

5-25-20

WEEKLY UPDATE

As the U.S. economy gradually reopens, we hope you and your family stay safe and healthy.

Economic and Market Performance

MARKET INDEX	CLOSE 5-22-20	WEEK GAIN/LOSS	Y-T-D GAIN/LOSS
DJIA	24,465	+3.3%	-14.0%
S&P 500	2,955	+3.2%	-8.5%
NASDAQ	9,325	+3.4%	+3.9%

Last week, Mr. Market cheered the lifting of lockdowns and positive news on vaccine developments by several companies with the stock market rising over 3%.

Jobless claims for the week ending May 16 came in at 2.438 million. The number brings the nine-week total to almost 39 million. New York Fed President John Williams forecasted a “a couple very difficult months ahead of us.”

Existing home sales plummeted 17.8% in April to a seasonally adjusted annual rate of 4.33 million, the lowest level of home sales since July 2010. Sellers pulled listings amid the COVID-related downturn in demand, yet the inventory constraint translated into higher prices for buyers remaining in the market.

The U.S. has seen a significant slowing of the virus spread in most states, and previous major hotspots are showing consistent day-over-day declines — including New York. All 50 states have partially reopened businesses.

HI-Quality Company News



The TJX Companies reported first quarter sales declined 52% to \$4.4 billion with the company reporting a loss of \$887 million due to the temporary closure of all their stores for half of the quarter as a result of the global pandemic. The company suspended share repurchases for the balance of the year. The company also suspended its first and second quarter dividend but is committed to resuming dividend payments for the long term, as it has done for decades, whenever the environment and its business stabilize. In response to the COVID-19 pandemic, the company took actions to strengthen its financial liquidity and flexibility during the quarter. This included drawing down the full amount of \$1 billion from its revolving credit facilities and issuing \$4 billion in debt maturing 5-30 years from now at an average weighted rate of 3.85%. The company has reduced its capital expenditure plan from \$1.4 billion for the year to a range of \$400 million to \$600 million and lowered its new store openings to 50 down from 223 last year. Beginning on May 2, 2020, the company started to reopen stores. To date, the company has reopened 1,600 of its 4,500 stores around the globe. Initial sales, worldwide, have been above last year's sales even with most stores limited to 25% of capacity, reflecting strong pent up demand for the company's great values. With \$4.3 billion in cash at the end of the quarter, management is confident that it currently has sufficient liquidity for the remainder of the year.



Ross Stores reported first quarter revenues declined 51% to \$1.8 billion with the company reporting a loss of \$305.8 million reflecting the closure of all stores during the quarter due to the COVID-19 pandemic. This

was the company's first quarterly operating loss in more than 30 years. During the quarter, the company took the following actions to increase its liquidity and financial flexibility including drawing down \$800 million under its revolving credit facility, completing a \$2 billion public bond offering, suspending the stock repurchase program, aggressively cutting costs and reducing capital expenditures by slowing new store growth. The company ended the quarter with \$2.7 billion in cash and a new \$500 million revolving credit facility which provides management with the confidence that they will be able to successfully navigate through these challenging times with plans to have all stores open again by the end of June.



Starbucks has now regained about 60-65 percent of prior year comparable U.S. store sales while reopening U.S. stores under modified operations and with reduced hours. In China, comparable store sales have reached about 80 percent of prior year levels, reflecting gradual improvements over the past several weeks.



Hormel Foods reported record fiscal second quarter sales of \$2.4 billion, up 3%, with adjusted net earnings and EPS each down 9%. The COVID-19 pandemic and subsequent shelter-in-place restrictions drove higher and sustained retail sales for each of Hormel's segments. The company gained market share in the majority of its retail categories as consumers purchased branded food products at an accelerated rate through various retail outlets, including traditional, mass, club, discount and e-commerce retailers. The effect of the pandemic also caused sharp sales declines in the foodservice channel during the quarter for each of the company's segments. During the quarter, Hormel generated \$360 million in cash flow from operations, up 102%. The company paid its 367th consecutive quarterly dividend on May 15, 2020, at the annual rate of \$0.93 per share, an 11% increase over the prior year. Hormel also finalized the acquisition of Sadler's Smokehouse for \$269 million during the quarter. Hormel ended the quarter with \$623 million in cash and investments, \$57 million in long-term debt and \$6.6 billion in shareholders' equity on its beefy balance sheet. Even though the COVID-19 pandemic has caused a dramatic shift in consumer behavior, operational disruptions and extreme volatility in raw material markets, management remains confident it is well-positioned to successfully weather the pandemic outbreak just as it has weathered a myriad of challenges during the company's 127-year history.



With small businesses struggling, Facebook is launching Facebook Shops and investing in features across their apps that inspire people to shop and make buying and selling online easier. Facebook Shops make it easy for businesses to set up a single online store for customers to access on both Facebook and Instagram. Creating a Facebook Shop is free and simple. Businesses can choose the products they want to feature from their catalog and then customize the look and feel of their shop with a cover image and accent colors that showcase their brand. This means any seller, no matter their size or budget, can bring their business online and connect with customers wherever and whenever it's convenient for them.



Payroll • HR • Retirement • Insurance

Paychex provided a COVID-19 business update noting that while the impact on the economy of COVID-19 is severe, they are seeing early signs of moderation and stabilization in key business metrics. Paychex's financial position remains strong and they expect their cash and projected operating cash flows will support their normal business operations, capital expenditures, share repurchases and dividend payments for the foreseeable future. Management believes their strong balance sheet and operational flexibility will allow them to successfully manage through the current situation while protecting cash flow and liquidity. For the

full fiscal year ending in May 2020, Paychex expects revenue growth of 7% with net income and EPS growth of 6%.

I end this weekly update with a recent quote from Kevin R. Johnson, the CEO of Starbucks:

Throughout history, when humanity is faced with adversity, new ideas are born and people embrace change. This reinvention is healthy as it enables lasting progress.

For example, during the American Civil War when the United States was divided like never before, President Abraham Lincoln initiated the construction of the Transcontinental Railroad, which brought the country closer together. When the nation lived in fear of polio, investments in medical research encouraged and allowed Dr. Jonas Salk to discover a vaccine. During the Cold War, President John F. Kennedy united the country around a quest to the Moon.

Similarly, we will all be shaped by this shared experience as we navigate a global pandemic, and this experience will be a catalyst for new ideas. Ideas that reshape our future and create lasting positive change.

If you have any questions, please let us know.

Sincerely,

Ingrid R. Hendershot

Ingrid R. Hendershot, CFA
President