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The HillPoint Group

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The HillPoint Group Irrevocable Trust Policy Statement

Firm Overview

The HillPoint Group was founded in 2020 by four financial advisors. The firm specializes in managing liquid assets on behalf of high net worth individuals and family groups. Our firm is committed to serving our clients by providing them with a combination of investments in the industries that are best positioned to generate significant alpha in the current economic atmosphere, while simultaneously decreasing the risks of the portfolio. In simpler terms, the HillPoint Group aims to create the ideal combination of risk and return outlook, as well as invest in corporations that fulfill our clients' short-term and long-term objectives.

At this juncture, HillPoint is acting in a fiduciary capacity with respect to managing the Carlton Fisk Trust Fund. As of August 24, 2020, Carlton Fisk is ten years old. The irrevocable trust, constructed by his parents, is designated to return 100% of the capital in the Trust to Carlton Fisk at the age of twenty-two years of age with no funds being transferred to Carlton prior. This policy statement sets out the agreed upon objectives and constraints that govern the management of the Carlton Fisk Trust Fund.

Objectives

The HillPoint Group will invest assets of $5 million in the fund. The fund has specific needs, and we align our investments with the goals that are important to it. Our current investment portfolio is comprised of ten mid and large-cap firms (Medtronic, Anthem, CACI, Ciena, Dropbox Inc., Anheuser Busch, Kraft Heinz, Hanesbrands, Cheniere Energy, and Marathon Petroleum) in five different industries: Healthcare, Technology, Consumer Defensive, Consumer Staples, and Energy. Based on our economic outlook, we believe that our investments in the aforementioned industries will appropriately expose the Fund to companies that will experience growth over the next twelve months, while simultaneously mitigating downside risk through our more defensive investments. Our client base also receives our recording services, in which we not only show them the transactions we make on their behalf, but also the various benchmarks and measures we use in order to efficiently track the risk and return of our portfolio.

The primary objective of our investment portfolio is capital appreciation, defined by an annual rate of return higher than that of the S&P 500 Value Index. Carlton Fisk has no short-term liquidity needs and cannot withdraw funds within the next twelve years. Given the relatively long-time horizon and lack of liquidity needs, HillPoint aims to invest in securities with a variety of moderate to high-risk investments, primarily focusing on mid and large cap value stocks. Companies that have market capitalizations above $10 billion are defined as large-cap and companies with a market capitalization of $3 - $10 billion are defined as mid-cap. The firm will not invest in high dividend paying stocks in an effort to avoid paying taxable income. Using top down analysis, we will invest in companies in various industries in order to create and maintain a diversified portfolio. HillPoint will implement a buy and hold strategy to minimize turnover, transaction costs, and taxes.

Constraints

- Investment Horizon – 12-year time horizon
- Taxes –
  - Reduce income tax by avoiding dividend paying securities
  - Buy and hold strategy to reduce taxes
- Specialized preferences – avoid companies that manufacture or aide in the production of tobacco and tobacco-based products
- Liquidity – no immediate liquidity due to the nature of the Fund
- Legal/Regulatory – HillPoint must adhere to the agreed upon policy statement and act in accordance with FINRA

Economic Forecast

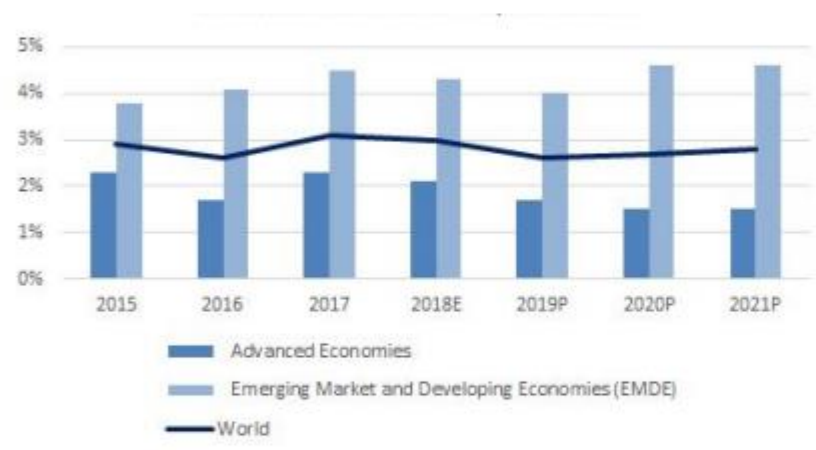
Summary

Below we outline our explanations for the global economy and the United States' economy based on key indicators. We discuss how these trends impact our overall market outlook and broader investment decisions.

Global Economy

The Global Economy continues to be volatile due to the unpredictable macroeconomic international market. Tensions in Hong Kong and the Middle East, as well as the trade tensions between the United States and China that will be discussed later, have contributed to volatile consumer confidence. In addition, European investor confidence has been rattled by Brexit uncertainty and increased right-wing sentiment in the Eurozone due to increased immigration from refugees. In addition to political risks, the European Central Bank (ECB) has little monetary or fiscal dry powder left to effectively cushion the severity of an economic downturn. The ECB been conducting monetary policy easing aggressively, lowering its deposit rate to a record low of -0.5%, meaning lenders are charged for holding idle cash (Bloomberg). Another trend in the world taking mindshare from investors is the widespread expectation of a slowdown in global economic growth (see Global Growth Expectations). Economic forecasters such as the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development have downgraded their global growth forecasts. Recently, OECD lowered its global economic growth rate to the worst growth rate since the financial crisis. Therefore, due to these risk factors, we find international equities relatively unattractive versus domestic equities over the next 1-2 years.

Global Growth Expectations



Source: The World Bank Organization

Industry Analysis

Healthcare Outlook

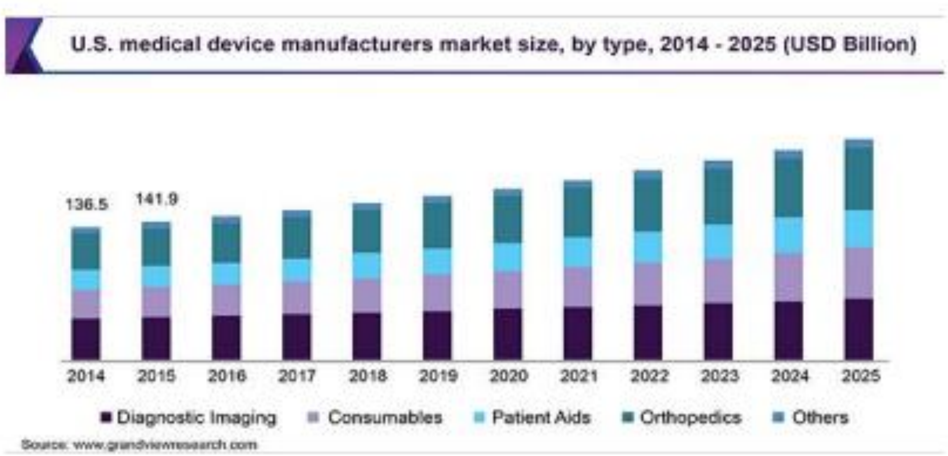
Healthcare is a large sector that is comprised of both large and small-cap corporations. The industry can be further dissected into multiple sub-segments, which include pharmaceutical companies, healthcare providers, and healthcare facilities. It is also important to note the “defensive” nature of this sector. Healthcare securities are not as cyclical as those in other industries and have a proven track record when it comes to generating a relatively strong performance during systematic market turmoil. This can be mainly attributed to the fact that healthcare expenses are not something that consumers can choose to neglect. Additionally, a substantial (greater than 30%) portion of industry revenue stems from insurance companies and their various policies and plans. President Trump's tax reform plan was the largest overhaul of the tax code in over three decades. The overhaul bill has benefited companies within the healthcare space. As a result, there has been a surge in mergers and acquisitions throughout the industry with companies attempting to put their increased cash holdings to use.

The healthcare industry has performed well in the past year and has weathered the storm of COVID-19 better than other industries. As is expected, some healthcare companies have posted stronger year-over-year performances than others. UnitedHealth Group (UNH), Moderna (MRNA), and Teladoc (TDOC) are some companies that have outperformed the S&P 500 index, while Anthem's (ANTM) stock price has remained relatively unchanged.

The healthcare industry is a sector that is included in the majority of professionally managed portfolios. As previously discussed, healthcare securities are not as sensitive to the overall economic environment, which means they sport lower systematic risk and thus a lower beta. The ongoing COVID-19 pandemic and the race to the White House has caused prolonged market volatility due economic and political uncertainty. Given this volatility and uncertainty, defensive industries, such as healthcare, are good positions to hold. There are also swiftly changing demographic trends that could serve as tailwinds for these companies. The aging baby boomer generation and new medical developments and technologies allowing the population to live longer will generate revenue for companies within this sector and will also be a catalyst for long-term growth. Over the past four years, many healthcare companies have benefited from industry wide deregulation on behalf of the Trump Administration. For example, Trump's administration repealed certain portions of former President Obama's Affordable Care Act (ACA), including the individual mandate to obtain health insurance or pay a tax penalty. Potential risks of healthcare securities are diminishing pricing power due to political pressures (policy makers and drug prices) and the ongoing trade disputes, which increase the construction costs of new healthcare buildings and facilities. President elect Biden's administration is expected to reverse the last four years of the Trump administration's efforts to undermine the ACA. The Biden administration is likely to issue new rules to roll back access to non-ACA plans- primarily short-term limited duration insurance and association health plans- touted by the Trump administration as ACA alternatives. Other potential rollback targets include, extending the open enrollment period back to 90 days, eliminating the "double billing" rule for abortion services, and curbing state options for selecting a new essential health benefits package. However, the overall industry is expected to boast a strong performance throughout the fiscal year.

Our group has decided to invest in two companies within the healthcare sector: Medtronic (MDT) and Anthem (ANTM). These two companies differ in their operations, but they will complement each other excellently by bringing their different varieties to HillPoint's portfolio. ANTM is one of the largest providers of health insurance in the United States and we believe that it will provide a more defensive characteristic to the portfolio and will safeguard against unexpected market movements. MDT is a more volatile investment due to the unpredictable nature of the bio-technology sub-industry space. However, depending on company news, product expectations, and patent approvals, MDT should provide a higher level of return to compensate for the additional risk we are taking on with this investment.

U.S. Medical Device Manufacturers by Market Size Figure



Source: Grand View Research

Historical 5 – Year Performance Health Care Select SPDR Fund (XLV) vs S&P 500 Value Index

Source: Bloomberg

Over the past five years, the Health Care Select Sector SPDR Fund has grown in line with the S&P 500 Value Index. As the baby boomer population has been rising, overall expenditures on health insurance products and medical devices has led to stable growth. The large dip in March can be attributed to the onset of the COVID-19 pandemic in the United States, however, it is evident that the healthcare sector weathered the storm of COVID-19 and quickly resumed its pre-pandemic levels.

Porter Analysis

Threat of New Entrants (Score: 1)

The barriers to entry in the healthcare industry are high, regardless of the sub-segment. In this case, we are focused on two sub-segments: health insurance (Anthem’s primary line of business) and biotechnology (Medtronic’s main revenue source). In each of these sub-segments, there are substantial upfront requirements that are imperative to a company’s success. Some of these requirements include large quantities of academic research, initial capital, and various legal regulations. It is also important to note the economies of scale that larger companies have within the healthcare space. Economies of scale provides them with a greater advantage in terms of decreasing overall operating costs, which ultimately results in a higher profit margin.

For Anthem, there is a relatively low threat of new entrants since it would take new companies a long time to create a health insurance plan and to build a client base that rivals that of Anthem’s.

At the end of 2019, Anthem had approximately 40 million members. Anthem also operates in various states around the country through its numerous subsidiaries. The company operates as Anthem Blue Cross in California (where it has about 800,000 customers and is the largest health insurer), Empire BlueCross BlueShield in New York State, and as Anthem Blue Cross and Blue Shield in 10 states. In order for new health insurance companies to pose a threat to Anthem, they would need to hire local experts and build strong infrastructures in the aforementioned regions.

Medtronic also faces a low threat level from new entrants in its market of developing and commercializing treatments/procedures for respiratory, cardiac, gastrointestinal, and renal fields. Especially due to Medtronic's expertise and specialization in minimally invasive therapies, it makes it even more challenging for new companies to compete with the high capital requirements of specialized medical device manufacturing. Not only does it cost a significant amount of capital to fund research and development to manufacture such devices, but there are also many requirements that companies within this space need to meet in order to have their products approved by the U.S. Food and Drug Administration (FDA). Billion-dollar companies, such as MDT, own patents on their developed medical devices, providing them with an exclusive right to the technology behind a given device for a specified period of years. MDT's patents prevent competitors from copying their technological advances, thus granting MDT a legal monopoly in the medical device field. Lastly, large healthcare corporations, regardless of their specialized sub-segment, can acquire smaller companies. This has been evidenced through the increased number of mergers and acquisitions within the healthcare space. For instance, Medtronic announced its acquisition of Avenu Medical – a medical device company dedicated to creating a shift in vascular access for hemodialysis patients – on September 30th.

Competition (Score: 4)

Both the health insurance and biotechnology sub-sectors of healthcare deal with a fair amount of competition. In order to retain the largest market share possible, Anthem focuses on reducing costs, offering unique plans, and providing higher quality service than its competitors. Overall reduction in cost enables healthcare companies to boast higher margins, while simultaneously charge their patients less for medical services. Anthem's ability to reduce costs enables it to enter more efficient partnerships with other insurance providers, thus absorbing and maintaining the acquired customers as long-term patients. Joint ventures with other health insurance providers also have the potential to build integrated and efficient supply chain networks.

Medtronic mainly competes with other biotechnology and medical device companies on the basis of innovation. The companies that experience the most success are generally those that allocate the most capital in research and development (R&D). The capital allocation in R&D enables the development and creation of ground-breaking medical devices, which may eventually be given patent approval. As previously discussed, patents safeguard technological advancements and may provide additional sources of income. MDT and its peers are often evaluated on the effectiveness of their “pipelines,” a term that refers to the active R&D by a biotechnology or pharmaceutical firm of new products and drugs. Pipeline analysis enables industry experts to predict when new devices and drugs will be given FDA approval. MDT and other medical device companies must always be on the forefront of innovation in order to protect their market share and guarantee continued growth. If companies within this space struggle to get patent approval on their inventions, they will almost surely fail to succeed within the healthcare space.

Competition was assigned a score of 4, rather than 5, due to the relatively small number of substantial competitors. However, as previously mentioned, the small number of competing companies in the health insurance and medical device sub-sector face strong competition among one another.

Substitutions (Score: 2)

The threat of substitutes is low for both the health insurance and biotechnology healthcare sub-sectors. Patients do not have many alternatives when it comes to patient care, and due to the health insurance markets, patients usually use their services more than they are needed. This can be attributed to the fact that insurance companies, like Anthem, are ultimately held responsible for payments to medical facilities, as opposed to the beneficiary of the services (the patient/customer). It can also be complicated to switch health insurance plans, which causes many customers to stay with their current providers in order to avoid the hassle associated with switching. If a customer is looking to move to a new health insurance carrier, he will most likely have to wait until it is time to renew his plan. Biotechnology firms also do not face a large threat from substitutes since they are often the sole source of innovation within their specified product development space. Additionally, specifically pertaining to Medtronic, respiratory, gastrointestinal, and cardiac research medical device development are not areas that patients can "shop around" for alternatives. Therefore, we believe that there are minimal to no substitutes in this market.

Buyer Power (Score: 3)

Consumers have little to no buying power when it comes to healthcare services. However, insurance providers do have the ability to negotiate competitive contractual agreements. A small portion of United States citizens are able to pay for their medical expenses in full, out-of-pocket. This grants insurance providers a substantial amount of power over their customers. Even though institutions have a larger degree of buying power than individuals, prices in the U.S. healthcare industry have been rapidly rising over the course of the last decade. There are several factors that are responsible for this, however, the main factor behind the increase in prices can be attributed to the small number of large hospital management firms with operations throughout the U.S. Other factors, such as the over-diagnosis of patients and the over-reliance on medical treatment to cure small ailments must be considered, but the persisting upward pricing trend illustrates an economic and social environment that leaves little room for buyer power.

Biotechnology firms, such as Medtronic, face even a smaller amount of buyer power than health insurers. The devices and medications that these companies create are expected to be expensive due to the vast amount of R&D costs inherently associated with their development and implementation. However, recently, there have been some national scandals involving biotechnology and medical device firms regarding price gouging and price fixing. Price gouging, more common than price fixing, occurs when a business takes advantage of an external crisis to charge excessive prices for basic necessities – selling their goods and services significantly above their usual fair market price. Such scandals can be attributed to the lack of transparency that persists in the healthcare industry. These scandals often damage the company's reputation and consumers' public sentiment to the firm. When simultaneously analyzing these two sub-segments, we concluded that buyer power is moderate and assigned it a score of 3.

Supplier Power (Score: 5)

Supplier Power is extremely strong in the health insurance and biotechnology healthcare sub-sectors. We attribute this to the increasingly high demand for new technologies, innovations, and devices that are needed to battle some of the world's biggest health ailments. Without the investment in R&D, biotechnological companies would not be able to provide physicians with the medical devices they need to carry out their daily procedures. Similarly, researchers need access to expensive machinery in order to develop and test new devices, and there is and will always be a constant demand for more efficient products. In the biotechnology sub-segment, top-tier technology enables companies to identify and correct weaknesses in their medical device design. Identifying these minute mistakes in the short-term will inevitably help companies pass FDA tests at a faster pace in the long-term. Additionally, there are very few suppliers that develop, manufacture, and sell specialized medical devices, such as Medtronic. Since there are few suppliers, as opposed to the large number of buyers, we have given supplier power a higher score in our Porter Analysis.

Porter Five-Factor Model Average Score: 3

Industry Life Cycle

The healthcare industry, including both Anthem and Medtronic, can be described as a "mature" industry – an industry that has passed both the emerging and growth phases of industry growth and has emerged as a leader in their respective field. Even though the healthcare industry is generally described as "mature," we believe that there is still plenty of value to be had in this area. During the maturity lifecycle, when overall company growth begins to slow, it is common for companies to shift their focus to cost reduction. Cost reduction is an effective and proven strategy that provides large companies with a comparative advantage in a competitive industry. In order for this strategy to be effective, the company must have reliable economies of scale. High barriers to entry are another feature of a mature industry. As previously mentioned in our Porter Analysis, ANTM and MDT do not face a large threat of new entrants, thus preserving their already significant market share.

Anthem and Medtronic are mature companies – their respective growth rates are no longer as high as they once were in the emerging and growth phases of the industry life cycle. Even though both of these companies do not boast as high of a growth rate as in previous years, we still believe that ANTM and MDT are undervalued by the market. MDT has the potential to provide extremely high returns due to strong new product roll outs in leadless pacing and heart monitoring. MDT is also in the process of developing new solutions to treat COVID-19 through their remote management ventilators and enhanced remote monitoring to vital sign devices.

SWOT Analysis

Strengths

There are numerous strengths within the healthcare industry, in addition to the two companies in which we have chosen to invest. As previously discussed, the healthcare industry tends to be cyclical in nature, which we believe will provide our portfolio with “defensive” protection in case of systematic market turmoil. Additionally, ANTM and MDT are both large-cap companies who are led by experienced management and have a tremendous amount of resources readily available. This is advantageous in terms of new investments, such as technology and R&D, as well as to reduce costs and increase profit margins. MDT also has numerous medical devices in the final stages of the research pipeline. Once these devices are granted FDA approval, they will generate a substantial amount of income for MDT and increase shareholder value. MDT also has many innovations pending patent approval, which will prevent competitors from copying their technology, therefore protecting MDT’s market share. Lastly, both Anthem and Medtronic have been punished by investors due to COVID-19, resulting in their respective stocks trading at a large discount to current market value.

Weaknesses

Since they are large corporations, Anthem and Medtronic move at a much slower pace than their smaller industry peers. Consequently, both ANTM and MDT face heightened internal bureaucracy, which causes decisions to be made more slowly. ANTM and MDT are both publicly traded entities, therefore, agency costs are higher because shareholders and other stakeholders may disagree about the company’s goals. Disagreement among stakeholders may put executive management in a poor position and ultimately cause them to make a costly decision. There are also certain disadvantages associated with the healthcare industry, the majority relating to oversight by the government and other industry regulators. Over the last decade, healthcare has increasingly become a political issue. A negative news headline can adversely affect companies in the healthcare industry for a substantial length of time.

Opportunities

The United States' aging baby boomer population provides the greatest set of opportunities for the healthcare industry. Over the next five years the number of adults 65 years and older is expected to grow at a 3% CAGR, totaling 57.7 million people. The baby boomer demographic is also expected to live longer than their previous generation, which increases the likelihood of medical attention. Anthem and Medtronic will directly benefit from this demographic trend – ANTM will have a larger population requiring health insurance and MDT will have a group of individuals who need their medical devices. MDT also has great potential in terms of new medical device research, particularly in the cardiac and vascular health space. The development or approval of a new device in the pipeline would increase investor confidence in the company and would thus be reflected in its respective stock price. Anthem's vast reach and Medtronic's innovative technology will serve as a catalyst to separate them from their peers, increasing their fair market value.

Threats

The most significant threats to the healthcare industry are imposed federal regulations. The industry benefited from the loosening of past regulations under the Trump Administration, however, the recent election of President Biden could signal the end of this period of de-regulation. The Biden Administration has the potential to have a significant impact on the tone and oversight of the regulatory community. Anthem would most likely be at risk if the Biden Administration attempts to reinstate the Obama Administration's policies regarding the Affordable Care Act. Despite the business-friendly tone of the Trump Administration and the Republican dominated House of Representatives, MDT may suffer from pricing pressures on its medical devices. The incumbent Biden Administration has not been shy regarding its opinion toward lowering drug and medical device prices, which could serve as a headwind for MDT and impact their margins. The long-term trend within the healthcare industry has been increasing prices, but there has been a strong social and political movement to reverse this trend. However, we believe that Anthem and Medtronic will not be as severely affected by pricing pressure in comparison to their competitors. This can be attributed to their vastly developed supply chain and economies of scale.

Another potential threat to MDT stems from the possibility of a peer receiving patent approval on a revolutionary device, specifically in the biotechnological sub-sector in which MDT operates. Competitors, such as Danaher Corp. (DHR), have achieved recent success in this sub-sector, and future developments could begin to pose a significant threat to Medtronic's profitability and overall market share. Anthem may also suffer at the hands of Cigna Corp. (CI), which is a rival leader in health insurance coverage and has a substantial amount of cash flow that has enabled them to develop efficient networks and decreasing operating costs.

Big 4 Factors

Demographics

The baby boomer generation, individuals born between 1946 and 1964, are now retiring at increasingly higher rates in the United States. There are currently estimated to be 75 million baby boomers living in the U.S., and as this population enters the later years of their life, they will require an increased amount of specialized medical care. We see this as a catalyst for the healthcare industry. However, the healthcare industry could potentially encounter a headwind if birthrates in the United States start to decrease significantly. This seems highly unlikely, as Generation Z and the Millennial Generation are soon expected to outnumber the aging baby boomers.

Lifestyle

The two main concerns of the American people are the ongoing opioid epidemic and the COVID-19 pandemic. The opioid crisis has caused a significant number of Americans to develop significant addictions to numerous opioid drugs, such as hydrocodone, oxycodone, codeine, and fentanyl. In many cases, these addictions were caused by the over-prescription of the aforementioned medicines by physicians. However, despite the negativity that the healthcare industry has faced in the wake of this epidemic, the treatment of these addictions has the potential to create major tailwinds for the industry. The legalization and decriminalization of previously thought to be hazardous drugs, such as marijuana, has also become a trend in the U.S. If these actions prove to be irresponsible, they may lead to negative health consequences for Americans in the future. This would provide increased cash flows for companies that occupy a large market share in the healthcare industry, such as Anthem and Medtronic. Additionally, in the past decade, e-cigarettes have become increasingly popular with the younger population throughout the country. The FDA has responded by enacting stricter regulations on the e-cigarette industry, such as JUUL. It is proven that such tobacco and nicotine products cause negative health consequences for users, which may provide opportunities for ANTM and MDT in the coming years.

Over the past year, America's hospitals and healthcare systems have had to step up in unprecedented ways to meet the challenges brought by COVID-19. As outbreaks have occurred across the country infecting more than 1 million people, hospitals and medical device companies have rapidly increased testing efforts and are treating hundreds of thousands of Americans in an effort to stop the spread of the disease. These challenges have created monumental financial pressures for America's healthcare systems. Treatment for COVID-19 has created a large demand for certain medical equipment and supplies to alleviate the lingering effects associated with the disease. With demand at an all-time high for specialized medical devices, Medtronic is positioned to benefit since it boasts the second highest market share in the medical device sector at approximately 23%. As shortages continue, demand will likely be strengthened as hospitals and governments stockpile. Operating costs are also expected to fall due to the increased innovation in the biotechnology sector. For these reasons, we believe that Medtronic is well positioned to capitalize on the current state of the economic and social environment.

Legal/Regulatory Environment

The regulatory environment in the healthcare industry can be best described as complex and unpredictable. The recent trend of de-regulation has been a catalyst for healthcare companies, especially with the Trump Administration's repeal of the ACA's individual mandate. However, healthcare has become a more important political issue recently, stemming from the COVID-19 pandemic and the recent election of President Biden. These events have the potential to change the industry and cause legislation similar to that of the Affordable Care Act, which would have a negative effect on Anthem's bottom line. Various states, such as Virginia and New York, have enacted Medicaid expansion plans. These programs enable poorer individuals to have access to healthcare covered by the government, as opposed to directly purchasing insurance from privately held companies, such as Anthem. This negatively affects the profitability of ANTM, since the reimbursement rates for Medicaid are lower than the private alternatives. Additionally, new laws concerning medical device prices have the potential to decrease MDT's pricing power and increase buyer power. This would negatively affect MDT's profit margins and could spurn lower investments in biotechnology.

Technology

Technology's importance to the healthcare industry is often overlooked. In order for MDT to stay at the forefront of innovation, new technology must be implemented and maintained to guarantee continued growth. Without technological innovation, physicians will be limited in the procedures they can perform and the ailments they can cure. New investments in high-technology machinery enables biotechnology companies, like Medtronic, to perform R&D and create devices at a faster pace. Continued technological strides ensure MDT outperform its competitors. Technology is a positive factor for both ANTM and MDT, as both companies have large amounts of capital to invest in new technology and machinery to create new devices and value for their customers.

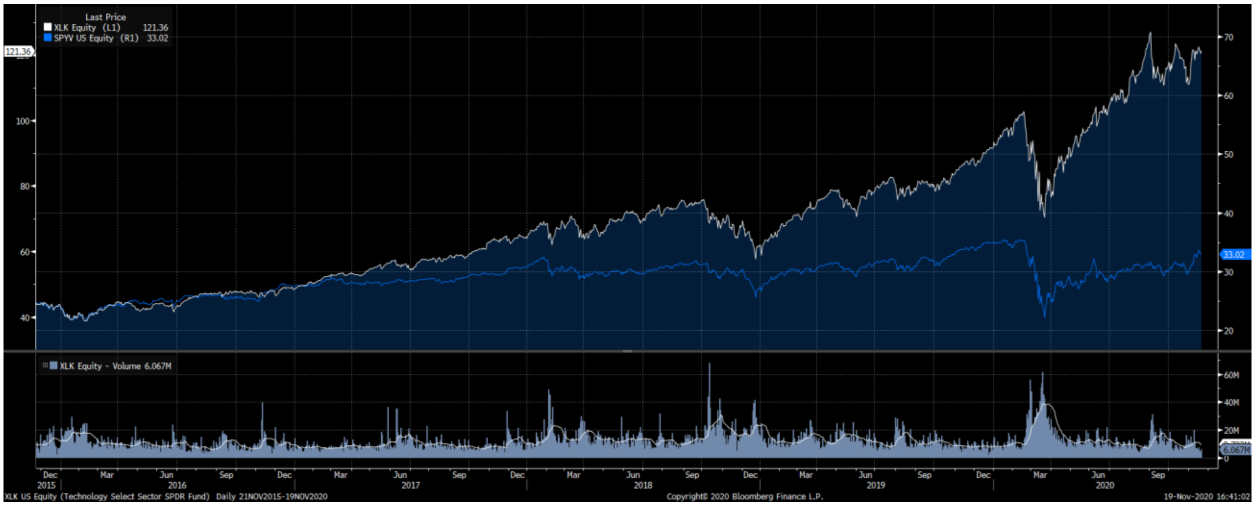
Technology Outlook

The technology industry is a wide sweeping industry bounded by a variety of sectors ranging from the physical hardware of communication equipment to the virtual software of IT services. The industry is comprised mostly of large players in each sector falling into the mid to large cap size, with small cap stocks generally being acquired eventually by the mid to large cap stocks as synergy is often found when a smaller firm develops a productive technology which it may not necessarily be able to properly bring to the market on its own.

In the past year, COVID has had a massive effect on both the technology industry and the market as a whole. According to Forester, there are three possible turns the technology industry could potentially make going into 2021. The first, and most likely outcome would be a decrease in the US budget for Technology of approximately 6%, when combined with the expected annual budget growth rate of 3%, would result in a total hit to the US budget for technology of 9% from its expected trajectory before COVID. Forrester estimates as of the beginning of Q4 2020, that this is approximately 70% likely. The second most likely outcome which accounts for a 20% probability would be for the budget to be down 9% from Q4 2019 as it goes into 2021, and continue to drop another 5% over 2021.The final outcome would be for the budget for US technology to decrease going into Q4 2020, and turn around during Q4 2020, leading to a strong recovery and continuing into Q1 2021. Although the report suggests overall decreases in the US budget for technology, it predicts that certain sectors would be hit harder than others. Leisure and customer-facing retail should expect to take the majority of the hit, while cloud software and computing is expected to resist the downward drag of the market. In addition, software spending in general is largely made up of annual contracts which will likely lead to a slower and smoother decline than other sectors. In comparison, a report published by Thomas Alsop on Statista projecting the effects of COVID on the technology industry illustrates moderate growth of the industry with total IT spending increasing by 4% in 2021. Additionally, it points to enterprise software making the largest jump in growing 7.4% in 2021, with communication services increasing 2.8% and IT services increasing 4.1%.

A report by RSM projects a big winner of the current state of the industry to be cloud spending in all facets. Software-as-a-service (SaaS), platform-as-a-service (PaaS), and infrastructure-as-a-service (IaaS) are all projected to have massive growth in the range of 2020-2024. Since 2014, the CAGR for cloud spending has been 23%, as more and more work is migrated to the cloud, and the presence of COVID only accelerated the process. In addition to cloud spending, the IT service sector has been buoyed as a result of the shift to individuals working from home. In addition to cloud computing being a major factor of the technology industry in the future, 5g is noted as coming sooner rather than later. The introduction of this technology will not only benefit communication networks, but will provide other sectors of the technology industry more tools to innovate their own products as the entire process of data transfer will be rapidly reduced in some instances up to 100x faster. Finally, as more and more information and technologies are incorporated, security must remain a key component of any firm hoping to thrive in the technology industry as the mishandling of sensitive data is a growing concern of consumers in the industry.

Historical 5 – Year Performance Technology Select Sector SPDR Fund (XLK) vs. S&P 500 Value Index



Source: Bloomberg

Over the past five years, the Technology Select Sector SPDR Fund has outpaced the S&P 500 Value Index. This can be attributed to the rapid rise in innovation and technology that has been rampant in the United States since 2015.

Porter Analysis

Threat of New Entrants (Score: 3)

Technology tends to have a fairly high barrier to entry as patents, trademarks, and copyrights inhibit imitation of already developed technologies. While additionally, it takes extensive capital to develop new pieces of technology, which if developed generally have little profitability to the start-up which developed it, but rather are sold to a larger technology player, or the start-up itself is absorbed.

Competition (Score: 1)

The technology industry is highly competitive and uneven with the larger player players in the industry having extensive advantages due to economies of scale, and their often-used ability to acquire other companies leading to unequal market share. It is important to note that larger players may cross over related sectors, but the largest advantages exist sector-specific between large and small players. Branding is a major factor in the technology industry with larger firms again holding an advantage as they are seen as more trustworthy, especially on the commercial side.

Substitutes (Score: 5)

There is a very low threat of substitutes in the technology industry as technologies are generally forward moving with the only replacement of technology being a newer technology, and it being highly unlikely that technology regresses.

Buyer Power (Score: 3)

Buyer power is high initially when the company first seeks to purchase software or software services, but as the software becomes integrated with the company, and specialized by the software provider, the buyer loses power as it becomes integrated into the firm's infrastructure. It will become more inconvenient and difficult for buyers to change providers the longer the two firms do business.

Supplier Power (Score: 4)

Supplier power is high in the technology industry with large corporations having incredibly inelastic demand for their products leading to high margins on name brand products. Additionally, suppliers often provide customized services that garner a larger ability to price fix once the product is complete.

Porter Five-Factor Model Average Score: 3.2

Industry Life Cycle

The technology industry as a whole is in the growth phase of the industry life-cycle as apparent by the rapid growth of the industry as a whole. Additionally, there have been no signs of a slow in growth which would have indicated a shift into the maturity phase of the industry life-cycle. Rather, the industry has been driven by rapid change and advancement over recent years and looks to be spurned in the near future by artificial intelligence, 5g, and data collection. The industry's ability to develop these advancements will determine the aggregate future returns.

SWOT Analysis

Strengths

The technology industry has been defined the past few years by rapid growth in terms of market share, and evolution in the products available. There has been a consistent increase in dependence on the technology industry, and as a result a consistent increase in growth of the industry as a whole. Patents provide companies security, and drive innovation in the field as they reward new and unique developments. For the portion of the technology industry that deals in government contracting, a major strength would be the steady income stream as many of the deals are multiyear, and a contract leads the way to more contracts.

Weaknesses

A weakness of the technology industry would be how rapidly the industry evolves. For a lot of firms, if they are not consistently performing as one of the top tier producers of the specific good or service, they will not be able to remain profitable. This may be difficult to do consistently if the firm does not place a large emphasis on research and development, making the costs very high. Additionally, patents, trademarks, and copyrights do have an effect, but with enough funding most services can be replicated, therefore it is the name brand and ease of access which sets apart most firm's software in the technology industry.

Opportunities

The technology industry as a whole has seen massive developments as a result of COVID leading to a large number of individuals relying more on technology for work and entertainment under quarantine. As a result, both industry leaders and smaller companies alike were forced to transition quickly to adapt to the needs of consumers resulting in a stark change in the pace of the tech industry. As a result of the increased dependence on COVID it is also projected that the sudden shift to remote working, and isolation will lead to a leap in long term reliance on the communication equipment and IT services industries.

Threats

Currently, the United States tech industry is threatened by the growth of the tech industry in emerging markets. The tech industry falls under the quaternary sector of the economy, and as a result, as viable only in countries which have enough established infrastructure to support the industry, and are able to provide the other three sectors in their economy. China and India both pose some threat to the United States tech industry as their emergence will result in an increase level of global competition. Additionally, the presence of COVID has resulted in decreased spending overall which poses some threat, although it is projected that the tech industry may recover more quickly than others. Finally, for firms which primarily do trade in government contracting, the obvious threat would be a decrease in funding as a result of the election, primarily in defense spending.

Big 4 Factors

Demographics

The demographics of the United States population have been transitioning for years, but the two most dominant trends in today's demographic are an increasing older population and an increasing nonwhite population. It is projected by Pew research that by the year 2050, the United States will be comprised of more blacks, Asians, Hispanics and other racial minorities than Whites. Additionally, by 2050, Pew research projects that there will be more people who are 65 and older than 18 or younger. These two statistics pose an interesting scenario for the tech industry going forward. On one hand, Hispanics have voiced the largest number of individuals who found the internet to be essential during the COVID outbreak at 65%, with an additional 25% claiming internet was important, but not essential. On the other hand, the population of those 65+ found the lowest portion of individuals found internet to be essential at 31% but had 49% claim it was important, but not essential. This statistic may be due to the lack of reliance of current individuals 65+ on the internet during their time in the workforce, and lack of desire or ability to learn on their own. However, as individuals age through the year 2050, more and more individuals will have had reliance on internet, and more time spent using the internet before they become 65+, therefore we believe that as the population ages, it will bring with it its dependence on the internet.

Lifestyle

In the United States today, 95% of US adults use the internet in 2020, and that number is only projected to increase. Additionally, most individuals do not only spend an hour or two online a day, rather it was found that on average Americans spend 6 hours and 42 minutes online per day as of 2019. This trend is projected only to increase in the future with a growing international market for internet usage, and individuals spending more time per day on the internet.

With the recent COVID-19 pandemic, we have seen a massive shift in lifestyle and a much larger dependence on the internet as a result. We have begun to rely on conferencing apps for work, social media as an escape, and streaming platforms as the primary form of entertainment as quarantine makes internet connection an essential for most Americans. In fact, a survey by Pew research found that 53% of Americans found the internet to be essential for them personally, with another 34% describing their internet usage as important. This trend of increased internet usage, and usage for work provides fantastic opportunity for both Ciena corporation's physical network which more and more individuals are dependent on, but also its software services which are outstanding in their field for detecting and resolving potential outages or disruptions to use, in a time when losing internet is losing something considered essential. Additionally, the increased number of companies forced to work remotely has created an immediate desire for user-friendly software to provide services otherwise unnecessary when meeting in person. Among those, Dropbox inc., and CACI stand out for their product lines which include user friendly software interfaces to ease the transition to online. It is projected that even after COVID a number of companies may continue to work remote, or have some remote workers as a result of the successful shift during the pandemic, thus creating an increased desire for IT services.

Legal/Regulatory Environmental

The technology industry is subject to a number of legal and environmental regulations, based in part on individual sector. Companies such as Dropbox which deal in sensitive information, are prohibited by other countries from dealing in defense or government related work. Furthermore, in China Dropbox is completely prohibited for not meeting regulation. Likewise, government and specifically defense contractors such as CACI must follow strict protocol, and avoid conflicts of interest, and in some cases are prohibited in selling technologies to firms in other countries or even firms within the country. Finally, communication networks must follow strict environment legislation dependent on local code either to preserve nature or to prevent potential damage to other utilities.

Technology

Two of the largest shifts in technology in the tech industry appear to be the increased development of artificial intelligence and 5g technologies as means of advancement into future technologies. 5g is the new generation of wireless internet networking which will provide speeds of between 10x-100x faster than 4g LTE. This will not only allow individuals to more conveniently stream, or use the internet without lag, but also provide software to become more complex, and create a larger dependence on cloud storage as there will be virtually no delay in sending and receiving files from the cloud. This presents opportunities for Ciena corporation as both its physical network, and software will be heavily utilized in the rollout and continued use of 5g, as well as Dropbox as there will be an increased demand for cloud storage, and CACI International as 5g allows more sophisticated software to be run without delay allowing for opportunities for growth.

Artificial intelligence has been a buzzword for a few years now, but we are truly on the brink of seeing it have a massive effect on our lives. Artificial Intelligence may not only lead to an increase in automation, but has far more application in projecting and modeling, which will be incorporated into nearly all industries. For Ciena corporation, the current service Blue Planet utilizes machine learning to detect and respond to potential issues with internet services, which will only be improved with advancements in the field of artificial intelligence. Additionally, CACI International has been making strides to be a leader in the development of artificial intelligence with its major application use being in defense, CACI is also offered the ability to utilize the advances it finds in its other products aimed at the private sector.

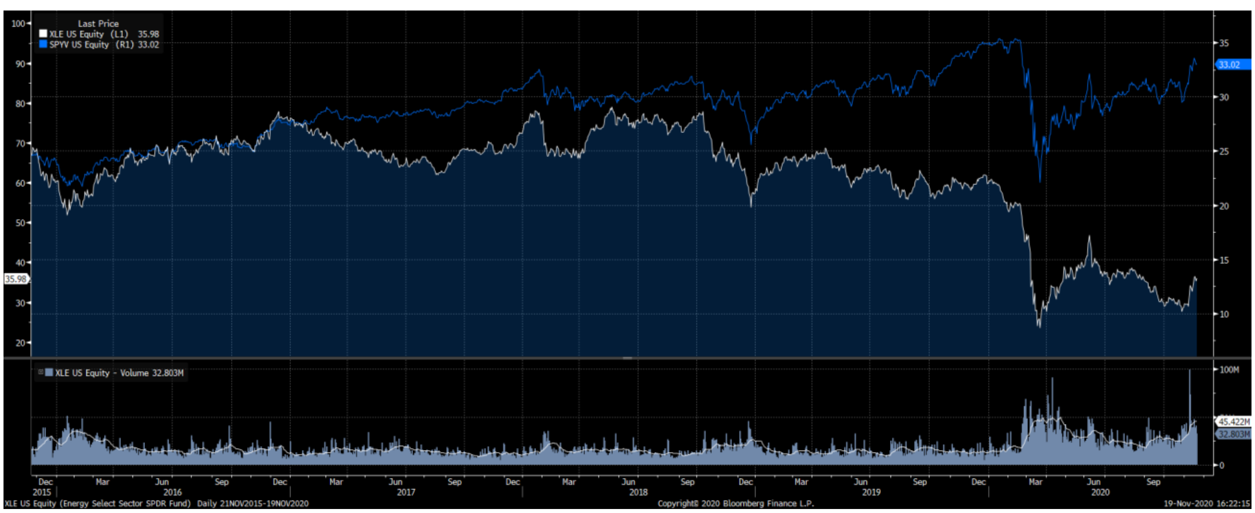
Energy Outlook

As 2020 began, the energy industry was preparing to enter a new phase of growth driven largely by increasing customer demand, cost competitiveness, innovation, and collaboration. However, within just a few months, the COVID-19 pandemic caused top down disruption throughout the sector. The International Energy Agency (IEA) recently stated that additions of renewable electricity capacity are expected to decline by 13% in 2020 compared with 2019, the first downward trend since 2000. This is a 20% downward revision compared to the IEA’s previous forecast in which 2020 was due to be a record year for renewable power. This update reflects both possible delays in construction activity due to supply chain disruptions, lockdown measures and social-distancing guidelines, and emerging financial challenges.

The U.S. and China are both expected to see an increase in capacity additions in 2020 and 2021 compared with last year. The phase-out of subsidies in China and the expiration of tax credits in the U.S. are resulting in project development rushes. Construction delays are expected to have an immediate impact on European utility-scale projects, as certain countries in Europe have been proponents of some of the strictest lockdown measures in the world. However, capacity additions are expected to rebound in 2021. In India, COVID-19 is exacerbating existing challenges concerning the financial health of distribution companies, which play a critical role in the deployment of both utility-scale and distributed photovoltaics. Overall, forecasts predict a 10% decline in capacity growth through 2021.

Beyond the direct impacts on heat consumption, COVID-19 further compromises the already slow growth of renewables in heat supply. First, delays in renewable district heating projects and in the manufacturing, sale and installation of renewable heating equipment may not be recovered in the first half of 2021. Given the uncertain future financial situation of many companies and households, many planned investments in switching from fossil fuel heating to renewable or electric solutions are likely to be postponed or cancelled in the absence of stronger policies. Without government intervention, the crisis could have a long-lasting effect on the construction sector. At the same time, building renovation in several countries is being considered for inclusion in economic stimulus packages due to the early opportunity it offers for creating jobs and triggering economic recovery. This represents an important opportunity to integrate renewable heat technologies in the building sector, which could consequently lead to higher than anticipated deployment.

Historical 5 – Year Performance Energy Select Sector SPDR Fund (XLE) vs S&P 500 Value Index



Source: Bloomberg

Over the past 5 years, the Energy Select Sector SPDR Fund has underperformed the S&P 500 Value Index. According to Bloomberg, the energy sector is positioned to experience growth over the greater market during the Biden Administration.

Porter Analysis

Threat of New Entrants (Score: 1)

Barriers to entry in this industry are high and continue to get increasingly higher. The energy industry is extremely capital intensive, so prospective new players in the space must have access to significant capital. Additionally, environmental regulations can create significant barriers.

Competition (Score: 2)

There is a substantial amount of competition within the energy industry - the four largest companies represent approximately 68% of industry market share. Industry peers are constantly in competition with each other on terms of price and quantity of the products that they offer. For example, domestic oil refiners must compete with imported petroleum. It is much more expensive to refine oil domestically due to resources and heightened environmental regulations from the Environmental Protection Agency (EPA).

Substitutes (Score: 5)

Due to the high barriers to entry, substitution in the energy industry can be described as fairly low. Potential options for substitutes are nuclear energy and renewables, such as solar or wind. These alternatives, however, are very expensive and require a significant amount of R&D. While the steady increase in environmental regulations could potentially increase demand for these alternatives, many industry experts predict that they will not be a dominant force in the industry until at least 2040 - a time frame that falls outside of our time horizon.

Buyer Power (Score: 5)

The energy industry has low buyer power. For the most part, buyers consist of oil refiners, nations, and oil and gas companies. Due to the monopolistic nature of the industry, suppliers have an easy time influencing and controlling supply levels, and in turn control prices. This leaves buyers with minimal buying power.

Supplier Power (Score: 1)

Supplier power is extremely high within the energy industry. Suppliers often consist of large oil companies, such as Exxon Mobil, Chevron, or oil rich companies such as OPEC nations. Since the aforementioned suppliers have direct control over oil supply, they have a monumental influence on price. Industry prices are reflected in numerous indexes, such as the Brent Crude Index and WTI.

Porter Five-Factor Model Average: 2.6

Industry Life Cycle

The overall energy industry is in the maturity stage of its life cycle. Through further analysis, it is evident that the oil and gas sector have products, markets, and major companies that are clearly defined throughout the industry. Demand in the energy industry is driven by numerous external factors, the largest being overall economic growth. On the other hand, the renewables sector is currently in the growth stage of its life cycle. This can be attributed to the fact that renewable energy is cheaper, less environmentally damaging, and is highly correlated with advances in technology. Currently, the entire technology industry is in a growth stage and renewables' high correlation with this industry puts it in a position to experience more growth in the next few decades than any other conventional electricity generation source.

SWOT Analysis

Strengths

The energy sector, and more specifically, the petroleum supply and value chain, has many strengths. High barriers to entry in the form of extreme capital intensity gives the main industry players protection against potential new entrants. For any company seeking to enter this industry, whether it be in mining, transportation, refining, or another sub-industry, startup costs are high. Low customer concentration is another key strength for many companies in the industry, as petroleum refiners' sales are diversified across a wide spectrum of national and local companies around the globe. Because their sales are fragmented, risk of lost sales due to the exit of one company is diminished. Additionally, on a per-employee basis, revenues are high.

Another strength in the petroleum industry is the consistently high levels of demand for the product. Although levels of demand fluctuate somewhat in correlation with the strength of the economy, in most developed countries, demand remains at reasonable high levels.

Weaknesses

Petroleum has been a staple commodity of the global economy for some time now, but the petroleum and energy industry still have many key weaknesses that hamper profitability. Oil as a commodity experiences extreme price fluctuation that greatly affect profitability. Because these companies are price takers and not price makers, they are susceptible to global changes in supply and demand. For instance, demand for automobile fuel generally increases in the summer as more people travel, leading to higher prices. The converse happens in colder seasons. Similarly, supply levels can affect oil prices. Multinational organizations like OPEC attempt to manipulate the price of oil through restrictions and relaxations of oil supply. As opposed to other industries and sectors, the petroleum industry is very much reliant on positive outside forces to generate profit growth.

In addition to this, the petroleum industry faces high levels of competition between varying firms within the industry. Many large corporations like Exxon Mobil, Valero, and others compete globally for sales. Currently, Marathon Petroleum Company is the largest industry player, with 23.1% of market share, but faces high competition from the above listed companies, the top five of whom control about 15% of the market on average. In competing over sales of a commodity, companies must find a way to differentiate their product or company by, for example, having a more advanced refining technique. Additionally, high competition forces price rivalry, which erodes profits as companies' lower prices.

Due to these factors, profits in the industry are substantially lower than others in the energy sector. Price competition and high capital requirements lower revenues and create huge costs, leading to lower net profits despite the industry's high revenues.

Opportunities

Though the petroleum industry is facing future growth declines due to a global shift toward renewable energy sources, some opportunities for growth remain. Growth projections over the next 5 years remain optimistic- a 3 percent growth rate is seen as a cautiously optimistic figure. Expected increased oil prices and ramped up refinery production are headwinds for sales growth in the industry. Short term outlooks are favorable for the industry, despite increasingly poor outlooks in the long term, as electric cars and other renewable sources of energy have not yet become mainstream.

Additionally, wavering levels of confidence in the industry has created an opportunity for companies to recapture that confidence through operational and technological leadership. Investors have watched these companies fail to respond effectively to global industry changes, but can have their confidence restored through strong leadership within the industry. Gains have been made in efficiency and key technological advancements, but an opportunity still exists for companies to become a clear industry leader.

Threats

A clear threat to the industry and the entire petroleum supply chain is the emergence and growing popularity of renewable energy. As climate change has come to the forefront of economic and political discourse, more pressure has been put on businesses to create cost-effective alternatives to fossil fuel-based industries like cars and electrical grids. Though these technologies have not yet been perfected, the emergence of companies like Tesla and the implementation of alternative energy sources has impacted and will continue to increasingly erode at the petroleum industry’s bottom line. Government regulations have sped up this process, as many have instituted fuel efficiency requirements and even blocked sales of gas-based cars at a future date.

Furthermore, the oil and gas industry’s poor public perception has hindered its inclusion in the debate surrounding the future of energy. The industry has been criticized for its role in climate change and its lack of action and transparency. The public’s distrust of the industry has and will continue to lead to diminishing returns for the industry.

Lastly, the COVID-19 virus has significantly hampered travel globally, leading to a contraction of demand for oil and gas. Flights are scheduled less frequently and people are traveling less, both for leisure and business, as stay-at-home orders continue to be in place in many countries. This has left the petroleum industry with an oversupply of oil with few willing buyers. If the global economy does not revert to normal levels of travel, the entire supply chain will freeze: buyers or refined oil have decreasing demand levels, forcing refiners and transporters to also lower their demand. Without a COVID-19 vaccine, profits for the industry will shrink up, leaving many companies in poor financial conditions.

Big 4 Factors

Energy prices generally reflect the cost to build, finance, maintain, and operate power plants and the electricity grid, the complex system of power transmission and distribution lines. Some for-profit utilities also include a financial return for owners and shareholders in their energy prices. Several key factors influence the price of electricity: fuels, power plant costs, transmission and distribution systems, weather conditions, and regulations.

Fuel prices, especially for natural gas and petroleum fuels, have the potential to increase during periods of high electricity demands. Additionally, this can occur when there are fuel supply constraints or disruptions because of extreme weather events and accidental damage to transportation and delivery infrastructure. Power plant costs are unique in nature because each power plant has financing, construction, maintenance costs. Upfront and maintenance costs can vary greatly depending on the size and kind of power plant. The electricity transmission and distribution systems that connect power plants with consumers have construction, operation, and maintenance costs, which include repairing damage to the systems from accidents or extreme weather events and improving cybersecurity. Extreme temperatures can increase demand for heating and cooling, and the resulting increases in electricity demand can push up fuel and energy prices. rain and snow provide water for low-cost hydropower generation and wind can provide low-cost electricity generation when wind speeds are favorable. However, when there are droughts or competing demand for water resources, or when wind speeds drop, the loss of electricity generation from those sources can put upward pressure on other energy/fuel sources and prices. It is also important to put the numerous and potential regulations into some context. In some states, public service/utility commissions fully regulate prices, while other states have a combination of unregulated prices (for generators) and regulated prices (for transmission and distribution).

In addition to the aforementioned factors, the historic win of the Presidency by Joe Biden has the potential to massively change the United States' stance toward energy. Without a doubt, Biden's energy policy will differ from that of his predecessor. While both recognize America's role as the globe's preeminent energy producer, the Biden White House will not be the "friend" to the fossil fuel industry that President Donald Trump was. Instead, the Biden Administration will likely aim to push through a “green growth” agenda that will emphasize low or zero carbon energy production, green industry manufacturing, and more climate friendly regulations. This will undoubtedly serve as a catalyst for smaller renewable energy companies, which will provide them with the opportunity to receive substantial government research grants. Solar and wind producers will benefit from untraditionally large tariffs, as well as the nuclear industry and fusion pioneers. However, as Trump learned with demise of coal, Biden will find himself bound by traditional market forces, especially in the advent of a divided U.S. Congress. No policy decisions short of outright banning coal, fracking, and hydrocarbons have the power to counteract the cheap energy from Texas and Pennsylvania.

At the top of Biden’s climate agenda is getting the U.S. back into the Paris Climate Agreement. Trump abandoned the deal in 2017 and the withdrawal decision came into full force on November 4th of this year. A renewed membership under Biden puts the U.S. alongside 188 other members, including China, who have pledged to cap global warming at 2 degrees Celsius. At home, Biden will aim to address the Trump Administration’s efforts to deregulate the energy industry and dismantle environmental protections. In contrast to his predecessor, Biden has publicly pledged to prohibit drilling on federal lands, including the Arctic National Wildlife Refuge. The U.S. produced nearly three million barrels of crude oil per day from federal lands and water in 2019, along with 13.2 billion cubic feet per day of natural gas worth approximately $12 billion. If Biden follows through with his pledge, this will drastically set back U.S. oil and gas production, drive the oil and gas prices up, and make the U.S. more dependent on cheaper oil imports.

Looking forward, Biden has proposed a plan to transition away from fossil fuels toward clean energy resources. His vision of “clean energy” aims to link the clean energy and climate agenda with an effort to create new jobs in the energy industry. To fund the expansion of the clean energy sector, Biden has proposed up to $2 trillion in investment over the first four year of his presidency. His proposal sounds great in theory, but the U.S. is currently sitting at its biggest financial deficit in recent memory, and it is likely that the Republican denominated senate will block all proposals. Contingent of COVID-19 recovery and systematic market forces, the U.S. 's new role as an oil and gas exporter will be tenuous under a Biden presidency. It is safe to say that oil and gas producers will not enjoy the same support they received under Trump. Biden has made it abundantly clear that he would cut off subsidies for fossil fuels, which, according to environmentalists, are responsible for approximately$20 billion in the industry annually. However, the Biden Administration may attempt to restore trade relations with energy-hungry China and resume the one-steady liquified natural gas (LNG) sales. A dismantling of Trump's tariffs would also benefit areas of the energy sector that rely on these inputs for infrastructure, such as pipeline and construction.

Energy stocks should not experience much of a change with Biden's election. This is evident in the market's positive response over the past few trading sessions. Wall Street was already pricing the industry for a Biden government, and the last four years saw renewable energy stocks rise even without major government support, while fossil fuel companies missed out. Overall, however, the President has little power over the trajectory of the stock market, particularly energy stocks. The largest impact the Biden Administration could have on the industry is a successful recovery from the COVID-19 pandemic, which would drive demand up for energy across the board.

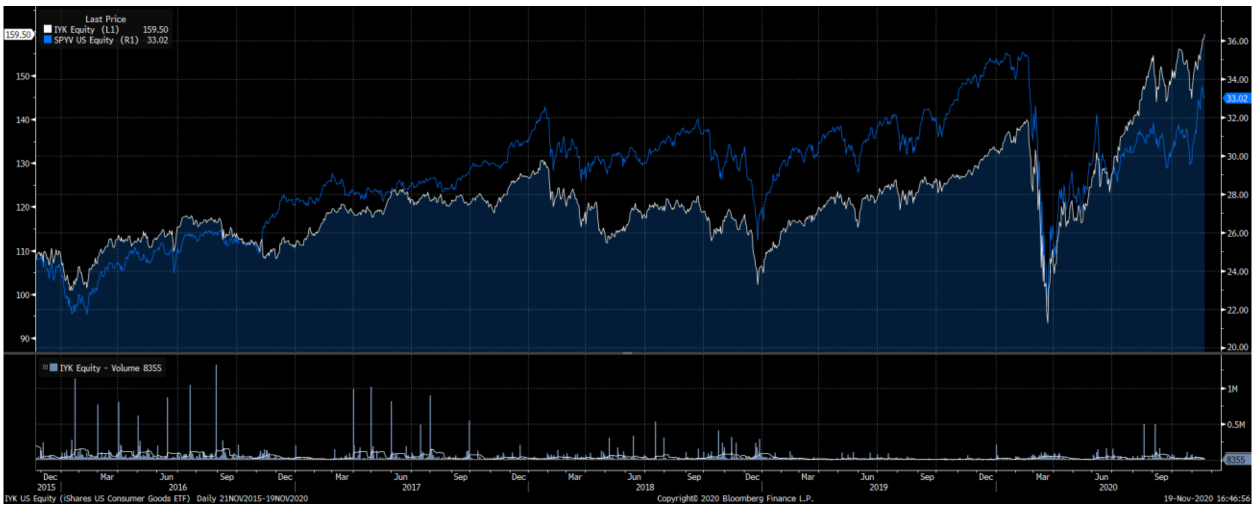
Consumer Defensive Outlook

The beer and malt beverage industry are very large in the United States, surpassing $15.59 billion in sales per year. Recent consumer trends, however, threaten Anheuser-Busch and its competitors. As consumers seek healthier lifestyles, beer consumption has decreased. In 2018, consumption volume fell by about 2.5%, impacting Anheuser-Busch's sales by 1%. In order to combat this, Anheuser-Busch and its peers have attempted a "premiumization" strategy, in which companies focus on selling higher-priced, higher-margin beers. In an effort to outpace its competitors, Anheuser-Busch has invested heavily in buying out craft beers to appeal to a younger demographic and earn higher margins on their offerings.

Anheuser-Busch's currently holds a 39.9% share of the beer market, but has lost nearly 10% of its previous share in the past 10 years. It faces competition from two main American beer companies: Molson Coors and Constellation Brands, which hold about 23% and 11% of market share, respectively. The onset of healthier lifestyle choices and tastes in a wider variety of beers has shifted market dominance from these three main players to smaller breweries, who sell various higher-priced beers. Anheuser-Busch is currently amidst a strategy of buying out smaller breweries in order to corner the market on craft beers.

Additionally, the COVID-19 outbreak has significantly impacted the profit-generating capabilities of Anheuser-Busch. Increased regulations on workplace safety and protocols have raised production costs. Additionally, Anheuser-Busch's large buyers have been buying less frequently, as bars and similar venues have not been operating at the same scale. Though revenues and profit are expected to drop in 2020, many analysts believe that the beer industry will bounce back in the subsequent years, earning steady revenue growth.

Historical 5 – Year Performance iShares US Consumer Goods ETF (IYK) vs S&P 500 Value Index



Source: Bloomberg

As illustrated above, the iShares US Consumer Goods ETF has consistently under performed the S&P 500 Value Index.

Porter Analysis

Competition (Score: 4)

Competition in the Beer and Brewing Industry is high, as a few large companies and many smaller breweries fight for market share in a highly saturated market. Though Anheuser-Busch remains the number one player in the industry at 41.6 percent of market share, it has lost a small portion market share over the past 10 years as consumer tastes shift to more unique craft-style beers and other alcoholic beverages.

In order to face competitive threats head-on, Anheuser-Busch and similar companies have pursued an aggressive strategy of buying out smaller breweries and brands in an effort to regain market share in the craft beer sub industry. Though rivals like Molson Coors have adopted similar strategies, Anheuser-Busch gained a competitive edge by adopting this strategy first. Furthermore, the emergence of new beverage offerings like hard seltzers has changed the competitive landscape of the industry.

Threat of New Entrants (Score: 2)

The beer industry is largely dominated by a few large breweries, such as Anhesuer-Busch, Molson Coors, and the Boston Brewing Company, who collectively hold nearly 75% of market share in the industry. Many small players still exist and thrive in the industry, however. These smaller breweries do threaten to cut into these larger players' market share, but not to a high degree. Companies like Anhesuer-Busch have significant competitive advantages that protect it against the threat of new entrants. Huge production capabilities and a number of brewing facilities create large economies of scale that are near impossible to replicate for a smaller company. Their name recognition with both suppliers and buyers also give them a significant selling advantage over new entrants. They can also utilize their name recognition to help drive down input costs with suppliers. With consumers, large breweries' name recognition helps them place their products in restaurants and bars.

For these reasons, the emergence of new entrants into the industry is relatively low for the beer production industry. High capital intensity associated with the construction of a new brewery, as well as the impressive economies of scale and supply chain functionality of the top industry players create a buffer against new entrants. Smaller competition emerges locally, as regional brewing companies generally keep sales within their state or general region. They eat up small portions of market share in these regions, but fail to compete on a national level with companies like Molson Coors or Boston Brewing.

Supplier Power (Score: 1)

Supplier Power is very low in the industry, as goods and raw materials are easily substitutable. Wheat and barley, primary ingredients for beer production, are sold by numerous farms, making it near impossible for these companies to be price makers. Because these goods are relatively substitutable and indistinguishable, Anhesuer-Busch and other beer producers become price makers and farmers become price takers. Furthermore, large brands have high purchasing power over small farmers and middlemen, as their bulk purchases often make up a sizable portion of each farmer's yearly sales.

The same can be said of the industry's other main inputs, glass and metal. Because it can be sourced from various different companies, Anheuser-Busch and its competitors have power over these companies to influence price.

Buyer Power: (Score: 2)

Customer power in the beer and brewing industry is middling, as consumers do exert some power over beer companies, but can only exert this power to an extent. The beer industry is heavily fragmented and has a low customer concentration- a large amount of the industry's customers are individual buyers. These buyers do not have a great deal of buying strength over the industry's main players, although switching costs are low, so companies must make efforts to not alienate large swathes of customers.

On the other hand, the brewing industry's other buyers, namely restaurants, bars, and other public venues, have stronger buying power. Because these buyers purchase in higher bulk, they have greater bargaining strength compared to the individual buyer. This past year, however, these large bulk buyers have experienced extreme declines in sales due to the COVID-19 pandemic. This impact to their sales, has in turn impacted their purchases from beer producers. Though sales have declined for the industry, these players still have high buying power, as their preferences shape what brewing companies do or don't produce.

Both individual and corporate buyers have impacted the landscape of the industry, however. Consumer tastes, seen in both individual purchases and beers offered at restaurants and bars, have shifted toward more high-end beers. In response, more craft breweries have started up and been bought out by larger companies. Though Anhesuer-Busch and its competitors' mainline products have not changed, their supplemental offerings have been forced to change, a sign of buyer power in the industry.

Substitutes (Score: 2)

Though beer remains a consumer staple for many, the emergence of new alternatives has disrupted the current market shape. In recent years, the emerging popularity of higher quality beers disrupted the shape of the industry. Even more recently, however, the rapidly rising popularity of hard seltzer drinks threatened to eat into beer sales. To combat this, many large breweries began selling their own hard seltzer drinks, such as Bud Light Seltzer, or Corona Seltzers. Still, the main player in this new drink category is White Claws, owned by relatively small player Mark Anthony Brands International. Hard Seltzers appeals to a younger demographic and offers lower calorie, lower carb beverages. These new industry offerings, made in response to an increasingly health-conscious population, threaten to disrupt and diminish the revenues and profits of mainstay industry players like Anheuser-Busch.

Other industry and demographic trends have brought about other substitute products. An increasing number of consumers have shifted to alcohol-free beers. Many brewing companies already offer alcohol-free beers, but it is a trend that threatens to disrupt the industry.

Furthermore, consumers often shift between various alcoholic beverages when choosing a drink. One consumer might decide to have a glass of wine instead of a beer. As consumers try new products, they will likely decide upon a select few that they enjoy. This trend will most benefit craft breweries, who offer distinct tastes and styles of beer, in lieu of standard light beers, which are generally similar in taste, alcohol percentage, and most other key factors. To combat this, national breweries must find a way to differentiate their products from others in the market.

Most large players in the industry have weathered the emergence of these substitute products well, offering new products to accommodate shifting consumer preferences. Though the number of substitute products has increased in recent years, the ability of large industry players to respond to changing tastes has diminished the threat of substitute products.

Porter Five-Factor Model Average Score: 2.2

Industry Life Cycle

The vast majority of analysts agree that the beer brewing industry is in the maturity stage of the industry life cycle. As beer products come to be normalized and accepted in the market, revenue growth has slowed to approximate that of the economy. Currently, Industry Value-Added is expected to grow by 2.4%, while the overall economy has a projected growth rate of 1.9%. The industry has surpassed the emergence and rapid growth periods of the life cycle and the industry has become a mainstay in the overall economy. As companies and industries reach maturity, they will often shift to cost-cutting methods in order to increase profits, as revenue growth cannot be relied upon as a substantial source of increased profits. In the beer production industry, many large companies have shifted their focuses to reducing costs through automation. Though many processes have already been automated, further automation will eliminate many labor costs, shifting them to fixed costs instead.

Anheuser-Busch has reached maturity in the industry. The company has shifted its efforts into cost reducing efforts to make up for decreasing growth. Though Anheuser-Busch does not offer large growth opportunities, we still believe that it is undervalued by the market. Anhesuer-Busch has seen declining sales due to COVID-19, which has significantly impacted its market price. We believe that BUD will recover losses seen in 2020 and is strongly positioned to capture a large portion of the higher projected growth in the following years. Specifically, its proactive approach to acquiring various craft brew companies and its investment in the creation of substitute products like hard seltzers gives Anheuser-Busch an advantage over its competitors.

SWOT Analysis

Strengths

The beer and malt liquor industry benefits from high barriers to entry. Costs associated with the startup of a beer brewery include purchasing large quantities of raw materials, the construction of a brewery, and the establishment of business relationships with wholesalers, many of whom have strong relationships with current players in the industry. Though many small players have entered the market, the large amount of capital required to compete on scale with Anheuser-Busch and Molson Coors is prohibitive.

Another strength of the industry is its low customer class concentration. Anheuser-Busch and its comparable sell to a wide variety of consumers, including retailers and restaurants, but largely sell to individual consumers. Because the industry’s base of buyers is relatively evenly spread, the industry generates steady and mostly predictable revenues.

Weaknesses

Companies in the beer industry face high levels of competition. Whether it comes from a large beer manufacturing company or a smaller craft brewery, companies continually compete for consumers' dollars. Because switching costs are relatively low, companies form rivalrous relationships, fighting for every consumer dollar.

Anheuser-Busch and its competitors also suffer from low profits compared to the rest of the sector, as well as a relatively low revenue per employee. Additionally, a high concentration in a single market negatively impacts most companies in the industry, as they are not diversified to deal with downturns in the beer industry.

Opportunities

Though the industry has reached maturity, opportunities for growth still exist. Analyst projections forecast a rebound for the beer industry after its rough year in 2020. As bars and restaurants reopen, Anheuser-Busch and its competitors will see significant revenue growth, especially if they can outpace and outsell their competition.

Furthermore, as lessening demand threatens profits for the industry, the industry must look to cut costs. One opportunity that can and should be considered is automation of production facilities. Although it is already in place to a degree, further efforts can be made to eliminate labor costs.

Threats

The beer industry's main threat has been low growth in the past five years, especially this past year. Low growth creates an increasingly rivalrous landscape, forcing some companies to close and the remaining to fight over a contracted market.

Additionally, lower consumer spending in recent years, due to high unemployment rates this past year have adversely affected the industry's profitability. The coronavirus pandemic has significantly cut sales of beer at restaurants and bars, as consumers stay at home. If a vaccine is not approved by the FDA soon, brewers will have to find alternative routes to maintain sales.

Big 4 Factors

Demographics

Demographics have played a key role in the shifting beer industry over the past few years. An overall aging population has led to an increased number of consumers of legal drinking age (approximately 20 million net new legal drinkers in the past 8 years). Despite this, beer consumption has slightly decreased, although a portion of this can be attributed to the COVID-19 pandemic. With a larger segment of customers to whom to sell, Anhesuer-Busch has great opportunities to seize a higher market share. Brewers must capitalize on a larger customer base by offering a wider variety of alcoholic beverages.

Lifestyle

Unlike favorable demographics, lifestyle changes have negatively impacted beer sales in the United States. Likely on the back of an increasingly health conscious younger generation and a shift toward beer alternatives, such as non-alcoholic drinks and hard seltzers, beer sales have declined by about 2.5%. This shift has slightly impacted revenues, but Anhesuer-Busch was able to recoup these losses through a shift to higher margin craft beers. This shift will lead the way in the future to higher revenue growth and better profit margins. Overall, though profitability has fallen slightly due to changes in lifestyle and preferences, these shifts have set up Anhesuer-Busch for more long-term success.

Legal/Regulatory

Though there are not any new salient regulations on the brewing industry, various laws and policies must be considered in analyzing the industry. Regulations on alcoholic beverages are many at both the federal and state levels, as multiple federal agencies have jurisdiction over alcohol sales and consumption. Furthermore, state and local authorities have a degree of control over

Under the Trump administration, the newest tax laws, the Tax Cuts and Jobs Act of 2017, corporate taxes were decreased from 35% to 21%, a boon to all businesses, but surely benefitting the beer industry. The recent 2020 elections, however, brought about the election of Joe Biden. Many companies fear that he will reverse President Trump’s tax laws. Companies will be forced to reorganize in an effort to meet these new potential tax rates, including Anhesuer-Busch.

Another key factor for the beer industry is regulation concerning COVID-19. When the virus broke out in the United States in early 2020, various laws and regulations were put into place by state and local authorities in order to curb the number of cases. For the beer industry, this was a heavy loss, as many restaurants and other similar establishments were forced to either close or operate at a significantly reduced capacity. Recently, however, regulations have been relaxed in an effort to stimulate the economy. As the number of cases rebound, the industry will depend upon the stringency of regulations enacted by state governments. Additionally, with the election of President-elect Biden, beer companies will have to look out for potential national legislation regarding public gatherings.

Technology

Technological innovation has not significantly impacted the brewing industry, as new innovation has not brought about significant changes to production or supply chain capabilities. One area in which some strides have been made, however, is automation. As players in the industry face decreasing profit margins on their mainline light beer offerings, they have turned to automation as a strong driver of cost reduction. Though many processes have already been automated, some simple tasks are still being performed by low-skill workers. Further pressure to automate has come from the emergence of the COVID-19 virus, which has forced companies to operate at limited capacity. To combat this, companies like Anhesuer-Busch have accelerated the automation process in order to return their facilities to maximum levels of capacity and efficiency. In doing so, these companies are shifting variable wage costs to fixed equipment costs. We believe that this shift in the industry will create effective cost savings that will significantly impact each company's bottom line.

Consumer Staples Outlook

The United States consumer staples industry has been historically less sensitive to economic cycles than other industries. This industry is made up of the Food, Beverage & Tobacco, Household and Personal Products, and Food and Staples Retailing categories. The staples sector is often referred to as "defensive" as is relatively stable during economic recessions and instability. The 5 largest companies in the consumer staples industry are Procter & Gamble (PG), Coca-Cola Co. (KO), PepsiCo (PEP), Walmart (WMT), and Philip Morris International (PM).

Over the course of 2020, the industry has remained strong during the COVID-19 pandemic and returned to stability after initial shocks in March. Unlike other retailers, consumer staples retain consumer demand due to their supply of necessities. This overperformance during times of uncertainty makes it particularly attractive to investors. Consumer staples offer value and stability as the food retailing, personal product, and similar industry sectors demonstrate signs of significant recovery going forward into 2021 after a volatile year in 2020. The consumer staples industry showed strength during the pandemic and corresponding economic recession. This sector has returned 7.06% YTD as of 11/13/2020 compared to the S&P 500, which returned a slightly higher YTD return of 10.97%. In the 10-year period ending in 2018, consumer staples returned the eighth highest return among other industry sectors but offered the lowest risk among all industry sectors. The main cause of the sector's stability is its strong demand. Consumer staple products are necessary and therefore difficult for consumers to avoid purchasing, resulting in a somewhat unchanging demand. Despite this, it is difficult for businesses in this sector to alter pricing because of the high amount of competition in the industry. Any change in price to a consumer staple product is likely to result in a change in demand, making this sector less able to utilize price elasticity.

Porter Analysis

Threat of New Entrants (Score: 2)

The threat of new entrants is relatively low given the ability to compete once capital is secured. In order to compete with consumer cyclical companies, a new entrant must be able to raise significant capital in order to establish economies of scale and create a significant unique selling point in order to capture considerable market share. Without high amounts of capital, new manufacturers are unable to lower price points in order to attract buyers and therefore unable to compete with most consumer cyclicals. In the case of Hanesbrands, the threat of new entrants is low given HBI's backwards integration and strong supply chain, enabling it to significantly lower its manufacturing costs.

Competition (Score: 5)

Competition is significant in the consumer cyclical industry given the high amount of different retailers whose product lines are highly similar. Lower cost items such as affordable vehicles and shoes are highly competitive and highly susceptible to buyer power, in which buyers are more attracted to the lowest price. While many firms may retail or manufacture low cost products, others rely heavily on brand name in order to drive sales. Firms such as Hanesbrands approach the apparel market with a variety of different brands and products exposing their revenues to both the low- and high-end markets. The highest level of competition exists in low cost products in which there is little brand differentiation or loyalty. In the case of high-end products, such as luxury vehicles or apparel, firms are more likely to compete based on reputation rather than in pricing.

Substitutes (Score: 1)

In the case of substitutes, the level varies from sub industry to another. In the case of automotives, there is a high potential for substitution through public transportation, carpooling, ridesharing, taxi services, and walking. However, in industries such as homebuilding and apparel, there are little to no alternatives that threaten the industry. In the case of economic downturn, consumers are more likely to save their disposable income rather than opt to renovate their home, purchase a new or higher end car, or purchase new clothing. In the case of Hanesbrands, there are limited substitutes to underwear, activewear, and other clothing items.

Supplier Power (Score: 2)

In the consumer cyclical industry, supplier power is relatively low and oftentimes insignificant as manufacturers constantly aim to lower their cost of goods sold. This is even more true when looking at the apparel industry, in which many large manufacturers and retailers have chosen to backwards integrate supply chains and manufacturing in order to further lower costs. Many consumer cyclical firms also choose to manufacture products in foreign markets, opting for lower labor costs and often providing suppliers with a small fraction of profits.

Buyer Power (Score: 4)

Buyer power in the consumer cyclical industry is high given the nature of price sensitivity in retail. In times of economic downturn and uncertainty, buyers are more attracted to lower priced items, especially when those items are discretionary. Unlike the automotive industry, buyers do not have direct bargaining power in the instance of most other consumer cyclical products. Consumers have little incentive to buy higher priced products unless there is differentiation in the quality or the brand name. In the case of Hanesbrands, its generic products are likely to be highly price sensitive and consumers are often obligated to purchase at lower price points. Despite this, its stronger brand-names such as Champion have strong brand loyalty as lifestyle brands and are less susceptible to buyer power.

Porter Five-Factor Model Average Score: 3.5

Industry Life Cycle

The consumer cyclical industry is in the mature stage of its lifecycle. While its delivery and accessibility methods are evolving due to technological improvements, the strong majority of industry products are mature, with little change year over year to the apparel, vehicles, travel, restaurant, and retail industries. The main source of increased profitability in this industry is outsourcing, further demonstrating the maturity of the industry. Going forward, the consumer cyclical industry may enter the decline level of its lifecycle as consumers seek to allocate less of their discretionary income to unnecessary products such as vehicles and apparel. Companies in this category should seek to innovate their products and lower costs in order to drive future growth.

SWOT Analysis

Strengths:

The strengths of large-scale apparel manufacturing are the stability of the overall market and the lack of need for technological advancement in the industry. Companies such as Hanesbrands are not defensive against economic shocks and depressions, but they are able to effectively price their products at an attractive level. This industry makes attractive product offerings, resulting in an increase in revenue that will match increasing consumer confidence going into 2021.

Weaknesses

The consumer cyclical and specifically, the apparel industry, are highly susceptible to buyer power. Competition is significant and any price increase or price drop by competitors can make the given company’s products less desirable. This sector also has a high amount of imports, making it highly exposed to currency fluctuations. It is ideal for U.S.-based companies that the U.S. dollar remains strong and that their accounts payable are denominated in a weaker currency. This sector also faces the issue of low profit margins when compared to other economic sectors. In order to remain profitable, consumer cyclicals need to establish economies of scale and continue to lower their cost of goods sold.

Opportunities

Consumer cyclicals such as Hanesbrands can utilize heightened sales growth as the economy recovers from early shutdowns related to the COVID-19 pandemic. Consumer cyclicals were hurt early on due to supply chain issues and high manufacturing costs. This presents itself as an opportunity for consumer cyclicals and other industries involving manufacturing to backwards integrate and lower future production costs.

Threats

The threats to the consumer cyclical industry include low revenue growth through the years preceding 2020, signaling a mature industry. There are also low performance drivers which will likely rule out strong future growth after a pandemic-related recovery. While this industry can often provide a safer investment environment than other sectors, it is liable to be strongly affected by consumer spending and a potential further economic decline related to COVID-19 shutdowns. As consumers prepare for another potential round of lockdowns in the United States and abroad, they may elect to increase their savings rather than spend on discretionary items. As the industry reaches peak maturity levels, all firms within the industry should look to establish a unique selling point in order to grow or sustain current revenues.

Big 4 Factors

Demographics

Large demographic changes can have considerable impact on the consumer cyclical industry given its exposure to economic events and its exposure to changing trends in taste, fashion, and values. Younger demographics are more interested in sustainable products and companies. This will result in companies increasingly looking to behave sustainably in an ESG-friendly environment. While younger demographics will not harm the consumer cyclical industry, they will likely guide it in a direction that incorporates the environment. Millennials as well as Generation Z will seek more automation and e-commerce purchases, likely lowering labor costs for the overall industry.

Lifestyle

The overall consumer cyclical industry is somewhat less resilient to any lifestyle changes as their products are typically discretionary. As younger demographics are saving more for retirement and investing in equities than older generations, there may be a slight decrease in discretionary spending. Younger consumers are less likely to purchase property and less likely to renovate their homes, potentially giving way to a declining industry. These trends can be damaging for some sub industries, whereas others will profit. The apparel industry will likely aim to increase their unique selling points as younger consumers are more likely to address brand reputations and are more attracted to streetwear and lifestyle brands that older generations. As younger demographics are better able to utilize and prefer technology, companies will likely increase their use of it and begin to scale back on brick and mortar locations more drastically.

Legal/Regulatory Environment

Other than the automotive industry, consumer cyclicals have little exposure to legal/regulatory factors which have greatly affected emissions and other performance related factors relating to vehicles. The industry, like all others will be susceptible to changes in global tax rates, most significantly President-elect Joe Biden’s tax plan, which is poised to increase corporate taxes from the current 21% under President Trump to 28%, effectively lowering company earnings.

Technology

Companies in this sector will likely aim to increase their presence in a growing e-commerce market, potentially capitalizing on growing trends of online shopping in all sub sectors. This has seen the rise of Carvana, Amazon, and Airbnb. All firms in this sector will fully enter the e-commerce market, potentially posing a challenge in online marketing. In improving their supply chains and lowering costs through technological advancements, consumer cyclicals will likely look to increase their reliance on automation, AI, and strong data analytics. This will look to increase efficiency, predict demand, and lower overall costs.

Consumer Cyclical Outlook

The consumer cyclical industry is a category of retail stocks that rely heavily on economic conditions and include both durable and non-durable goods. The largest cap consumer cyclical securities are Amazon.com, Inc (AMZN), Alibaba Group Holding Limited (BABA), Tesla, Inc, (TSLA), The Home Depot Inc (HD), and Nike, Inc (NKE). This sector is made up of the vehicles, homebuilding, apparel, restaurant, travel, and retail industries. Outside of the largest capitalization firms, this industry has seen considerable drops in stock price through 2020 and are expected to rise in tandem with future economic growth.

This industry is strongly correlated to overall consumer discretionary income and experiences considerable growth during times of economic booms and high employment. Although this industry sector faces considerable uncertainty during times of economic downturn, the IYK consumer goods ETF has demonstrated a strong recovery in consumer cyclical securities, strongly matching that of the S&P 500 index. Year-to-date, consumer goods have returned 16.9% compared to the S&P 500 return of 10.8%. Consumer cyclicals have yielded stronger returns than the overall market, given their realized gains from the current post-lockdown economic recovery. Investors should aim to purchase consumer cyclical securities at the bottom of the business cycle and realize their returns at the top. While the economy has shown strong signs of recovery, many firms in this industry remain undervalued and show price-to-earnings ratios far below the market and industry average. Consumer cyclicals offer value and stability as the retail, automotive, and similar industry sectors demonstrate signs of significant recovery going forward into 2021 after a volatile year in 2020.

Porter Analysis

Threat of New Entrants (Score: 2)

The threat of new entrants is relatively low given the ability to compete once capital is secured. In order to compete with consumer cyclical companies, a new entrant must be able to raise significant capital in order to establish economies of scale and create a significant unique selling point in order to capture considerable market share. Without high amounts of capital, new manufacturers are unable to lower price points in order to attract buyers and therefore unable to compete with most consumer cyclicals. In the case of Hanesbrands, the threat of new entrants is low given HBI's backwards integration and strong supply chain, enabling it to significantly lower its manufacturing costs.

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In the case of substitutes, the level varies from sub industry to another. In the case of automotives, there is a high potential for substitution through public transportation, carpooling, ridesharing, taxi services, and walking. However, in industries such as homebuilding and apparel, there are little to no alternatives that threaten the industry. In the case of economic downturn, consumers are more likely to save their disposable income rather than opt to renovate their home, purchase a new or higher end car, or purchase new clothing. In the case of Hanesbrands, there are limited substitutes to underwear, activewear, and other clothing items.

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In the consumer cyclical industry, supplier power is relatively low and oftentimes insignificant as manufacturers constantly aim to lower their cost of goods sold. This is even more true when looking at the apparel industry, in which many large manufacturers and retailers have chosen to backwards integrate supply chains and manufacturing in order to further lower costs. Many consumer cyclical firms also choose to manufacture products in foreign markets, opting for lower labor costs and often providing suppliers with a small fraction of profits.

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SWOT Analysis

Strengths

The strengths of large-scale apparel manufacturing are the stability of the overall market and the lack of need for technological advancement in the industry. Companies such as Hanesbrands are not defensive against economic shocks and depressions, but they are able to effectively price their products at an attractive level. This industry makes attractive product offerings, resulting in an increase in revenue that will match increasing consumer confidence going into 2021.

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The consumer cyclical and specifically, the apparel industry, are highly susceptible to buyer power. Competition is significant and any price increase or price drop by competitors can make the given company’s products less desirable. This sector also has a high amount of imports, making it highly exposed to currency fluctuations. It is ideal for U.S.-based companies that the U.S. dollar remains strong and that their accounts payable are denominated in a weaker currency. This sector also faces the issue of low profit margins when compared to other economic sectors. In order to remain profitable, consumer cyclicals need to establish economies of scale and continue to lower their cost of goods sold.

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Consumer cyclicals such as Hanesbrands can utilize heightened sales growth as the economy recovers from early shutdowns related to the COVID-19 pandemic. Consumer cyclicals were hurt early on due to supply chain issues and high manufacturing costs. This presents itself as an opportunity for consumer cyclicals and other industries involving manufacturing to backwards integrate and lower future production costs.

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The threats to the consumer cyclical industry include low revenue growth through the years preceding 2020, signaling a mature industry. There are also low performance drivers which will likely rule out strong future growth after a pandemic-related recovery. While this industry can often provide a safer investment environment than other sectors, it is liable to be strongly affected by consumer spending and a potential further economic decline related to COVID-19 shutdowns. As consumers prepare for another potential round of lockdowns in the United States and abroad, they may elect to increase their savings rather than spend on discretionary items. As the industry reaches peak maturity levels, all firms within the industry should look to establish a unique selling point in order to grow or sustain current revenues.

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Stock Screens

Our approach is to invest in companies that we believe have the most favorable outlook given current economic conditions and expectations. We divided our investment criteria in order to create the appropriate screens to maximize portfolio performance. All companies that we invest in, as previously stated in our IPS, are large-cap value stocks with a market capitalization value of over $10 billion. We believe that this value appropriately reflects the portfolio risk tolerance, which we aim to keep to a moderate degree. Additionally, all companies are listed on U.S. stock exchanges and each screen criteria incorporates the industry sector in order to act in accordance with our industry analysis. We believe that healthcare, technology, consumer defensive, consumer staples, and energy are potential value opportunities, since companies in these sectors are undervalued according to our valuation metrics.

Healthcare Industry – Anthem (ANTM) and Medtronic (MDT)

Name	Dvd Yld	Market Cap	BEst P/E BF12M
medtronic, anthem, dana	<3	>750	<40
Refined Universe (6)	0.88%	120.72B	21.35
31) DANAHER CORP	0.30%	174.37B	34.26
32) ABBOTT LABORATORIES	1.30%	202.79B	26.14
33) MEDTRONIC PLC	1.95%	139.23B	23.70
34) HUMANA INC	0.56%	57.24B	20.30
35) CIGNA CORP	0.04%	72.78B	10.61
36) ANTHEM INC	1.12%	77.92B	13.09

Source: Bloomberg

Technology Industry – Dropbox (DBX), Ciena (CIEN), and CACI (CACI)

Matching Stocks 1-5 of 5 results Add to Portfolio

Results were generated a few mins ago. Pricing data is updated frequently. Currency in USD

Symbol	Name	Price (Intraday)	Change	% Change	Volume	Avg Vol (3 month)	Market Cap	PE Ratio (TTM)	52 Week Range
SNX	SYNNEX Corporation	147.48	+1.33	+0.91%	158,569	342,442	7.602B	15.56	52.06 – 156.36
CIEN	Ciena Corporation	42.30	+1.00	+2.42%	1.571M	2.373M	6.528B	17.55	33.58 – 61.52
CACI	CACI International Inc	226.45	-3.51	-1.53%	164,778	188,298	5.711B	16.63	156.15 – 288.59
XRX	Xerox Holdings Corporation	19.16	+0.12	+0.63%	2.87M	2.839M	3.801B	4.52	14.22 – 39.47
NSIT	Insight Enterprises, Inc.	65.49	+0.59	+0.91%	140,840	247,717	2.299B	14.33	28.25 – 73.22

Source: Yahoo Finance

Consumer Defensive Industry – Anheuser Busch InBev (BUD)

HEINY	Heineken N.V.	54.74	-0.09	-0.16%	18,452	156,698	63.129B	26.62	37.43 – 57.57
ABEV	Ambev S.A.	2.9100	+0.0400	+1.39%	25.385M	23.459M	44.41B	16.53	1.90 – 4.75
FMX	Fomento Económico Mexicano, S.A.B. de C.V.	73.23	+2.73	+3.87%	598,240	641,458	26.203B	32.12	53.91 – 98.06
SAM	The Boston Beer Company, Inc.	963.45	+17.23	+1.82%	128,958	126,680	11.795B	68.61	293.02 – 1,000.00
TAP	Molson Coors Beverage Company	45.13	+0.21	+0.47%	2.383M	2.494M	9.784B	16.78	32.11 – 61.84
CCU	Compañía Cervecerías Unidas S.A.	14.38	-0.16	-1.10%	278,953	273,830	2.572B	5.68	10.73 – 20.22

Source: Yahoo Finance

Consumer Staples Industry – Kraft Heinz (KHC) and Hanesbrands (HBI)

Name	Market Cap↓	P/E	Market Cap	Price:D-1	Total Return YTD	Revenue T12M
	<Enter Filter>		<Enter Filter>			
Investable Universe (1)	4.34B	7.98	4.34B	12.45	-12.08	6.61B
31) HANESBRANDS INC	4.34B	7.98	4.34B	12.45	-12.08	6.61B

Name	P/E↓	Market Cap	Market Cap	Price:D-1	Total Return YTD	Revenue T12M
	<Enter Filter>					
Investable Universe (5)	10.83	39.64B	39.64B	41.83	-10.59	71.48B
31) TYSON FOODS INC-CL A	11.88	22.71B	22.71B	62.35	-30.16	42.61B
32) KRAFT HEINZ CO/THE	11.17	38.65B	38.65B	31.61	2.83	25.78B
33) KROGER CO	11.02	24.89B	24.89B	32.14	13.25	128.91B
34) WALGREENS BOOTS ALLIANCE...	10.88	36.98B	36.98B	42.71	-25.23	139.54B
35) ALTRIA GROUP INC	9.22	74.95B	74.95B	40.33	-13.63	20.59B

Energy Industry – Cheniere (LNG) and Marathon Petroleum Corp. (MPC)

Name ↓	Dvd Yld	Market Cap	P/E
lng, mpc, pba, psxp			
Refined Universe (4)	6.94%	14.62B	10.54
31) PHILLIPS 66 PARTNERS LP	13.97%	5.70B	6.43
32) PEMBINA PIPELINE CORP	8.13%	12.93B	12.24
33) MARATHON PETROLEUM CORP	5.66%	26.50B	
34) CHENIERE ENERGY INC	0.00%	13.35B	12.95

Source: Bloomberg

Individual Stock Reports

Medtronic PLC (Ticker: MDT)

Market Cap: $149.23 Billion

52 Week Range: $72.13 - $122.15

Price Target (12M): $135.54

Company Overview

Medtronic Plc is an American Irish-domiciled medical device company that generates the majority of its sales and profits from the U.S. healthcare system, but is headquartered in the Republic of Ireland for tax purposes. MDT was founded in 1949 and serves hospitals, physicians, clinicians, and patients in more than 150 countries worldwide. Medtronic has an operational and executive headquarters in Fridley, Minnesota in the U.S. MDT is a maker of products that include those for cardiac rhythm disorders, cardiovascular disease, advanced and general surgical care, respiratory and monitoring solutions, renal care, neurological disorders, and diabetes medication. The company makes defibrillators and pacemakers that issue electrical impulses to keep hearts beating normally. MDT employs over 100,000 people and is led by CEO Geoff Martha.

Medtronic divides its business into four segments that develop, manufacture, distribute, and sell device-based medical therapies and services. In terms of strategies, the company ensures products and services by; Therapy Innovation: delivering a strong launch cadence of therapies and procedures, Globalization: addressing the inequity in healthcare access globally, Economic Value: becoming a leader in value-based healthcare by offering new services and solutions to improve outcomes and efficiencies, lower costs by reducing hospitalizations, and increase patient engagement. MDT's success depends on its ability to develop, acquire and market new products, technologies and intellectual property. As a result, the company also faces competition for marketing, distribution, and collaborative development agreements and licenses to intellectual property. In an effort to continue to compete effectively, the company continues to create, invest in or acquire advanced technology, obtain regulatory approvals in a timely manner, and manufacture and successfully market its products. In response to the COVID-19 pandemic, Medtronic introduced new solutions to aid and track patients for COVID-19. The company utilized Virtual Care Evaluation (VCE) and monitoring solutions accessible to U.S. health systems, health plans, and employers. We believe that these solutions will avert and minimize dilemmas for severely ill patients, employees, and customers.

In early 2019, MDT bought EPIX Therapeutics, which manufactures the DiamondTemp cardiac ablation system that has been granted approval in Europe. The company aims to use the acquisition to build up its portfolio of devices that treat heart arrhythmias. Additionally, MDT acquired Titan Spine, which opens opportunities to combine screws, rods, biologics, and allowing technologies to navigate and develop integrated procedural solutions. By the end of 2020, Medtronic plans to acquire Medicare, known for the transformation of spinal surgery utilizing artificial intelligence in terms of executing specific implants and predictive modeling.

Our investment thesis centers around the fact that Medtronic is an undervalued company, as it has seen a significant turnaround in performance over the last year. This can be attributed to recent margin expansion and sales growth stemming from companywide restructuring. The company's current business segments will be reorganized into Operating Unites (OUs) based on specific therapy areas. We believe this will aid in eliminating agency costs with incentives for management to succeed. While COVID-19 has presented some headwinds, MDT has benefited from the diversity of its end markets, mix of product lines, and the faster recovery that has benefitted all names in MedTech. Additionally, Medtronic's strong balance sheet enables it to weather the pandemic until medical procedure volumes return. MDT has $10.9 billion in cash & equivalents and a .99 cash ratio, illustrating its ability to pay for any short-term liabilities in cash. MDT is expected to experience substantial deleveraging in the near term as the company begins to prioritize its ability to return to growth post COVID-19. When coupled with expected pipeline updates for 2021Q4, we are bullish on Medtronic's outlook and believe it will significantly outperform its industry peers. Potential downside risks for Medtronic include: slower growth and increased competition in core end markets, slower than anticipated adoption of new technologies, and poor deployment of capital and lack of free-cash-flow (FCF) generation.

Historical 5 – Year Performance: Medtronic PLC vs. S&P 500 Value Index

Source: Bloomberg

Medtronic performed in line with the S&P 500 until the outbreak of COVID-19 in March, when the S&P significantly outperformed Medtronic. The S&P 500 is heavily dominated by large-cap technology stocks that have experienced significant appreciation since the onset of COVID-19. According to Bloomberg, the S&P 500 is inflated due to overvaluations in the technology industry, which has weakened the S&P 500's ability to be used as a benchmark. When MDT is compared to the S&P 500 Value Index, it is evident that they performed in line with each other until March, when MDT began to outpace the value index.

Valuation

Normalization Against S&P 500 Index (as of 11/13/20 market close)

	P/E	P/S	P/CF	P/B
Medtronic US Equity Historical Multiple	23.90	4.12	18.52	2.66
Benchmark Historical Multiple	20.48	2.06	12.16	3.10
Ratio	1.17	2.00	1.52	0.86
Benchmark Current Multiple	27.94	2.65	15.21	3.91
Implied Medtronic US Equity Multiple	32.60	5.29	23.16	3.36
Per Share Values	2.88	21.57	5.40	37.44
Implied Share Price	$94.03	$114.10	$124.97	$125.83
Average Implied Share Price	**$114.73**			
Current Share Price	$112.27			
Premium to Current Price	**2.2%**			

Public Companies Comparable Analysis (as of 11/13/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
SYK US Equity	Stryker Corp	$231.28	$86.91	37.49x	6.10x	31.26x	6.69x
DHR US Equity	Danaher Corp	$234.62	$166.67	59.28x	8.14x	32.59x	4.59x
ISRG US Equity	Intuitive Surgical Inc	$750.70	$88.25	92.63x	20.31x	61.97x	9.53x
ABT US Equity	Abbott Laboratories	$111.52	$197.66	55.13x	6.14x	30.38x	6.30x
			Median	57.20x	7.14x	31.93x	6.50x
			Per Share Values	$2.88	$21.57	$5.40	$37.44
			Implied Share Price	$164.98	$154.02	$172.27	$243.19
			Average Implied	**$183.62**			
			Current Share Price	$112.27			
			Premium to Current	**38.86%**			

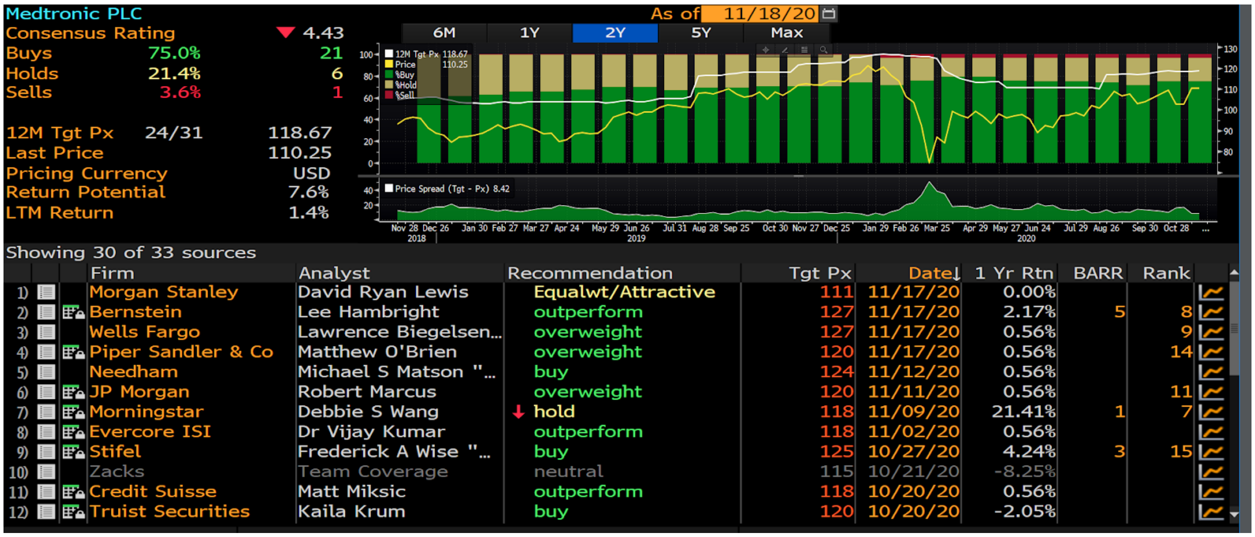
Historical 1 – Year Performance: Medtronic PLC vs. Industry Peers

Source: Bloomberg

Over the past fiscal year, Medtronic has underperformed its peers. We attribute its underperformance to COVID-19 negatively affecting the amount of medical device procedures.

MDT has numerous products deep within its pipeline and when hospitals begin to perform procedures again, Medtronic will experience capital appreciation.

Consensus Analyst Rating (as of 11/13/20 market close)



	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Morgan Stanley	David Ryan Lewis	Equalwt/Attractive	111	11/17/20	0.00%		
2)	Bernstein	Lee Hambright	outperform	127	11/17/20	2.17%	5	8
3)	Wells Fargo	Lawrence Biegelsen...	overweight	127	11/17/20	0.56%		9
4)	Piper Sandler & Co	Matthew O'Brien	overweight	120	11/17/20	0.56%		14
5)	Needham	Michael S Matson "...	buy	124	11/12/20	0.56%		
6)	JP Morgan	Robert Marcus	overweight	120	11/11/20	0.56%		11
7)	Morningstar	Debbie S Wang	hold	118	11/09/20	21.41%	1	7
8)	Evercore ISI	Dr Vijay Kumar	outperform	118	11/02/20	0.56%		
9)	Stifel	Frederick A Wise "...	buy	125	10/27/20	4.24%	3	15
10)	Zacks	Team Coverage	neutral	115	10/21/20	-8.25%		
11)	Credit Suisse	Matt Miksic	outperform	118	10/20/20	0.56%		
12)	Truist Securities	Kaila Krum	buy	120	10/20/20	-2.05%		

Source: Bloomberg

Discounted Cash Flow Analysis

Medtronic Plc	Historical Period			Forecasted Period				
Fiscal Years	2018A	2019A	2020A	2021E	2022P	2023P	2024P	2025P
Revenue	$ 29,953	$ 30,557	$ 28,913	$ 29,780	$ 31,269	$ 33,146	$ 35,217	$ 37,506
% Growth	*1%*	*2%*	*-5%*	*3%*	*5%*	*6%*	*6%*	*6%*
Cost of Goods Sold	$ 8,999	$ 9,057	$ 9,244	$ 10,125	$ 9,381	$ 9,861	$ 10,389	$ 10,971
Gross Profit	**$ 20,954**	**$ 21,500**	**$ 19,669**	**$ 19,655**	**$ 21,889**	**$ 23,285**	**$ 24,828**	**$ 26,536**
% Margin	*70%*	*70%*	*68%*	*66%*	*70%*	*70%*	*71%*	*71%*
Operating Expences								
Selling, General & Admin.	$ 10,238	$ 10,418	$ 10,109	$ 10,125	$ 10,319	$ 10,607	$ 11,093	$ 11,627
Research & Development	$ 2,256	$ 2,330	$ 2,331	$ 2,085	$ 2,126	$ 2,188	$ 2,254	$ 2,325
Other Operating Costs	$ 1,942	$ 1,678	$ 988	$ 1,340	$ 1,345	$ 1,359	$ 1,373	$ 1,388
EBITDA	**$ 6,518**	**$ 7,074**	**$ 6,241**	**$ 6,105**	**$ 8,099**	**$ 9,132**	**$ 10,107**	**$ 11,196**
% Margin	*22%*	*23%*	*22%*	*21%*	*26%*	*28%*	*29%*	*30%*
Depreciation & Amortization	$ (2,644)	$ (2,659)	$ (2,663)	$ (2,654)	$ (2,796)	$ (2,990)	$ (3,155)	$ (3,366)
EBIT	**$ 3,874**	**$ 4,415**	**$ 3,578**	**$ 3,451**	**$ 5,303**	**$ 6,141**	**$ 6,952**	**$ 7,830**
Taxes	$ (2,580)	$ (547)	$ 751	$ (455)	$ (711)	$ (768)	$ (869)	$ (979)
NOPAT	**$ 1,294**	**$ 3,868**	**$ 4,329**	**$ 2,995**	**$ 4,592**	**$ 5,374**	**$ 6,083**	**$ 6,851**
Plus: Depreciation and Amortization	$ 2,644	$ 2,659	$ 2,663	$ 2,654	$ 2,796	$ 2,990	$ 3,155	$ 3,366
Plus: Stock based compensation	$ 344	$ 290	$ 297	$ 310	$ 315	$ 340	$ 361	$ 382
Less: Capital Expenditures	$ (1,068)	$ (1,134)	$ (1,213)	$ (1,139)	$ (1,223)	$ (1,318)	$ (1,375)	$ (1,474)
Less: Increase in NWC	$ 274	$ (177)	$ 561	$ (528)	$ 52	$ (200)	$ (373)	$ (322)
Unlevered Free Cash Flow	**$ 3,488**	**$ 5,506**	**$ 6,637**	**$ 4,293**	**$ 6,532**	**$ 7,185**	**$ 7,851**	**$ 8,803**
WACC	*7.3%*							
Discount Period				0.5	1.5	2.5	3.5	4.5
Discount Factor				0.97	0.90	0.84	0.78	0.73
Present Value of Free Cash Flows				**$ 4,145**	**$ 5,877**	**$ 6,025**	**$ 6,135**	**$ 6,411**

Case Running: **Upside**	**2018A**	**2019A**	**2020A**	**2021E**	**2022P**	**2023P**	**2024P**	**2025P**
Revenue Growth				3%	5%	6%	6%	7%
COGS % of Sales				34%	30%	30%	30%	29%
SG&A % of Sales				34%	33%	32%	32%	31%
R&D % of Sales				7%	7%	7%	6%	6%
Other Op. Costs % of Sales				5%	4%	4%	4%	4%
Maintenance Depreciation				9%	9%	9%	9%	9%
Stock based compensation % of Sales				1%	1%	1%	1%	1%
Maintenance Capex				-4%	-4%	-4%	-4%	-4%
Tax Rate				13%	13%	13%	13%	13%

Enterprise Value		
NPV of FCF	**$**	**28,593.22**
Terminal Value		
Termal Year EBITDA	$	11,195.6
Exit Multiple		20x
Terminal Value	**$**	**223,912.54**
Discount Factor		0.73
PV of Terminal Value	$	163,072.10
% of Enterprise Value		85%
Enterprise Value	$	191,665.33

Implied Equity Value per Share		
Enterprise Value	$	191,665.33
Less Total Debt	$	(28,690.00)
Less Preferred Stock	$	-
Less Noncontrolling interest	$	(17.00)
Plus Cash and Cash Equivalents	$	6,499.00
Implied Equity Value	**$**	**169,457.33**
Shares Outstanding		1,350
Price Per Share	**$**	**125.52**

	EV - Exit Multiple Method									
	Exit Mulitple									
		18x		19x		20x		21x		22x
6.3%	$	182,399.78	$	190,904.28	$	199,408.77	$	207,913.27	$	216,417.77
6.8%	$	178,834.57	$	187,161.37	$	195,488.16	$	203,814.95	$	212,141.75
7.3%	$	175,358.11	$	183,511.72	$	191,665.33	$	199,818.93	$	207,972.54
7.8%	$	171,967.77	$	179,952.57	$	187,937.37	$	195,922.17	$	203,906.97
8.3%	$	168,661.01	$	176,481.26	$	184,301.50	$	192,121.75	$	199,941.99

	PX - Exit Multiple to WACC									
	Exit Mulitple									
		18x		19x		20x		21x		22x
6.3%	$	118.66	$	124.96	$	131.26	$	137.56	$	143.86
6.8%	$	116.02	$	122.19	$	128.36	$	134.52	$	140.69
7.3%	$	113.44	$	119.48	$	125.52	$	131.56	$	137.60
7.8%	$	110.93	$	116.85	$	122.76	$	128.68	$	134.59
8.3%	$	108.48	$	114.28	$	120.07	$	125.86	$	131.65

The four forms of valuation used illustrate that Medtronic is currently trading at a significant discount to fair value. The S&P 500 normalization approach yielded an average implied share price of $114.73, indicating a 2.2% premium to current market price. Our comparable analysis depicted an average implied share price of $183.62. This share price gave us a premium to current of 38.86%. We also decided to consider the consensus analyst rating of $118.29 when constructing MDT's target price. The final valuation method we used was a DCF. In our DCF, we used a conservative growth rate for 2021E due to the uncertainties caused by COVID-19, however, we projected that MDT's revenue would grow at a CAGR of approximately 5% through 2025. Our DCF yielded a price per share of $125.52. Taking all of the valuation methods into equal consideration, we arrive at a price target of $135.54.

Valuation Summary			
Method	**Implied Price**		**Weight**
DCF	$	125.52	25.00%
Analyst Recommendations	$	118.29	25.00%
Normalization	$	114.73	25.00%
Comps	$	183.62	25.00%
Implied Share Price:	**$**	**135.54**	
Current Share Price:	$	112.39	
Premium to Current:		21%	

Anthem Inc (Ticker: ANTM)

Market Cap: $77.56 Billion

52 Week Range: $171.03 - $338.20

Price Target (12M): $359.03

Company Overview

Anthem Inc. (ANTM) is a provider of life, hospital, and medical insurance plans in the United States. It is the largest for-profit managed health care company in the Blue Cross Blue Shield (BCBS) Association - a federation of 36 separate United States health insurance companies that provide health insurance in the United States to more than 106 million people. Anthem is ranked 29th on the *Fortune 500*, an annual list that ranks 500 of the largest United States corporations by total revenue. Prior to 2014, Anthem operated under the name WellPoint, Inc. The company was formed by the 2004 merger of WellPoint, based in California, and Anthem, based in Indianapolis, after both companies acquired several health insurance companies. Anthem offers a broad spectrum of network-based managed care health benefit plans to the large and small employer, individual, Medicaid, and Medicare markets. The company operates through the following segments: Commercial & Specialty Business, Government Business and other. The Government Business segment includes Medicare and Medicaid businesses, national government services and services provided to the federal government in connection with federal employee programs. ANTM employs over 70,000 people and is led by President and CEO Gail Koziara Boudreaux. Ms. Boudreaux is an incredibly experienced and skilled leader and has vast knowledge of the healthcare industry. Before Anthem, she served as an executive for a number of companies such as Aetna, BlueCross BlueShield of Illinois, and UnitedHealth Group.

ANTM is considered to be a differentiator in the healthcare industry. We based our investment thesis for Anthem off of the following catalysts. Anthem owns the most recognizable national brand and operates with leading market share in its commercially licensed BCBS markets. ANTM's new CEO, Ms. Boudreaux, strikes us as creative, credible, collaborative, and engaged – we believe there is plenty of room for sales to improve. Its NFP Blue insurance profitability improved across all lines of business in 2017, 2018, and 2019. ANTM is also structurally insulated by its exclusive state licenses. With Anthem accelerating the rollout of IngenioRX -

ANTM's pharmacy benefit manager – by nine months, we believe it should recognize a significant rate of return. Additionally, Anthem now offers Beacon Health Options, a behavioral healthcare provider. There is a significant opportunity with individuals becoming increasingly aware of mental health issues and embracing the need for counseling from mental health professionals. The behavioral therapists and services market have a projected CAGR of 3.6%. Lastly, Anthem has an extremely strong balance sheet, as its short-term assets ($46.8B) exceed both short-term ($28.5B) and long-term liabilities ($25.05B) Based off of the aforementioned catalysts, we believe that Anthem is extremely undervalued by the market. Our valuation of Anthem is illustrated below.

The primary risk associated with ANTM is that medical cost trends could accelerate unexpectedly. Over the past few years, the overall medical cost trends have remained benign relative to historical trends. Any material uptick in trends could adversely impact ANTM's operating income. A secondary risk associated with ANTM involves the potential introduction of legislation regulating the healthcare market at a federal level. However, as previously explained, Anthem is positioned to outperform its peers in case such a scenario does occur, due to its capital resources, industry expertise, and highly qualified management. Overall, we view Anthem as a valuable addition to our portfolio due to its ability to withstand systematic corrections and volatility in both the healthcare industry and broader market.

Historical 5 – Year Performance: Anthem Inc vs. S&P 500 Value Index

Source: Bloomberg

Over the past five years, Anthem has significantly outpaced the S&P 500 Value Index. We believe this can be attributed to an aging baby boomer population that requires more medical care, as well as the Affordable Care Act.

Valuation

Normalization Against S&P 500 Index (as of 11/13/20 market close)

	P/E	P/S	P/CF	P/B
Anthem US Equity Historical Multiple	15.22	0.58	12.89	1.87
Benchmark Historical Multiple	20.48	2.06	12.16	3.10
Ratio	0.74	0.28	1.06	0.60
Benchmark Current Multiple	27.94	2.65	15.21	3.91
Implied Anthem US Equity Multiple	20.76	0.74	16.13	2.37
Per Share Values	22.73	400.36	23.28	135.99
Implied Share Price	$471.80	$298.22	$375.57	$321.73
Average Implied Share Price	**$366.83**			
Current Share Price	$332.11			
Premium to Current Price	**10.5%**			

Public Companies Comparable Analysis (as of 11/13/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
HUM US Equity	Humana Inc	$434.59	$57.51	17.01x	0.77x	9.80x	3.65x
CNC US Equity	Centene Corp	$68.65	$39.80	13.75x	0.36x	24.90x	1.55x
ABT US Equity	Abbott Laboratories	$111.52	$197.66	55.13x	6.14x	30.38x	6.30x
CI US Equity	Cigna Corp	$220.06	$79.50	14.79x	0.52x	9.21x	1.66x
			Median	15.90x	0.65x	17.35x	2.65x
			Per Share Values	$22.73	$400.36	$23.28	$135.99
			Implied Share Price	$361.43	$258.40	$404.00	$360.89
			Average Implied	**$346.18**			
			Current Share Price	$332.11			
			Premium to Current	**4.06%**			

Consensus Analyst Rating (as of 11/18/20 market close)

	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Bernstein	Lance Arthur Wilkes	outperform	400	11/18/20	12.21%	2	
2)	Mizuho Securities	Ann Hynes	neutral	300	11/17/20	0.00%	3	
3)	BMO Capital Markets	Matthew Borsch	outperform	390	11/16/20	12.21%	2	
4)	Wolfe Research	Justin Lake	outperform	359	11/15/20	12.21%	2	11
5)	Piper Sandler & Co	Sarah E James	overweight	369	11/11/20	12.21%	2	5
6)	Credit Suisse	A J Rice	outperform	355	11/09/20	12.21%	2	
7)	Morningstar	Julie Utterback	buy	370	11/08/20	22.11%	1	1
8)	JP Morgan	Gary P Taylor	overweight	389	11/05/20	12.21%	2	
9)	Zacks	Team Coverage	neutral	344	11/05/20	-1.28%	4	
10)	Barclays	Steven Valiquette	overweight	370	11/04/20	12.21%	2	
11)	Deutsche Bank	George Hill	buy	337	10/30/20	12.21%	2	6
12)	Cowen	Charles Rhyee	outperform	330	10/29/20	12.21%	2	2

Discounted Cash Flow Analysis

Anthem Inc	Historical Period			Forecast Period				
Fiscal Years	2018A	2019A	2020A	2021E	2022P	2023P	2024P	2025P
Revenue	$ 92,311.00	$ 104,146.00	$ 117,277.00	$ 136,041.32	$ 156,447.52	$ 176,785.70	$ 197,999.98	$ 221,759.98
% Growth	2%	13%	13%	16%	15%	13%	12%	12%
Cost of Goods Sold	$ 71,895.00	$ 83,778.00	$ 92,920.00	$ 102,030.99	$ 117,335.64	$ 130,821.41	$ 144,539.98	$ 161,884.78
Gross Profit	**$ 20,416.00**	**$ 20,368.00**	**$ 24,357.00**	**$ 34,010.33**	**$ 39,111.88**	**$ 45,964.28**	**$ 53,459.99**	**$ 59,875.19**
% Margin	22%	20%	21%	25%	25%	26%	27%	27%
Operating Expenses								
Selling, General & Admin.	$ 14,020.00	$ 13,364.00	$ 16,634.00	$ 19,045.78	$ 23,467.13	$ 28,285.71	$ 31,680.00	$ 37,699.20
Research and Devlopment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Operating Costs	$ 336.00	$ 272.00	$ (913.00)	$ (1,617.60)	$ (2,173.13)	$ (2,809.21)	$ (3,542.31)	$ (4,410.91)
Depreciation & Amortization	$ (1,132.00)	$ (1,133.00)	$ (1,110.00)	$ -	$ -	$ -	$ -	$ -
EBITDA	**$ 7,192.00**	**$ 7,865.00**	**$ 9,746.00**	**$ 16,582.14**	**$ 17,817.88**	**$ 20,487.78**	**$ 25,322.31**	**$ 26,586.91**
% Margin	8%	8%	8%	$ 16,582.14	$ 17,817.88	$ 20,487.78	$ 25,322.31	$ 26,586.91
Depreciation & Amortization	$ (1,132.00)	$ (1,133.00)	$ (1,110.00)	$ -	$ -	$ -	$ -	$ -
EBIT	**$ 6,060.00**	**$ 6,732.00**	**$ 8,636.00**	**$ 16,582.14**	**$ 17,817.88**	**$ 20,487.78**	**$ 25,322.31**	**$ 26,586.91**
Taxes	$ 1,318.00	$ 1,178.00	$ 1,770.00	$ 4,543.51	$ 3,652.67	$ 4,199.99	$ 5,191.07	$ 5,450.32
NOPLAT	**$ 7,378.00**	**$ 7,910.00**	**$ 10,406.00**	**$ 21,125.65**	**$ 21,470.55**	**$ 24,687.77**	**$ 30,513.39**	**$ 32,037.23**
Plus: Depreciation & Amortization	$ 1,132.00	$ 1,133.00	$ 1,110.00	$ -	$ -	$ -	$ -	$ -
Plus: Stock based compensation	$ 226.00	$ 294.00	$ 283.00	$ 348.46	$ 406.63	$ 446.31	$ 507.22	$ 568.11
Less: Capital Expenditures	$ 3,988.50	$ 4,852.00	$ 4,852.00	$ (5,948.08)	$ (6,867.17)	$ (7,601.14)	$ (8,620.48)	$ (9,641.28)
Less: Increase in NWC								
Unlevered Free Cash Flow	**$ 12,724.50**	**$ 14,189.00**	**$ 16,651.00**	**$ 15,526.03**	**$ 15,010.01**	**$ 17,532.94**	**$ 22,400.13**	**$ 22,964.06**
WACC	7.50%							
Discount Period				0.5	1.5	2.5	3.5	4.5
Discount Factor				0.96	0.90	0.83	0.78	0.72
Present Value of Free Cash Flows				**$ 14,974.63**	**$ 13,466.92**	**$ 14,633.00**	**$ 17,390.85**	**$ 16,584.81**

Case Running:	Base Case	2017A	2018A	2019A	2020E	2021P	2022P	2023P	2024P
Revenue Growth					16%	15%	13%	12%	12%
COGS % of Sales					75%	75%	74%	73%	73%
Selling & Marketing % of Sales					14%	15%	16%	16%	17%
General & Admin. % of Sales					0%	0%	0%	0%	0%
R&D % of Sales					-1%	-1%	-2%	-2%	-2%
Maintenance Depreciation					0%	0%	0%	0%	0%
Stock based compensation % of Sales					0%	0%	0%	0%	0%
Maintenance Capex					4%	4%	4%	4%	4%
Tax Rate			15%	20%	27%	21%	21%	21%	21%

Enterprise Value	
NPV of FCF	**$ 77,050.22**
Terminal Value	
Termal Year EBITDA	$ 26,586.9
Exit Multiple	10x
Terminal Value	**$ 255,899.01**
Discount Factor	0.72
PV of Terminal Value	$ 184,812.15
% of Enterprise Value	71%
Enterprise Value	**$ 261,862.37**

Implied Equity Value per Share	
Enterprise Value	$ 261,862.37
Less Total Debt	$ (45,725.00)
Less Preferred Stock	$ -
Less Noncontrolling interest	$ -
Plus Cash and Cash Equivalents	$ 25,635.00
Implied Equity Value	**$ 241,772.37**
Shares Outstanding	678
Price Per Share	**$ 356.60**

EV _ Exit Multiple Method

	Exit Multiple				
	7.6x	8.6x	9.6x	10.6x	11.6x
5.5%	$ 240,244.14	$ 261,138.63	$ 282,033.12	$ 302,927.61	$ 323,822.10
6.5%	$ 231,645.44	$ 251,671.46	$ 271,697.48	$ 291,723.49	$ 311,749.51
7.5%	$ 223,459.84	$ 242,661.10	$ 261,862.37	$ 281,063.63	$ 300,264.89
8.5%	$ 215,663.59	$ 234,081.23	$ 252,498.87	$ 270,916.52	$ 289,334.16
9.5%	$ 208,234.48	$ 225,907.24	$ 243,580.00	$ 261,252.76	$ 278,925.51

PX - Exit Multiple to WACC

	Exit Multiple				
	7.6x	8.6x	9.6x	10.6x	11.6x
5.5%	$ 324.71	$ 355.53	$ 386.35	$ 417.16	$ 447.98
6.5%	$ 312.03	$ 341.57	$ 371.10	$ 400.64	$ 430.18
7.5%	$ 299.96	$ 328.28	$ 356.60	$ 384.92	$ 413.24
8.5%	$ 288.46	$ 315.62	$ 342.79	$ 369.95	$ 397.12
9.5%	$ 277.50	$ 303.57	$ 329.63	$ 355.70	$ 381.76

The four forms of valuation used illustrate that Anthem is currently trading at a significant discount to fair value. The S&P 500 normalization approach yielded an average implied share price of $366.83 indicating a 10.5% premium to current market price. Our comparable analysis depicted an average implied share price of $346.18. We also decided to consider the consensus analyst rating of $348.42 when constructing ATM's target price. The final valuation method we used was a DCF. In our DCF, we used a conservative growth rate for 2021E due to the uncertainties caused by COVID-19. Our DCF yielded a price per share of $356.00. Taking all of the valuation methods into equal consideration, we arrive at a price target of $135.54.

Valuation Summary		
Method	**Implied Price**	**Weight**
DCF - Base	$ 356.60	25.00%
Analyst Recommendations	$ 348.42	25.00%
Normalization	$ 366.83	25.00%
Comps	$ 346.18	25.00%
Implied Share Price:	**$ 354.51**	
Current Share Price:	$ 332.11	
Premium to Current:	7%	

CACI Inc (Ticker: CACI)

Market Cap: $6.00 Billion

52 Week Range: $156.15 - $288.59

Price Target (12M): $271.58

Company Overview

CACI International INC. is an Arlington, Virginia-based information technology service that deals mostly in government contracting specifically with the defense, intelligence, healthcare, and homeland security branches. Its extensive product portfolio includes a multitude of services from robotic process automation, to secured cloud solutions, to artificial intelligence and deep learning. The emphasis on trade with the government is especially visible not only in the amount of business CACI does with these divisions of the federal government, but also in their mission state in which it states "CACI's mission is to be a leader in providing the information solutions and services America needs to defeat global terrorism, secure homeland and improve government services." In recent years, and with a potential shift in power due to the upcoming election, CACI has looked to the final portion of its mission statement, by expanding its role not only in the defense and homeland security divisions, but reaching farther into the intelligence and healthcare divisions. This can especially be seen with its recent acquisition history which focuses more on universal services and products than on defense specific products. Specifically, the increased interest of CACI in cloud computing, and artificial intelligence.

CACI has made a recent push to transition from not only being a service- based business, but to also include the company's capabilities around intelligence products and solutions as means of expansion within the sector. In addition to internal research, CACI does a large portion of its growth in the form of acquisitions having acquired 36 individual companies since 2002. Most recently, CACI has acquired LGS Innovations, MooD International Software Limited, and Next Century Corporations. LGS Innovations is primarily in the business of C4ISR and cyber products, while MooD international Software Limited provides businesses a living operating model for making strategic decisions on complex issues, and Next Century Corporations deals in providing a variety of software including cloud computing and other software aimed at national security and corporate security.

CACI estimates its total addressable market can be broken into two sections: expertise and technology. Under technology, its software and hardware capabilities is ~$90 billion with a 5-year CAGR of ~3%. Additionally, CACI reports "Talent with technical, functional, and domain knowledge" has a market potential of ~$145 billion and a CAGR of ~1% according to its FY2021 projections. This illustrates the extensive market potential for CACI, combined with the stability of being a government-contracted company gives CACI both a high floor, and high ceiling.

CACI International INC. largest risk factor is that it is highly dependent on government contracts as their dominant consumer. In the first quarter of 2020 alone, CACI was awarded $1.8 billion in government contracts, many of which were multiyear deals. If government funding is reduced to the departments which CACI served, CACI may be at risk of losing profits. With the current election cycle leading to a potential flip of the presidency and or the Senate, not only could corporate tax structure shift, but the allocation of government spending may shift as well, likely away from military and defense spending. Fortunately for CACI, the bulk of its revenue in of the next few years is virtually guaranteed in long term contracts which reduces short term risk.

Additionally, CACI has made recent efforts to introduce itself more in the private sector with a number of its products being designed developed with this potential change in mind.

Historical 5 – Year Performance: CACI International Inc vs. S&P 500 Value Index

Source: Yahoo Finance

Over the past five years, CACI has significantly outperformed the S&P 500 Value index, as seen above. The SPYV has a low concentration of technology stocks, so we believe that is the reason for the relative discrepancy.

Valuation

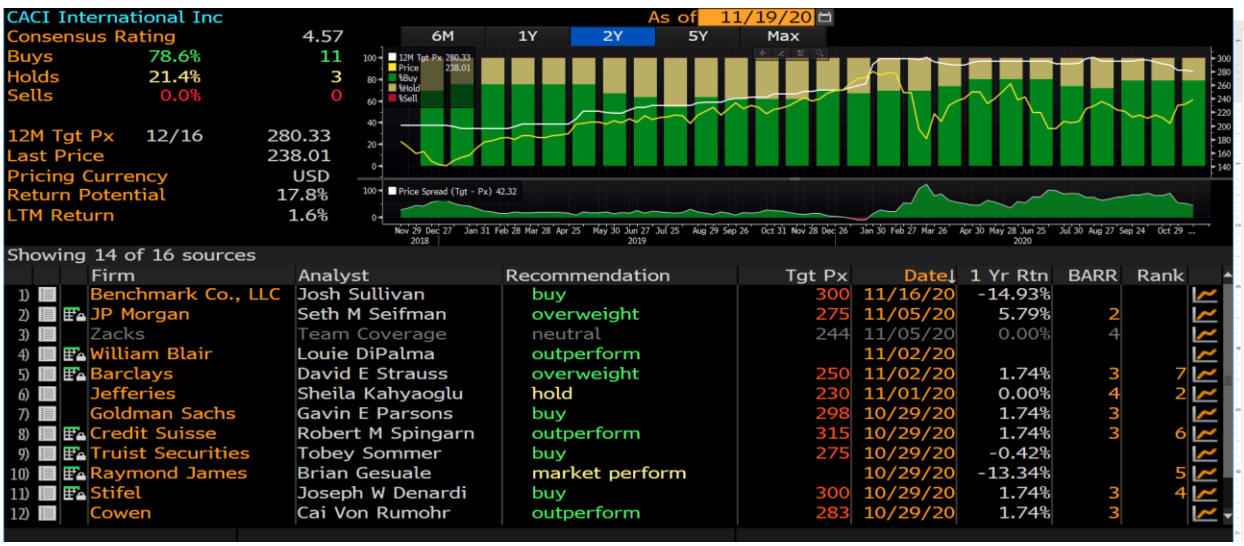
Normalization Against S&P 500 Index (as of 11/13/20 market close)

	P/E	P/S	P/CF	P/B
Caci US Equity Historical Multiple	17.81	0.78	10.01	1.77
Benchmark Historical Multiple	20.47	2.06	12.15	3.10
Ratio	0.87	0.38	0.82	0.57
Benchmark Current Multiple	27.82	2.64	15.12	3.90
Implied Caci US Equity Multiple	24.20	0.99	12.45	2.23
Per Share Values	13.69	228.52	20.72	110.40
Implied Share Price	$331.32	$226.98	$258.04	$246.63
Average Implied Share Price	**$265.74**			
Current Share Price	$238.26			
Premium to Current Price	**11.5%**			

Public Comparable Companies Analysis (as of 11/13/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
ACN US Equity	Accenture Plc-Cl A	$239.73	$152.11	31.53x	3.44x	18.57x	8.95x
CGEMY US Equity	Capgemini Se - Unsponsor /	$27.37	$23.19	ɜld Not Ap	ɜld Not Ap	ɜld Not Ap	ɜld Not Applicab
INFY US Equity	Infosys Ltd-Sp Adr	$14.99	$63.85	ɜld Not Ap	ɜld Not Ap	ɜld Not Ap	ɜld Not Applicab
BAH US Equity	Booz Allen Hamilton Holdir	$88.10	$12.15	25.46x	1.57x	14.36x	12.51x
			Median	28.49x	2.51x	16.47x	10.73x
			Per Share Values	$13.69	$228.52	$20.72	$110.40
			Implied Share Price	$390.00	$572.86	$341.21	$1,184.66
			Average Implied	**$622.18**			
			Current Share Price	$238.26			
			Premium to Current	**61.71%**			

Consensus Analyst Rating (as of 11/13/20 market close)



	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Benchmark Co., LLC	Josh Sullivan	buy	300	11/16/20	-14.93%		
2)	JP Morgan	Seth M Seifman	overweight	275	11/05/20	5.79%	2	
3)	Zacks	Team Coverage	neutral	244	11/05/20	0.00%	4	
4)	William Blair	Louie DiPalma	outperform		11/02/20			
5)	Barclays	David E Strauss	overweight	250	11/02/20	1.74%	3	7
6)	Jefferies	Sheila Kahyaoglu	hold	230	11/01/20	0.00%	4	2
7)	Goldman Sachs	Gavin E Parsons	buy	298	10/29/20	1.74%	3	
8)	Credit Suisse	Robert M Spingarn	outperform	315	10/29/20	1.74%	3	6
9)	Truist Securities	Tobey Sommer	buy	275	10/29/20	-0.42%		
10)	Raymond James	Brian Gesuale	market perform		10/29/20	-13.34%		5
11)	Stifel	Joseph W Denardi	buy	300	10/29/20	1.74%	3	4
12)	Cowen	Cai Von Rumohr	outperform	283	10/29/20	1.74%	3	

The three forms of valuation used illustrate that CACI is currently trading at a significant discount to faire value. The S&P 500 normalization approach yielded an average implied share price of $265.74, indicating a 11.5% premium to current market price. Our comparable analysis depicted an average implied share price of $622.18. This share price gave us a premium to current of 61.71%. We also decided to consider the consensus analyst rating of $280.33 when constructing CACI's target price. We did not take into account the relative valuation because of the inflated implied share price. Taking the other two valuations into consideration, we arrived at a target price of $271.58, a premium of 14%.

Valuation Summary		
Method	Implied Price	Weight
Analyst Recommendations	$ 280.33	40%
Normalization	$ 265.74	60%
Comps	$ 622.18	0%
Implied Share Price:	**$ 271.58**	
Current Share Price:	$ 238.26	
Premium to Current:	14%	

Ciena Corp. (Ticker: CIEN)

Market Cap: $6.56 Billion

52 Week Range: $30.58 - $61.52

Price Target (12M): $56.54

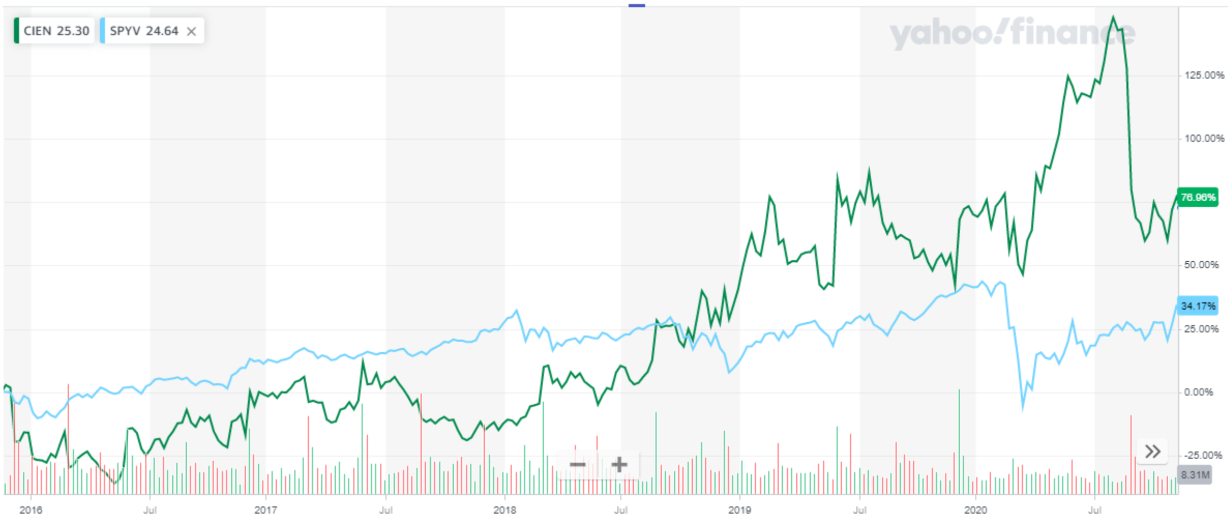
Company Overview

Ciena Corporation is Hanover, Maryland based telecommunication equipment and software service provider, created in 1992 with key customers including AT&T, Deutsche Telekom, Korea Telecom, Sprint Corporation, and Verizon Communication. Ciena corporation's product portfolio includes both the physical network infrastructure including the optical network switches, and routing platforms used to manage data load on the networks, and the software used for programming the communication networks specifically to automate them. In 2019, saw revenues of $3.57 billion, and a healthy net income of $1.26 billion, while serving over 1,500 customers in 80+ countries around the world. CACI is primed for a healthy response to COVID-19 not only its practice and treatment of employees, but CACI has holds a $1 billion cash position allowing it the flexibility to react to potential deals as a number of smaller companies struggle to survive through COVID-19, but also the assurance Ciena will maintain a healthy balance sheet. Although revenue has been similar between Q3 2019, and Q4 2020 at $960.6 million, and $976.7 million respectively, Ciena has seen massive growth as a result of an increase in adjusted operating margin from 16.2% in Q3 2019 to 22.4% in Q3 2020, which has resulted in an adjusted EBITDA from $178 to $241.1 and an adjusted EPS of $0.71 to $1.06. Additionally, Ciena projects a 11.2% 3-year CAGR considering the current COVID-19 conditions. As of 2019, Ciena holds 24% of the market share (China) up from 21.8% in 2018, and 19.3% in 2017, illustrating the growth momentum Ciena has in the industry, combined with the dominance it has as a key player.

In terms of specific products, Ciena launched the WaveLogic 5 modem platform which offers network capacity of up to 800G and will likely be key in the advancement of 5g technologies. Additionally, the automated servicing platform, Blue Planet software, is equipped with the machine learning used to predict and prevent potential issues, while also suggesting actions operators of the network should make in order to resolve the potential issues, which has significantly reduced the number of network outages and disruptions since its inception.

Ciena Corporation's largest risk factor is a potential slow in growth caused by a decreased spending as a result of the pandemic. Spending in this sector is somewhat front-end loaded in Q1, so a slight increase in Q3 is a fantastic sign for Ciena, but some analysts project the sector as a whole may see growth in the low single digits or potentially even flat. As a result, Q1 of 2021 may be a cause for concern for a number of providers in the sector, Ciena Corporation among them as a sector which generally has much higher than single digit growth may suffer later than other industries. The positive side of this, however, is Ciena was able to outperform its competitors in Q3 2020, and saw growth in spite of the pandemic, as a result of increased market share, and higher adjusted operating margins. Although Ciena Corporation may see low growth in terms of earnings in the coming Q1 2021, Ciena may see yet another increase in market share, giving it an overall better position in the long term.

Historical 5 – Year Performance: Ciena Corp. vs. S&P 500 Value Index



Source: Yahoo Finance

As illustrated above, Ciena performed in line with the S&P 500 Value Index from 2016 to 2019, however, CIEN has outperformed the index since then. It is also important to note how well Ciena weathered the storm of COVID-19

Valuation

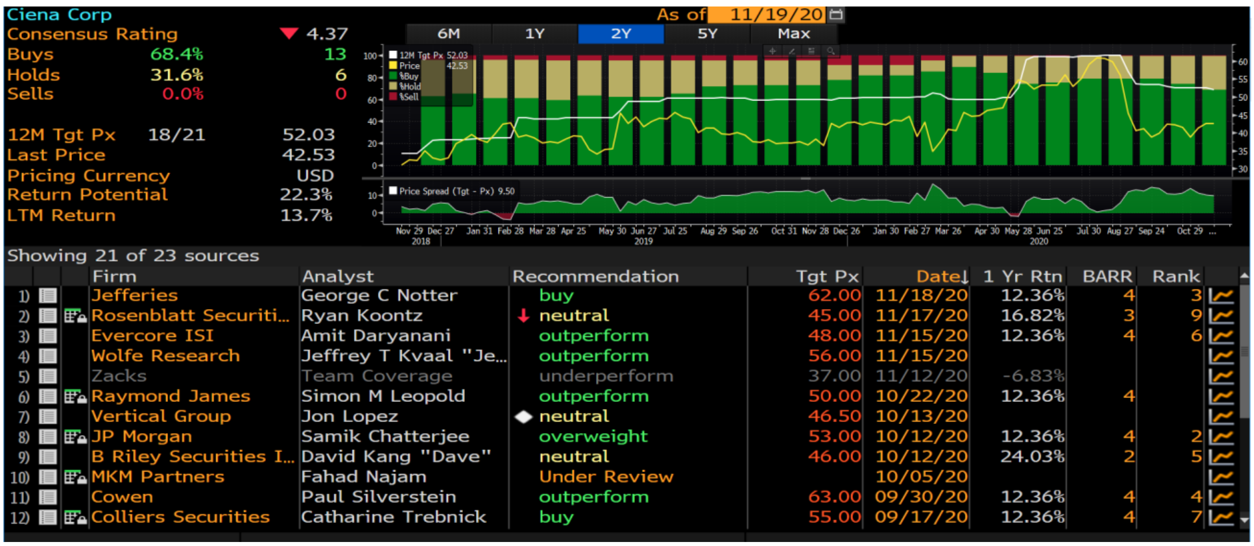
Normalization Against S&P 500 Index (as of 11/13/20 market close)

	P/E	P/S	P/CF	P/B
Ciena US Equity Historical Multiple	31.88	1.33	21.29	3.12
Benchmark Historical Multiple	20.47	2.06	12.15	3.10
Ratio	1.56	0.64	1.75	1.01
Benchmark Current Multiple	27.82	2.64	15.12	3.90
Implied Ciena US Equity Multiple	43.33	1.70	26.50	3.94
Per Share Values	2.51	22.94	2.65	15.74
Implied Share Price	$108.57	$39.01	$70.31	$61.95
Average Implied Share Price	**$69.96**			
Current Share Price	$42.36			
Premium to Current Price	**65.2%**			

Public Comparable Companies Analysis (as of 11/13/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
VSAT US Equity	Viasat Inc	$36.17	$2.44	81.14x	1.01x	3.92x	1.07x
LITE US Equity	Lumentum Holdings Inc	$80.69	$6.09	27.15x	3.62x	11.26x	3.35x
CSCO US Equity	Cisco Systems Inc	$41.32	$174.60	15.64x	3.64x	10.97x	4.57x
JNPR US Equity	Juniper Networks Inc	$21.85	$7.20	22.31x	1.64x	12.46x	1.58x
			Median	24.73x	2.63x	11.11x	2.47x
			Per Share Values	$2.51	$22.94	$2.65	$15.74
			Implied Share Price	$61.96	$60.37	$29.49	$38.80
			Average Implied	**$47.66**			
			Current Share Price	$42.36			
			Premium to Current	**11.11%**			

Consensus Analyst Rating (as of 11/13/20 market close)



The three forms of valuation used illustrate that CIEN is currently trading at a significant discount to fair value. The S&P 500 normalization approach yielded an average implied share price of $69.96, indicating a 65.2% premium to current market price. Our comparable analysis depicted an average implied share price of $47.66. This share price gave us a premium to current of 11.11%. We also decided to consider the consensus analyst rating of $52.03 when constructing CIEN's target price.

Valuation Summary		
Method	Implied Price	Weight
Analyst Recommendations	$ 52.03	33.33%
Normalization	$ 69.96	33.33%
Comps	$ 47.66	33.33%
Implied Share Price:	**$ 56.54**	
Current Share Price:	$ 42.53	
Premium to Current:	33%	

Dropbox Inc. (Ticker: DBX)

Market Cap: $7.83 Billion

52 Week Range: $14.55 - $24.14

Price Target (12M): $26.89

Company Overview

Dropbox Inc. is a San Francisco Based file hosting service launched initially in June 2007 by its founder Drew Houston seeking a more convenient solution than the traditional USB flash drive he used at the time as a student at MIT. Since then, Dropbox has partnered with Android, IOS, macOS, Windows, and Linux to develop more convenient applications in addition to its website interface. The primary source of income for Dropbox Inc. is a freemium business model whereby users are allowed to use Dropbox with limited storage and features for free, but incentivized to upgrade to a subscription service offering much larger cloud storage, advanced sharing control, remote wipe, and extended version history, among other features. Additionally, Dropbox Inc. marketing strategy is designed around a referral system, whereby giving referrals to other individuals who sign up for Dropbox are granted additional storage, which has been morphed into the “Dropbox for Business” service allowing organizations to connect multiple accounts and provide additional features.

Dropbox has seen immense growth since its inception with 1 million users in April 2009 turning to over 600 million users today in 180 countries, with 15.25 million of those being monthly subscribers resulting in $1.661 billion in revenue in 2019. Dropbox sees its increasing product line as its potential for growth in the future with a number of new and updated features and services including Dropbox Vault, Dropbox Family, and HelloSign. Dropbox Vaults gives users added security by designating sensitive files to be shared only with certain trusted contacts, be password or pin protected, and be guarded against third party apps for an additional monthly fee. Dropbox Vault HelloSign is Dropbox's most recent acquisition, and largest to date reported at $230 million. The service allows not only allows users to securely sign, send, and receive documents, but allows an expansion of Dropbox to incorporate the entire end-to-end workflow within Dropbox, an element Dropbox has been seeking to accomplish. Dropbox sees its primary growth drivers as being converting registered users to become paying users, upsell current users, expand the Dropbox ecosystem, and leveraging scale and user insight to enhance existing products. With the current developments being made in HelloFax, HelloSign, and the additions of Dropbox Vault and Dropbox family, Dropbox hopes to accomplish this feat. The potential downsides of Dropbox include slow adoption of new technologies, poor deployment of capital, and a continued ban from China. Since 2014, Dropbox has been banned in China under the "Great Firewall of China" because of the lack of compliance with the Chinese government's content filtering regulations. This reduces the potential market for Dropbox as competitors such as google drive have the availability to expand into the Chinese market, Dropbox continues to hold mostly in western markets.

Historical 5 – Year Performance: Dropbox Inc. vs. S&P 500 Value Index

Source: Yahoo Finance

As illustrated above, Dropbox has experienced substantial depreciation in the last few years. According to Bloomberg, the company is currently undergoing heavy internal reconstruction and analysts seem bullish.

Valuation

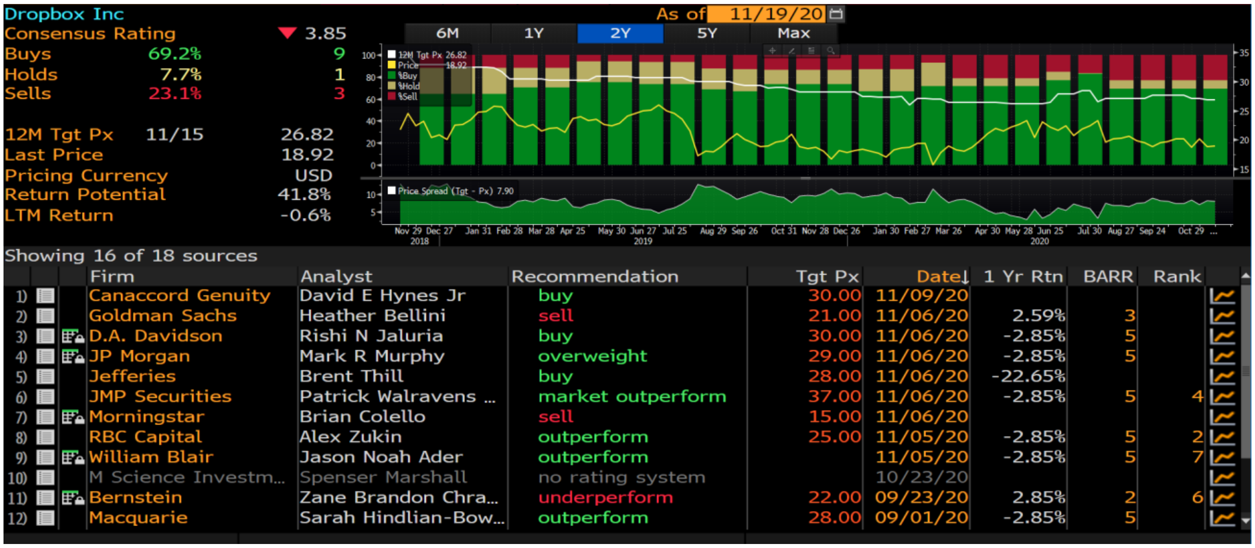
Normalization Against S&P 500 Index (as of 11/13/20 market close)

	P/E	P/S	P/CF	P/B
Dropbox US Equity Historical Multiple	95.75	4.19	14.24	10.44
Benchmark Historical Multiple	20.47	2.06	12.15	3.10
Ratio	4.68	2.03	1.17	3.37
Benchmark Current Multiple	27.82	2.64	15.12	3.90
Implied Dropbox US Equity Multiple	130.11	5.36	17.72	13.16
Per Share Values	0.19	4.04	1.28	2.06
Implied Share Price	$25.04	$21.65	$22.75	$27.08
Average Implied Share Price	**$24.13**			
Current Share Price	$18.43			
Premium to Current Price	**30.9%**			

Public Comparable Companies Analysis (as of 11/13/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
BOX US Equity	Box Inc - Class A	$17.27	$2.70	#N/A N/A	3.55x	22.25x	45.33x
CTXS US Equity	Citrix Systems Inc	$118.99	$14.65	27.16x	4.61x	14.57x	212.71x
GOOGL US Equity	Alphabet Inc-Cl A	$1740.64	$1179.58	36.59x	6.94x	20.93x	5.54x
AMZN US Equity	Amazon.Com Inc	$3105.46	$1558.17	90.94x	4.45x	28.01x	18.68x
			Median	36.59x	4.53x	21.59x	32.00x
			Per Share Values	$0.19	$4.04	$1.28	$2.06
			Implied Share Price	$7.04	$18.29	$27.72	$65.87
			Average Implied	**$29.73**			
			Current Share Price	$18.43			
			Premium to Current	**38.01%**			

Consensus Analyst Rating (as of 11/13/20 market close)



	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Canaccord Genuity	David E Hynes Jr	buy	30.00	11/09/20			
2)	Goldman Sachs	Heather Bellini	sell	21.00	11/06/20	2.59%	3	
3)	D.A. Davidson	Rishi N Jaluria	buy	30.00	11/06/20	-2.85%	5	
4)	JP Morgan	Mark R Murphy	overweight	29.00	11/06/20	-2.85%	5	
5)	Jefferies	Brent Thill	buy	28.00	11/06/20	-22.65%		
6)	JMP Securities	Patrick Walravens ...	market outperform	37.00	11/06/20	-2.85%	5	4
7)	Morningstar	Brian Colello	sell	15.00	11/06/20			
8)	RBC Capital	Alex Zukin	outperform	25.00	11/05/20	-2.85%	5	2
9)	William Blair	Jason Noah Ader	outperform		11/05/20	-2.85%	5	7
10)	M Science Investm...	Spenser Marshall	no rating system		10/23/20			
11)	Bernstein	Zane Brandon Chra...	underperform	22.00	09/23/20	2.85%	2	6
12)	Macquarie	Sarah Hindlian-Bow...	outperform	28.00	09/01/20	-2.85%	5	

The three forms of valuation used illustrate that DBX is currently trading at a significant discount to fair value. The S&P 500 normalization approach yielded an average implied share price of $24.13, indicating a 30.9% premium to current market price. Our comparable analysis depicted an average implied share price of $19.73. This share price gave us a premium to current of 38.01%. We also decided to consider the consensus analyst rating of $26.82 when constructing CIEN's target price.

Valuation Summary		
Method	**Implied Price**	**Weight**
Analyst Recommendations	$ 26.82	33.33%
Normalization	$ 24.13	33.33%
Comps	$ 29.73	33.33%
Implied Share Price:	**$ 26.89**	
Current Share Price:	$ 18.43	
Premium to Current:	46%	

Anheuser Busch InBev (Ticker: BUD)

Market Cap: $112.93 Billion

52 Week Range: $132.58 - $83.54

Price Target (12M): $56.54

Company Overview

The beer and malt beverage industry is very large in the United States, surpassing $15.59 billion in sales per year. Recent consumer trends, however, threaten Anheuser-Busch and its competitors. As consumers seek healthier lifestyles, beer consumption has decreased. In 2018, consumption volume fell by about 2.5%, impacting Anheuser-Busch's sales by 1%. In order to combat this, Anheuser-Busch and its peers have attempted a "premiumization" strategy, in which companies focus on selling higher-priced, higher-margin beers. In an effort to outpace its competitors, Anheuser-Busch has invested heavily in buying out craft beers to appeal to a younger demographic and earn higher margins on their offerings.

Anheuser-Busch's currently holds a 39.9% share of the beer market but has lost nearly 10% of its previous share in the past 10 years. It faces competition from two main American beer companies: Molson Coors and Constellation Brands, which hold about 23% and 11% of market share, respectively. The onset of healthier lifestyle choices and tastes in a wider variety of beers has shifted market dominance from these three main players to smaller breweries, who sell various higher-priced beers. Anheuser-Busch is currently amidst a strategy of buying out smaller breweries in order to corner the market on craft beers.

Additionally, the COVID-19 outbreak has significantly impacted the profit-generating capabilities of Anheuser-Busch. Increased regulations on workplace safety and protocols have raised production costs. Additionally, Anheuser-Busch's large buyers have been buying less frequently, as bars and similar venues have not been operating at the same scale. Though revenues and profit are expected to drop in 2020, many analysts believe that the beer industry will bounce back in the subsequent years, earning steady revenue growth.

Historical 5 – Year Performance: Anheuser Busch InBev vs. S&P 500 Value Index

Source: Yahoo Finance

Over the past five-years, BUD has significantly under performed the S&P 500 Value Index. In addition to the impact of COVID-19, sales declines caused by aggressive cost cutting have negatively impacted BUD stock. With BUD stock is trading near its 52-week low, we believe there is significant value to be had, as BUD is one of the world's largest beer distributor.

Valuation

Discounted Cash Flow Analysis

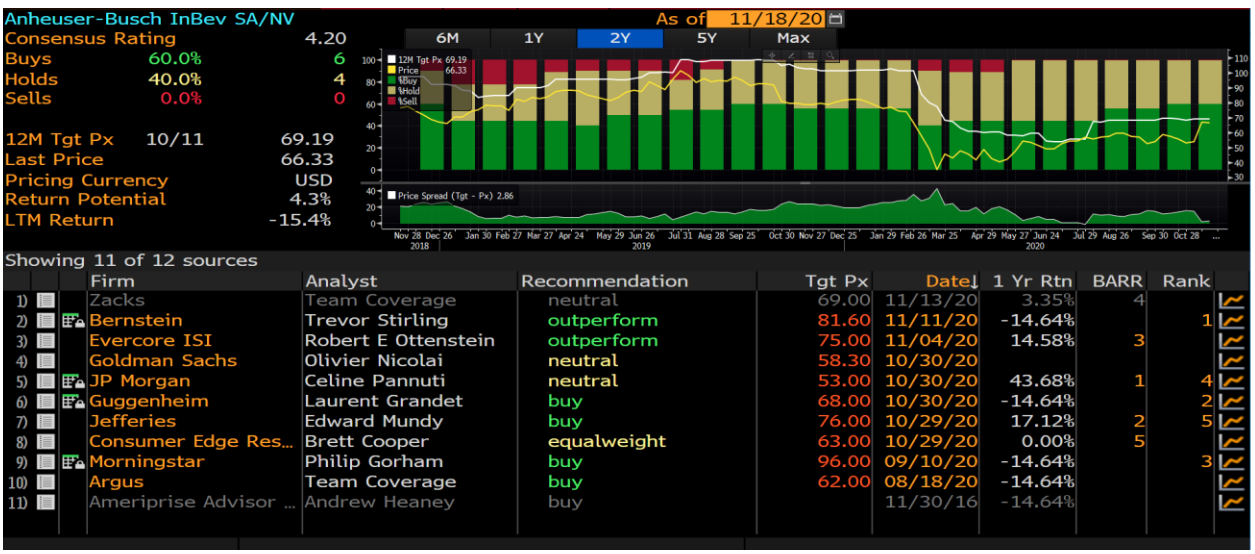
Anheuser-Busch InBev	Historical Period			Forecasted Period				
Fiscal Year	2017A	2018A	2019A	2020P	2021P	2022P	2023P	2024P
Revenues	$ 56,444	$ 53,041	$ 52,329	$ 47,619.39	$ 50,476.55	$ 52,495.62	$ 54,595.44	$ 56,233.30
% Growth		-6%	-1%	-9%	6%	4%	4%	3%
Cost of Goods Sold	$ 21,386	$ 19,933	$ 20,362	$ 18,571.56	$ 19,685.86	$ 20,210.81	$ 20,746.27	$ 20,806.32
Gross Profit	**$ 35,058**	**$ 33,108**	**$ 31,967**	**$ 29,047.83**	**$ 30,790.70**	**$ 32,284.80**	**$ 33,849.17**	**$ 35,426.98**
% Margin	62%	62%	61%	61%	61%	62%	62%	63%
Operating Expenses								
Selling, General, & Administrative	$ 18,099	$ 16,807	$ 16,421	$ 15,436	$ 16,208	$ 16,694	$ 17,195	$ 17,538
Other Operating Costs	$ (854)	$ (805)	$ (875)	$ (788)	$ (835)	$ (868)	$ (903)	$ (930)
EBITDA	**$ 17,813**	**$ 17,106**	**$ 16,421**	**$ 14,400**	**$ 15,418**	**$ 16,459**	**$ 17,557**	**$ 18,818**
% Margin	32%	32%	31%	30%	31%	31%	32%	33%
Depreciation & Ammortization	$ 4,720	$ 4,624	$ 4,657	$ 4,878	$ 4,660	$ 4,835	$ 4,691	$ 4,735
EBIT	**$ 13,093**	**$ 12,482**	**$ 11,764**	**$ 9,522**	**$ 10,758**	**$ 11,624**	**$ 12,866**	**$ 14,083**
Taxes	$ 1,920	$ 2,585	$ 2,786	$ 1,713.89	$ 1,936.43	$ 2,092.35	$ 2,315.97	$ 2,535.03
NOPAT	**$ 11,173**	**$ 9,897**	**$ 8,978**	**$ 7,808**	**$ 8,821**	**$ 9,532**	**$ 10,551**	**$ 11,548**
Plus Depreciation and Ammortization	$ 4,720	$ 4,624	$ 4,657	$ 4,878	$ 4,660	$ 4,835	$ 4,691	$ 4,735
Plus: Stock based compensation	$ 359	$ 353	$ 340	$ 352	$ 356	$ 341	$ 337	$ 353
Less: Capital Expenditures	$ (4,124)	$ (4,568)	$ (4,854)	$ (5,218)	$ (5,609)	$ (6,030)	$ (6,482)	$ (6,969)
Less: Increase in NWC	$ 219	$ 477	$ (5)	$330	$ (127)	$ (87)	$262	$45
Unlevered Free Cash Flow	$ 8,984	$ 9,068	$ 9,856	$ 10,118	$ 10,752	$ 11,293	$ 11,248	$ 12,012
WACC	7.00%							
Discount Period				0.5	1.5	2.5	3.5	4.5
Discount Factor				96%	90%	83%	78%	72%
Present Value of Free Cash Flows				$ 9,757	$ 9,643	$ 9,419	$ 8,725	$ 8,665

Enterprise Value		
NPV of FCF	$	46,494.61
Terminal Value		
Terminal Value EBITDA	$	18,818.48
Exit Multiple		10
Terminal Value	$	188,184.76
Discount Factor		0.72
PV of Terminal Value	$	135,755.59
% of Enterprise Value		74%
Enterprise Value	$	182,250.20

Implied Equity Value per Share		
Enterprise Value	$	182,250.20
Less Total Debt	$	444.00
Less Preferred Stock	$	-
Less Noncontrolling Interest	$	623.00
Plus cash and Cash Equivalents	$	7,238.00
Implied Equity Value	$	188,421.20
Shares Outstanding		2175
Price per Share	$	86.63

Our Discounted Cash Flow valuation shows that Anhesuer-Busch InBev is currently trading below its implied share value. While the stock is currently trading at $65.97, our DCF implies that it is worth $86.63. Growth for this fiscal year is expected to contract significantly due to restrictions on public venues amid the COVID-19 pandemic. To reflect this, we assigned Fiscal Year 2020 a negative growth rating, followed by a bounce back the following year. After this, we projected that growth would revert to a more typical growth rate.

Consensus Analyst Rating (as of 11/18/20 market close)



	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Zacks	Team Coverage	neutral	69.00	11/13/20	3.35%	4	
2)	Bernstein	Trevor Stirling	outperform	81.60	11/11/20	-14.64%		1
3)	Evercore ISI	Robert E Ottenstein	outperform	75.00	11/04/20	14.58%	3	
4)	Goldman Sachs	Olivier Nicolai	neutral	58.30	10/30/20			
5)	JP Morgan	Celine Pannuti	neutral	53.00	10/30/20	43.68%	1	4
6)	Guggenheim	Laurent Grandet	buy	68.00	10/30/20	-14.64%		2
7)	Jefferies	Edward Mundy	buy	76.00	10/29/20	17.12%	2	5
8)	Consumer Edge Res...	Brett Cooper	equalweight	63.00	10/29/20	0.00%	5	
9)	Morningstar	Philip Gorham	buy	96.00	09/10/20	-14.64%		3
10)	Argus	Team Coverage	buy	62.00	08/18/20	-14.64%		
11)	Ameriprise Advisor ...	Andrew Heaney	buy		11/30/16	-14.64%		

Because Anheuser-Busch InBev currently has negative earnings, we were not able to conduct a satisfactory normalization against the S&P 500, nor a comparative equity analysis. We also believe that our DCF more accurately reflects the fair value of the equity. We chose to use the DCF model and a consensus analyst projection to determine the most accurate value of the stock.

Analysts are mostly in agreement that BUD is trading at a discount to fair value. They believe the appropriate value of the stock is $69.19, a slight premium to the current market price. To ensure that our DCF was not overvaluing the equity, we weighted the analyst target price slightly higher.

Valuation Summary				
Method		**Implied Price**		**Weight**
DCF		$	86.63	40.00%
Analyst Reccomendations		$	69.19	60.00%
	Implied Share Price:	$	76.17	
	Current Share Price:	$	65.97	
	Premium to Current:		15%	

Kraft Heinz Co. (Ticker: KHC)

Market Cap: $39.12 Billion

52 Week Range: $19.19 - $36.37

Price Target (12M): $69.25

Company Overview

The Kraft Heinz Company (KHC) is a Pittsburgh-based food and beverage manufacturer and marketer. It has a market capitalization of approximately $34.65 billion. Kraft Heinz manufactures a wide variety of food products under various names such as Kraft, Oscar Mayer, Heinz, Philadelphia, Lunchables, Velveeta, Planters, Maxwell House, Capri Sun, Ore-Ida, Kool-Aid, Jell-O, Classico, McCafé, Tassimo, TGI Fridays, Taco Bell Home Originals, Plasmon, Pudliszki, Honig, HP, Benedicta, Karvan Cevitam, ABC, Master, Quero, Golden Circle, and Wattie's.

Our investment thesis, regarding Kraft Heinz, revolves around its financial stability, strong increase in sales year over year, and strong focus on efficiency savings. The firm seeks to realize $2 billion in efficiency savings by 2024 and intends on reinvesting them in the company rather than include the amount in its profits. Kraft Heinz saw 6.3% third quarter sales growth between a slight increase in price as well as demand for food-related products. This balanced its slight losses resulting from TGI Fridays and exposure to retail dining. Kraft and Heinz merged just four years ago and have already utilized their synergy to increase profitability through lowered manufacturing and overall operations costs. Consumers have trended towards purchasing trusted brands such as those provided by Kraft Heinz rather than opting to purchase private label brands. As social distancing continues and the popularity of retail dining remains at all-time lows, we expect the market value of Kraft Heinz to increase significantly.

Valuation

Normalization Against S&P 500 Index (as of 11/18/20 market close)

	P/E	P/S	P/CF	P/B
Kraft Heinz Co/The Historical Multiple	19.77	2.64	28.87	1.22
Benchmark Historical Multiple	20.50	2.06	12.17	3.10
Ratio	0.96	1.28	2.37	0.39
Benchmark Current Multiple	28.09	2.66	15.28	3.93
Implied Kraft Heinz Co/The Multiple	27.09	3.40	36.25	1.55
Per Share Values	2.83	20.46	2.91	40.24
Implied Share Price	$76.67	$69.59	$105.45	$62.28
Average Implied Share Price	**$78.50**			
Current Share Price	$31.61			
Premium to Current Price	**148.3%**			

Public Comparable Companies Analysis (as of 11/18/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
GIS US Equity	General Mills Inc	$60.97	$37.27	15.94x	2.07x	10.09x	4.41x
HSY US Equity	Hershey Co/The	$154.00	$32.05	25.24x	4.00x	17.23x	15.51x
MKC US Equity	Mccormick & Co-Non Vtg Sł	$184.62	$24.62	32.42x	4.45x	22.78x	6.26x
K US Equity	Kellogg Co	$65.76	$22.60	16.58x	1.66x	12.21x	7.43x
			Median	20.91x	3.03x	14.72x	6.85x
			Per Share Values	$2.83	$20.46	$2.91	$40.24
			Implied Share Price	$59.18	$62.07	$42.82	$275.55
			Average Implied	**$109.90**			
			Current Share Price	$31.61			
			Premium to Current	**71.24%**			

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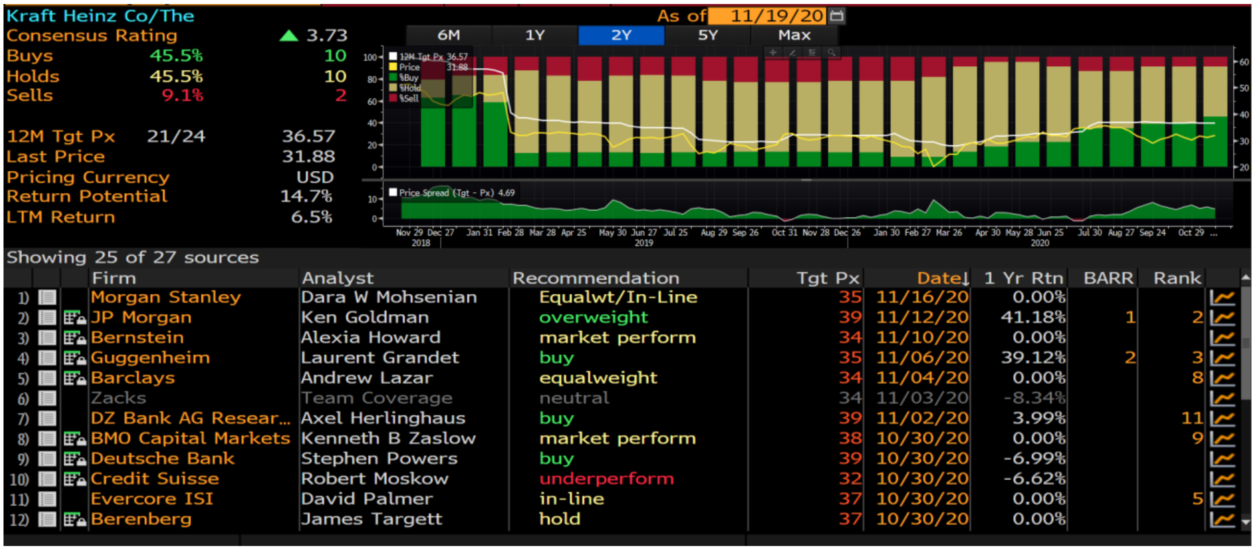


Kraft Heinz Co/The		
Consensus Rating		▲ 3.73
Buys	45.5%	10
Holds	45.5%	10
Sells	9.1%	2
12M Tgt Px	21/24	36.57
Last Price		31.88
Pricing Currency		USD
Return Potential		14.7%
LTM Return		6.5%

As of 11/19/20

Showing 25 of 27 sources

	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Morgan Stanley	Dara W Mohsenian	Equalwt/In-Line	35	11/16/20	0.00%		
2)	JP Morgan	Ken Goldman	overweight	39	11/12/20	41.18%	1	2
3)	Bernstein	Alexia Howard	market perform	34	11/10/20	0.00%		
4)	Guggenheim	Laurent Grandet	buy	35	11/06/20	39.12%	2	3
5)	Barclays	Andrew Lazar	equalweight	34	11/04/20	0.00%		8
6)	Zacks	Team Coverage	neutral	34	11/03/20	-8.34%		
7)	DZ Bank AG Resear...	Axel Herlinghaus	buy	39	11/02/20	3.99%		11
8)	BMO Capital Markets	Kenneth B Zaslow	market perform	38	10/30/20	0.00%		9
9)	Deutsche Bank	Stephen Powers	buy	39	10/30/20	-6.99%		
10)	Credit Suisse	Robert Moskow	underperform	32	10/30/20	-6.62%		
11)	Evercore ISI	David Palmer	in-line	37	10/30/20	0.00%		5
12)	Berenberg	James Targett	hold	37	10/30/20	0.00%		

Discounted Cash Flow Analysis

KHC US Equity	Historical Period			Forecasted Period				
Fiscal Years	2018A	2019A	2020E	2021P	2022P	2023P	2024P	2025P
Revenue	$ 26,268.00	$ 24,977.00	$ 25,782.00	$ 24,767.00	$ 25,510.01	$ 26,785.51	$ 28,124.79	$ 28,968.53
% Growth	0.14%	-5%	3%	-4%	3%	5%	5%	3%
Cost of Goods Sold	$ 17,347.00	$ 16,830.00	$ 16,978.00	$ 16,416.10	$ 17,091.71	$ 17,946.29	$ 18,562.36	$ 18,829.54
Gross Profit	**$ 8,921.00**	**$ 8,147.00**	**$ 8,804.00**	**$ 8,350.90**	**$ 8,418.30**	**$ 8,839.22**	**$ 9,562.43**	**$ 10,138.99**
% Margin	34%	32.62%	34.15%	33.72%	33%	33%	34%	35%
Operating Expenses	$ 19,126.00	$ 5,077.00	$ 3,353.00	$ 3,520.65	$ 5,229.31	$ 5,333.90	$ 5,440.57	$ 5,549.39
Selling, General & Admin	$ 3,081.00	$ 3,066.00	$ 3,458.00	$ 3,127.32	$ 3,189.87	$ 3,253.66	$ 3,318.74	$ 3,385.11
Research & Development	$ 109.00	$ 112.00	$ -	$ -	$ -	$ -	$ -	$ -
Other Operating Costs	$ 15,936.00	$ 1,899.00	$ 104.50	$ 117.56	$ 132.26	$ 148.79	$ 167.39	$ 188.31
EBITDA	**$ (9,222.00)**	**$ 4,241.00**	**$ 6,472.50**	**$ 5,223.58**	**$ 5,228.44**	**$ 5,585.55**	**$ 6,243.69**	**$ 6,753.87**
% Margin	-35%	17%	25%					
Depreciation & Amortization	$ (919.00)	$ (985.00)	$ (926.00)	$ (905.00)	$ (933.00)	$ (949.00)	$ (909.00)	$ (976.00)
EBIT	$ (10,205.00)	$ 889.73	$ 5,450.00	$ 4,924.80	$ 6,161.44	$ 6,534.55	$ 7,152.69	$ 7,729.87
Taxes	$ 1,067.00	$ (728.00)	$ (561.00)	$ 467.86	$ 585.34	$ 620.78	$ 679.51	$ 734.34
NOPAT	$ (9,138.00)	$ 161.73	$ 4,889.00	$ 5,392.66	$ 6,746.77	$ 7,155.34	$ 7,832.20	$ 8,464.21
Plus: Depreciation and amortization	$ 919.00	$ 919.00	$ 919.00	$ 919.00	$ 919.00	$ 919.00	$ 919.00	$ 919.00
Plus: Stock based compensation	$ (33.00)	$ (46.00)	$ (48.30)	$ (50.72)	$ (53.25)	$ (55.91)	$ (58.71)	$ (61.64)
Less: Capital expenditures	$ (826.00)	$ (726.00)	$ (820.38)	$ (844.99)	$ (870.34)	$ (896.45)	$ (923.34)	$ (951.05)
Less: Increase in NWC	$ (233.00)	$ (2,063.00)	$ (675.00)	$ (1,566.00)	$ (279.00)	$ (1,568.00)	$ 242.00	$ (901.00)
Unlevered Free Cash Flow	$ 1,945.00	$ 3,662.00	$ 2,366.08	$ 3,279.28	$ 2,015.09	$ 3,327.54	$ 1,541.64	$ 2,709.40
WACC	6.01%							
Discount Period				0.50	1.50	2.50	3.50	4.50
Discount Factor				$ 0.97	$ 0.91	$ 0.86	$ 0.80	$ 0.76
Present Value of Free Cash Flows				$ 3,279.28	$ 2,015.09	$ 3,327.54	$ 1,541.64	$ 2,709.40

Enterprise Value		
NPV of FCF	**$**	**12,872.94**
Terminal Value		
Terminal Year EBITDA	$	6,753.87
Exit Multiple		15.00
Terminal Value	**$**	**101,308.10**
Discount Factor		0.76
PV of Terminal Value	$	76,649.90
% of Enterprise Value		76%
Enterprise Value	**$**	**89,522.85**

Implied Equity Value per Share		
Enterprise Value	$	89,522.85
Less Total Debt	$	28,216.00
Less Preferred Stock		217
Less Noncontrolling Interest	$	126.00
Plus Cash and Cash Equivalents	$	2,279.00
Implied Equity Value	**$**	**63,459.85**
Shares Outstanding		1,220.00
Price Per Share	**$**	**52.02**

The four forms of valuation demonstrate that The Kraft Heinz Company (KHC) is trading at a significant discount to fair value. The S&P 500 normalization approach yielded an average implied share price of $78.50, indicating a 148.3% premium to current market price. Our comparable analysis depicted an average implied share price of $109.90. This share price gave us a premium to current of 71.24%. We also decided to consider the consensus analyst rating of $36.57 when constructing KHC's target price. The final valuation method we used was a DCF. In our DCF, we used a conservative growth rate for 2021E due to the uncertainties caused by COVID-19, however, we projected that KHC's revenue would grow at a CAGR of approximately 5% through 2025. Our DCF yielded a price per share of $52.02. Taking all of the valuation methods into equal consideration, we arrive at a price target of $69.25.

Valution Summary		
Method	**Implied Price**	**Weight**
DCF	$52.02	25%
Analyst Recommendations	$36.57	25%
Normalization	$78.50	25%
Comps	$109.90	25%
Implied Share Price:	$69.25	
Current Share Price:	$31.65	
Premium to Current:	119%	

Hanesbrands Inc. (Ticker: HBI)

Market Cap: $4.67 Billion

52 Week Range: $6.96 - $17.74

Price Target (12M): $28.54

Company Overview

Hanesbrands (HBI) is a Winston-Salem, NC-based clothing retailer, and manufacturer founded in 2006, that operates several clothing brands. It currently operates 252 stores in the United States, employs 67,200 individuals, and has a market capitalization of approximately $4.4 billion. Hanes operates through various brands, Hanes, Champion, Maidenform, Bali, JMS/Just My Size, Polo Ralph Lauren, Playtex, DKNY, Donna Karan, Alternative, Gear for Sports, Hanes Beefy-T, Bonds, DIM, Sheridan, Bras N Things, Nur Die/Nur Der, Lovable, Wonderbra, Berlei, Abanderado, Shock Absorber, Zorba, Explorer, Sol y Oro, and Bellinda. Through these brands, Hanes is able to manufacture and retail underwear, activewear, home goods, and licensed logo apparel.

Our investment thesis regarding Hanesbrands revolves around its relative strength compared to competitors as well as its considerable growth of its Champion brand. Based on the provided valuation models as well as the industry average price-to-earnings ratio of 25.87x, Hanesbrands is considerably undervalued at a price-to-earnings ratio of 7.98x. Although the COVID-19 pandemic has negatively affected its sales, Hanes' success in the innerwear and apparel segment enable it to recover far faster than its competitors. Its backwards integration in manufacturing allows Hanesbrands to lower its manufacturing costs and avoid supply chain difficulties facing its competitors in the consumer cyclical industry. Champion brand yielded $1.9 billion in 2019 compared to its $1.36 billion in sales from the previous year. This large growth in sales, combined with its exclusive C9 brand deal with Amazon is poised to yield well over $2 billion in revenue in the year 2021. This comes as a result of Champion brands transition from a sportswear brand into a lifestyle brand, attracting a larger and younger demographic.

Historical 5 – Year Performance: Hanesbrands vs. S&P 500 Value Index

Source: Yahoo Finance

Over the past five years, HBI has severely underperformed the benchmark. However, due to our investment thesis, we believe HBI is well positioned to experience appreciation over the next twelve months.

Valuation

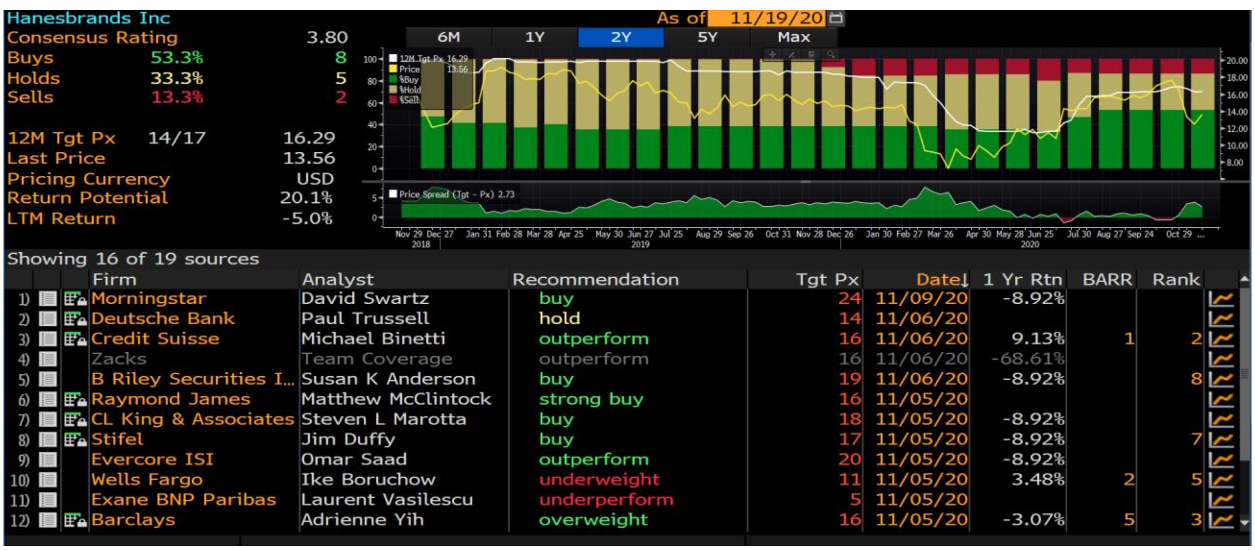
Normalization Against S&P 500 Index (as of 11/18/20 market close)

	P/E	P/S	P/CF	P/B
Hanesbrands Inc Historical Multiple	13.19	1.31	17.29	6.11
Benchmark Historical Multiple	20.50	2.06	12.17	3.10
Ratio	0.64	0.64	1.42	1.97
Benchmark Current Multiple	28.09	2.66	15.28	3.93
Implied Hanesbrands Inc Multiple	18.08	1.70	21.71	7.76
Per Share Values	1.63	19.10	2.20	3.30
Implied Share Price	$29.44	$32.38	$47.82	$25.60
Average Implied Share Price	**$33.81**			
Current Share Price	$12.95			
Premium to Current Price	**161.1%**			

Public Comparable Companies Analysis (as of 11/18/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
OXM US Equity	Oxford Industries Inc	$46.89	$0.79	201.67x	0.88x	9.90x	1.83x
VFC US Equity	Vf Corp	$79.51	$31.01	60.03x	3.40x	23.77x	10.53x
GIL US Equity	Gildan Activewear Inc	$23.89	$4.74	#N/A N/A	2.44x	12.39x	3.21x
VNCE US Equity	Vince Holding Corp	$4.27	$0.05	2.02x	0.19x	#N/A N/A	0.74x
			Median	60.03x	1.66x	12.39x	2.52x
			Per Share Values	$1.63	$19.10	$2.20	$3.30
			Implied Share Price	$97.79	$31.73	$27.30	$8.32
			Average Implied	**$41.29**			
			Current Share Price	$12.95			
			Premium to Current	**68.63%**			

Consensus Analyst Rating (as of 11/19/20 market close)



	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Morningstar	David Swartz	buy	24	11/09/20	-8.92%		
2)	Deutsche Bank	Paul Trussell	hold	14	11/06/20			
3)	Credit Suisse	Michael Binetti	outperform	16	11/06/20	9.13%	1	2
4)	Zacks	Team Coverage	outperform	16	11/06/20	-68.61%		
5)	B Riley Securities I...	Susan K Anderson	buy	19	11/06/20	-8.92%		8
6)	Raymond James	Matthew McClintock	strong buy	16	11/05/20			
7)	CL King & Associates	Steven L Marotta	buy	18	11/05/20	-8.92%		
8)	Stifel	Jim Duffy	buy	17	11/05/20	-8.92%		7
9)	Evercore ISI	Omar Saad	outperform	20	11/05/20	-8.92%		
10)	Wells Fargo	Ike Boruchow	underweight	11	11/05/20	3.48%	2	5
11)	Exane BNP Paribas	Laurent Vasilescu	underperform	5	11/05/20			
12)	Barclays	Adrienne Yih	overweight	16	11/05/20	-3.07%	5	3

Discounted Cash Flow Analysis

HBI US Equity	Historical Period			Forecasted Period				
Fiscal Years	**2018A**	**2019A**	**2020E**	**2021P**	**2022P**	**2023P**	**2024P**	**2025P**
Revenue	$ 6,803.96	$ 6,966.92	$ 6,614.50	$ 6,729.10	$ 6,930.97	$ 7,277.52	$ 7,641.40	$ 8,023.47
% Growth	5.14%	2.40%	-5.06%	1.73%	3%	5%	5%	5%
Cost of Goods Sold	$ 4,150.74	$ 4,247.59	$ 4,184.30	$ 4,078.60	$ 4,227.89	$ 4,366.51	$ 4,584.84	$ 4,894.32
Gross Profit	**$ 2,653.22**	**$ 2,719.33**	**$ 2,430.20**	**$ 2,650.50**	**$ 2,703.08**	**$ 2,911.01**	**$ 3,056.56**	**$ 3,129.15**
% Margin	39%	39.03%	36.74%	39.39%	39%	40%	40%	39%
Operating Expenses								
Selling, General & Admin	$ 1,788.57	$ 1,829.60	$ 1,736.03	$ 1,753.39	$ 1,788.46	$ 1,860.00	$ 1,934.40	$ 2,011.77
Other Operating Costs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
EBITDA	**$ 985.68**	**$ 1,010.63**	**$ 810.40**	**$ 897.11**	**$ 914.62**	**$ 1,051.01**	**$ 1,122.16**	**$ 1,117.38**
% Margin	14%	15%	12%	13%	13%	14%	15%	14%
Depreciation & Amortization	$ (121.03)	$ (120.90)	$ (216.70)	$ 129.00	$ 144.00	$ 190.00	$ 155.00	$ 185.00
EBIT	**$ 864.65**	**$ 889.73**	**$ 593.70**	$ 768.11	$ 770.62	$ 861.01	$ 967.16	$ 932.38
Taxes	$ 103.92	$ 79.01	$ 64.30	$ 92.17	$ 92.47	$ 103.32	$ 116.06	$ 111.89
NOPAT	$ 968.57	$ 968.74	$ 658.00	$ 675.94	$ 678.15	$ 757.69	$ 851.10	$ 820.49
Plus: Depreciation and amortization	$ 121.03	$ 120.90	$ 216.70	$ 129.00	$ 144.00	$ 190.00	$ 155.00	$ 185.00
Plus: Stock based compensation	$ 21.00	$ 9.28	$ 16.70	$ 30.07	$ 21.95	$ 23.92	$ 26.08	$ 15.65
Less: Capital expenditures	$ (86.29)	$ (101.08)	$ (112.20)	$ (123.42)	$ (135.76)	$ (149.34)	$ (164.27)	$ (180.70)
Less: Increase in NWC	$ (84.23)	$ 4.89	$ (92.65)	$ (88.44)	$ (75.05)	$ 6.11	$ 18.34	$ 55.01
Unlevered Free Cash Flow	$ 312.55	$ 226.37	$ 438.26	$ 370.93	$ 376.76	$ 357.15	$ 327.01	$ 326.33
WACC	8.58%							
Discount Period				0.50	1.50	2.50	3.50	4.50
Discount Factor				$ 0.96	$ 0.87	$ 0.80	$ 0.73	$ 0.67
Present Value of Free Cash Flows				354.66	329.32	285.40	238.89	217.94

Enterprise Value		
NPV of FCF	**$**	**1,426.22**
Terminal Value		
Terminal Year EBITDA		1,117.38
Exit Multiple	$	15.00
Terminal Value	**$**	**16,760.70**
Discount Factor		0.67
PV of Terminal Value	$	11,193.80
% of Enterprise Value		67%
Enterprise Value	**$**	**12,620.02**

Implied Equity Value per Share		
Enterprise Value	$	12,620.02
Less Total Debt	$	3,394.00
Less Preferred Stock		346.71
Less Noncontrolling Interest	$	1,236.60
Plus Cash and Cash Equivalents	$	328.00
Implied Equity Value	**$**	**8,317.42**
Shares Outstanding		365.52
Price Per Share	**$**	**22.76**

The four forms of valuation demonstrate that Hanesbrands (HBI) is trading at a significant discount to fair value. The S&P 500 normalization approach yielded an average implied share price of $33.81, indicating a 161.1% premium to current market price. Our comparable analysis depicted an average implied share price of $41.29. This share price gave us a premium to current of 68.63%%. We also decided to consider the consensus analyst rating of $16.29 when constructing HBI's target price. The final valuation method we used was a DCF. In our DCF, we used a conservative growth rate for 2021E due to a drop in revenue caused by COVID-19, however, we projected that HBI's revenue would grow at a CAGR of approximately 5% through 2025. Our DCF yielded a price per share of $22.76. Taking all of the valuation methods into equal consideration, we arrive at a price target of $28.54 in the long term.

Valuation Summary		
Method	**Implied Price**	**Weight**
DCF	$22.76	25%
Analyst Recommendations	$16.29	25%
Normalization	$33.81	25%
Comps	$41.29	25%
Implied Share Price:	$28.54	
Current Share Price:	$13.56	
Premium to Current:	110%	

Cheniere Energy Inc. (Ticker: LNG)

Market Cap: $13.84 Billion

52 Week Range: $27.06 - $67.11

Price Target (12M): $65.42

Company Overview

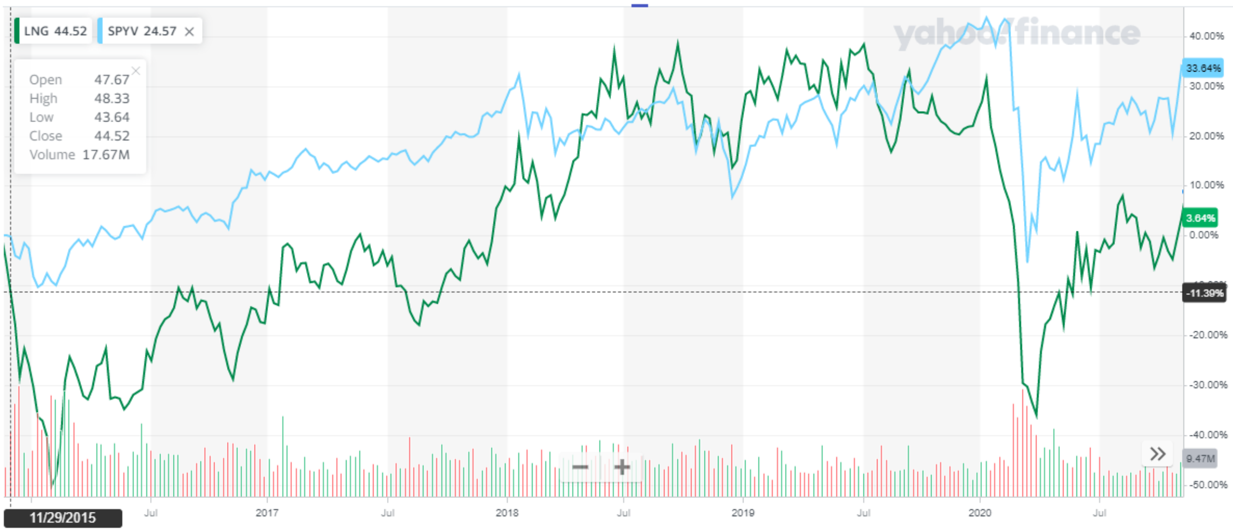
Cheniere Energy, Inc. is an energy company focused on liquified natural gas (LNG) related business. The company owns and operates liquefied natural gas receiving terminals and liquefied natural gas pipelines. Cheniere manages and operates projects in Louisiana and Texas and its CEO is Jack Fusco. Cheniere purchases natural gas and processes it into LNG and offers customers the option to load the LNG on their vessels at its terminals, or it delivers the LNG to regasification facilities around the world. The company has two terminals in the U.S. Gulf Coast in various stages of development: its Sabine Pass liquefaction project in southwest Louisiana and its corpus Christi liquefaction facility in South Texas. Over 70% of revenue comes from outside the U.S. LNG also has pipeline assets and operates a liquefied natural gas and natural gas market business. Approximately 85% of Cheniere's expected LNG production capacity, either completed or under construction, is contracted through long-term agreements with customers.

The remaining volumes of LNG are available to sell on the open market. Cheniere is highly dependent on revenue from four major customers: BG and its affiliates account for over 15% of revenue, while Korea Gas Corporation (KOGAS), GAIL (India), and Naturgy generate 10% of revenue each.

Throughout the five-year period ending in 2019, LNG reported year-over-year revenue growth as the company built more “Trains” (liquefaction units) and increased the volume of LNG it sold during the year. The company reported losses between 2015 and 2016, as it invested big in build-out. Net income turned positive in 2018. The company reported $9.7 billion in revenue in 2019, up from $8 billion in 2018. The increase was primarily from the increased volume of LNG sold following the achievement of substantial completion of the Trains.

We based our investment thesis for Cheniere off of the following catalysts. Cheniere offers investors more than twenty years of virtually guaranteed cash flow visibility from the Corpus Christi LNG export terminal and visible critical-quality-point distributions. Even though the market has assigned less value to marketing profits, LNG has successfully leveraged computer managed instruction (CMI) into long-term special purpose agreements, which we believe will deliver increased long-term value. Additionally, the combination of depressed liquefied natural gas prices and China trade concerns have negatively affected Cheniere’s stock price, and we believe that this trend will soon revert. Once the COVID-19 pandemic is behind us, we believe that Cheniere will outperform its peers due to its highly contracted cash flows, improving liquefied natural gas supply/demand balance, and its strong dividend. There were a few risks we took into consideration when constructing our price target, the largest being counterparty risk should customers fail to meet commitments. Cheniere’s financial strategy is also purely dependent on project completion, and the depressed liquefied natural gas market reduces contract capacity and makes the industry more competitive than it already is.

Historical 5 – Year Performance: Cheniere vs. S&P 500 Value Index



Source: Yahoo Finance

Over the past five years, LNG has performed relatively in line with the S&P 500 Value Index. According to Bloomberg, Cheniere is well positioned to realize growth under the Biden Administration's energy policies (Bloomberg).

Valuation

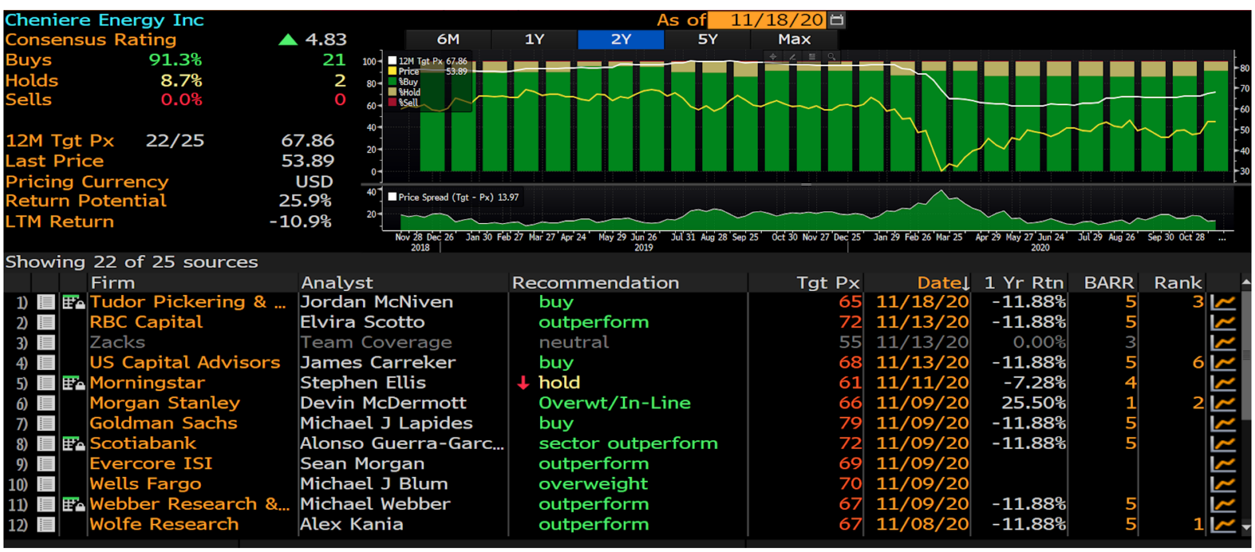
Normalization Against S&P 500 Index (as of 11/17/20 market close)

	P/E	P/S	P/CF	P/B
Cheniere US Equity Historical Multiple	40.16	18.17	10.02	57.14
Benchmark Historical Multiple	20.53	2.07	12.18	3.10
Ratio	1.96	8.80	0.82	18.40
Benchmark Current Multiple	28.27	2.68	15.34	3.96
Implied Cheniere US Equity Multiple	55.30	23.58	12.63	72.87
Per Share Values	4.16	37.98	7.15	-0.10
Implied Share Price	$229.84	$895.50	$90.36	-$6.93
Average Implied Share Price	**$302.19**			
Current Share Price	$54.13			
Premium to Current Price	**458.3%**			

Public Comparable Companies Analysis (as of 11/18/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
PSXP US Equity	Phillips 66 Partners Lp	$25.20	$5.75	6.47x	5.40x	5.51x	2.67x
OKE US Equity	Oneok Inc	$33.31	$14.80	12.47x	1.63x	8.15x	2.41x
COP US Equity	Conocophillips	$38.85	$41.49	29.40x	2.01x	6.92x	1.35x
MPLX US Equity	Mplx Lp	$20.76	$21.59	17.29x	2.87x	4.95x	1.76x
			Median	14.88x	2.44x	6.21x	2.09x
			Per Share Values	$4.16	$37.98	$7.15	-$0.10
			Implied Share Price	$61.83	$92.60	$44.46	-$0.20
			Average Implied	**$49.67**			
			Current Share Price	$54.13			
			Premium to Current	**-8.97%**			

Consensus Analyst Rating (as of 11/19/20 market close)



	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Tudor Pickering & ...	Jordan McNiven	buy	65	11/18/20	-11.88%	5	3
2)	RBC Capital	Elvira Scotto	outperform	72	11/13/20	-11.88%	5	
3)	Zacks	Team Coverage	neutral	55	11/13/20	0.00%	3	
4)	US Capital Advisors	James Carreker	buy	68	11/13/20	-11.88%	5	6
5)	Morningstar	Stephen Ellis	hold	61	11/11/20	-7.28%	4	
6)	Morgan Stanley	Devin McDermott	Overwt/In-Line	66	11/09/20	25.50%	1	2
7)	Goldman Sachs	Michael J Lapides	buy	79	11/09/20	-11.88%	5	
8)	Scotiabank	Alonso Guerra-Garc...	sector outperform	72	11/09/20	-11.88%	5	
9)	Evercore ISI	Sean Morgan	outperform	69	11/09/20			
10)	Wells Fargo	Michael J Blum	overweight	70	11/09/20			
11)	Webber Research &...	Michael Webber	outperform	67	11/09/20	-11.88%	5	
12)	Wolfe Research	Alex Kania	outperform	67	11/08/20	-11.88%	5	1

Discounted Cash Flow Analysis

Cheniere Energy Inc. (LNG	Historical Period			Forecasted Period				
Fiscal Years	2018A	2019A	2020A	2021E	2022P	2023P	2024P	2025P
Revenue	$ 7,987	$ 9,730	$ 9,578	$ 11,813	$ 12,560	$ 13,314	$ 14,046	$ 14,748
% Growth	*43%*	*22%*	*-2%*	*23%*	*6%*	*6%*	*6%*	*5%*
Cost of Goods Sold	$ 4,597	$ 5,079	$ 3,616	$ 4,253	$ 4,019	$ 4,260	$ 4,495	$ 4,720
Gross Profit	**$ 3,390**	**$ 4,651**	**$ 5,962**	**$ 7,560**	**$ 8,541**	**$ 9,053**	**$ 9,551**	**$ 10,029**
% Margin	*42%*	*48%*	*62%*	*64%*	*68%*	*68%*	*68%*	*68%*
Operating Expences								
Selling, General & Admin.	$ 289	$ 310	$ 312	$ 354	$ 377	$ 399	$ 281	$ 147
Research & Development	$ 7	$ 9	$ -	$ 118	$ 126	$ 67	$ -	$ (74)
Other Operating Costs	$ 606	$ 1,154	$ 1,318	$ 4,253	$ 4,270	$ 4,483	$ 4,683	$ 4,868
EBITDA	**$ 2,488**	**$ 3,178**	**$ 4,332**	**$ 2,835**	**$ 3,768**	**$ 4,105**	**$ 4,587**	**$ 5,087**
% Margin	*31%*	*33%*	*45%*	*24%*	*30%*	*31%*	*33%*	*34%*
Depreciation & Amortization	$ (356)	$ (449)	$ (794)	$ (1,053)	$ (1,123)	$ (1,201)	$ (1,258)	$ (1,324)
EBIT	**$ 2,132**	**$ 2,729**	**$ 3,538**	**$ 1,782**	**$ 2,645**	**$ 2,904**	**$ 3,329**	**$ 3,763**
Taxes	$ 27	$ (517)	$ (398)	$ (240)	$ (472)	$ (377)	$ (433)	$ (489)
NOPAT	**$ 2,159**	**$ 2,212**	**$ 3,140**	**$ 1,542**	**$ 2,173**	**$ 2,526**	**$ 2,896**	**$ 3,274**
Plus: Depreciation and Amortization	$ 356	$ 449	$ 794	$ 1,053	$ 1,123	$ 1,201	$ 1,258	$ 1,324
Plus: Stock based compensation	$ 91	$ 113	$ 131	$ 123	$ 126	$ 136	$ 144	$ 150
Less: Capital Expenditures	$ (3,360)	$ (3,640)	$ (3,060)	$ (452)	$ (491)	$ (529)	$ (548)	$ (580)
Less: Increase in NWC	$ 274	$ (177)	$ 561	$ (5,723)	$ 451	$ 396	$ (1,028)	$ (109)
Unlevered Free Cash Flow	**$ 3,488**	**$ 5,506**	**$ 6,637**	**$ (3,457)**	**$ 3,382**	**$ 3,731**	**$ 2,723**	**$ 4,059**
WACC	*7.7%*							
Discount Period				0.5	1.5	2.5	3.5	4.5
Discount Factor				0.96	0.89	0.83	0.77	0.71
Present Value of Free Cash Flows				**$ (3,330)**	**$ 3,024**	**$ 3,096**	**$ 2,097**	**$ 2,902**

Case Running:	**Downside**	**2018A**	**2019A**	**2020A**	**2021E**	**2022P**	**2023P**	**2024P**	**2025P**
Revenue Growth					23%	6%	6%	6%	5%
COGS % of Sales					36%	32%	32%	32%	32%
SG&A % of Sales					3%	3%	3%	2%	1%
R&D % of Sales					1%	1%	1%	0%	-1%
Other Op. Costs % of Sales					36%	34%	34%	33%	33%
Maintenance Depreciation					9%	9%	9%	9%	9%
Stock based compensation % of Sales					1%	1%	1%	1%	1%
Maintenance Capex					-4%	-4%	-4%	-4%	-4%
Tax Rate					13%	18%	13%	13%	13%

Enterprise Value		
NPV of FCF	**$**	**7,789.83**
Terminal Value		
Termal Year EBITDA	$	5,086.7
Exit Multiple		15x
Terminal Value	**$**	**74,266.52**
Discount Factor		0.71
PV of Terminal Value	$	53,100.26
% of Enterprise Value		87%
Enterprise Value	**$**	**60,890.09**

Implied Equity Value per Share		
Enterprise Value	$	60,890.09
Less Total Debt	$	(31,021.00)
Less Preferred Stock	$	-
Less Noncontrolling interest	$	(2,449.00)
Plus Cash and Cash Equivalents	$	2,474.00
Implied Equity Value	**$**	**29,894.09**
Shares Outstanding		484
Price Per Share	**$**	**61.76**

	EV _ Exit Multiple Method				
	Exit Multiple				
	12.6x	13.6x	14.6x	15.6x	16.6x
5.7%	$ 58,248.57	$ 62,205.55	$ 66,162.52	$ 70,119.50	$ 74,076.47
6.7%	$ 55,874.00	$ 59,666.87	$ 63,459.74	$ 67,252.61	$ 71,045.48
7.7%	$ 53,616.08	$ 57,253.09	$ 60,890.09	$ 64,527.10	$ 68,164.10
8.7%	$ 51,468.04	$ 54,956.94	$ 58,445.84	$ 61,934.74	$ 65,423.63
9.7%	$ 49,423.56	$ 52,771.65	$ 56,119.75	$ 59,467.84	$ 62,815.94

	PX - Exit Multiple to WACC				
	Exit Multiple				
	12.6x	13.6x	14.6x	15.6x	16.6x
5.7%	$ 56.30	$ 64.48	$ 72.66	$ 80.83	$ 89.01
6.7%	$ 51.40	$ 59.23	$ 67.07	$ 74.91	$ 82.74
7.7%	$ 46.73	$ 54.25	$ 61.76	$ 69.28	$ 76.79
8.7%	$ 42.30	$ 49.50	$ 56.71	$ 63.92	$ 71.13
9.7%	$ 38.07	$ 44.99	$ 51.91	$ 58.82	$ 65.74

The four forms of valuation used illustrate that Cheniere is currently trading at a significant discount to fair value. The S&P 500 normalization approach yielded an average implied share price of $302.19, indicating a 458.3% premium to current market price. We have decided to negate the normalization since Cheniere has "abnormal" ratios, specifically, the price-to-sales ratio and the price-to-equity ratio. The ratios yielded implied share prices of $895.50 and $229.84 respectively, significantly affecting benchmarked averaged implied share price. Our comparable analysis illustrates an implied share price of $49.67, a premium to current of -8.97%. Again, the skewed comparable company share price stems from Cheniere's inflated price-to-book ratio. When we conducted the comparable analysis without the price-to-book ratio, Cheniere had an average implied share price of $66.30 - a price more in line with our composite target price, which will be mentioned below. We also decided to consider the consensus analyst rating of $67.86 when constructing LNG's target price. It is important to note that the consensus rating is conservative. The high estimate was $79.00, which is a 46.7% premium to current. Since we only factored in the conservative estimate, Cheniere has the potential to experience more upside growth than forecasted in our target price. The final valuation method we used was a DCF. In our DCF, we used a bullish growth rate for 2021E because we believe that Cheniere is well positioned to benefit from the Biden Administration's renewable energy policies, as well as the increased energy consumption due to gradually easing COVID-19 regulations. After 2021E, we believe that LNG will grow at a CAGR of ~6% through 2025. A CAGR of ~6% puts

Cheniere a 100 basis points over the average industry growth rate. Our DCF yielded a price per share of $61.76. After taking all of our valuation methods into consideration, we arrived at a price target of $65.42.

Valuation Summary		
Method	**Implied Price**	**Weight**
DCF - Base	$ 61.76	40.00%
Analyst Recommendations	$ 67.86	60%
Normalization	$ 302.19	0%
Comps	$ 49.67	0%
Implied Share Price:	**$ 65.42**	
Current Share Price:	$ 54.13	
Premium to Current:	21%	

Marathon Petroleum Corp. (Ticker: MPC)

Market Cap: $24.99 Billion

52 Week Range: $15.26 - $63.59

Price Target (12M): $63.14

Company Overview

Marathon Petroleum Corp. operates out of Findlay, Ohio as a crude oil refining company. The company refines, supplies, markets, and transports petroleum products. MPC serves customers in the United States. Marathon Petroleum is the largest oil refiner in the U.S. Once part of Marathon Oil Corporation, MPC processed more than three million barrels of crude oil a day at more than 15 refineries in the U.S. MPC reaches end users through a nationwide network of branded gas stations. The company holds stakes in pipelines and is one of the largest asphalt and light oil product terminal operators in the U.S. MPC distributes petroleum products wholesale to private-brand marketers and to large commercial and industrial consumers, as well as to the sport market. In 2019, Marathon completed the $23 billion industry milestone acquisition of Andeavor, an independent refiner and marketer of petroleum products operating in the Western United States. Michael Hennigan took over as acting CEO in March of 2020.

Its Refining & Marketing segment, which makes up nearly 75% of the company's total revenue, refines crude oil and other feedstocks at more than 15 refineries in the U.S. Gulf Coast and Midwest regions, purchases ethanol and refined products for resale, and distributes refined products. It sells refined products to wholesale marketing customers, buyers on the spot market, its Speedway business segment and to independent entrepreneurs who operate Marathon retail outlets. The Retail segment, more than 20% of sales, sells transportation fuels and convenience products in the retail market in the Midwest, primarily through Speedway convenience stores. It has long-term supply contracts with gas stations operating under the ARCO brand. The Midstream segment, 5% of revenue, transports crude oil and other feedstocks to Marathon Petroleum's refineries and other locations, delivers refined products to wholesale and retail markets and affiliated pipeline assets and investments. MPC holds stakes in approximately 17,200 miles of pipeline and is one of the largest asphalt and light oil product terminal operators in the U.S. (about 160 terminals). Additionally, the company has a large U.S. private inland product fleet that includes roughly two dozen inland towboats and close to 260 barges.

Marathon's revenue is closely linked to global oil prices. Consequently, over the last ten years the company's sales grew steadily to a peak in 2013 of about $100 million before the oil price crash brought revenue way down to $63 billion in 2016. Since then, prices have rebounded, and Marathon's revenue is approaching recent highs. In 2018, the company's operating revenue grew 29% to $95.8 billion due to high realized prices and the contribution of Andeavor, acquired in the fourth quarter. Despite rising sales, net income fell 5% to $3.6 billion mostly due to a one-time $1.5 billion tax benefit recorded in 2017. Marathon's cash on hand fell $1.3 billion during 2018, ending the year at $1.7 billion. the company's operations generated $6.2 billion, financing produced $222 million, and investing activities used $7.7 billion. MPC's main cash uses were capital expenditures (CAPEX), acquisitions, share repurchase, and dividends.

Our investment thesis centers around the fact MPC is a diversified downstream company with refining, retail, and midstream exposure. The company recently announced the sale of Speedway for $16.5 billion after-tax proceeds. MPC can put this newly acquired cash towards R&D development, which we believe will create more value for the company. On the refining side of the business, MPC has shown improved execution (capture rates). Despite depressed oil prices due to COVID-19, we believe that MPC will experience growth as the United States eases its way out of the pandemic and oil prices return to their old norms.

Our valuation assumes the continual capture of MPC's identified synergies from the Andeavor acquisition and smooth integration of its assets - therefore, changes in amount, scope, and timeline are the key risks we are concerned with. In our valuation, we also assume that the Speedway deal is closed in 2021. Additionally, there is some concern with costly expansion projects (refining and midstream) that could result in higher long-term capital expenditures and lower cash returns to shareholders. MPC is also a heavy user of sour crude, given its massive and complex capacity in the Gulf Coast. Consequently, disruptions in the supply of heavy sour grades can have a significant impact on the company's profitability. Severe weather events, such as the hurricanes that have hit the Gulf Coast in the recent past are also key risks for MPC. Floods in coastal areas and power outages can impact refining operations, add remediation costs, and impact product demand. Lastly, changes in refining margins are a key risk to the independent refiners.

Historical 5 – Year Performance: Marathon Petroleum vs. S&P 500 Value Index

Source: Yahoo Finance

Over the past five years, MPC has performed relatively in line with the S&P 500 Value Index, except for 2018 to 2019 when it appreciated more than the SPYV benchmark. MPC has been hit hard by the severe drop in travel and increased stay at home orders coming at the heels of

COVID-19. We believe that investors will realize MPC's true value after COVID-19 becomes more controlled. As illustrated above, MPC is trading at a significant discount, and we believe there is value to be recognized.

Valuation

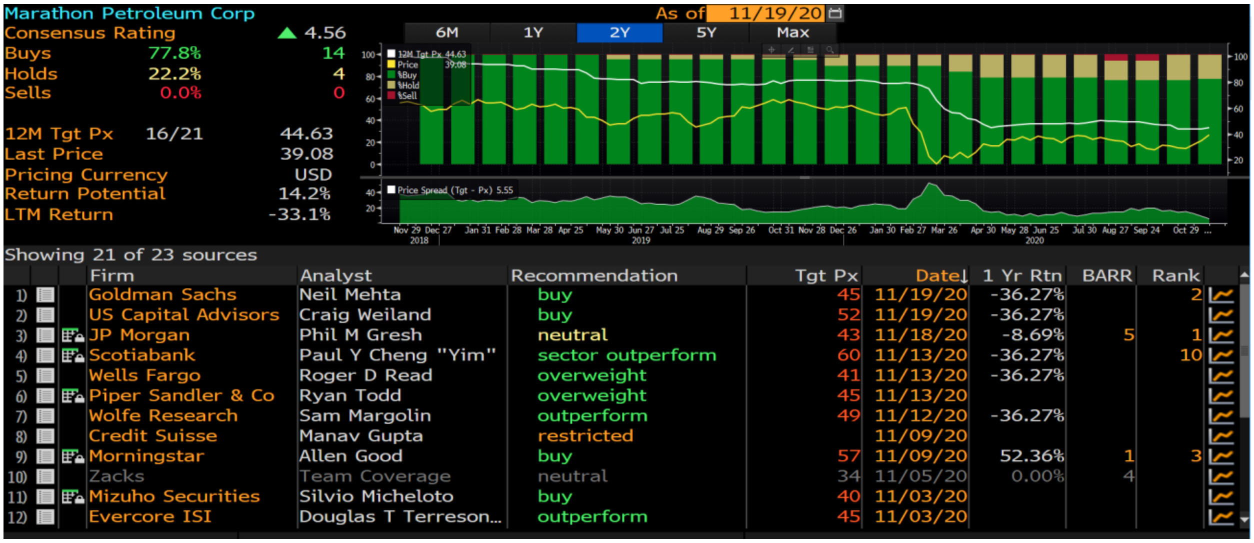
Normalization Against S&P 500 Index (as of 11/17/20 market close)

	P/E	P/S	P/CF	P/B
Marathon Petroleum Corp Historical Multiple	13.53	0.36	6.67	2.21
Benchmark Historical Multiple	20.47	2.06	12.15	3.1
Ratio	0.66	0.18	0.55	0.71
Benchmark Current Multiple	27.82	2.64	15.12	3.9
Implied Marathon Petroleum Corp Multiple	18.39	0.46	8.3	2.79
Per Share Values	-3.38	188.09	14.33	34.49
Implied Share Price	-$62.16	$87.12	$118.91	$96.15
Average Implied Share Price	**$60.01**			
Current Share Price	$38.54			
Premium to Current Price	**55.70%**			

Public Comparable Companies Analysis (as of 11/18/20 market close)

Ticker	Name	Share Price	Market Cap ($bn)	P/E	P/S	P/CF	P/B
MPC US Equity	Marathon Petroleum Corp	$38.54	$25.08	#N/A N/A	0.28x	7.15x	1.12x
OKE US Equity	Oneok Inc	$32.31	$14.36	12.09x	1.58x	7.90x	2.34x
VLO US Equity	Valero Energy Corp	$51.25	$20.90	#N/A N/A	0.29x	8.17x	1.09x
LNG Equity	Cheniere Energy Inc	$53.36	$13.46	12.84x	1.41x	8.98x	#N/A N/A
			Median	12.47x	0.85x	8.03x	1.12x
			Per Share Values	-$3.38	$188.09	$14.33	$34.49
			Implied Share Price	-$42.13	$159.89	$115.11	$38.54
			Average Implied	**$67.85**			
			Current Share Price	$38.54			
			Premium to Current	**43.20%**			

Consensus Analyst Rating (as of 11/19/20 market close)



	Firm	Analyst	Recommendation	Tgt Px	Date	1 Yr Rtn	BARR	Rank
1)	Goldman Sachs	Neil Mehta	buy	45	11/19/20	-36.27%		2
2)	US Capital Advisors	Craig Weiland	buy	52	11/19/20	-36.27%		
3)	JP Morgan	Phil M Gresh	neutral	43	11/18/20	-8.69%	5	1
4)	Scotiabank	Paul Y Cheng "Yim"	sector outperform	60	11/13/20	-36.27%		10
5)	Wells Fargo	Roger D Read	overweight	41	11/13/20	-36.27%		
6)	Piper Sandler & Co	Ryan Todd	overweight	45	11/13/20			
7)	Wolfe Research	Sam Margolin	outperform	49	11/12/20	-36.27%		
8)	Credit Suisse	Manav Gupta	restricted		11/09/20			
9)	Morningstar	Allen Good	buy	57	11/09/20	52.36%	1	3
10)	Zacks	Team Coverage	neutral	34	11/05/20	0.00%	4	
11)	Mizuho Securities	Silvio Micheloto	buy	40	11/03/20			
12)	Evercore ISI	Douglas T Terreson...	outperform	45	11/03/20			

Discounted Cash Flow Analysis

Marathon Petroleum Company	Historical Period			Forecasted Period				
Fiscal Year	**2017A**	**2018A**	**2019A**	**2020P**	**2021P**	**2022P**	**2023P**	**2024P**
Revenues	$ 75,369	$ 97,102	$ 124,813	$ 106,091	$ 115,639	$ 129,516	$ 138,582	$ 148,283
% Growth	34%	29%	29%	-15%	9%	12%	7%	7%
Cost of Goods Sold	$ 67,089	$ 86,066	$ 110,243	$ 93,360	$ 101,184	$ 113,326	$ 121,952	$ 130,489
Gross Profit	**$ 8,280**	**$ 11,036**	**$ 14,570**	**$ 12,731**	**$ 14,455**	**$ 16,189**	**$ 16,630**	**$ 17,794**
% Margin	11%	11%	12%	12%	13%	12.5%	12%	12%
Operating Expenses								
Selling, General, & Administrative	$ 990	$ 2,418	$ 3,408	$ 2,999	$ 3,269	$ 3,629	$ 3,919	$ 4,193
Other Operating Costs	$ 1,197		$ 1,197	$ 994	$ 1,113	$ 1,213	$ 1,334	$ 1,414
EBITDA	**$ 6,093**	**$ 8,618**	**$ 9,965**	**$ 8,738**	**$ 10,073**	**$ 11,348**	**$ 11,377**	**$ 12,187**
% Margin	8%	9%	8%	8%	9%	9%	8%	8%
Depreciation & Ammortization	$ 1,148	$ 2,490	$ 3,638	$ 3,911	$ 4,204	$ 4,519	$ 4,858	$ 5,223
EBIT	**$ 4,945**	**$ 6,128**	**$ 6,327**	**$ 4,828**	**$ 5,869**	**$ 6,829**	**$ 6,518**	**$ 6,964**
Taxes	$ (6)	$ 1,519	$ 1,825	$ 1,207	$ 1,467	$ 1,707	$ 1,630	$ 1,741
NOPAT	**$ 4,951**	**$ 4,609**	**$ 4,502**	**$ 3,621**	**$ 4,402**	**$ 5,121**	**$ 4,889**	**$ 5,223**
Plus Depreciation and Ammortization	$ 1,148	$ 2,490	$ 3,638	$ 3,911	$ 4,204	$ 4,519	$ 4,858	$ 5,223
Plus: Stock based compensation	$ 306	$ 373	$ 394	$ 406	$ 418	$ 431	$ 443	$ 457
Less: Capital Expenditures	$ (3,106)	$ (4,304)	$ (6,133)	$ (5,975)	$ (6,981)	$ (7,046)	$ (7,239)	$ (7,592)
Less: Increase in NWC	$ (2,923)	$ (5,077)	$ (4,023)	$ (2,861)	$ 347	$ (4,071)	$ (3,877)	$ (4,084)
Unlevered Free Cash Flow	$ 7,483	$ 12,244	$ 14,188	$ 13,153	$ 11,256	$ 16,067	$ 16,418	$ 17,356
WACC	8.08%							
Discount Period				0.5	1.5	2.5	3.5	4.5
Discount Factor				96%	88%	81%	74%	68%
Present Value of Free Cash Flows				$ 12,610.11	$ 9,919.85	$ 13,015.48	$ 12,225.10	$ 11,879.11

Enterprise Value		
NPV of FCF	$	56,825.98
Terminal Value		
Terminal Value EBITDA	$	12,186.58
Exit Multiple		8
Terminal Value	$	97,492.67
Discount Factor		0.68
PV of Terminal Value	$	70,330.75
% of Enterprise Value		55%
Enterprise Value	$	127,156.73

Implied Equity Value per Share		
Enterprise Value	$	127,156.73
Less Total Debt	$	29,280.00
Less Preferred Stock	$	-
Less Noncontrolling Interest	$	618.00
Plus cash and Cash Equivalents	$	1,530.00
Implied Equity Value	$	98,788.73
Shares Outstanding		1234
Price per Share	$	80.06

These valuation methods demonstrate that MPC is trading at a significant discount to fair value. Our normalization of the stock against the S&P 500 implied a price of $60.01, a 55.7% premium on the current share price. Using comparative analysis with similar industry stocks found through our screener, we saw that MPC was again trading at a significant discount to the implied price of $67.85. The third valuation approach we used was a consensus analyst valuation, which gave a price target of $44.63.

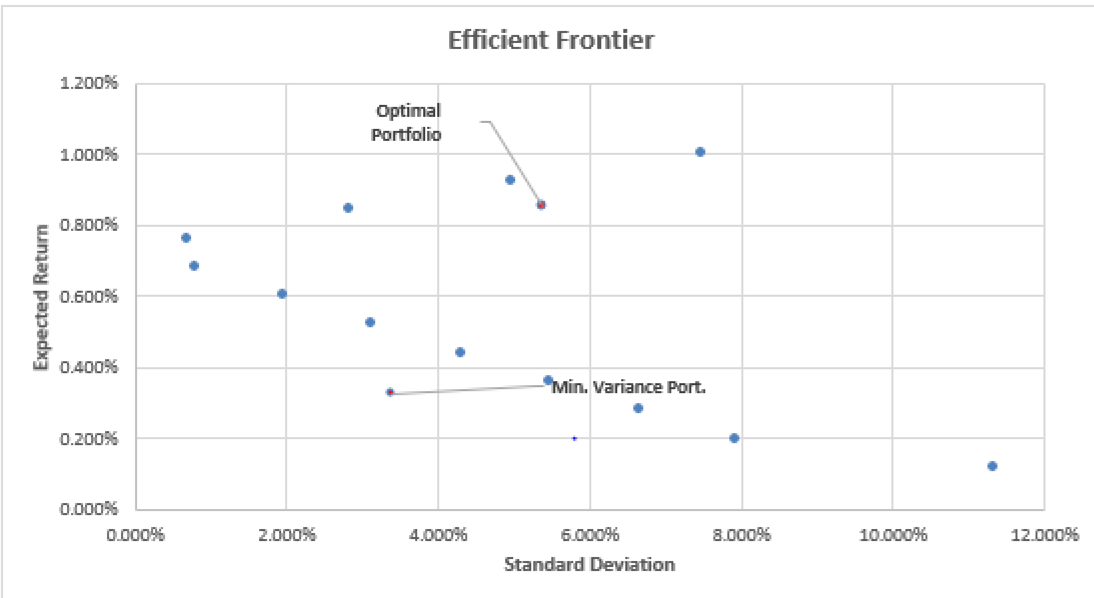
The final method of valuation used as a discounted cash flow. A significant discount to growth was applied for the next fiscal year due to heavy headwinds against the industry in the form of COVID-19 restrictions on travel, which severely contracted the midstream petroleum industry. The next two years included strong bounce backs due to a rapid increase back to mean levels of sales, followed by two years of average growth for the company. The DCF yielded a price target of $80.06. We valued these methods equally to arrive at our final valuation, shown below. Based on these valuations, we believe that MPC stock is trading at a significant discount to fair value.

Valuation Summary				
Method		**Implied Price**		**Weight**
DCF		$	80.06	25.00%
Analyst Reccomendations		$	44.63	25.00%
Normalization		$	60.01	25.00%
Comps		$	67.85	25.00%
	Implied Share Price:	$	63.14	
	Current Share Price:	$	38.54	
	Premium to Current:		64%	

Markowitz Efficient Frontier Analysis

Efficient Frontier Figure 1, pictured below, is the portfolio optimization model for our ten-stock portfolio. The efficient frontier was calculated by minimizing the standard deviation of the portfolio for ten incremental expected monthly returns. The expected monthly returns ranged between -1.122% and 2.036%, which were the lowest and highest expected returns of our individual equities. The standard deviations of the portfolios in the efficient frontier ranged from 0.113% to 9.040%.

Efficient Frontier Figure 1



Efficient Frontier Figure 2: Input Data

Efficient Frontier Model IV

Expected return = Fama-French 3-factor model

Covariance matrix = traditional covariance matrix

Parameters

Risk-free 1-m UST (annual)	0.081%
Risk-free 1-m UST (monthly)	0.007%

Expected monthly total return

MDT	ANTM	CACI	CIEN	DBX	BUD	HBI	KHC	LNG	MPC
0.517%	1.003%	0.424%	0.732%	0.894%	0.274%	0.907%	0.737%	0.118%	0.689%

Portfolio Calculation

Portfolio weights										Portfolio statistics			
MDT	ANTM	CACI	CIEN	DBX	BUD	HBI	KHC	LNG	MPC	Sum weights	Standard deviation	Expected return	Sharpe ratio
0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	100.0%	0.000%	0.737%	0.295

Output:

Efficient Frontier

	Portfolio weights										Portfolio statistics				
Portfolio #	MDT	ANTM	CACI	CIEN	DBX	BUD	HBI	KHC	LNG	MPC	Sum weights	Standard deviation	Expected return	Sharpe ratio	E(R) to solve for
EF1	0.00%	0.00%	0.00%	0.00%	0.00%	0.64%	0.00%	0.00%	99.36%	0.00%	100.0%	11.345%	0.119%	0.010	*0.119%*
EF2	0.00%	0.00%	0.00%	0.00%	0.00%	52.21%	0.00%	0.00%	47.79%	0.00%	100.0%	7.934%	0.199%	0.024	*0.199%*
EF3	9.99%	0.00%	8.86%	0.00%	0.00%	46.64%	0.00%	3.59%	30.93%	0.00%	100.0%	6.658%	0.280%	0.041	*0.280%*
EF4	8.18%	0.00%	7.29%	0.00%	0.00%	38.44%	0.00%	20.60%	25.48%	0.00%	100.0%	5.485%	0.360%	0.064	*0.360%*
EF5	6.43%	0.00%	5.73%	0.00%	0.00%	30.22%	0.00%	37.58%	20.04%	0.00%	100.0%	4.312%	0.441%	0.101	*0.441%*
EF6	4.68%	0.00%	4.17%	0.00%	0.00%	22.00%	0.00%	54.55%	14.59%	0.00%	100.0%	3.140%	0.521%	0.164	*0.521%*
EF7	2.93%	0.00%	2.62%	0.00%	0.00%	13.78%	0.00%	71.53%	9.14%	0.00%	100.0%	1.967%	0.602%	0.303	*0.602%*
EF8	1.18%	0.00%	1.06%	0.00%	0.00%	5.57%	0.00%	88.50%	3.69%	0.00%	100.0%	0.794%	0.682%	0.851	*0.682%*
EF9	0.00%	7.17%	0.00%	0.00%	0.70%	0.00%	3.38%	88.74%	0.00%	0.00%	100.0%	0.692%	0.763%	1.093	*0.763%*
EF10	0.00%	29.39%	0.00%	0.00%	2.88%	0.00%	13.85%	53.87%	0.00%	0.00%	100.0%	2.836%	0.843%	0.295	*0.843%*
EF11	0.00%	51.62%	0.00%	0.00%	5.06%	0.00%	24.33%	19.00%	0.00%	0.00%	100.0%	4.981%	0.924%	0.184	*0.924%*
EF12	0.00%	98.96%	0.00%	0.00%	0.00%	0.00%	1.04%	0.00%	0.00%	0.00%	100.0%	7.485%	1.002%	0.133	*1.002%*

Other Portfolios

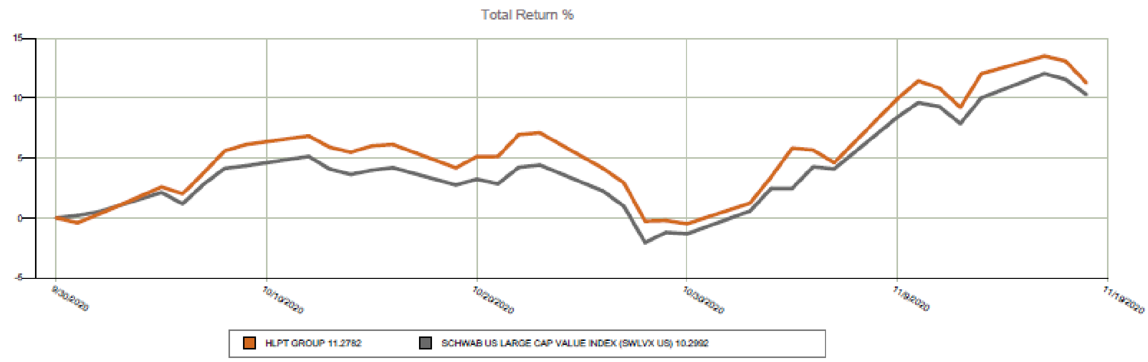
	Portfolio weights										Portfolio statistics			
Portfolio	MDT	ANTM	CACI	CIEN	DBX	BUD	HBI	KHC	LNG	MPC	Sum weights	Standard deviation	Expected return	Sharpe ratio
Optimal	0.28%	0.01%	0.00%	0.00%	0.05%	0.15%	1.22%	98.29%	0.00%	0.00%	100.0%	0.101%	0.738%	7.254
Min Variance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	100.0%	0.000%	0.737%	0.295

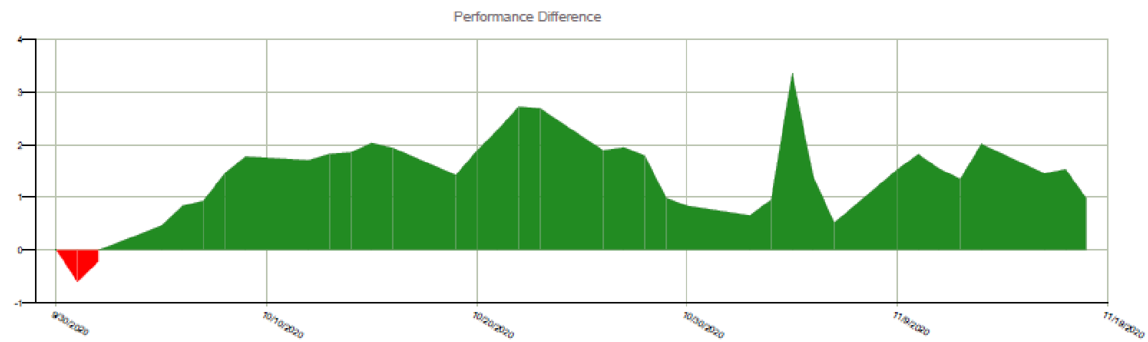
Portfolio Performance

Our Performance as of November 18, 2020:

Our portfolio has outperformed our benchmark, the S&P 500 Value Index, achieving a rate of return 11.28%. Given our benchmark's return of 10.30%, we achieved an active return of 0.98%. Using the Capital Asset Pricing Model, we calculated an implied expected portfolio return of 8.17%, giving us a Jensen's Alpha of 3.11%. Looking to the risk adjusted rate of return, our portfolio's Treynor Ratio is 0.1131 and Sharpe Ratio is 11.1767. Our portfolio beta is 0.99.

Portfolio: HLPT GROUP | Benchmark: SCHWAB US LARGE CAP VALUE INDEX (SWLVX US) | Start Date: 9/30/2020 | End Date: 11/18/2020 | Currency: USD





Portfolio Return Summary

Return Summary

Return Summary	
Portfolio Return	11.28
Benchmark Return	10.30
Active Return	0.98

Capital Asset Pricing Model and Alpha

Capital Asset Pricing Model

Parameteres	
Risk Free Rate (annual)	0.081%
Market Risk Premium (annual)	8.254%
Portfolio Beta	0.999

Implied Expected Portfolio Return	**8.17%**
Return on Portfolio	**11.28%**
Alpha	**3.11%**

Treynor and Sharpe Ratios

Risk Adjusted Rate of Return	
Parameteres	
Portfolio Standard Deviation	1.002%
Portfolio Beta	0.999
Risk Free Rate (annual)	0.081%
Portfolio Return	11.28%

Treynor Ratio	**0.113121**
Sharpe Ratio	**11.17665**

Attribution Model

Attribution Summary (Grid)

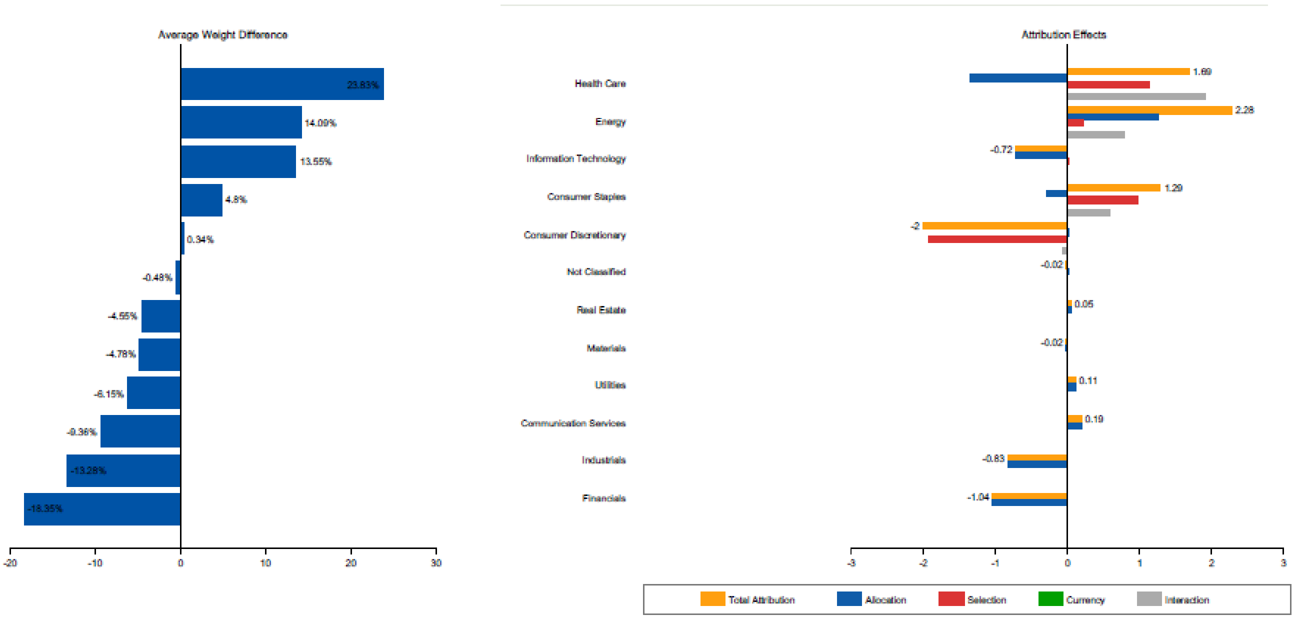
	% Average Weight			Total Return (%)			Contribution to Return (%)			Allocation Effect (%)	Selection Effect (%)	Currency Effect (%)	Tot Attr
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-				
HLPT GROUP	100.00	100.35	-0.35	11.28	10.30	0.98	11.28	10.30	0.98	-2.63	0.42	0.00	0.98
Health Care	38.00	14.17	23.83	12.27	4.54	7.74	4.74	0.67	4.08	-1.36	1.14	0.00	1.69
Information Technology	23.00	9.45	13.55	4.78	4.81	-0.03	1.15	0.45	0.70	-0.73	0.01	0.00	-0.72
Energy	18.00	3.91	14.09	24.72	18.23	6.50	4.36	0.70	3.66	1.25	0.22	0.00	2.28
Consumer Staples	13.00	8.20	4.80	16.11	4.16	11.95	2.08	0.34	1.75	-0.28	0.98	0.00	1.29
Consumer Discretionary	8.00	7.66	0.34	-13.86	10.74	-24.60	-1.06	0.81	-1.87	0.01	-1.93	0.00	-2.00
Not Classified	0.00	0.48	-0.48		6.95	-6.95		0.05	-0.05	0.02	0.00	0.00	-0.02
Materials	0.00	4.78	-4.78		10.57	-10.57		0.51	-0.51	-0.02	0.00	0.00	-0.02
Industrials	0.00	13.28	-13.28		16.55	-16.55		2.15	-2.15	-0.83	0.00	0.00	-0.83
Financials	0.00	18.35	-18.35		16.01	-16.01		2.89	-2.89	-1.04	0.00	0.00	-1.04
Communication Services	0.00	9.36	-9.36		8.33	-8.33		0.78	-0.78	0.19	0.00	0.00	0.19
Utilities	0.00	6.15	-6.15		8.33	-8.33		0.51	-0.51	0.11	0.00	0.00	0.11
Real Estate	0.00	4.55	-4.55		9.18	-9.18		0.42	-0.42	0.05	0.00	0.00	0.05

Source: Bloomberg

Our portfolio performance versus the benchmark can be better analyzed with an attribution model. While the fund's select sector was generally in line with the benchmark, we made tactical allocation decisions based on our top-down analysis. Consistent with our economic views, our portfolio is overweight relative to the benchmark in the healthcare sector, as our economic analysis forecasts a rebound and strong growth potential within this space as the U.S. emerges from the COVID-19 pandemic, specifically with opportunities relating to the medical device sub-sector. Additionally, our portfolio is overweight in the information technology industry due to the rapid growth and constant innovation within the technology space. Our portfolio was generally equal weight versus the benchmark portfolio in consumer discretionary.

Each sector we invest in contributed positively to our fund's total return of 11.28% but allocating to healthcare and information technology contributed most to our total return. Our allocation to healthcare, specially Anthem Inc. and Medtronic Plc. has been the greatest driver of our portfolio.

Attribution Model Sector Weights



Concluding Thoughts

The HillPoint Group is happy to present the performance of the Carlton Fisk Trust Fund to date, as of November 18, 2020. As a fiduciary, HillPoint will continue to strategically and responsibly invest on behalf of Carlton Fisk for the remaining time horizon. s