

THE MONTHLY RESEARCH CONFERENCE CALL

OUTLOOK FOR THE HOLIDAY SEASON



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ARGUS RESEARCH COMPANY



WHAT'S NEW AT ARGUS

NOVEMBER 2018

■ **The Argus Weekly Market Podcast**

- Argus President John Eade on recent market volatility
 - Interest rates, inflation, trade and more
- 2018 Investment Theme Podcast Series
 - Dividend growth, tax cuts, medtech, millennials, etc.
- The New Communication Services sector
 - What the new sector means for diversification

■ **Argus Quick Notes: Recent Weeks**

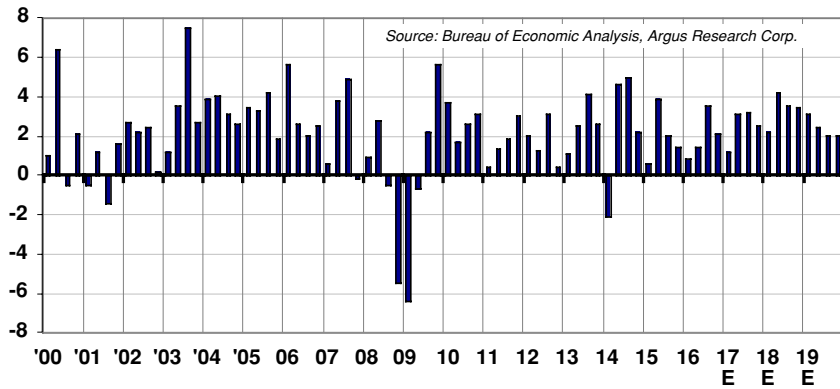
- Strong performers in a weak market
- McDonald's Corp.
- Stocks on Sale
- Progressive Corp.

■ **New on the Argus Site: ETF Screening Tool**

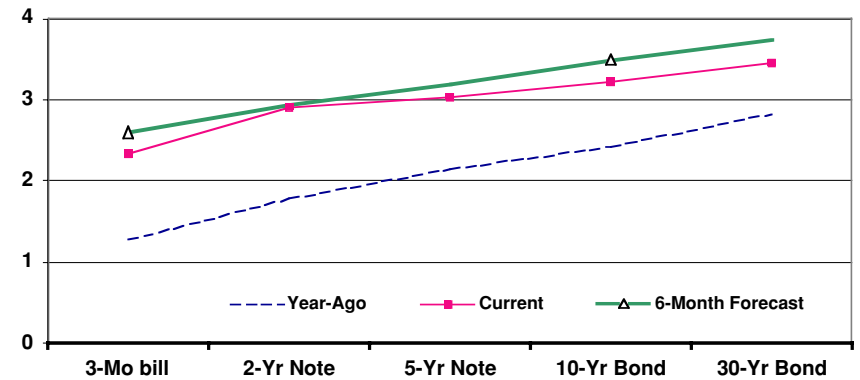
- Enables clients to identify BUY/HOLD/SELLs on specific ETFs
- Allows screening by ratings categories and/or fund families
- Argus uses robust holdings-based approach to rate ETFs
- Future ETF research products to include model portfolios

MACRO FORECASTS

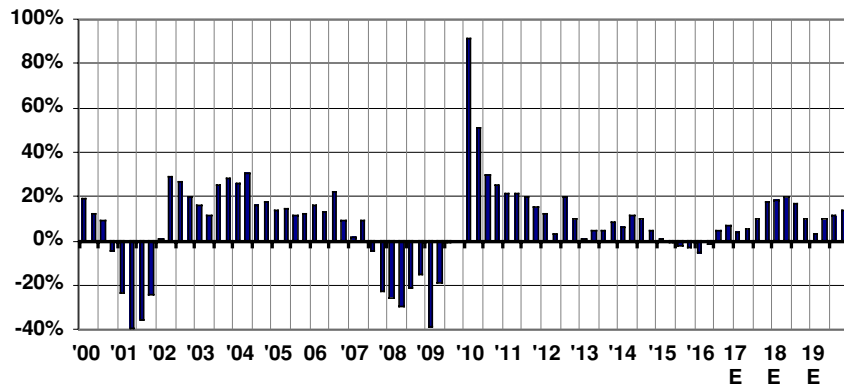
REAL GDP W/FORECASTS (%)



TREASURY YIELD CURVE (%)

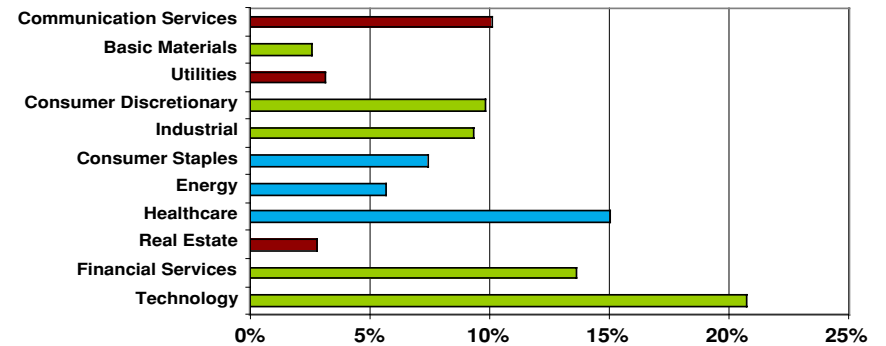


S&P 500 QUARTERLY EARNINGS GROWTH



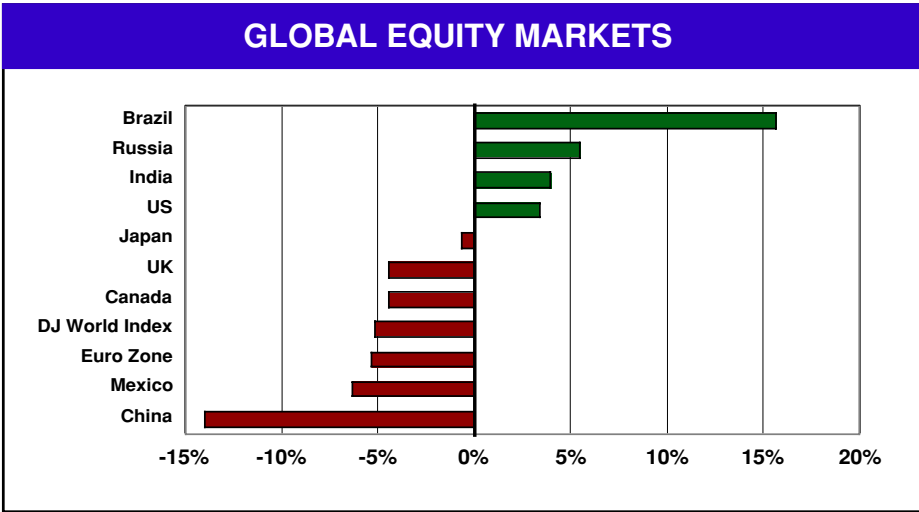
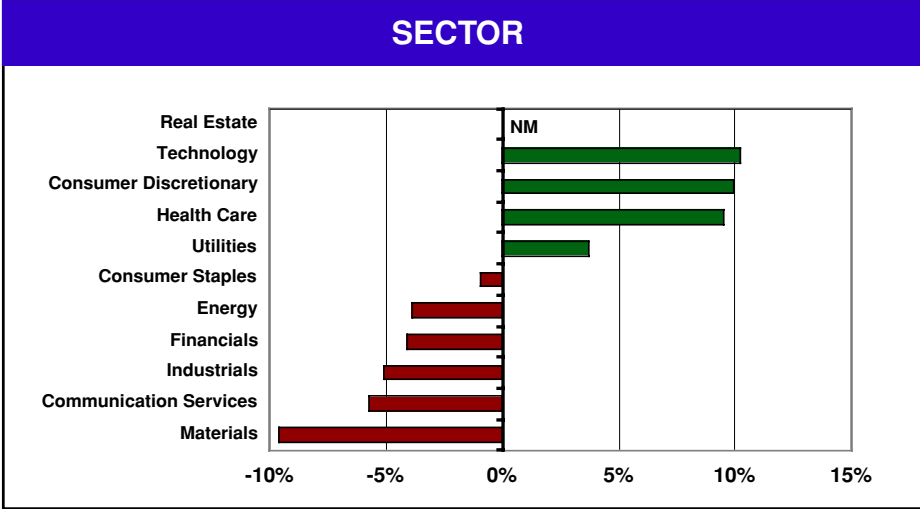
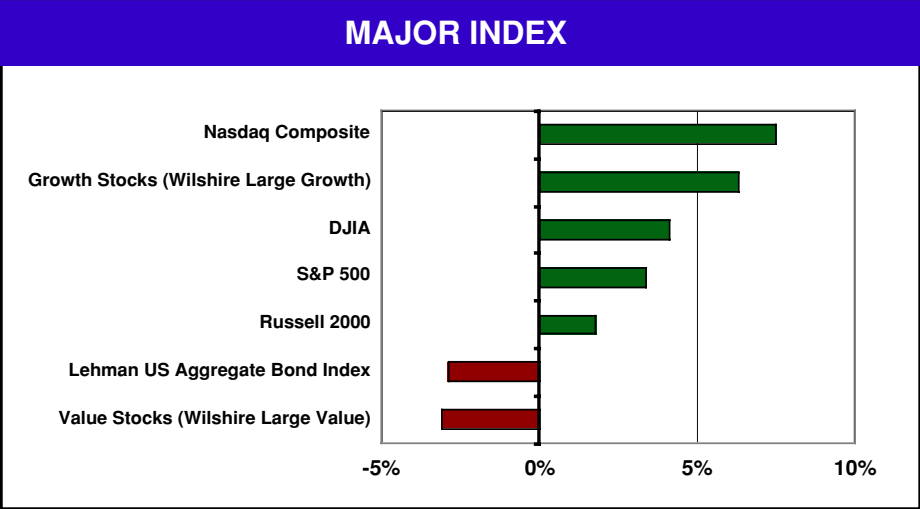
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

Sectors in Green are Recommended Overweight; Blue are Marketweight; Red are Underweight



MARKET PERFORMANCE

DATA AS OCTOBER 31, 2018



OUTLOOK FOR THE HOLIDAY SEASON — 2018 —

■ What's Going On with Retail Stocks?

- 12-month return 35% vs. 7% for S&P 500
- Retail has been less volatile. 1 beta
- Wide dispersion: Advance Auto Parts + 101%, L Brands -27%
- Oversold: 38% above 200 day mavg.
- Not Cheap: 27x forward earnings. Down from 33x.

■ How is the Consumer?

■ What Do We Expect for the Holiday Season?

■ What Have We Learned?

OUTLOOK FOR THE HOLIDAY SEASON

RETAIL RECOMMENDATIONS

■ Walmart (WMT)

- Target \$112

■ Lowe's (LOW)

- Target \$120

■ Williams-Sonoma (WSM)

- Target \$80

■ Ulta Beauty (ULTA)

- Target \$310

OUTLOOK FOR THE HOLIDAY SEASON

RETAIL RECOMMENDATIONS

■ McDonald's (MCD)

- Initiatives to gain U.S./overseas market share gaining traction.
- U.S. same store sales still disappointing, but international moving higher
- Customer traffic drivers: food quality, value menus, expanded delivery
- Initial profit drain from remodeling swings to benefit this year
- We think MCD moves higher based on:
 - U.S./Int'l share gains
 - Margin expansion
 - Further shareholder return/dividend hikes
- Target Price: \$190

OUTLOOK FOR THE HOLIDAY SEASON

RETAIL RECOMMENDATIONS

■ Estee Lauder (EL)

- Sales of high-end beauty products remain strong, driving industry-leading growth
- Multiple growth drivers:
 - Focus on prestige cosmetics
 - Rapid growth in distribution channels
 - Significant expense reduction, volume leverage drive margins
- Ongoing investment in products, markets and channels
- Shareholder-friendly capital return program; recent 13% dividend hike.
- Target Price: \$180

OUTLOOK FOR THE HOLIDAY SEASON

RETAIL RECOMMENDATIONS

■ Apple (AAPL)

- **Apple in 2018: best revenue, EPS growth since FY15.**
- **Double-digit growth in iPhone, Services, Other Products**
- **Refreshes should power compute (iPad, Mac) in FY19**
- **Relentless focus on shareholder return: buybacks, dividend growth**
- **Cheap on P/E less net cash; value up to the \$360s range**
- **Target Price: \$250**

OUTLOOK FOR THE HOLIDAY SEASON

RETAIL RECOMMENDATIONS

■ Amazon.com (AMZN)

- First & foremost a retailer: retail profits of \$1.64 billion in 3Q a record for any quarter
- Best growth in recurring, high-margin revenue:
 - AWS revenue up 50%; operating profit up 77%
 - Subscriptions up 51%, and other (advertising) up 122%
- Alexa-based portfolio (Echo, Dot, third-party apps) has conquered connected home with stunning speed.
- Now trading at discount to historical multiples, EV/EBITDA
- Target Price: \$2,250

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