Accenture Federal Services (AFS), a subsidiary of **Accenture-ACN**, has been awarded a $729 million contract to help the U.S. Army Communications-Electronics Command (CECOM) transform multiple enterprise resource planning (ERP) systems into a single, consolidated model to improve efficiency, enhance readiness, and reduce costs. The contract runs for six years.

Regeneron Pharmaceuticals, Inc.-REGN and AstraZeneca announced that the companies have entered into a collaboration to research, develop and commercialize small molecule compounds directed against the GPR75 target with the potential to treat obesity and related co-morbidities.

Raytheon Technologies-RTX reported second quarter net sales increased 13% to $15.9 billion with the company swinging to a profit of $1.0 billion or $.69 per share compared to losses in the prior year period. These strong results were driven by growth in the defense businesses and the better-than-expected commercial aerospace recovery. The full aerospace recovery is still expected to occur by the end of 2023 once international air travel fully resumes. **While the U.S. and Europe have about half their populations vaccinated, the rest of the world is only about 9% vaccinated which will curtail international travel.** Backlog at the end of the quarter was $151.8 billion with $85.7 billion from commercial aerospace and $66.1 billion from defense with a book-to-bill ratio of 1.12. Raytheon scored notable billion-dollar defense bookings during the quarter. Raytheon is well positioned to help the country defend itself in the next war which likely will occur in cyberspace or in outer space’s communication satellites. **Free cash flow more than doubled during the first half of the year to $1.3 billion with the company paying $1.5 billion in dividends and repurchasing $1.0 billion of its common stock during the same time.** Raytheon plans to repurchase an additional $1 billion of its common stock in the second half of the year. Raytheon raised its financial outlook for the full 2021 year with sales now expected in the range of $64.4 billion to $65.4 billion, with organic sales growth of 1% to 3%, and adjusted EPS expected in the range of $3.85-$4.00. The free cash flow forecast for the year was raised to a range of $4.5 billion to $5.0 billion.

3M-MMM reported second quarter sales increased 25% to $8.9 billion with net earnings increasing 17% to $1.5 billion and EPS increasing 15% to $2.59. By business segment, total sales increased 25% in Health Care to $2.3 billion, 20% in Consumer to $1.5 billion, 22% in Safety and Industrial to $3.3 billion and 28% in Transportation and Electronics to $2.5 billion. On a geographic basis, total sales increased 20% in Asia Pacific, 26% in the Americas and 29% in EMEA (Europe, Middle East and Africa). **During the first half of the year, 3M generated $2.9 billion in free cash flow with the company returning $2.5 billion to shareholders through dividend payments of $1.7 billion and share repurchases of $734 million.** 3M ended the quarter with $5.5 billion in cash and investments, $16.3 billion in debt and $14.5 billion in shareholders’ equity. The company updated its guidance with projected total sales growth of 7% to 10%, EPS in the $9.70 to $10.10 range and free cash flow

conversion of 90% to 100%. “3M delivered strong performance in the second quarter, once again posting organic growth across all business groups and geographic areas, along with increased earnings and robust cash flow,” said Mike Roman, 3M chairman and chief executive officer.

F5 Networks-FFIV reported fiscal third quarter sales increased 12% to $651.5 million with net earnings and EPS increasing 28% to $89.6 million and $1.46, respectively. Product sales increased 21% to $310 million, powered by a 34% jump in software sales to $129 million, now representing 42% of total product sales, up from 38% last year. Subscription sales accounted for 78% of software sales, up from 73% last year. Services sales increased 4% to $341.6 million. Deferred revenues increased 13% to $1.44 billion due to a jump in multi-year NGINX and SHAPE contracts. Enterprise customers accounted for 69% of sales, Service Providers accounted for 15% of sales and government sales accounted for 17%, including 4% Federal. During the latest quarter, F5 generated $182 million in operating cash flow and $173 million in free cash flow with the company repurchasing $100 million shares, thereby completing its $500 million share repurchase program at an average cost per share of $199.90. F5 Networks ended the quarter with $863 million in cash and investments, $662.7 million in long-term obligations and $2.2 billion in shareholders’ equity. Looking ahead, management expects sales in the $660 million to $680 million range, up 9% at the mid-point, with non-GAAP EPS in the $2.68 to $2.80 range, up 13% at the mid-point. **Software sales are expected to continue to increase at a 35% pace.**

Bank of Hawaii-BOH reported revenue declined 6% to $167.9 million with net income jumping 74% to $67.5 million and EPS up 71% to $1.68. The net interest margin was 2.37% during the quarter compared to 2.83% in the prior year period reflecting higher levels of liquidity from continued strong deposit growth and lower interest rates. The return on average assets and average equity improved to 1.23% and 19.6%, respectively, during the quarter compared to the prior year period. Total assets increased to a new record of $22.7 billion as total deposits increased 16% from a year ago to $20.2 billion. Total loans and leases increased 2% from a year ago to $12 billion as of June 30, 2021. The company’s overall asset quality remained stable during the quarter. The bank successfully issued preferred stock during the quarter which enhances the strength of the balance sheet and positions the bank well for future growth. **Thanks to its capital strength, the Board of Directors increased the quarterly dividend 4% to $.70 per share. The bank’s long-term goal is to pay out 50% of net income in dividends.** Bank of Hawaii **announced the resumption of the share buyback program** beginning in July with $113 million remaining authorized for future share repurchases. Unemployment is improving and Hawaii’s real estate market is very strong like in much of the country. Tourism is also improving with the visitor count nearly back to pre-pandemic levels despite international travelers, which typically make up one-third of visitors, still not back due to the pandemic. Hotels in Hawaii are doing nicely with 97% of them once again open and occupancy at about 77%. Revenue per available room is now higher than in 2019, prior to the pandemic.

Check Point Software-CHKP reported second quarter revenue rose 4% to $526.1 million with net income declining 5% to $186 million and EPS flat at $1.38. Strong execution drove double-digit growth across cloud-based cybersecurity products during the quarter in response to a 93% surge in ransomware attacks. Deferred revenue increased 10% over the prior year period to $1.5 billion. **Free cash flow increased 5% during the first half to $631 million with the company repurchasing $650 million of its common stock** including 2.7 million shares in the second quarter for $325 million at an average cost of $120.37 per share. For the third quarter, Check Point expects revenue in the range of $515 million to $540 million with EPS in the range of $1.30-$1.40.

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As expected, our ***HI***-quality companies reported strong financial results during the past week. Outstanding free cash flow generation is a hallmark of our ***HI***-quality businesses which enable them to reward investors with substantial dividend payments and share repurchases while also making acquisitions to spur future growth. Our technology and communication companies like **Apple**, **Alphabet**, **Facebook** and **Microsoft** are giants in free cash flow generation and certainly did not disappoint this past quarter. During the first nine months of the fiscal year, **Apple** generated nearly $76.0 billion in free cash flow, up 39% from last year, with the company returning $77.1 billion to shareholders through dividends of $10.8 billion and share repurchases of $66.2 billion. **Alphabet's** free cash flow more than doubled during the first half of the year to $29.7 billion with the company repurchasing about $24.2 billion of its common stock as part of its $50 billion share buyback authorization. **Facebook's** friendly free cash flow more than doubled during the first half of the year to $16.6 billion with the company repurchasing $11 billion of its common stock, including $7.1 billion in the second quarter. Microsoft's free cash flow increased 24% during the 2021 fiscal year to $56.1 billion with Microsoft paying $16.5 billion in dividends and repurchasing $27.4 billion of its common stock during the year. With nearly $550 billion in cash and investments on their combined balance sheets as of quarter end, these fabulous four companies should continue to handsomely reward investors in the future from their copious cash flows.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President