Hendershot INVESTMENTS

7-19-21

WEEKLY UPDATE

Economic and Market Performance

MARKET INDEX	CLOSE 7-16-21	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	34,687.85	-0.5%	+13.3%
S&P 500	4,327.16	-1.0%	+15.2%
NASDAQ	14,427.24	-1.9%	+11.9%

Initial jobless claims for the week ending July 10 decreased by 26,000 to 360,000 -- the lowest level since March 14, 2020 as the rate of new joblessness slowed further. Continuing claims for the week ending July 3 fell by 126,000 to 3.241 million -- the lowest level since March 21, 2020. Improving claims levels are consistent with an improving economy that is requiring less layoff and more hiring activity. In fact, labor supply shortages have become the primary concern in returning the job market to its pre-pandemic conditions. The National Federation of Independent Business said that a historically elevated 46% of small business owners reported job openings that could not be filled in June, and that a record high of 39% of owners reported raising compensation in order to attract workers.

Total CPI increased 0.9% month-over-month -- the largest one-month increase since June 2008 -- and core CPI, which excludes food and energy, also increased 0.9%.On a year-over basis, total CPI is up 5.4% -- the largest increase since August 2008 -- and core CPI is up 4.5%, which is the largest increase since November 1991. Price increases in June were broad based, featuring a 10.5% increase in the index for used cars and trucks, a 0.8% increase in the food at home index, a 2.5% increase in the gasoline index, and a 0.5% increase in the household index. That *should* put the Fed's "transitory inflation" narrative to the test, particularly with total CPI running at an annualized rate of 7.2% over the last six months.

The Producer Price Index for final demand increased 1.0% month-over-month with the year-over-year growth rate at 7.3% for total PPI -- the largest since November 2010 -- versus 6.6% in May. Producers are encountering higher prices that will create profit margin pressures if they are not offset with pricing actions.

The preliminary July reading for the University of Michigan Index of Consumer Sentiment slipped to 80.8 from the final reading of 85.5 for June. This is the lowest reading since February and compares to the 99.3 reading seen in July 2020. Consumer sentiment declined as consumers' inflation expectations rose.

During the past week, the stock market declined across all three major indices with the Dow dipping 0.5%, the S&P 500 falling 1.0% and the NASDAQ dropping 1.9% as inflation concerns mounted.

HI-Quality Company News

UnitedHealthcare

UnitedHealth Group-UNH reported second quarter revenues rose a healthy 14.8% to $71.3 billion with net income and EPS each down 36% to $4.3 billion and $4.46, respectively. Well-diversified revenue growth during the quarter included double-digit growth at both Optum and UnitedHealthcare. The earnings comparison reflected the broad-based deferral of healthcare during the second quarter of 2020 due to the pandemic. Cash flows from operations during the second quarter were $5.5 billion, or 1.3 times net income. Free cash flow declined 13% during the first half of the year to $10.4 billion with the company paying $2.5 billion in dividends and repurchasing 7.9 million shares of its common stock for $2.9 billion at an average price of $367.08 per share during the past six months. **Return on equity during the second quarter of 25.2% reflected the company's strong and diverse earnings profile and efficient capital bases.** Debt to total capital was 40.1% at quarter end with the company holding over $66.6 billion of cash and investments. Based upon first half 2021 performance, management raised its full year earnings outlook to $17.35 to $17.85, which includes $1.80 in net unfavorable COVID-19 effects.

Walgreens Boots Alliance-WBA announced that its board of directors has declared a quarterly dividend of 47.75 cents per share, an increase of 2.1 percent. The increased dividend is payable September 10, 2021 to stockholders of record as of August 20, 2021, and raises the annual rate from $1.87 per share to $1.91 per share. **Walgreens Boots Alliance and its predecessor company, Walgreen Co., have paid a dividend in 355 straight quarters (more than 88 years) and have raised the dividend for 46 consecutive years.**

Fastenal-FAST reported a slight dip in second quarter sales to $1.5 billion with net income inching up to $239.7 million and EPS coming in flat at $0.42. Sales to manufacturing and construction customers grew 21.5% during the quarter, but the fall-off of the pandemic-related surge in PPE and sanitation product sales from last year resulted in flat overall sales. Pricing taken to mitigate product and transportation cost inflation contributed 80 to 110 basis points to net sales during the second quarter. During the quarter, Fastenal reported daily sales of $23.6 million, reflecting a slight decline from last year. Daily sales of Fastener products, accounting for about 33.6% of second-quarter sales, rose 28.4% year-over-year on higher manufacturing and construction demand. Sales of safety products, about 21% of second-quarter sales, declined 38.6% on a daily basis. Sales of the remaining products, about 45.4% of second-quarter sales, grew 12.9% year-over-year. Fastenal signed 87 new Onsite locations during the quarter, bringing the total to 1,323 active sites, up 9.2% from last year. Daily sales through Onsites increased more than 25% on weak 2020 comps. Daily sales through Fastenal Managed Inventory (FMI) devices grew 61.4% for second-quarter 2021 and represented 31.1% of net sales. **E-commerce sales rose 53% and now represent nearly 42% of sales.** During the second quarter, Fastenal generated operating cash flow of $171.5 million and free cash flow of $140 million with the company returning $161 million to shareholders through dividend payments. Fastenal ended the quarter with $322 million in cash, $365 million in long-term debt and $2.9 billion in shareholders' equity on its sturdy balance sheet. Looking ahead to the remainder of the year, Fastenal expects tight supply chains and labor shortages to persist with pressure from product and transportation inflation expected to increase during the second half of the year. Management anticipates taking further steps to address these cost pressures during the third quarter.

PepsiCo-PEP reported second quarter sales bubbled up 21% to $19.2 billion with net income and EPS popping more than 40% to $2.36 billion and $1.70, respectively. Excluding the impacts of currency translation impacts and special items, organic revenues increased 12.5% on 7 points of volume growth and 5 points of price and mix. Core EPS increased 27%. PepisCo's North American beverage business delivered a 21% gain lapping pandemic related impacts as the foodservice industry began re-opening doors and lifting capacity restrictions. PepsiCo gained beverage market share in the carbonated soft drink, ready-to-drink tea and juice categories. Revenues from key brands including Pepsi, Mountain Dew, Gatorade, bubly and Starbucks grew at double-digit rates. Global snacks business remained resilient as organic revenue grew 6%, powered by market share gains across key brands such as Lays, Doritos, Cheetos, Ruffles, PopCorners, Sun Chips and Miss Vickie's. Despite gaining market share in the home breakfast, snacks and meals categories, Quaker Foods revenue declined 13% as the business lapped a surge in consumer demand during the pandemic. Despite uneven recoveries across many international markets, the International Beverage business accelerated 22% organically and the International snack business delivered 11% growth, driven by double-digit growth in Mexico, Russia, Brazil, Turkey, Egypt, India, Germany, France, Spain and South Africa. During the first half of 2021, PepsiCo generated over $1 billion in free cash flow with the company returning nearly $3 billion to shareholders through dividends of $2.8 billion and share buybacks of $106 million, which marked the completion of share buybacks for 2021. PepsiCo ended the quarter with $2.8 billion in cash and investments, $38 billion in long-term debt and $15.3 billion in shareholders' equity. Looking ahead to the full year, PepsiCo expects revenue growth of 6%, versus prior guidance of mid-single-digit growth, and constant currency EPS growth of 11%, up from previous guidance of high-single-digit growth. Core EPS is expected to be $6.20 compared to $5.52 in 2020. PepsiCo expects to return $5.9 billion to shareholders during 2021, mainly through dividend payments. Management also expects to mitigate higher input, freight and supply chain costs with price increases, mix and assortment.

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As second quarter earnings season begins, we are following closely how our ***HI***-quality companies are dealing with inflationary pressure. For example, **Fastenal** expects to address cost pressures from tight supply chains, labor shortages and transportation inflation during the third quarter with price increases. **PepsiCo** expects to mitigate higher input, freight and supply chain costs with price increases and changes in mix and assortment.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President