THE MONTHLY RESEARCH CONFERENCE CALL

ARGUS ANALYSTS' TOP STOCK IDEAS FOR 2019

MODERATOR

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Argus President

Thursday, December 6, 2018

11:00 a.m. ET

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WHAT'S NEW AT ARGUS
DECEMBER 2018

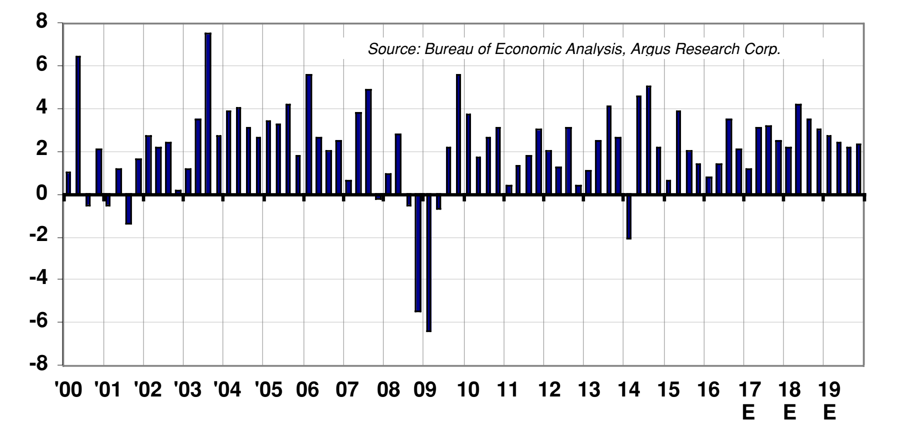
The Argus Weekly Market Podcast
- Argus President John Eade on market pullback and oil prices

Argus Quick Notes: Recent Weeks
- Investment Strategy outlook from Chief Strategist Peter Canello
- Update on falling FAANGs
- Clean water investing
- Companies raising guidance

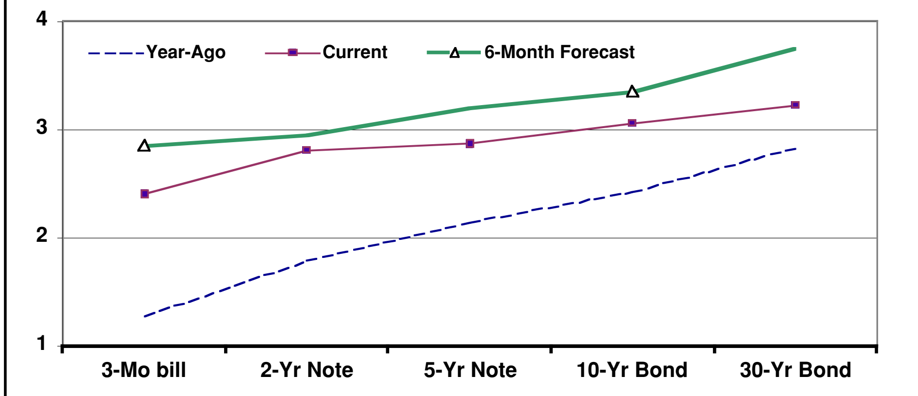
Argus Releases Latest Min Vol Portfolio
- Seeks to deliver market-like exposure with less-than-market risk
- Designed to provide protection in falling market
- Min Vol companies: stable business, steady industries, above-market yield
- Min Vol portfolio built on our proprietary quality & safety screens
- Under Portfolio Strategy/Theme Portfolios on the web site

MACRO FORECASTS

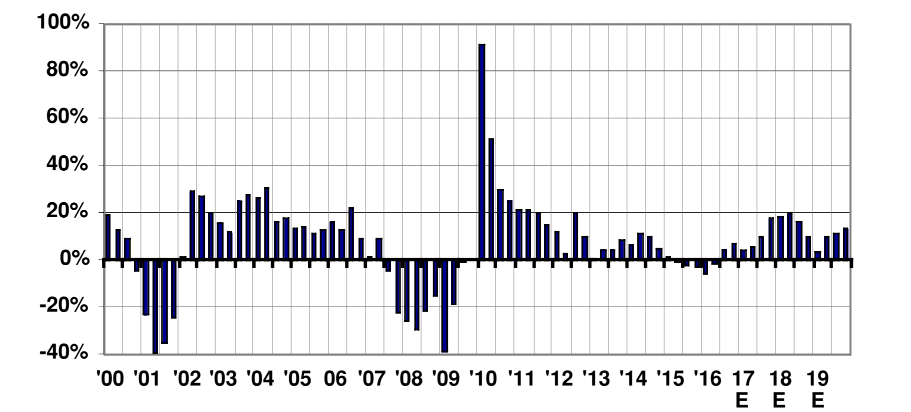
REAL GDP W/FORECASTS (%)



TREASURY YIELD CURVE (%)

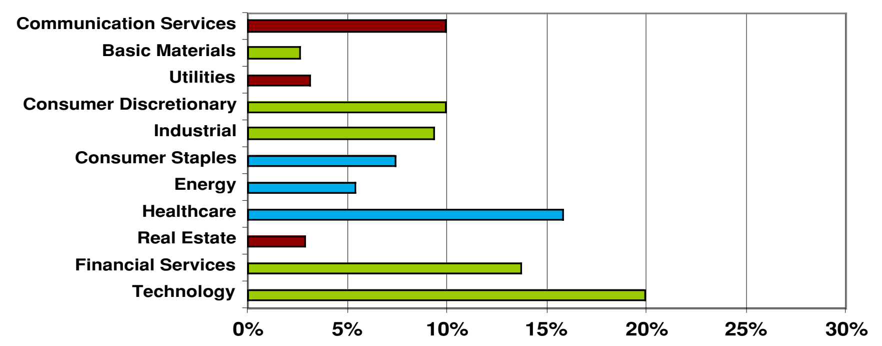


S&P 500 QUARTERLY EARNINGS GROWTH



MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500

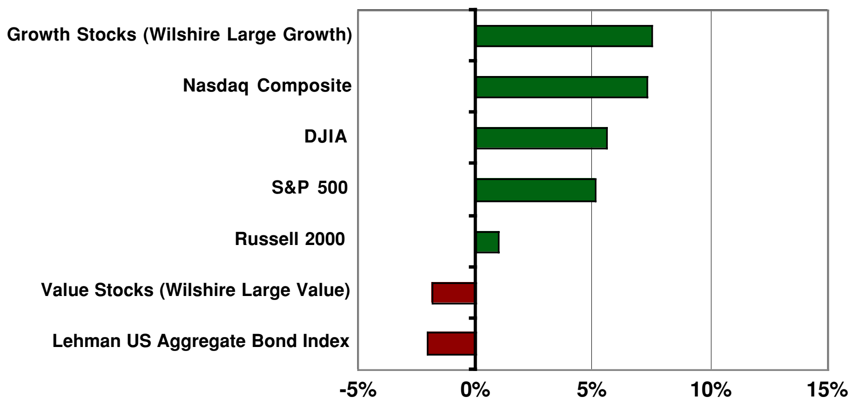
Sectors in Green are Recommended Overweight; Blue are Marketweight; Red are Underweight



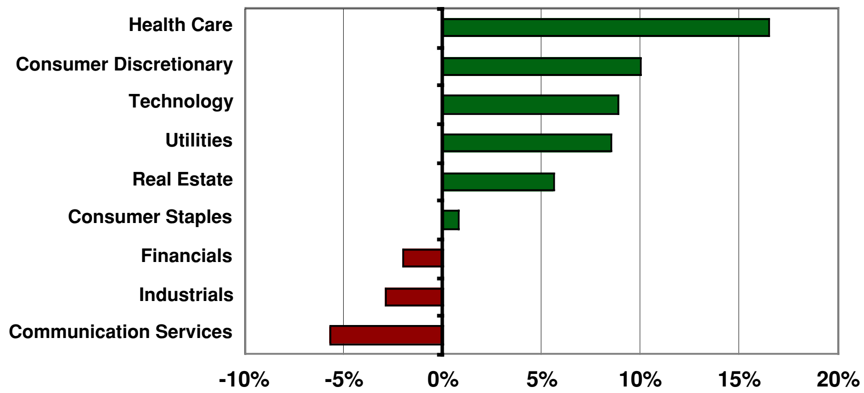
MARKET PERFORMANCE

DATA AS NOVEMBER 30, 2018

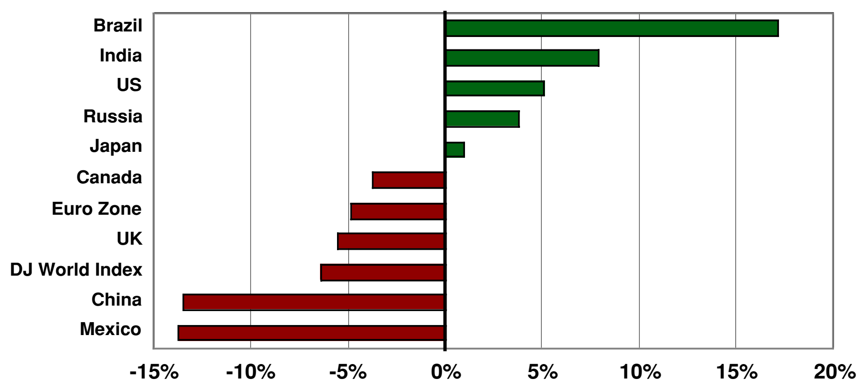
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



ARGUS ANALYSTS' TOP PICKS 2019

BASIC MATERIALS

Albemarle Corp. (ALB)

CONSUMER DISCRETIONARY

Home Depot Inc. (HD)
McDonald's Corp. (MCD)
TJX Companies Inc. (TJX)

CONSUMER STAPLES

Clorox Co. (CLX)

ENERGY

Helmerich & Payne Inc. (HP)
First Solar Inc. (FSLR)

FINANCIAL SERVICES

Progressive Corp. (PGR)
Charles Schwab Corp. (SCHW)

HEALTHCARE

Amgen Inc. (AMGN)
Stryker Inc. (SYK)
Bio-Techne Corp. (TECH)
Vertex Pharmaceuticals Inc. (VRTX)
AstraZeneca PLC. (AZN)

INDUSTRIALS

Roper Technologies Inc. (ROP)
Lockheed Martin Inc. (LMT)

REAL ESTATE

American Tower Corp. (AMT)

TECHNOLOGY

Arista Networks Inc. (ANET)
NVidia Corp. (NVDA)
Salesforce.com Inc. (CRM)
PayPal Holdings Inc. (PYPL)

UTILITIES

CenterPoint Energy Inc. (CNP)
CMS Energy Corp. (CMS)

ALBEMARLE CORP. (ALB)

12-month target price: $125 (Bill Selesky)

- **Albemarle develops and markets engineered specialty chemicals worldwide. The company focuses on the production of lithium compounds for use in lithium batteries.**
  - Fiscal 2017 revenue totaled $3.07 billion.
- **The current environment is extremely positive, based on strong global demand for lithium-ion batteries used in consumer electronics and automobiles.**
  - Lithium demand continues to exceed expectations and is expected to remain strong for the foreseeable future.
  - Lithium producers are seeking to acquire additional mines in anticipation of increasing demand.
  - Pricing remains strong based on solid demand trends and weak capacity growth.
- **Size and Scale: ALB operates 31 facilities worldwide.**
  - 80% of projected 2021 demand has already been secured by customer contracts.
- **Albemarle's long-term goal is to ramp up lithium production by expanding existing mines and pursuing joint ventures and acquisitions.**
  - This should lead to substantially higher-than-average profit growth.
  - Albemarle focuses on shareholder returns through both dividend increases and stock buybacks.
  - The company raised its dividend by 5% in February 2018 and has increased its dividend for 24 straight years.

MCDONALD'S CORP. (MCD)

12-month target price: $210 (John Staszak, CFA)

- **With more than 37,000 locations in 119 countries, MCD is the world's largest chain restaurant.**

  In 2017, revenue totaled $22.8 billion and same-store sales rose a strong 5.3%.

- **We expect the company's "Experience of the Future" plan to drive further same-store sales gains and enable the return of cash to shareholders.**

  The company has raised its dividend for 42 straight years.

  The most recent dividend increase was nearly 15%, above the average of 6% over past five years. In our view, the dividend hike underscores management's confidence in its efforts to revive same-store sales growth through its mobile order & pay system, value menus, and restaurant renovations.

- **Positive outlook not reflected in valuation.**

  We believe that prospects for further comp growth in the U.S. are inadequately reflected in the current share price.

  We recently raised our target price by $20 to $210.

HOME DEPOT INC. (HD)

12-month target price: $220 (Chris Graja, CFA)

- **24% upside to our price target.**

  We believe that HD's 17% pullback from its September high provides a favorable entry point.

  Our target price of $220 implies a multiple of 22-times our forward-four-quarter EPS estimate.

  HD has raised its dividend at a 22% compound annual rate over the past five years. It also recently raised its target payout ratio to 55% from 50%. The current yield is an attractive 2.3%.

- **Fundamentals remain strong.**

  HD has raised its operating margin by more than 400 basis points over the last five years.

  In fiscal 3Q19, EPS rose 36% from the prior year and topped the consensus forecast.

  Comp sales at U.S. stores rose 5.4% in 3Q19, on top of 7.7% growth in 3Q18.

  Online sales rose 28% in 3Q19.

  Overall economic growth is a more important sales driver for Home Depot than housing activity.

- **Shareholder friendly.**

  The trailing four-quarter return on invested capital was 42.2% in 3Q, up an impressive 970 basis points from the prior year.

  The ROIC exceeded the cost of capital by 33 percentage points.

  The company repurchased $5.5 billion of its stock in the first three quarters of FY19, and has repurchased approximately $80 billion since 2002.

TJX COMPANIES INC. (TJX)

12-month target price: $55 (Chris Graja, CFA)

- **Recent Upgrade**

  TJX's combination of growing store traffic, single-A credit ratings, and 22% annualized dividend growth (over the last five years) makes this a stock we were pleased to upgrade during the recent market pullback.

  TJX is trading at an enterprise value of 14-times trailing EBIT, below the median of 17.5 for peers designated by Bloomberg.

- **A Relevant Retailer**

  Consumers will not tolerate significant price increases in this competitive environment, so increasing traffic becomes crucial for driving sales.

  The company's flagship Marmaxx division has delivered quarterly increases in store traffic for 17 straight quarters — an impressive achievement given the sector-wide decline in traffic.

  TJX has posted 22 consecutive years of rising comp sales and only one comp decline in its 41-year history.

- **Double-Digit Growth**

  We expect square footage to increase 4%-5% annually and same-store sales to rise about 2%.

  We expect a few percentage points of EPS growth from share buybacks.

  TJX has repurchased more than $10 billion of its stock over the last seven fiscal years. It plans to repurchase $2.5-$3 billion in the current FY19.

- **Happy Holidays**

  Based on our recent store visits and the momentum of a 7% comp sales increase in 3Q, TJX appears well positioned for the all-important holiday shopping season.

CLOROX CO. (CLX)

12-month target price: $185 (John Staszak, CFA)

- **Clorox manufactures and markets a wide variety of consumer products, including bleach, disinfectant wipes, cat litter, lip balm and salad dressing.**

  Fiscal 2018 revenue totaled $6.1 billion, while full-year earnings rose 17%.

- **We expect Clorox to benefit from its strong market share in mid-priced products and management's efforts to boost revenue through product innovation.**

  Clorox has delivered positive earnings surprises for six consecutive quarters and we see further growth ahead.

- **The share are an appealing total-return investment.**

  Following a year-to-date gain of 11%, the shares yield about 2.3%.

  Clorox has increased its annual dividend for more than 25 consecutive years and has increased its payout by an average of 11% annually over the past six years.

  Clorox is an S&P Dividend Aristocrat.

HELMERICH & PAYNE INC. (HP)

12-month target price: $87 (Bill Selesky)

- **Helmerich & Payne is engaged in drilling oil and gas wells for E&P companies.**
  - Fiscal 2018 revenue totaled $2.49 billion.
- **The current energy environment is mixed and extremely volatile based on growing global supply concerns.**
  - Global industrial production is expected to increase at a 2%-3% annual rate through 2020.
  - The recent decline in oil prices has pushed WTI down to the $51-$52 per barrel range, still above the 2017 average of $50 per barrel.
- **HP has an industry-leading financial profile, with a solid balance sheet and a Medium-High financial strength rating from Argus.**
  - The debt/cap ratio of 10% is significantly below the peer average.
  - The current dividend yield of about 4.8% is the best in the peer group.
  - We continue to view HP as a potential M&A target based on its product lineup and financial profile.

FIRST SOLAR INC. (FSLR)

12-month target price: $60 (David Coleman)

- **First Solar designs, manufactures and markets thin-film semiconductor photovoltaic (PV) cells and modules that convert sunlight into electricity. By using a very thin coating of semiconductor material over a glass sheet, the company is able to produce PV modules at a much lower cost than firms using traditional wafer technology.**
  - Fiscal 2017 revenue totaled $2.94 billion.
- **The current solar industry environment is attractive given declining manufacturing costs, the increased efficiency of PV cells, and the recent pullback in industry share prices.**
  - Solar photovoltaic (PV), a solid-state technology, is emerging as the most viable of the alternative energy solutions, overcoming the limitations presented by mechanical-dependent alternatives such as wind power and solar.
  - As companies continue to invest in R&D and become more efficient, we think that solar will become more competitive with traditional power generation.
- **The company has an industry-leading financial profile with a solid balance sheet. We rate its financial strength as Medium.**
  - The total debt/cap ratio of 2.6% is meaningfully below the peer average.
  - The company had cash of $2.7 billion and available credit of $136.6 million at the end of the most recent quarter.

PROGRESSIVE CORP. (PGR)

12-month target price: $79 (Jacob Kilstein, CFA)

- **We recently upgraded PGR to BUY based on the company's consistent EPS growth and high ROE, and the stock's favorable valuation.**
- **Progressive has shown steady growth in premium revenue. The company's positive investment results allow it to maintain higher loss reserves, reducing the impact of catastrophe losses.**
- **The company's balance sheet is clean, and management consistently returns capital to shareholders through dividend hikes and share buybacks.**
- **The shares trade at 13.3-times our 2019 EPS estimate, near the low end of the historical range of 13.2-23.5 and below the 14.4 peer average. We believe that earnings growth has become more consistent over the last few quarters, and that relative and historical P/E valuations are attractive.**
- **We prefer Progressive over Allstate based on the company's consistently higher cash flow growth and smaller exposure to the California residential and business markets, which have seen heavy losses this year due to wildfires.**

CHARLES SCHWAB CORP. (SCHW)

12-month target price: $69 (Stephen Biggar)

- **Schwab has gained market share by challenging industry pricing standards with many low- or no-cost offerings, including its popular proprietary ETFs.**
- **Schwab has optimized the spread earned on client cash sweep balances through bulk transfers from money market funds to its Schwab Bank.**
- **We expect higher short-term interest rates to drive continued growth in net interest revenue.**
- **Based on our expectations for 20% EPS growth in 2019, we view the shares as undervalued at less than 15-times our 2019 EPS estimate.**

AMGEN INC. (AMGN)

12-month target price: $220 (David Toung)

- **Amgen is a leading global biotechnology company focused on oncology, cardiovascular medicine, and pain management.**
- **We expect the launch of new drugs to drive top-line growth in 2019.**
- **We see strong growth in the coming year for Repatha, which lowers cholesterol and reduces heart attack risks, and for Prolia, which treats multiple myeloma.**
- **The company has more than $28 billion in cash and marketable securities to fund M&A, licensing deals, stock buybacks, and dividend increases.**

STRYKER INC. (SYK)

12-month target price: $210 (David Toung)

- Stryker is a manufacturer of orthopedic implants and surgical equipment.
- The company is using its Mako robotics-assisted system for orthopedic surgery to boost sales of knee implants and to gain market share from competitors.
- Stryker's strong offerings of O/R equipment and neurovascular devices provide a balanced portfolio of orthopedic implants and surgical equipment.
- Management plans to use cash to fund acquisitions and stock buybacks.

BIO-TECHNE CORP. (TECH)

12-month target price: $230 (David Toung)

- **Bio-Techne is a supplier of instruments, reagents and specialized proteins for the global biotech industry.**
- **TECH's products help to advance the drug development process. Sales in fiscal 1Q19 were strong both domestically and internationally, with more than 30% growth in China.**
- **The company has made 14 acquisitions over the last five years, substantially expanding its product offerings. We expect a brisk pace of new deals to drive sales growth going forward.**
- **The TECH share price has declined 14% over past three months, creating an attractive entry point.**

VERTEX PHARMACEUTICALS INC. (VRTX)

12-month target price: $200 (Jasper Hellweg)

- **Vertex is a large-cap biotech company focused on cystic fibrosis, as well as other autoimmune, inflammatory, neurological, and viral diseases.**
  - The company turned a profit in 2017 for first time in years.
  - In first nine months of 2018, it boosted adjusted EPS by 110%.
- **The company's deep new product pipeline includes a number of potential catalysts.**
  - If current pipeline products are approved, company could offer products for up to 90% of cystic fibrosis patients, up from 45% at the beginning of 2018.
  - The EU recently approved Kalydeco (which generated 31% of 3Q sales) for the treatment of cystic fibrosis in children ages 12-24 months, expanding its addressable market.
- **Vertex's products have a history of broad access and coverage from commercial and government payers.**
- **Our target price of $200 implies a projected 2019 P/E of 44, well below the historical average multiple.**

ASTRAZENECA PLC (AZN)

12-month target price: $46 (John Eade)

- **Based in the UK, AstraZeneca PLC focuses on treatments for respiratory, autoimmune, and metabolic conditions, as well as on cardiology, neurology, and oncology drugs.**

  While most companies in the Big Pharma group have moved beyond the patent cliff phase and are beginning to grow, AstraZeneca has lagged, as it faces pricing pressure and generic threats to its former blockbusters Nexium (for ulcers) and Crestor (for high cholesterol).

  Management is taking steps to address these challenges by cutting costs and assembling a strong new drug pipeline, including a promising checkpoint inhibitor, Imfinzi, to treat various cancers.

  Imfinzi has now been approved as a first-line treatment for lung cancer in the EU, in addition to the U.S., and as a treatment for bladder cancer. It is also being submitted as a treatment for early-stage lung cancer.

- **There's more in the pipeline.**

  EU and Japanese regulatory decisions are expected on Forxiga for type-1 diabetes in 2H19.

  Lezepelumab, a treatment for severe asthma, has received a breakthrough therapy designation from the FDA.

- **Solid combination of growth & income.**

  We expect AstraZeneca's pipeline and management's focus on cost-cutting to return the company to growth in 2019.

  The yield of 3.4% is above the Big Pharma industry average.

ROPER TECHNOLOGIES INC. (ROP)

12-month target price: $330 (John Eade)

- **Roper designs and develops software and engineered products for a range of industrial end markets, including healthcare, transportation, food, and energy.**

  The company is well positioned at this stage of the economic cycle given its focus on productivity enhancement.

  In the latest quarter, all four segments posted double-digit revenue growth.

  Margins also expanded in all four segments; the overall EBITDA margin was 35.8%.

- **Roper has a record of double-digit dividend hikes, including an 18% hike in December 2017.**

- **The company has a long record of market outperformance. It has outperformed both the S&P 500 and the industry ETF IYJ over the past quarter, the past year, and the past five years.**

- **ROP shares appear attractively valued by historical standards.**

  They are trading 5% below their all-time highs amid trade and tariff concerns.

  The projected 2019 P/E of 22 is at the low end of the historical range of 22-28.

  Compared to the peer group (DHR, DGX, LH, CRL), the shares are trading at premium multiples, which we believe is warranted based on the company's high profitability and track record.

LOCKHEED MARTIN INC. (LMT)

12-month target price: $385 (John Eade)

- **Lockheed is a defense prime with key businesses in Aeronautics (F-35, F-16, F-22 programs), mission systems (cybersecurity and surveillance) and missiles.**

  With a Republican in the White House, the outlook for defense spending has brightened and is a far cry from the days of sequestration.
  Congress recently easily passed a $717 billion defense spending package for FY19.
  In addition, President Trump is urging U.S. allies to beef up their defense spending.

- **The company has a record of double-digit dividend hikes, including a 10% increase in September 2018.**

  The double-digit hike underscores LMT's financial strength, strong focus on shareholder returns, and positive growth outlook.

- **Lockheed is a well-managed company with a long record of market outperformance.**

  Management consistently sets conservative guidance and raises its outlook as the year progresses.
  Returns have topped the industry ETF IYJ over trailing one-year and five-year periods.

- **The shares are attractively valued compared to the historical record.**

  They are trading 18% below their all-time high amid trade and tariff concerns.
  The projected 2019 P/E of 17 is toward the low end of historical range of 15-24.
  The dividend yield of 3.0% is at high end of the industry range, signaling value.

AMERICAN TOWER CORP. (AMT)

12-month target price: $174 (Jacob Kilstein, CFA)

- **American Tower was our best pick for 2018, and has risen almost 14% since we recommended the shares. As we expect mobile data usage to grow 50% annually over the next five years, which should increase the demand for tower leases, we believe there is more room to grow in 2019.**

- **The company operates wireless towers, which benefit from annual lease rate increases paid by their media and telecom tenants.**

- **AMT has a solid record of growth and profitability, and stands out among the publicly traded tower operators based on its size, margins, FFO growth rate, and high-quality assets. We also like its international expansion efforts.**

- **AMT shares trade at 20.5-times our 2019 FFO per share estimate, at the midpoint of the five-year range of 15.8-25.2 and above the 17.4 median for peers. We believe that the premium multiple is appropriate given the company's higher revenue and cash flow growth.**

- **AMT has raised its dividend by 23% annually over the past five years; the current yield is about 1.9%.**

ARISTA NETWORKS INC. (ANET)

12-month target price: $320 (Jim Kelleher, CFA)

- **Bringing networking into the age of cloud.**
  - Cloud networking brings efficiency and scale benefits to legacy networking environments.
  - Arista's CloudVision campus for unified wireless & wired leverages its acquisition of Mojo Networks.
  - In our view, Arista has a huge untapped potential with telcos, ISPs, and cloud titans.
- **In August, Cisco and Arista ended their patent infringement battle.**
  - Arista paid Cisco $400 million in cash, ending a cash drain and the uncertainty of litigation.
- **Revenue and EPS are growing faster than the ANET share price.**
  - In 3Q18, revenue rose 28% from the prior year and non-GAAP EPS rose 31%.
  - Management's 4Q18 guidance calls for roughly 30% revenue and EPS growth. Its full-year forecast calls for EPS growth of 39%.
- **Valuations are attractive.**
  - ANET has retraced with the Tech sector and the overall market, even as analysts continue to raise their EPS estimates.
  - The shares are trading at a two-year forward relative P/E of 1.65, close to the five-year average of 1.60; the PEG ratio of 1.47 is below the average of 2.0 for peers.
  - Year-end weakness in ANET has provided an attractive entry point.

NVIDIA CORP. (NVDA)

12-month target price: $250 (Jim Kelleher, CFA)

- **Leader in the age of GPU compute.**
  - **NVidia's graphics processing technology is a great fit for AI, robotics, and autonomous driving applications.**
  - **The company's data center business is supplying all "Super Seven" cloud titans.**
- **Multiple paths to growth.**
  - **Gaming (53% revenue); Turing GeForce cards have introduced RTX ray-tracing technology (lifelike light & shadow).**
  - **Data center (25% of revenue, growing 60%); the Turing-based T4 Cloud GPU is experiencing the fastest adoption of any server GPU.**
  - **Auto is showing mid-teens growth, and about to explode with Pascal DRIVE Level 5.**
  - **NVidia's lean infrastructure and fast growth equate to explosive growth in cash flow.**
- **After the "FANG 10" selloff, NVDA shares have become much more attractive.**
  - **The stock is trading at 21-times two-year forward EPS, below the historical average multiple of 24.**
  - **The two-year forward relative P/E of 1.45 is close to the five-year average of 1.47; the PEG ratio of 1.0 is below the peer average of 2.0.**
  - **Our DFCF model points to a value in the low $300s, in a rising trend.**
  - **Our blended valuation analysis – historical comparables, peer group, DFCF – supports values well above current levels.**

SALESFORCE.COM INC. (CRM)

12-month target price: $180 (Joseph Bonner, CFA)

- **Salesforce is a cloud-based software-as-a-service customer relationship management software company.**
  - CRM shares are up 39% year-to-date, compared to a 2% capital return for the S&P 500 and a 7% return for the S&P Information Technology index.
  - However, CRM is down 13% from its one-year high at the end of September 2018.
- **Salesforce keys in to powerful secular trends in enterprise technology, including:**
  - The need of enterprises to rapidly improve and simplify their own customer/user digital sales and service experiences.
  - The creation of integrated software platforms connected to an ecosystem of enterprise customers, systems integrators/ resellers, and third-party developers.
  - The transformation of business management through mobile anytime/anywhere applications employing artificial intelligence and data integration.
- **The company is taking share in fragmented, rapidly growing markets.**
  - CRM is growing faster than its core markets and often at many times the rate of incumbent competitors.

PAYPAL HOLDINGS INC. (PYPL)

12-month target price: $100 (Stephen Biggar)

- **We expect the favorable cyclical backdrop of strong growth in employment and consumer spending to benefit payment processing volumes.**
- **We also look for PayPal to benefit from the long-term secular shift from cash/checks to digital payments for convenience, safety and rewards programs, as well as from the rapid growth of e-commerce.**
- **The company's unique business model allows individuals to both pay and be paid for goods and services.**
- **PYPL appears favorably valued relative to peers based on our expectations for 20% EPS growth.**

CENTERPOINT ENERGY INC.

12 month target price: $33 (Gary Hovis)

- **CenterPoint has a solid base of regulated utility assets (electric and gas distribution) and well-managed nonregulated interstate gas pipeline, processing and storage operations.**
- **The company has positive relations with regulators and a growing rate base supported by an expanding infrastructure improvement program.**
- **Assuming that economic conditions continue to improve in the Southwest, we expect the company to invest its cash in nonregulated energy-related assets that have the potential for higher long-term returns.**
- **We believe that CenterPoint is committed to optimizing the value of its portfolio and that it has the potential to generate total returns for shareholders of 7%-8% annually over the next four to five years.**

CMS ENERGY CORP. (CMS)

12-month target price: $56 (Jacob Kilstein, CFA)

- The company's electric utility business provides a stable earnings stream supported by continued capital investment. Over the last fifteen years, EPS has grown at an above-peer-average rate of 7%.
- Management continues to project annual EPS growth of 6%-8% – better than the average of 5%-7% for most utilities.
- The company benefits from a favorable location in Michigan, with a rising population, a high proportion of skilled labor, a business-friendly regulatory environment, and relatively low exposure to severe weather events.
- We believe that the company's consistent, above-average growth more than offsets concerns about the stock's high valuation or the negative impact of rising interest rates.
- The shares trade at 20.5-times our 2019 EPS forecast, above the peer median of 18.8 for electric and gas utilities with fully regulated operations. Our $56 target implies a P/E of 22.4, which we feel is appropriate given the company's consistent above-average performance.

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