



2-22-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 2-19-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	31,494.32	+0.1%	+2.9%
S&P 500	3,906.71	-0.7%	+4.0%
NASDAQ	13,874.46	-1.6%	+7.7%

Weekly unemployment claims surged last week rising to 861,000, the highest level in a month, with continuing claims for the week ended February 6 at 4.494 million.

January retail sales jumped 5.3% thanks to the receipt of stimulus checks and pent-up spending activity. Sales were up solidly across every retail category.

The Producer Price Index for final demand rose 1.3% month-over-month in January, the largest increase since the index began in December 2009. While producers incurred higher prices in January, last week's Consumer Price Index showed that there wasn't any meaningful pass-through to consumers...yet.

Industrial production increased 0.9% month-over-month in January. The capacity utilization rate jumped to 75.6% from an upwardly revised 74.9% in December. This reflects the continued strength in manufacturing output, which occurred despite a decline in the index for motor vehicles and parts attributed to a shortage in semiconductors used in vehicle components.

Housing starts declined 6.0% in January to a seasonally adjusted annual rate of 1.580 million units while building permits increased 10.4% to 1.881 million. Existing home sales increased 0.6% in January to a seasonally adjusted annual rate of 6.69 million with the supply of existing homes for sale at an all-time low. That is going to be a pressure point that feeds higher prices, limits total sales potential, and creates affordability pressures that will increase with rising mortgage rates.

During the past holiday-shortened week, the stock market posted mixed results with the Dow inching 0.1% higher, the S&P 500 dipping 0.7% and the NASDAQ declining 1.6% as there was sector rotation out of technology stocks (the stay-at-home stocks) into more cyclical stocks which will benefit from the economy reopening..

HI-Quality Company News



Hormel Foods-HRL reported first quarter sales rose 3% to a record \$2.5 billion driven by sales growth in all four business segments. Brands such as SPAM, SKIPPY, Hormel Black Label, Applegate, Columbus and Jennie-O delivered exceptional growth during the quarter. Net earnings and EPS each declined 9% to \$222.3 million and \$.41, respectively, reflecting incremental supply chain costs related to the pandemic. Free cash flow increased 27% during the quarter to \$165 million with the company repurchasing \$9 million of its common stock and paying \$125.5 million in dividends, reflecting the company's 370th consecutive quarter of dividend payments. During the quarter, the company announced the net \$2.79 billion acquisition of the Planters snack nuts business, which is expected to close in the

second quarter. The acquisition is expected to be financed through a combination of cash on hand, short-term debt and long-term debt. With the combined company's strong cash flows, Hormel expects to repay significant amounts of the debt within 18-24 months while continuing to grow its dividend. Management is increasingly optimistic about generating sales and earnings growth in fiscal 2021 with the International segment expected to have a record year led by the continued strength in China, strides made in the global e-commerce business, a recovering foodservice business as restaurants open again and momentum in the deli and retail businesses. For fiscal 2021, Hormel expects sales in the range of \$9.7 billion-\$10.3 billion with EPS expected in the range of \$1.70-\$1.82. These results do not include the pending Planters acquisition.



Genuine Parts-GPC reported fourth quarter sales dipped less than 1% to \$4.3 billion with net income from continuing operations and EPS more than doubling to \$171.6 million and \$1.18, respectively. On an adjusted basis, EPS was up 20% in the fourth quarter. For the full year 2020, revenues declined 6% to \$16.5 billion with net income from continuing operations and EPS both down more than 70% to \$163.4 million and \$1.13, respectively. Excluding impairment, restructuring and other one-time items, adjusted EPS in 2020 was down less than 1% to \$5.27. Automotive sales represented 66% of total sales in 2020 with industrial sales accounting for 34% of sales. By geographic region, North America accounted for 75% of sales with Europe comprising 15% of sales and Australasia 10% of revenues. While the pace of economic recovery slowed in the fourth quarter due to the spike in COVID-19 cases, the company reported its 13th consecutive quarter of gross margin expansion and continued cost savings. Free cash flow more than tripled during the year to \$1.9 billion thanks to the sale of accounts receivables, improved working capital trends and lower capital expenditures. During the year, the company paid \$453 million in dividends and repurchased \$96 million of its common stock thanks to robust cash flows. The company began 2021 with an excellent balance sheet, including a strong cash position and ample liquidity to support growth plans. Genuine Parts announced a 3% increase in its dividend for 2021 to an annual rate of \$3.26 per share, marking the 65th consecutive year of increased dividends. The company has paid a dividend every year since going public in 1948 with the dividend currently yielding a solid 3.3%. Management expects a solid start to 2021 with strong automotive sales, continued industrial recovery and improvements in operations as the world recovers from COVID-19. Accordingly, Genuine Parts expects 2021 sales growth of 4% to 6% with profit margins expanding leading to EPS in the range of \$5.55 to \$5.75. Cash flow from operations is expected in the range of \$1.0 billion to \$1.2 billion with capital expenditures expected in the range of \$275 million to \$325 million for the year.



Tractor Supply-TSCO announced that it has entered into an agreement to acquire Orscheln Farm and Home in an all-cash transaction for approximately \$297 million, net of acquired estimated future tax benefits of \$23 million. Orscheln Farm and Home operates 167 stores located in 11 states: Missouri, Kansas, Nebraska, Iowa, Indiana, Oklahoma, Arkansas, Texas, Kentucky, Illinois and Ohio. Tractor Supply's preliminary estimates indicate the acquisition will be immediately accretive to earnings per share upon closing. The earnings accretion is anticipated to grow over time as planned synergies are achieved. Tractor Supply intends to fund the acquisition through existing cash on hand.



Under a new program from **Mastercard-MA** and Island Pay, the Bahamas Sand Dollar prepaid card gives people the option to instantly convert the digital currency to traditional Bahamian dollars and pay for goods and services anywhere Mastercard is accepted on the Islands and around the world. The digital Sand Dollar is issued by the Central Bank of The Bahamas and carries the same value and consumer protections as a traditional Bahamian dollar. The digital currency can be used to facilitate government disbursements, offer additional payment choices and build a more inclusive economy. In The Bahamas, there are 700 small islands and more than 5000 square miles of water. Cash money movement becomes costly, which makes a central bank digital currency (CBDC) a preferred digital payment in the region. In the future, the Sand Dollar will be offered to tourists. Island Pay's technology platform, combined with Mastercard technology and wide merchant acceptance, has the potential to help reduce the operational distribution costs of cash and modernize the overall payments system in The Bahamas.



Johnson & Johnson-JNJ announced that Janssen-Cilag International N.V. has submitted for Emergency Use Listing (EUL) to the World Health Organization (WHO) for the investigational single-dose Janssen COVID-19 vaccine candidate. "Our filing with the World Health Organization marks another important step in our effort to combat COVID-19 and also in our unwavering commitment to equitable access," said Paul Stoffels, M.D., Vice Chairman of the Executive Committee and Chief Scientific Officer of Johnson & Johnson. "If we are to end the global pandemic, life-saving innovations like vaccines must be within reach for all countries."



Maximus-MMS announced that it is now supporting seven state vaccination programs with COVID-19 vaccine information and hotline services to answer common questions, address concerns about the vaccine, resolve complaints, and coordinate vaccination appointments. State programs include California, Colorado, New York, and the District of Columbia. As the nation's largest engagement center provider for government programs, multiple states have entrusted Maximus to provide additional support for handling the unprecedented volume of vaccination requests, reduce caller hold times, and manage case backlogs. Maximus continues to play a vital role in helping states slow the spread of the pandemic and address public health needs.



Walgreens-WBA has provided more than 3 million COVID-19 vaccinations across long-term care facilities, as well as additional vulnerable populations prioritized by state and local jurisdictions. Additionally, the company has completed COVID-19 vaccine first-dose clinics in all long-term care facilities that selected Walgreens as a vaccine provider. In addition to supporting long-term care facilities, Walgreens began in-store vaccinations in 17 states and jurisdictions as part of the Federal Retail Pharmacy Program on February 12. The company administered nearly all 180,000 doses of the first weekly vaccine allotment within three days. Beginning February 25, Walgreens will receive a weekly allocation of more than 480,000 COVID-19 vaccine doses.

Hormel Foods and **Genuine Parts** reported earnings last week with management teams optimistic about renewed growth in 2021. This growth should be aided by good news on the COVID-19 vaccine front as reported by several of our other *HI*-quality companies this week such as **Johnson & Johnson**, **Maximus** and **Walgreens**, which are all playing a vital role in slowing the spread of the pandemic. All these businesses have prudent management teams, robust capital structures and have generated persistent earnings power over the decades. This is exemplified by Hormel Foods which has paid a dividend for more than 92 years and Genuine Parts which just increased its dividend for the 65th consecutive year.

Next week our quarterly newsletter will be distributed in lieu of the Weekly Update. If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

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President