

TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES



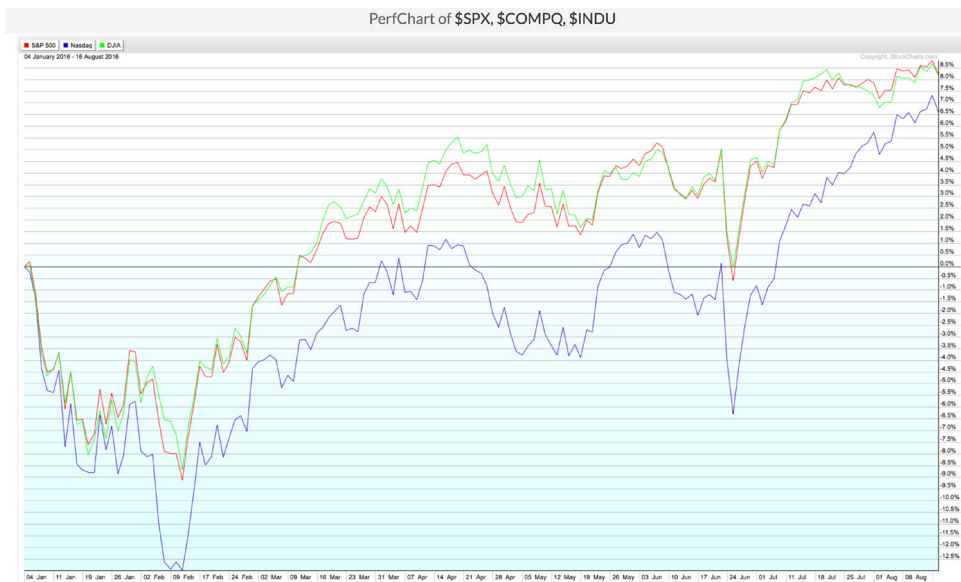
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Opening Commentary from Chris Versace

Over the last few months, all of the major stock market indices have been on a tear, but over the last few weeks, the rate of ascent has slowed substantially even though the market has been putting in new highs. Over the last week, the Dow Jones Industrial Average was up 0.1 percent while the Nasdaq Composite Index rose all of 0.03 percent and the S&P 500 dipped roughly 0.2 percent.



As we’ve been saying over the last few weeks, the back half of August tends to be rather slow with a markedly noticed drop in trading volumes. If we were to look at trading volume for the S&P 500 thus far in August, it averaged 495 million shares per day, 15 percent lower than average daily traded volume for the first half of April, May, June and July.

With last night’s market close, we officially have just 11 trading days left in August and 13 until the Labor Day weekend, which marks the end of summer, back to school for students and back to work for Wall Street. Odds are high the number of shares trading hands will slow even further between now and Tuesday, September 6. Lower than usual trading volume tends to exacerbate swings in the market, both to the upside as well as the downside. As we said above, the stock market has crept higher these last few months, and with no

Tematica Investing, a weekly publication by Chief Investment Officer Chris Versace, is designed for the experienced or professional investor, providing in-depth information on real-time developing thematic strategies, economic outlook, investment trading ideas, and analysis of the most pressing developments for the market, as well as forces that drive both our thematic perspectives and thematic recommendations.



major catalysts ahead over the next two weeks, we suspect those unlucky people that are manning the desks will be scrutinizing the market carefully.

We’ve been saying we’re likely to see a recalculation in expectations for second half earnings and while that’s begun, we still see more to go. To prepare for that, which in all likelihood will take some air out of the market’s balloon, we’re using the next few weeks to dig deeper into some new names, such as: **Omega Protein Corp. (OME)**, a **Fountain of Youth** contender and **Universal Display (OLED)**, a **Disruptive Technology** play on organic light emitting diodes (OLEDs).

And yes, it’s always possible that we might uncover another company, particularly one that is in the midst of transforming its business to better ride a thematic tailwind like the way **Cott Corp. (COT)** is doing. Once a branded soda company, Cott now derives 65 percent of its earnings before interest, tax, depreciation and amortization (EBITDA) from its Better For You products that include home and office water delivery, sparkling waters, mixers, coffee and tea, as well as other growing categories such as filtration services and other flavored water-based products, such that Cott’s Better For You products now represent over 65% of adjusted EBITDA. These moves have us eyeing COT shares as a potential **Food with Integrity** play — more as we conclude our analysis and valuation work.

Tematica Contenders

As we roll up our sleeves each week we add companies and discard others to our list of **Tematica Select Contenders**. These are companies that we’re doing more work on and in some cases we’re waiting for the risk to reward trade-off to reach more appetizing levels.

AWK	American Water Works	Scarce Resources
WTR	Aqua America	Scare Resources
CHGG	Chegg Inc.	Tooling & Retooling
CMG	Chipotle Mexican Grill	Foods with Integrity
SCOR	Comscore	Connected Society
GLW	Corning Inc.	Disruptive Technologies
EPR	EPR Properties	Content is King
IMMR	Immersion Corp.	Disruptive Technologies
KIM	Kimco Realty	Rise & Fall of the Middle Class
LOCK	Lifelock	Safety & Security
MKC	McCormick & Co.	Cashstrapped Consumer / Middle Class
MRK	Merk & Co.	Aging of the Population
NLSN	Nielson NV	Connected Society
OME	Omega Protein Corp.	Fountain of Youth
PANW	Palo Alto Networks	Safety & Security
SYNA	Synaptics Inc.	Disruptive Technologies
UNFI	United Natural Foods	Foods with Integrity
VZ	Verizon Communications	Content is King / Connected Society
XYL	Xylem, Inc	Scare Resources

Moving AMN Healthcare Services to the Tematica Select List from the Contender List

In the [April 13 issue of Tematica Investing](#), we placed healthcare workforce staffing and solutions company **AMN Healthcare Services (AHS)** on the **Tematica Contender List** (see page 2) as part of our **Aging of the Population** investment theme. [Click here to read the full details.](#)

Over the last few weeks, the shares have fallen 23 percent, even though earnings expectations for both 2016 and 2017 were bumped up coming out of June quarter earnings. The move lower has put AHS shares into oversold territory, and while it's true Aetna is joining others in pulling out of the Affordable Care Act exchanges, odds are pretty high the nursing shortage we talked about at length in April remains and will do so for more than several quarters to come.

Two years ago, approximately 30% of healthcare jobs across the nation went unfilled. In 2016, according to the Bureau of Labor Statistics, the percentage of unfilled healthcare job openings rose to 50%. AMN remains well positioned to capitalize on this pain point.

As such, we are taking advantage of this sharp move lower in AHS shares to take them off the bench and add them to the **Tematica Select List** with a \$47 price target, which offers more than 35% upside from last night's closing price.

Bottomline on (AHS) AMN Healthcare Services:

- **We are adding AMN Healthcare Services (AHS) shares that closed on August 16th at \$34.35 to the Tematica Select List.**
- **Our price target on the shares is \$47.**



AMN Healthcare Services Inc.

NYSE: **AHS**

Theme: **Aging Population / Scarce Resources**

Price on 08/16/16: **\$34.35**

- Provides healthcare workforce solutions and staffing services in the United States.
- The company operates through three segments: Nurse and Allied Healthcare Staffing, Locum Tenens Staffing, and Physician Permanent Placement Services.
- Its services include
 - Travel nurse staffing under American Mobile, Onward Healthcare, Nurses Rx, and O'Grady-Peyton brand names;
 - Rapid response nurse staffing under NurseChoice brand name.
 - Local, or per diem, staffing for daily shift work or on as-needed basis under Nursefinders brand name.
 - Locum tenens staffing for specialties, clinicians, and dentists under Staff Care, Linde Healthcare, and Locum Leaders brands.

Shares Outstanding	48.05M
Avg. Volume	876.43K
Market Cap	1.65B
EPS: '15 / '16E/ '17	\$1.64/ \$2.32/ \$2.55
Cash (mrq): \$US	21.06M
Debt (mrq): \$US	426.16M
Net Cash (mrq)	-405.1M
Revenue (ttm)	1.73B
Enterprise Value to Revenue (ttm)	1.22
Dividend Per Share	--
Dividend Yield	--

Thematic Investing Well Suited for Back to School Shopping This Year

While parents may like to think otherwise, the reality is that children are “active decision makers” in family economies. We’re not going by what we’ve heard or seen, but rather by the data from YouGov that confirms this influence. Moreover, this influence is fairly well spread among the purchases ranging from clothes, footwear and personal care products to be worn by the teenager, but also entertainment content and where to eat. Per YouGov, the percentage of teens having some degree of influence breaks out as follows:

- Apparel for the teen to wear (96%)
- Where to shop for clothes for the teen (90%)
- Personal care products for the teen (93%)
- Footwear for the teen (93%)
- Which fast-food restaurants to go to (95%)
- Types of out-of-home entertainment/sports/recreation to attend or do (93%)



Why is this important now?

We are in the midst of Back to School (BTS) shopping season, and the National Retail Federation sees BTS 2016 hitting \$75.8 billion. And yes, that is up compared to the \$68 billion spent last year. When we see aggregated numbers like that we also prefer to look at them on an individual or household basis as it tends to provide some much-needed perspective. This year the NRF sees shoppers spending an average of \$674 per household, up from \$630 last year.

The two big winners this year: online shopping, which comes as hardly a surprise to us given our **Connected Society** investing theme; and discount stores, again little surprise given our **Cashstrapped Consumer** theme.

But what will these back to schoolers be buying from online retailers like **Amazon (AMZN)** and at **Costco (COST)** or **Wal-Mart’s (WMT)** Sam’s Club?

To ferret out some answers, we turn to data published by **Piper Jaffray (PJC)**. Each spring since 2001, Piper Jaffray has conducted a study of teenage shopping habits. In the process, Piper has surveyed more than 130,000 teens and collected more than 35 million data points about teenage spending habits over the past 15 years. This year’s study

Thoughts on AMZN and COST

We continue to be bullish on AMZN shares (up 7.68 percent since adding them in May) and maintain our \$900 price target.

As far as COST shares go, after such a strong run in the shares, we would look to add them back to the Tematica Select List below \$160.

surveyed 6,500 U.S. teens across 46 U.S. states with an average age of 16.5 (broken down to 56 percent male, 44 percent female).

Contrary to the NRF Back to School spending forecast, Piper’s findings show teen spending is down compared to 2015. Even so, upper-income teens spent 38 percent of their “wallet” on fashion categories, such as clothing, accessories, footwear, etc. That’s a 2 percent uptick from a year ago, according to the study.

So where are teens spending that wallet or otherwise influencing spending decisions?

Rise & Fall of the Middle Class

Athletic apparel accounted for 17 percent of spending total. While **Nike (NKE)** was far and away the most popular brand at 21 percent, it was followed by **American Eagle (AEO)** 8 percent; Forever 21 7 percent, **Ralph Lauren (RL)** 6 percent; and **Hollister (ANF)** at 4 percent.

We continue to be bullish on shares of both NKE and UA, with price targets of \$66 and \$55, respectively.



Affordable Luxury

- Among upper-income teenage females, beauty products amounted to 10 percent of overall spending, which is the highest percent the survey has seen in 10 years.
- While no specific retailer was called out, one of the best-positioned companies that continues to see more of its business conducted online is **Ulta Salon (ULTA)**.
- Sales of denim jeans also rose to 14 percent of total spending among upper-income females, the first time it’s showed up as a top trend in spending since 2013.

Again, there were no specific denim brands mentioned, but several contenders include **VF Corp.’s (VFC)** 7 for all Mankind; **Guess? (GES)**, True Religion, and brands owned by **PVH Corp. (PVH)**.

Food with Integrity, Guilty Pleasure and other food options

- Restaurant spending made up 22 percent of total overall spending for upper-income teens and they tend to frequent limited-service restaurants rather than the full-service dining experience (and heftier price tag).
- The average check for a teenage meal was \$4-\$17
- **Starbucks (SBUX)** was the most at 14 percent, followed by **Chipotle (CMG)** 9 percent; Chick-fil-A 7 percent; and then **Panera (PNRA)** and **McDonald’s (MCD)** both at 4 percent.



Connected Society / Content is King

- **Online shopping:** **Amazon (AMZN)** dominates teen spending habits with 41 percent of all online teenage sales occurring there, while **Nike (NKE)** and Forever 21 tied for second at 5 percent apiece and **eBay (EBAY)**, **American Eagle (AEO)** and **Victoria's Secret (LB)** all tied for third at 3 percent each.
- **Media consumption:** Teens are also watching much more **Netflix (NFLX)** and **YouTube (GOOGL)** than traditional TV channels and shows. Teens spent 65 percent of their time watching Netflix and YouTube, compared to just 26 percent of their time watching "traditional TV."

Sometimes in thematic investing, what we don't see is more important than what we do see

Given the influence that teenagers have on overall spending, it's what's not mentioned in the previous pages that is rather revealing. More specifically, what we don't see teens spending money on is quite revealing.

Given the respondent age range, there is too little data to conclusively say anything about the automotive, travel or markets; however consumer electronics is notably lacking this Back to School season. We find that rather interesting given the ongoing shift in schools to Bring Your Own Device (BYOD) vs. school districts purchasing millions of dollars of computer equipment. This, of course, pushes the spend to families and helps explain the continued year over year increase in Back to School spending this year.

As we mentioned, there is no mention of automotive preferences from the Piper Jaffray findings, but we did come across a new study by Michael Sivak and Brandon Schoettle at the University of Michigan Transportation Research Institute that showed a drop in the number of people with a driver's license. What we found hard to fathom was the drop in people with a driver's license has been steadily falling since 1983 among people aged 16-44.

Then we dug into the report and found something even more shocking — in 2014, just 24.5 percent of 16-year-olds had a license, a 47-percent decrease from 1983, when 46.2 percent did. If we expand the age range, we still find far fewer teens getting their driver's license by the time they are 19 — 69 percent of 19-year-olds had licenses in 2014, compared to 87.3 percent in 1983.

Perhaps all the various ways to communicate today as part of our increasingly Connected Society — thank you iMessage, **Facebook (FB)**, Messenger, Skype, Snapchat, Instagram, FaceTime and now **Google Duo (GOOGL)** — means 16 to 18-year-olds no longer feel the itch to get out of the house and hit the road to see friends.

While it has little bearing on 2016 Back to School spending, we have to wonder what the longer-term implications are for auto demand?

Will it shift from more individuals owning cars to consumer facing car services, like Uber and Lyft, driving new car purchases? Could it have the same effect on **Ford (F)**, **General Motors (GM)** and other companies like the one Uber and Lyft have had on shares of **Medallion Financial Corp. (MFIN)**? Shares of Medallion Financial peaked in November 2013 at just below \$18, but before too long the impact of Uber's 2011 launch in New York City would weigh on the shares. Add in Lyft and the adoption of smartphones, and before too long Medallion Financial shares would cross the \$10 mark and continue to fall even though the company instituted a quarterly dividend.

Only time will tell, but we'll be watching the thematic tea leaves as we try to stay one step ahead of the herd.

TEMATICA SELECT LIST PERFORMANCE

as of market close August 16, 2016

(AMZN) AMAZON.COM							Connected Society	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
5/24/16	\$709.53	\$764.04	--	--	7.68%	\$900.00	(BUY)	
(GOOGL) ALPHABET, INC.							Asset Lite	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
6/15/16	\$733.94	\$801.19	--	--	9.16%	\$900.00	(BUY)	
(XLY) CONSUMER DISCRETIONARY SPDR (ETF)							Content is King	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
4/20/16	\$79.57	\$81.69	--	--	2.66%	--	(HOLD)	
(CAMP) CALAMP CORP							Connected Society	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
8/09/16	\$15.46	\$14.73	--	--	-4.72%	\$21.00	(BUY)	
(DIS) THE WALT DISNEY CO.							Content is King	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
4/20/16	\$102.16	\$96.88	--	\$87.00	-5.17%	\$125.00	(BUY)	
5/11/16	\$101.78	\$96.88	--	\$87.00	-4.12%	\$125.00	(BUY)	
(DOC) PHYSICIANS REALTY TRUST							Aging of the Population	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
6/27/14	\$14.33	\$20.67	\$2.03	\$18.00	58.37%	\$25.00	(HOLD)	
(NKE) NIKE INC							Rise & Fall of the Middle Class	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
5/18/2016	\$56.10	\$56.88	\$0.16	--	1.68%	\$66	(BUY)	
(PETS) PETMEDS EXPRESS							Connected Society	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
5/4/2016	\$17.80	\$20.03	\$0.38	--	14.66%	\$23.00	(HOLD)	
(SH) PROSHARES SHORT S&P 500 (ETF)								
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
1/14/16	\$45.10	\$38.05	--	--	-15.63%	\$24.00	(BUY)	
3/23/16	\$41.12	\$38.05	--	--	-5.74%	\$24.00	(BUY)	
(RGC) REGAL ENTERTAINMENT GROUP							Content is King	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
11/23/15	\$18.51	\$21.58	\$0.66	\$19.00	20.15%	\$24.00	(HOLD)	
(SHW) SHERWIN WILLIAMS							Rise & Fall of Middle Class	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
08/03/16	\$301.06	\$291.53	--	--	-3.31%	\$350.00	(HOLD)	
(SBUX) STARBUCKS							Guilty Pleasures	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
6/1/16	\$54.90	\$55.37	\$0.20	--	1.22%	\$74.00	(BUY)	
(T) AT&T, INC.							Connected Society	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
7/21/15	\$34.67	\$41.96	\$1.91	\$39.00	26.54%	\$45.00	(HOLD)	
(UA) UNDER ARMOUR							Rise & Fall of the Middle Class	
DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING	
7/27/16	\$39.26	\$42.33	--	--	7.82%	\$55.00	(BUY)	

STOCKS / FUNDS MENTIONED

Amazon (AMZN)
American Eagle (AEO)
American Healthcare Services (AMN)
Chipotle (CMG)
Costco (COST)
Cott Corp. (COT)
Dick's Sporting Goods (DKS)
Facebook (FB)
Ford (F)
General Motors (GM)
Guess? (GES)
Hollister (ANF)
Home Depot (HD)
McDonald's (MCD)
Netflix (NFLX)
Nike (NKE)
Omega Protein Corp. (OME)
Panera (PNRA)
Piper Jaffray (PJC)
PVH Corp. (PVH)
Ralph Lauren (RL)
Sherwin Williams (SHW)
Ulta Salon (ULTA)
Under Armour UA)
Universal Display (OLED)
VF Corp.(VFC)
Wal-Mart (WMT)

Analyst Positions

At the time of publication, Mr. Versace, Chief Investment Officer of Tematica Research had no positions in the shares of companies mentioned in this issue.

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