



8-10-20

## WEEKLY UPDATE

### *Economic and Market Performance*

MARKET INDEX	CLOSE 8-7-20	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
<b>DJIA</b>	27,433.48	+3.8%	-3.9%
<b>S&amp;P 500</b>	3,351.28	+2.5%	+3.7%
<b>NASDAQ</b>	11,010.98	+2.5%	+22.7%

Initial jobless claims for the week ended August 1 totaled 1.186 million. This report reflected the twentieth straight week that new claims topped one million, as the pandemic forced furloughs and layoffs across the country. Still, at 1.186 million, the number of new claims last week was at its lowest point since the start of the pandemic, after peaking at about 6.9 million in late March. Since the week ended March 20, more than 55 million individuals filed for new unemployment insurance claims.

Meanwhile, continuing unemployment insurance claims, which capture the number of individuals still receiving benefits, also fell more than expected during the week ended July 25, declining to well below 17 million. Continuing claims peaked at nearly 25 million in mid-May and remain more than double the pre-pandemic peak of 6.6 million in mid-2009.

The U.S. economy added a better-than-expected 1.8 million jobs in July, the Bureau of Labor Statistics said. The headline unemployment rate fell to 10.2% boosted by job gains in the government, retail and hospitality sectors. However, the pace of hiring slowed from the previous month amid a surge in coronavirus infections and new business closures.

Dallas Fed President Robert Kaplan said the economic rebound this quarter “is more muted” than expected and, as a result, the unemployment rate this year will likely be higher than previously thought.

In economic data, the Institute for Supply Management (ISM) reported its July manufacturing gauge rose to a reading of 54.2, while new orders jumped to 61.5. Any reading above 50 indicates expansion in factory activity. The ISM Non-Manufacturing Index increased to 58.1 in July from 57.1 in June. This was the third straight monthly improvement and the highest reading for the index since February 2019.

Last week, the Dow jumped 3.8%, the S&P 500 gained 2.5% and the NASDAQ added 2.5% to surpass the 11,000 milestone.

### *HI-Quality Company News*

#### **BERKSHIRE HATHAWAY INC.**

Berkshire Hathaway-BRKB reported the company’s net worth during the first half of 2020 declined 7% with book value equal to \$245,781 per Class A share as of 6/30/20. During the second quarter, Berkshire reported net earnings increased 87% to \$26.3 billion primarily due to the rebound in Berkshire’s equity investments during the quarter. Berkshire’s largest equity investment is **Apple** worth \$91.5 billion as of quarter end. Berkshire’s investment stake in Apple has increased 24%, or \$17.8 billion, since year end. Wells Fargo was notably absent

from the list of top equity investments in the second quarter 10-Q, signaling further selling of the bank by Berkshire.

Berkshire's operating revenues declined 11% during the second quarter of 2020 to \$56.8 billion with operating earnings down 10% to \$5.5 billion, primarily due to the adverse impact of the pandemic on all operations except insurance. Berkshire reported a non-cash \$10.9 billion goodwill impairment charge in the second quarter related primarily to its acquisition of Precision Castparts, which serves the hard-hit aerospace sector. Berkshire's operating businesses are preparing for reduced cash flows from reduced revenues and economic activity as a result of COVID-19 and taking appropriate measures to reduce costs as appropriate. While management cannot predict reliably when all businesses will become fully operational, they currently believe Berkshire's liquidity and capital strength, which is extremely strong, to be more than adequate. (See [hendersoninvestments.com](https://www.hendersoninvestments.com) for more details on individual operating segments).

Berkshire's balance sheet continues to reflect very significant liquidity and a very strong capital base of \$393.5 billion as of 6/30/20, a decrease of \$31.3 billion since year end. Excluding railroad, energy and utility investments, Berkshire ended the quarter with \$386.6 billion in investments allocated approximately 53.7% to equities (\$207.5 billion), 5.0% to fixed-income investments (\$19.2 billion), 4.4% to equity method investments (\$17.1 billion), and 36.9% in cash and equivalents (\$142.8 billion).

Free cash flow rose 13% during the first half of 2020 to \$11.3 billion. During the first half, capital expenditures declined 8% to \$6.2 billion, including \$4.5 billion in the capital-intensive railroad, utilities and energy businesses. Berkshire expects additional capital expenditures to approximate \$5.7 billion for BNSF and Berkshire Hathaway Energy in 2020. During the first half, Berkshire purchased a net \$46.1 billion in Treasury Bills and fixed-income investments and sold a net \$10.9 billion of equity securities, including the sale of all its airline investments. Most of the proceeds were reinvested in Treasury Bills. After quarter end, Berkshire disclosed at least \$2 billion of additional investments in Bank of America with Berkshire owning nearly 12% of the bank. In July 2020, Berkshire Hathaway Energy reached an agreement with Dominion Energy to acquire substantially all Dominion's natural gas transmission and storage business for \$4 billion in cash and the assumption of \$5.7 billion in existing long-term debt. The acquisition is expected to close in the fourth quarter of 2020.

Berkshire revised its buyback policy which now permits Berkshire to repurchase shares at prices below Berkshire's intrinsic value, as conservatively determined by Warren Buffett and Charlie Munger. During the first half, Berkshire repurchased about \$6.7 billion of its common stock, including a record \$5.1 billion in the second quarter. These repurchases included 7,514,590 Class B shares acquired at an average price of \$178.59 per share and 1,282 Class A shares purchased at an average price of \$268,816 per share during June 2020. After quarter end, it appears Berkshire has acquired about an additional \$2 billion of its common stock based on its lower share count on the 10-Q as of July 30, 2020. With Berkshire's stock valuation still appearing attractively valued, we expect further share repurchases.



**Maximus-MMS** reported third quarter sales rose 23% to \$901.3 million with net income up 2% to \$64.5 million and EPS up 7% to \$1.04. Revenue growth was driven by the extension of the Census contract and new COVID-19 response work such as contract tracing and assistance with unemployment benefits. EPS benefited from a change order totaling \$.11 per share. Year-to-date contract awards totaled \$1.5 billion and contracts pending totaled \$672 million. The sales pipeline as of 6.30.20 was \$28.9 billion comprised of \$1.9 billion in proposals pending, \$1.9 billion in proposals in preparation and \$25.1 billion in opportunities tracking. The pipeline dynamics continue to be unique since the pandemic began with procurements being completed in record time for efforts to support COVID-19. Maximus increased its revenue and earnings guidance for fiscal 2020 with revenue expected to range between \$3.375 billion and \$3.425 billion and EPS between \$3.20 and \$3.30. Cash flows from operations are expected to range between \$200 million and \$220 million with free cash flow between \$180 million and \$200 million. Management is committed to managing the business in a conservative manner with a focus on liquidity and remaining flexible. No disruption is anticipated to future dividends. However, a pause remains in effect on share repurchases and significant merger and acquisition activity.



**Tractor Supply-TSCO** announced that its Board of Directors declared a quarterly cash dividend of \$0.40 per share of the Company's common stock, a 14.3 percent increase of the previous dividend of \$0.35 per share. "We are pleased to raise our dividend by more than 14 percent, marking the tenth consecutive year of increase. This dividend increase is in recognition of our robust performance, strong financial position and confidence in the future of Tractor Supply as we work to emerge from the pandemic stronger than before," said Cynthia Jamison, Tractor Supply's Chairman of the Board.



**Fastenal-FAST** reported a 2.6% increase in July net sales to \$469.5 million with average daily sales also up 2.6% to \$21.3 million. Daily sales growth by end market was -5.5% in manufacturing and -9.6% in non-residential construction. Daily sales growth by product line was led by 38% sales growth in safety products and a 7.5% decline in fasteners and a 3.6% decline in other products.



**Facebook-FB** announced Instagram Reels: a new way to create and discover short, entertaining videos on Instagram. This is a rival to TikTok, which **Microsoft-MSFT** is considering acquiring.



Google, a unit of **Alphabet-GOOG**, and ADT, a leading provider of security and smart home solutions, announced they are entering into a long-term partnership to create the next generation of smart home security offerings. The partnership will combine Nest's award-winning hardware and services, powered by Google's machine learning technology, with ADT's installation, service and professional monitoring network to create a more helpful smart home and integrated experience for customers across the United States. Google will make a \$450 million investment in ADT. Upon the closing of Google's equity investment in ADT, Google will own 6.6% of ADT's outstanding aggregate common equity.



**Biogen-BIIB** and Eisai, Co., Ltd. announced that the U.S. Food and Drug Administration (FDA) has accepted the Biologics License Application for aducanumab, an investigational treatment for Alzheimer's disease. The application has been granted Priority Review. The FDA has stated that, if possible, it plans to act early on this application under an expedited review. If approved, aducanumab would become the first therapy to reduce the clinical decline of Alzheimer's disease and would also be the first therapy to demonstrate that removing amyloid beta resulted in better clinical outcomes.

In other news, **Biogen** and Denali Therapeutics Inc. announced that they have signed a binding agreement to co-develop and co-commercialize Denali's small molecule inhibitors of leucine-rich repeat kinase 2 (LRRK2) for Parkinson's disease. Biogen will also receive rights to opt into two programs and a right of first negotiation for two additional programs, in each case for neurodegenerative diseases leveraging Denali's Transport Vehicle (TV) technology platform to cross the blood-brain barrier (BBB). Under the terms of the agreement, Biogen will make an upfront payment to Denali of \$560 million and make a \$465 million equity investment in Denali from the purchase of 13.3 million newly issued shares of Denali common stock at approximately \$34.94 per share, representing 11.2 percent of Denali's pro-forma outstanding stock. Should the LRRK2 program achieve certain development and commercial milestones, Denali will be eligible to receive up to \$1.125 billion in potential milestone payments.



**Johnson & Johnson-JNJ** announced it has entered into a \$1 billion agreement with the U.S. government for the large-scale domestic manufacturing and delivery in the U.S. of 100 million doses of its vaccine to treat COVID-19. The vaccine will be provided at a global not-for-profit basis for emergency pandemic use. The U.S. government may also purchase an additional 200 million doses under a subsequent agreement. The company is evaluating one- and two-dose regimens, in its clinical program and working diligently to ensure broad, global access to the vaccine following approval or authorization by regulators. Johnson & Johnson aims to meet its goal to supply more than one billion doses globally through the course of 2021, provided the vaccine is safe and effective.

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As **Berkshire Hathaway** discussed in reviewing its diverse operations, most **HI**-quality businesses are preparing for lower cash flows from reduced revenues and economic activity as a result of COVID-19 and taking appropriate measures to reduce costs. As **Maximus** stated while increasing its 2020 sales and earnings outlook, management teams are committed to managing their businesses in a conservative manner with a focus on liquidity and remaining flexible thanks to strong financial positions. This enables **HI**-quality companies to continue to reward shareholders, despite the pandemic, by increasing dividends (**Tractor Supply's** 14% dividend increase), repurchasing shares (**Berkshire's** \$6.7 billion buyback) and making investments for future growth (**Berkshire's** \$10 billion investment in Dominion Energy, **Alphabet's** \$450 million investment in ADT, and **Biogen's** \$1 billion investment in Denali).

If you have any questions, please let us know.

Sincerely,

*Ingrid R. Hendershot*

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President