TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

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INSIDE THIS ISSUE

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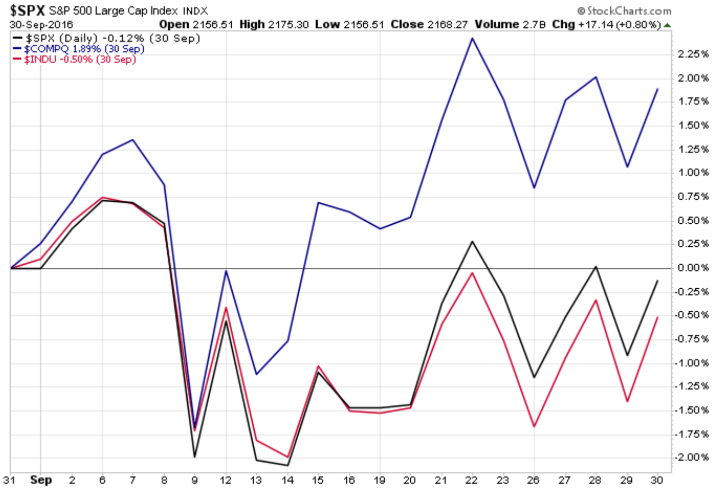
Opening Commentary

As we look back on the month of September, we've had our share of high fliers relative to the market on the ***Tematica Investing Select List***, including **Amazon (AMZN), Alphabet (GOOGL)**, and several others. We used the month to scale into newer positions, opportunistically using share price weakness to our advantage in a time-tested strategy of scaling into a position that improves our position cost basis.

Over the next few weeks, we've got a number of hurdles coming, including corporate earnings for the third quarter, the next round of presidential debates, potential OPEC production cuts and the return of Fed policy makers jawboning the market. That last item is already beginning, and that has led to a rebound in the US dollar even as the International Monetary Fund once again slashed its economic forecast for the US economy this year. That body now sees the US growing at 1.6 percent this year, down from 2.6 percent last year. All that amid the backdrop of aggressive earnings expectations for the S&P 500 group of companies in the current quarter as well as for 2017.

As we contend with these obstacles ahead, we'll continue to be prudent when it comes to the ***Tematica Select List***, letting the thematic data points talk to us and serve as our north star as we look to maximize returns ahead while minimizing risk.



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.

TEMATICA RESEARCH

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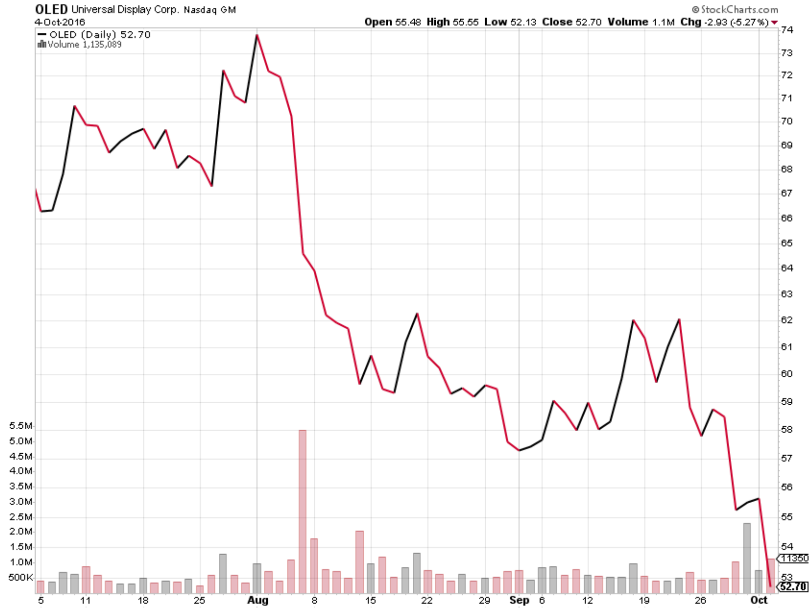
Moving Universal Display to the Select List from the Contender List

Following last week's deep dive on Disruptive Technology company Universal Display (OLED), we are calling the shares up from the ***Tematica Contender List*** to the ***Tematica Investing Select List***. This move is a result of recent share price weakness as well as increasing industry-wide investments in OLED manufacturing capacity that bode very well for the company's licensing and chemicals business.

As we noted in last week's ***Tematica Investing,*** industry manufacturing capacity for OLEDs has been constrained and capping the revenue stream at Universal Display. Paired with the realization that constraint was going to prevent **Apple (AAPL)** from incorporating an OLED display on the iPhone 7, Universal Display shares gave back that expectation over the last two months. In that time, OLED shares have fallen almost 30 percent and at one point quickly flirted with the $50 level.

As we noted, our call to action on OLED shares would hinge on either the shares pulling back to $50 or signs that industry OLED manufacturing capacity was ramping sooner than expected. On its recent quarterly earnings call, semiconductor capital equipment company **Applied Materials (AMAT)** noted that while still in relatively early innings, OLED technology was at an inflection point. We see that in Applied's order book for display technologies, which was 60 to 65 percent for OLED technology and 35 to 40 percent LCD, compared to 30 percent OLED and 70 percent LCD in the year-ago quarter.



Over the weekend, Sharp Corp., which is now controlled by key Apple supplier Foxconn, announced it will spend $570 million on its OLED business in order to compete with OLED heavyweights Samsung and LG. LG is in the midst of investing $9 billion in OLED technology and recently announced it would be spending another $1.75 billion to boost capacity. Meanwhile, Samsung, already the largest supplier of OLED technology for smartphones, is spending another $3.5 billion on the technology. Remember, Universal Display has lines of business in both licensing of its patents as well as the sale of chemicals used in OLED production. More OLED demand and more OLED production equals more revenue for Universal Display. Period.

While we recognize this incremental capacity will take time to come on stream, we are also familiar with the "story stock" nature of Universal Display shares. Moreover, as the less than exuberant fanfare over Apple's iPhone 7 models begins to shift to the 10th anniversary model of the iPhone due next year, we expect chatter will once again ignite the talk of Apple migrating to OLED displays.

To be clear, we are not investing in OLED shares based on the speculation that Apple may adopt the technology — it would certainly be a positive for one of the most popular smartphone models to adopt the technology — but rather the shift away from LCDs to OLEDs across a growing number of applications.

Signposts we'll be watching include equipment order activity at **Aixtron AG (AIXG)** and **Veeco Instruments (VECO)** as well as new product announcements and new OLED applications from consumer electronics companies ahead of the holiday shopping season and after at events like CES 2017. These and other data points should help track the expected growth in the OLED market, which is expected to grow at a 16% compound annual growth rate over the 2014-2020 period roughly $44 billion in size.

Our price target on OLED share is $68, which offers upside of more than 28%. Given the volatile nature of the shares, we are dipping our toe in the water with OLED shares and our strategy will be to add to the position on dips so as to improve our cost basis. Because this is a new position, we are inclined to use any pullback in the shares to improve our cost basis and are not setting a protective stop limit at this time.

Bottomline on (OLED) Universal Display:

- **We are adding OLED shares, which closed last night at $52.70 to the Tematica Select List.**
- **We would look to scale into the position between $43 and $47 per share on any market-related volatility.**
- **We will assess adding a protective stop once we've scaled into the position.**
- **Our price target on OLED shares is $68.**

UNIVERSAL DISPLAY CORPORATION™

Universal Display Corp.

NASDAQ: **OLED**

Theme: ***Asset-Lite, Connected Society, Scarce Resources***

Price on 10/04/16: **$52.70**

- Universal Display Corporation engages in the research, development, and commercialization of organic light emitting diode (OLED) technologies and materials for use in flat panel displays and solid-state lighting applications.
- It owns, exclusively licenses, or has the sole right to sublicense approximately 3,600 patents issued and pending worldwide.
- It has strategic relationships with Samsung Display Co., Ltd.; LG Display Co., Ltd.; Sumitomo Chemical Co., Ltd.; Sony Corporation; Lumiotec, Inc.; LG Chem, Ltd.; NEC Lighting, Ltd.; BOE Technology Group Co., Ltd.; and OLEDWorks L.L.C.
- The company was founded in 1985 and is headquartered in Ewing, New Jersey.

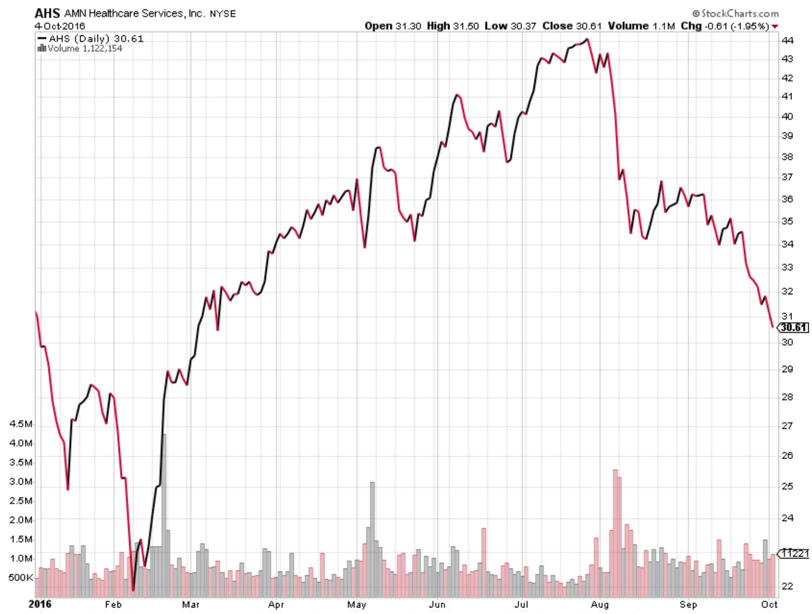
Shares Outstanding	46.96M
Avg. Volume	759,731
Market Cap	2.47B
EPS: '16 / '17 / '18	$0.89/$1.42/$2.23
Cash: $US	316.21M
Debt: $US	N/A
Net Cash	316.21M
Revenue:	195.83M
Enterprise Value to Revenue:	11.73
Annualized Dividend Per Share	--
Dividend Yield	--

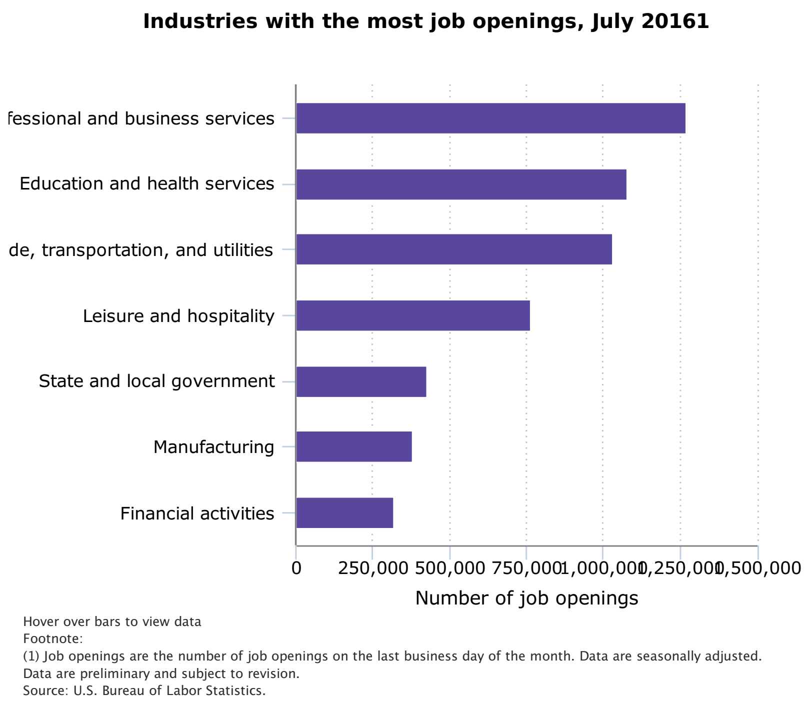
Continued Nursing Shortage and Pullback in Share Price, Has Us Scaling into AMN Healthcare Services (AHS)

AMN Healthcare (AHS) shares came under some pressure last week as the company was finishing its latest notes offering — a Senior Notes offering, sometimes referred to as senior loans, which is debt that takes priority over other unsecured or otherwise more "junior" debt. The AHS Senior Notes offering was upsized to $330 million from $300 million, with the proceeds being used to repay acquisition-related borrowings year to date.

We can't fault a company for using the current low interest rates to clean up its balance sheet and improve its borrowing costs so that more profits can fall through to the bottom line.

We can also understand one frustrating aspect of AMN Healthcare, which is it isn't a press-release machine like some other companies. While this can sometimes make it hard to get a read on a company's business, we've witnessed a growing number of states in the U.S. describing nurse and other healthcare worker shortages. Given AMN's staffing and executive search focused business, we also pay close attention to the monthly Job Openings and Labor Turnover (JOLTS) report and what it tells us about Healthcare and Social Assistance job demand. The most recent JOLTS report showed health care and social assistance continued to have the highest job-opening levels and job-opening rates exiting July, but also one of the lowest hire levels and rates. Next week brings the August JOLTS report and we'll be reviewing it with a fine tooth comb.





Putting it all together points to a clear mismatch between desired and available skills, which confirms the current nursing shortage that is driving AMN's business. Factor in the demographic shift toward an increasingly older population that will drive incremental demand for nurses and other health care workers, and we can see why the Bureau of Labor Statistics forecast "more than a million vacancies" in the nursing workforce between 2014 and 2024.

As such, we are going to employ the same strategy we've employed over the last few weeks with other recently added positions and use the 15% drop in the shares over the last month to improve our cost basis.

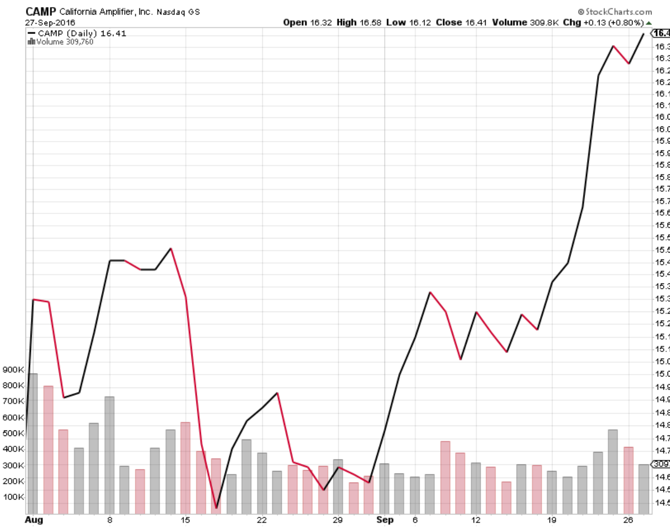
Bottomline on (AHS) AMN HEALTHCARE

- **We initially took a position in AMN Healthcare (AHS) on August 16 at a cost basis of $33.80.**
- **Today, we are taking a second position in AMN Healthcare (AHS), which closed last night at $30.61.**
- **Or price target remains the same at $47 per share.**

Using Market Confusion to Build Our CalAmp (CAMP) Position

Over the last several days, **CalAmp Corp (CAMP)** shares have been hammered following the company's quarterly earnings report, which saw earnings per share in line with expectations, but on softer-than-expected revenue. Also hitting the stock is a weaker-than-expected outlook for the current quarter. Add in the recent run up in CAMP shares into overbought territory, and in many ways, this was a recipe for the pullback we are seeing.

For the fiscal second quarter (ended Aug. 31), CalAmp reported EPS of $0.27, in line with expectations. While revenue of $90.5 million missed consensus of $92.26 million, it was still up 30% year over year. Excluding the $31.9 million in revenue associated with the LoJack acquisition, revenue would have fallen 16%, year over year, due to softer demand from key fleet customers and the expected and continued ramp-down in the satellite business.



Now here is where the math makes a difference.

While some of the revenue miss in the core telematics business is likely due to the current macro environment and other uncertainties that have kept business investment in check, we also suspect there is some spending rationalization going on following **Verizon's (VZ)** acquisitions of **Fleetmatics (FLTX)** and Telogis. But here's the thing, almost the entire revenue shortfall relative to expectations for CAMP was had in the satellite business, which contributed $6.7 million in revenue for the quarter vs. $8.4 million in the prior one and $8 million in the year-ago quarter.

Amid the current environment and the shuttering of its satellite business, CalAmp offered a more sober view for the current quarter. It sees revenue in the range of $81 million to $87 million vs. the consensus expectation of $95 million, and EPS from $0.24 to $0.30 vs. the expected $0.31.

On its face that sounds bad, but let's check the math…

CalAmp shuttered its satellite business at the end of last quarter, so there will be no revenue or other operational contribution from that unit going forward. Excluding the revenue contribution of that business, last quarter means CalAmp's revenue guidance is essentially flat to down 3%, quarter over quarter. That likely reflects a continued soft patch in the telematics business and possible some conservatism on the part of the management team.

CAL AMP CORP.
CONSOLIDATED INCOME STATEMENTS
(Unaudited, in thousands except per share amounts)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2016	2015	2016	2015
Revenues	$ 90,479	$ 69,808	$ 181,626	$ 135,237
Cost of revenues	52,865	44,505	109,178	86,408
Gross profit	37,614	25,303	72,448	48,829
Operating expenses:				
Research and development	5,885	4,995	11,976	9,560
Selling	12,683	5,847	23,991	11,345
General and administrative	11,284	4,908	27,267	9,683
Intangible asset amortization	3,856	1,655	7,346	3,299
	33,708	17,405	70,580	33,887
Operating income	3,906	7,898	1,868	14,942

As we like to say, context and perspective are key.

On the positive side, the continued integration of LoJack and newer product introductions helped drive meaningful margin improvement during the quarter, with gross margins coming in at 42 percent vs. 36.2 percent a year earlier. In addition, CalAmp announced a number of new product wins during the quarter, as well as new customer wins with MapAnything and Chevin. These successes should help offset near-term weakness in telematics spending, and bode well for faster revenue growth as that spending exits the current soft patch.

On the housekeeping front, CalAmp repurchased 580,000 shares for $8.5 million, or roughly $14.65 per share, and has $16.5 million left under the current authorization. At the current share price, which is well below its average buyback price, we would not be surprised to see the company putting that program to work once the restriction window has lifted.

Just as we did with AMN Healthcare, we are going to use the current weakness in CAMP shares to our longer-term advantage given the long-term positives associated with telematics, connected cars, and connected fleets.

Bottomline on (CAMP) CALAMP CORP

- **On August 8, we took an initial position in CAMP when the shares traded at $15.37.**
- **Today, we are taking a second position in CalAmp Corp (CAMP), which closed last night at $13.53.**
- **Our price target remains $21 per share.**

CIOs and other executive bullish on 5G technology; good for our DY shares.

When we added **Dycom Industries (DY)** to the ***Tematica Select List***, one of the catalysts we cited was the deployment of next generation mobile networks, better known as 5G, which requires carriers to build nearly entirely new networks. For specialty contractor Dycom, which counts **AT&T (T)** and **Verizon (VZ)** as customers, such incremental spend is slated to be a significant revenue driver in the coming quarters.

We have gotten a few questions as to what and how 5G is different and in many cases better than the current 4G networks that are prevalent today in the developed economies and over time being deployed in emerging economies. For example, in Brazil at the end of July there were almost 43 million 4G broadband accesses in Brazil, roughly 21% of the total population.

Amidst our copious reading, which spans not only financial filings and company reports but all sorts of industry data and related trade magazines/articles, we came across an article that recapped the views of more than 650 executives on what 5G is likely to mean across their 8 industries. Granted, the report could be a tad self-serving given that is was produced by mobile infrastructure company **Ericsson (ERIC)**, but in our view the article and the use cases presented across the automotive, utilities, public safety, high-tech manufacturing, Internet/digital natives, healthcare, financial services, and media/gaming affirms the view that 5G deployment is only a matter of time.

The article, "5G seen as an innovation engine by executives in key industries" **can be read here.**

Nielsen data confirms our Food with Integrity investing theme and bodes well for United Natural Foods (UNFI) shares.

Dycom wasn't the only company on the ***Tematica Investing Select List*** that was the recipient of confirming data. New findings from **Nielsen NV (NLSN)** show that not only are consumers embracing healthier foods, they are also avoiding ingredients such as artificial flavors, preservatives and colors as well as antibiotics, hormones, genetically modified organisms (GMOs) and artificial sweeteners.

More importantly, consumers are not just paying lip service to this preference, they are voting with their wallets. Per Nielsen retail sales data, volume sales of products with an organic claim on the package grew 13.1% percent over the 52 weeks ended July 30, 2016, with products with claims that they are hormone- or antibiotic-free, GMO-free or natural up 21.7 percent, 12.0 percent, and 7.5 percent, respectively, over the same period. Viewed against **Kroger's (KR)** identical supermarket sales excluding fuel of 1.7 percent, it is pretty evident which items are moving off the grocery shelves at a faster pace.

We see the Nielsen data as very confirming for not only our Food with Integrity investing theme but also our position in **United Natural Foods (UNFI)** on the ***Tematica Select List***. Our price target for UNFI shares remains $65. Subscribers interested in reading more on Nielsen's findings can read its ***Nielsen's Global Ingredient and Dining-Out Trends Report*** by **clicking here**.

TEMATICA SELECT LIST PERFORMANCE

POSITION	DATE ADDED	ADD PRICE	CURRENT PRICE	DIV. PAID	STOP PRICE	RETURN (%)	TARGET	RATING
ALPHABET, INC. (GOOGL) *Asset-Lite*	6/15/16	$733.94	$802.79	--	--	9.38%	$900.00	(BUY)
AMAZON.COM (AMZN) *Connected Society*	5/24/16	$709.53	$834.03	--	--	17.55%	$900.00	(BUY)
AMN HEALTHCARE SERV. (AHS) *Scarce Res. / Aging of Population*	8/17/16	$33.80	$30.61	--	--	-9.44%	$47.00	(BUY)
AT&T (T) *Connected Society*	7/21/15	$34.67	$39.90	$1.91	$39.00	20.59%	$45.00	(HOLD)
Consumer Disc. SPDR (XLY) *Content is King*	4/20/16	$79.57	$79.72	--	--	-0.19%	--	(HOLD)
CALAMP CORP (CAMP) *Connected Society*	8/09/16	$15.37	$13.53	--	--	-11.97%	$21.00	(BUY)
COSTCO WHOLESALE (COST) *Cash-strapped Consumer*	9/28/16	$149.67	$150.48	--	--	0.54%	$170.00	(BUY)
WALT DISNEY CO. (DIS) *Content is King*	4/20/16	$102.16	$92.59	--	$87.00	-9.37%	$125.00	(BUY)
	5/11/16	$101.78	$92.59	--	$87.00	-9.03%	$125.00	(BUY)
DYCOM INDUSTRIES (DY) *Connected Society*	9/14/16	$80.47	$85.25	--	--	5.94%	$115.00	(BUY)
NIKE INC. (NKE) *Rise & Fall of the Middle Class*	5/18/16	$56.10	$52.14	$0.16	--	-6.77%	$66.00	(BUY)
PETMEDS EXPRESS (PETS) *Connected Society*	5/4/16	$17.80	$20.46	$0.57	--	17.08%	$23.00	(HOLD)
PHYSICIANS REALTY TRUST (DOC) *Aging of the Population*	6/27/14	$14.33	$20.34	$2.03	$18.00	54.50%	$25.00	(HOLD)
PROSHARES SHORT S&P 500 (SH)	1/14/16	$45.10	$38.37	--	--	-14.92%	$24.00	(BUY)
	3/23/16	$41.12	$38.37	--	--	-6.69%	$24.00	(BUY)
REGAL ENTERTAINMENT (RGC) *Content is King*	11/23/15	$18.51	$21.54	$0.66	$19.00	19.94%	$24.00	(HOLD)
SHERWIN WILLIAMS (SHW) *Rise & Fall of Middle Class*	9/14/16	$275.81	$271.00	--	--	-1.74%	$350.00	(HOLD)
	8/03/16	$301.06	$271.00	--	--	-9.98%	$350.00	(HOLD)
STARBUCKS (SBUX) *Guilty Pleasures*	6/01/16	$54.90	$53.53	$0.20	--	-2.12%	$74.00	(BUY)
UNDER ARMOUR (UA) *Rise & Fall of Middle Class*	7/27/16	$39.26	$38.49	--	--	-1.96%	$55.00	(BUY)
UNITED NATURAL FOODS (UNFI) *Foods with Integrity*	8/31/16	$47.00	$40.03	--	--	-14.83%	$232.00	(BUY)
	9/14/16	$38.91	$40.03	--	--	2.88%	$232.00	(BUY)
WHIRLPOOL CORP (WHR) *Rise & Fall of Middle Class*	9/14/16	$164.61	$162.27	--	--	-1.42%	$65.00	(BUY)
	8/24/16	$186.24	$162.27	--	--	-11.34%	$65.00	(BUY)

as of market close October 4, 2016

STOCKS / FUNDS MENTIONED

Aixtron AG (AIXG)
Alphabet (GOOGL)
Amazon (AMZN)
Apple (AAPL)
Applied Materials (AMAT)
AT&T (T)
CalAmp Corp. (CAMP)
Dycom Industries (DY)
Ericsson (ERIC)
Fleetmatics (FLTX)
Nielsen NV (NLSN)
United Natural Foods (UNFI)
Universal Display (OLED)
Veeco Instruments (VECO)
Verizon (VZ)

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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