

# TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES



**Christopher Versace**

CHIEF INVESTMENT OFFICER,  
TEMATICA RESEARCH, LLC

FOLLOW US:



As we shared with you last week and again in this week's Monday Morning Kickoff, there have been a number of factors influencing the market. These have included the current presidential election, to the global economy and signs of its vector once again slowing, not to mention the Fed and the talking out of both sides of its mouth via various Fed presidents.

All of these factors have taken a back seat over the last few days to the negative earnings pre-announcements that we've gotten from industrial conglomerates **Honeywell (HON)** and **Dover Corp. (DOV)**, genetic analysis player **Illumina (ILMN)**, industrial and manufacturing material company **Alcoa (AA)** and cybersecurity firm **Fortinet (FTNT)**. That news clearly gave the stock market some indigestion as evidenced by the 9-24 percent drop in the shares of those companies and the 0.6 percent drop in the S&P 500 over the last five trading days.

Ouch!

## INSIDE THIS ISSUE

### Earnings Calendar

**Tematica Select List .....2**

### AT&T (T)

**Connected Society .....3**

### Costco Wholesale (COST)

**Cash-strapped Consumer ..... 4**

### Sherwin Williams (SHW)

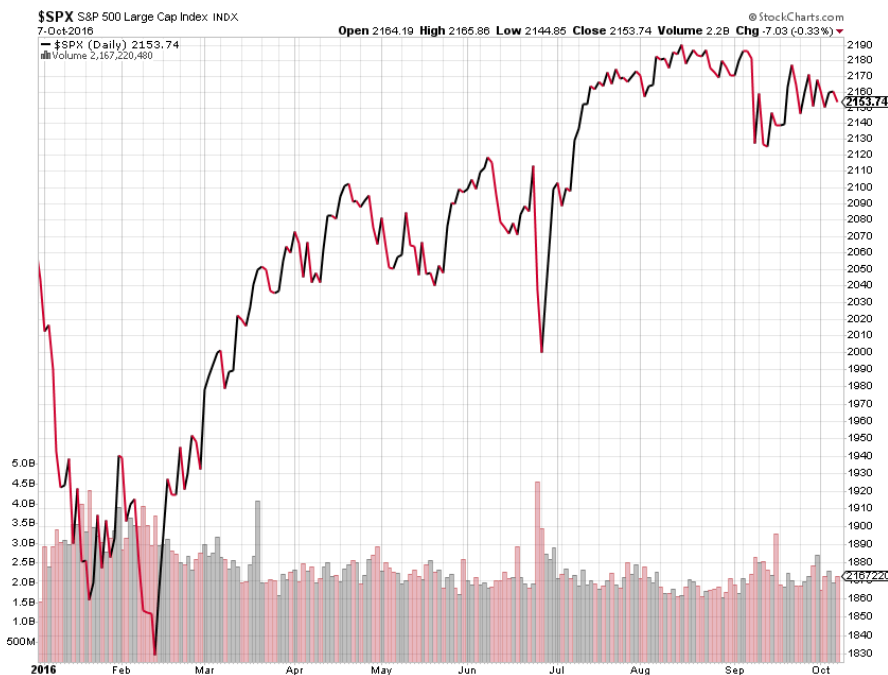
**Rise and Fall of the Middle Class .....5**

### Universal Display (OLED)

**Disruptive Technologies .....5**

### Tematica Select List

**Performance .....7**



Here’s the thing, we are only at the beginning of September quarter earnings season — remember, Alcoa tends to be one of the first Dow Jones Industrial Average and S&P 500 component companies to report its quarterly results. Over the coming weeks, the velocity of these earnings reports will be like going from 0 to 90 miles per hour. We’ve been on record saying for some time now that the disconnect between the speed of the global economy, earnings expectations, and the stock market valuation would adjust. Based on what we’ve seen over the last few days, we’re going to make sure we’ve got our seat belt fastened as the velocity of earnings picks up. As you can imagine, that means we will continue to keep the **ProShares Short S&P 500 ETF (SH)** shares on the **Tematica Select List** over the coming weeks.

While there are no companies from the **Tematica Select List** reporting this week, the Tematica team has been collecting reporting dates for those companies as well as others on the Contender List. The expected calendar is below; however, we’d note that from time to time these dates can slip a day or three. It’s not all that uncommon and **Apple (AAPL)** just moved its own reporting date within the last few weeks. We’ll be sure to update the calendar as we move deeper into earnings to include those dates that have yet to be shared — **Under Armour (UA)**, **AMN Healthcare (AHS)**, **PetMeds Express (PETS)** and few others — and as we get closer to those reports from companies on the Select List, we’ll be adding consensus expectations as well.

### Tematica Investing Select List - Upcoming Earnings Dates

COMPANY	TICKER	DATE		THEME
Amazon.com	AMZN	20-Oct-16	E	<b>Connected Society</b>
Whirlpool Corp.	WHR	23-Oct-16		<b>Rise &amp; Fall of the Middle Class</b>
Regal Entertainment	RGC	25-Oct-16	E	<b>Content is King</b>
Sherwin Williams	SHW	25-Oct-16		<b>Rise &amp; Fall of the Middle Class</b>
AT&T	T	25-Oct-16		<b>Connected Society</b>
Alphabet	GOOGL	27-Oct-16		<b>Connected Society</b>
Physicians Realty Trust	DOC	Nov-16	E	<b>Aging of the Population</b>
Starbucks	SBUX	3-Nov-16		<b>Guilty Pleasure</b>
Walt Disney	DIS	10-Nov-16		<b>Content is King</b>
Dycom Industries	DY	15-Nov-16		<b>Connected Society</b>
United Natural Foods	UNFI	5-Dec-16		<b>Foods with Integrity</b>
Costco Wholesale	COST	7-Dec-16		<b>Cash-strapped Consumer</b>
PetMeds Express	PETS	NA		<b>Rise &amp; Fall of the Middle Class</b>

*E Estimated*

*Source: Company reports and Zacks Earnings Calendar*

## UPDATES, UPDATES, UPDATES

### AT&T (T)

Connected Society

AT&T — and all mobile carriers for that matter — is in the midst of a transformation that reflects the changing patterns in how people consume data and content, as well as the rise of mobile past basic voice and data applications.

During the week, AT&T continued to ink content and channel partnerships for its soon-to-be-released DirectTV Now video streaming service by adding **Viacom (VIAB)** to its lineup. The agreement brings Nickelodeon, Comedy Central, MTV, VH1 and other Viacom properties to AT&T's growing roster.

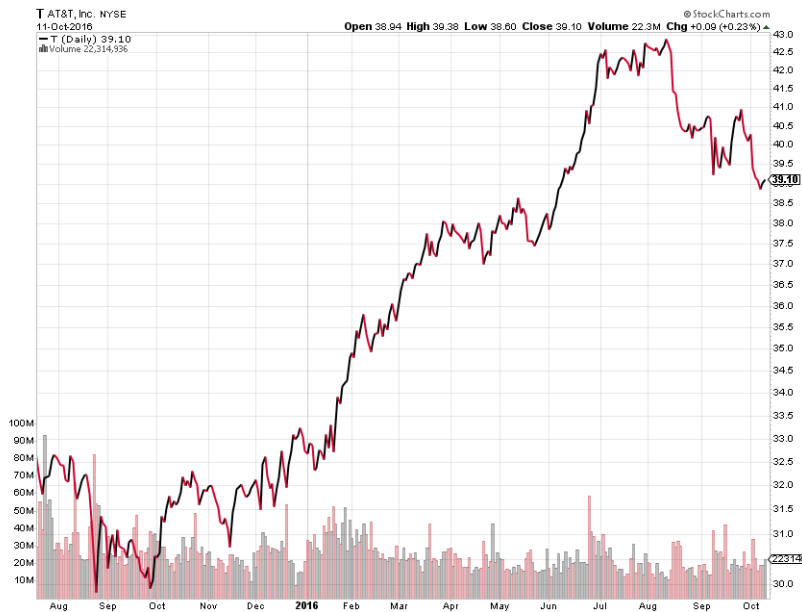
From a **Content is King** thematic investing perspective, we see the Viacom agreement, as well as others recently inked, as necessary in order to offer a competitive content alternative that will attract consumers. Also on the content side, AT&T signed Taylor Swift to an exclusive multi-year performance and content deal — we expect more details to be shared on this in the coming weeks.

During the week, AT&T snuggled up closer to **IBM (IBM)** to attack the enterprise market with connectivity solutions that bring IBM's sales force and infrastructure (Cloud, analytics, security) into play. AT&T also inked a deal with **Amazon Web Services (AMZN)** that bolsters AT&T's Cloud and Internet of Things as well as underlying analytic and security offerings.

Finally, AT&T announced it will expand its gigabit Internet offering to 11 new metro areas, bringing its total commitments to 67 metros, with 45 markets open for business by the end of 2016. If you're thinking this is good for our shares of **Dycom (DY)**, you would be correct.

Stepping back, we see all of the week's announcements shoring up AT&T's competitive position against **Verizon (VZ)** and **Comcast (CMCSA)**. AT&T's next quarterly dividend of \$0.48 per share will be payable on Nov. 1 to shareholders of record on Oct. 10.

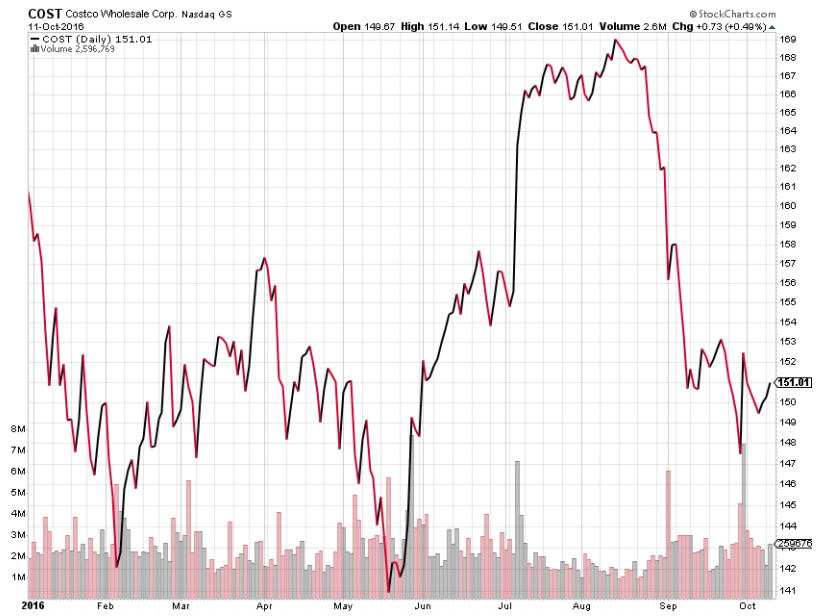
**The combination of the almost 5 percent dividend yield and the 13 percent upside to our \$44 price target keeps the Buy rating intact on AT&T shares.**



**Costco Wholesale (COST)**

**Cash-strapped Consumer**

Last week Costco Wholesale reported its September same-store sales results, which included five weeks ended Oct. 2 and rose 3 percent year over year to \$11.06 billion. Reported comparable sales rose 1 percent (U.S. flat, Canada +6 percent, Other International flat). Excluding the impact of gas prices and foreign exchange, adjusted comparable sales for September were still up 1 percent year over year (U.S. flat, Canada +5 percent, Other International flat).



As we like to say, perspective and context are key when examining data. In this case, this means comparing reported September same-store comparable sales with those of the last few months:

- July 2016: -2% (US -3%, Canada +3%, Other International -2%)
- August 2016: +0% (US +0%, Canada +4%, Other International +0%)
- September 2016: +1% (US +0%, Canada +6%, Other International +0%)

The sequential comparison shows an improving trend that might be overlooked, had we only examined the September comparable data on a year-over-year basis.

We also need to point out the difference between September reported sales results for the month and comparable same store sales. The difference is the number of warehouse locations. Exiting September 2016, Costco had 715 such locations, up from 687 at the end of September 2015.

As we’ve noted previously, the continued growth in the number of warehouse locations bode well not just for net sales revenue, but also for high margin membership fee revenue. Costco plans to open an additional nine new warehouse locations (including one relocation) before the end of 2106, which means it should exit 2016 with 723 locations, a 3.6 percent increase from the 698 open at the end of 2015. More locations, more and higher margin membership fees, more people spending — a pretty simple formula.

The bottom line is we continue to see Costco garnering consumer wallet share in the holiday shopping-filled December quarter, as consumers look to stretch their shopping dollars and as newer members flock to recently opened warehouse locations. As we’ve seen over the last several months, perspective and context for Costco’s September results will be had once we receive the **September Retail Sales** report that is due on Friday (October 14.)

**We continue to have a Buy rating on COST shares and our price target remains \$170.**

**Sherwin Williams (SHW)**

**Rise & Fall of the Middle Class**

According to the Joint Center for Housing Studies at Harvard University, over the coming year, homeowner remodeling activity is projected to accelerate, keeping the rate of growth above its long-term trend, according to the Leading Indicator of Remodeling Activity (LIRA). The LIRA anticipates growth in home improvement and repair expenditures will reach 8.0 percent by the start of 2017, well in excess of its 4.9 percent historical average. Per the Joint Center, “Annual spending is set to reach \$321 billion by the middle of 2017, which after adjusting for inflation is just shy of the previous peak set in 2006.”

The above is a reassuring data point following our mid-September decision to use the recent weakness to double-dip in SHW shares. **We continue to have a Buy rating on SHW shares with \$350 price target.**

**Universal Display (OLED)**

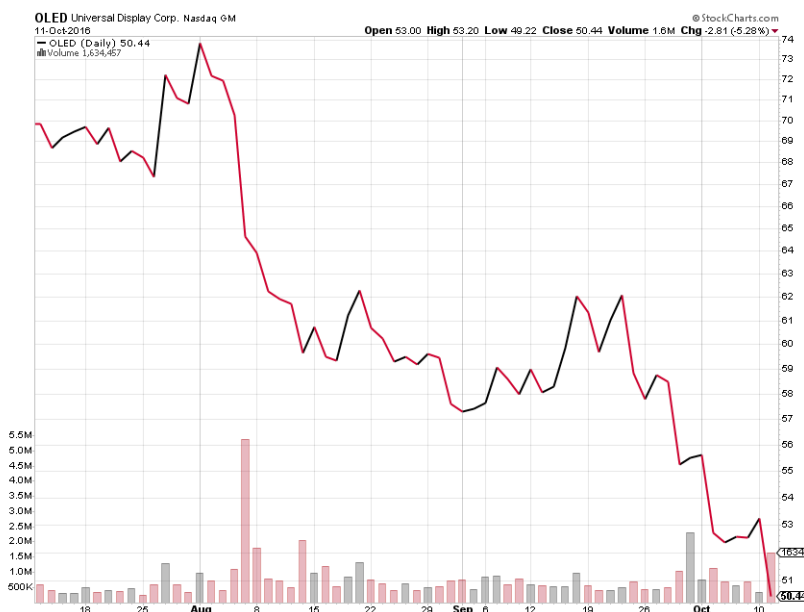
**Disruptive Technologies**

In the midst of yesterday’s market weakness, shares of **Universal Display (OLED)** were getting hit by the news that Samsung is killing off its Galaxy Note 7 smartphone — its latest model, which utilizes an organic light emitting diode (OLED) display. This action is a step up from the recent recall that affected some 2.5 million phones after reported explosions and fires due to battery-related issues.

We’d point out the Samsung Note 7 is one smartphone model among many that utilize OLED display technology and we are hearing about more implementations of the technology outside the smartphone market. One such example is in the next iteration of **Apple (AAPL)** iPads that will come with OLED displays, which is likely to help improve the display characteristics, the thickness of the model and overall battery life. Apple is also increasingly expected to introduce a new line of Mac notebook computers with an OLEDs display touch bar above the keyboard. Another example is the new Lenovo ThinkPad X1 Yoga, which features a 14-inch OLED display. Yet another is from LG, which just last week introduced the LG Signature OLED TV (model OLED77G6P) alongside other new products as part of its LG Signature line.

Over the coming quarters, we suspect the favorable characteristics of OLED display technologies — their weight, thickness, and power advantages over competing display technologies, like backlit LCD displays — will result in an expanded array of applications, all of which bodes well for Universal Display’s chemical and licensing businesses. As such, we tend to think that at least for Universal Display, any Samsung Note 7 smartphone disruption will be a bump in the road.

**We continue to have a Buy rating on OLED shares and our price target remains \$68.**



## TEMATICA SELECT LIST PERFORMANCE

POSITION	DATE ADDED	ADD PRICE	CURRENT PRICE	DIV. PAID	STOP PRICE	RETURN (%)	TARGET	RATING
<b>ALPHABET, INC. (GOOGL)</b> <i>Asset-Lite</i>	6/15/16	\$733.94	\$809.57	--	--	10.30%	\$900.00	(BUY)
<b>AMAZON.COM (AMZN)</b> <i>Connected Society</i>	5/24/16	\$709.53	\$831.00	--	--	17.12%	\$900.00	(BUY)
<b>AMN HEALTHCARE SERV. (AHS)</b> <i>Scarce Res. / Aging of Population</i>	8/17/16	\$33.80	\$32.54	--	--	-3.73%	\$47.00	(BUY)
	10/5/16	\$31.18	\$32.54	--	--	4.36%	\$47.00	(BUY)
<b>AT&amp;T (T)</b> <i>Connected Society</i>	7/21/15	\$34.67	\$39.10	\$1.91	\$39.00	18.29%	\$45.00	(HOLD)
<b>Consumer Disc. SPDR (XLY)</b> <i>Content is King</i>	4/20/16	\$79.57	\$78.90	--	--	-0.84%	--	(HOLD)
<b>CALAMP CORP (CAMP)</b> <i>Connected Society</i>	8/09/16	\$15.37	\$14.04	--	--	-8.65%	\$21.00	(BUY)
	10/05/16	\$13.70	\$14.04	--	--	2.48%	\$21.00	(BUY)
<b>COSTCO WHOLESALE (COST)</b> <i>Cash-strapped Consumer</i>	9/28/16	\$149.67	\$151.01	--	--	0.90%	\$170.00	(BUY)
<b>WALT DISNEY CO. (DIS)</b> <i>Content is King</i>	4/20/16	\$102.16	\$91.86	--	\$87.00	-10.08%	\$125.00	(BUY)
	5/11/16	\$101.78	\$91.86	--	\$87.00	-9.75%	\$125.00	(BUY)
<b>DYCOM INDUSTRIES (DY)</b> <i>Connected Society</i>	9/14/16	\$80.47	\$81.91	--	--	1.79%	\$115.00	(BUY)
<b>NIKE INC. (NKE)</b> <i>Rise &amp; Fall of the Middle Class</i>	5/18/16	\$56.10	\$51.82	\$0.16	--	-7.34%	\$66.00	(BUY)
<b>PETMEDS EXPRESS (PETS)</b> <i>Connected Society</i>	5/4/16	\$17.80	\$20.32	\$0.57	--	16.29%	\$23.00	(HOLD)
<b>PHYSICIANS REALTY TRUST (DOC)</b> <i>Aging of the Population</i>	6/27/14	\$14.33	\$19.66	\$2.03	\$18.00	49.76%	\$25.00	(HOLD)
<b>PROSHARES SHORT S&amp;P 500 (SH)</b>	1/14/16	\$45.10	\$38.57	--	--	-14.48%	\$24.00	(BUY)
	3/23/16	\$41.12	\$38.57	--	--	-6.20%	\$24.00	(BUY)
<b>REGAL ENTERTAINMENT (RGC)</b> <i>Content is King</i>	11/23/15	\$18.51	\$22.24	\$0.66	\$19.00	23.72%	\$24.00	(HOLD)
<b>SHERWIN WILLIAMS (SHW)</b> <i>Rise &amp; Fall of Middle Class</i>	9/14/16	\$275.81	\$267.41	--	--	-3.05%	\$350.00	(HOLD)
	8/03/16	\$301.06	\$267.41	--	--	-11.18%	\$350.00	(HOLD)
<b>STARBUCKS (SBUX)</b> <i>Guilty Pleasures</i>	6/01/16	\$54.90	\$52.92	\$0.20	--	-3.23%	\$74.00	(BUY)
<b>UNDER ARMOUR (UA)</b> <i>Rise &amp; Fall of Middle Class</i>	7/27/16	\$39.26	\$38.12	--	--	-2.90%	\$55.00	(BUY)
<b>UNITED NATURAL FOODS (UNFI)</b> <i>Foods with Integrity</i>	8/31/16	\$47.00	\$41.35	--	--	-12.02%	\$232.00	(BUY)
	9/14/16	\$38.91	\$41.35	--	--	6.27%	\$232.00	(BUY)
<b>UNIVERSAL DISPLAY (OLED)</b> <i>Disruptive Technology / Connected Society</i>	10/5/16	\$53.09	\$50.44	--	--	-4.99%	\$68.00	(BUY)
<b>WHIRLPOOL CORP (WHR)</b> <i>Rise &amp; Fall of Middle Class</i>	9/14/16	\$164.61	\$161.03	--	--	-2.17%	\$65.00	(BUY)
	8/24/16	\$186.24	\$161.03	--	--	-13.53%	\$65.00	(BUY)

as of market close October 11, 2016

## STOCKS / FUNDS MENTIONED

**Alphabet (GOOGL)**  
**Amazon.com (AMZN)**  
**AMN Healthcare (AHS)**  
**Apple (AAPL)**  
**AT&T (T)**  
**Comcast (CMCSA)**  
**Costco Wholesale (COST)**  
**Dover Corp. (DOV)**  
**Dycom Industries (DY)**  
**Fortinet (FTNT)**  
**Honeywell (HON)**  
**IBM (IBM)**  
**Illumina (ILMN)**  
**PetMeds Express (PETS)**  
**Physicians Realty Trust (DOC)**  
**Regal Entertainment (RGC)**  
**Sherwin Williams (SHW)**  
**Starbucks (SBUX)**  
**Under Armour (UA)**  
**United Natural Foods (UNFI)**  
**Universal Display (OLED)**  
**Verizon (VZ)**  
**Viacom (VIAB)**  
**Walt Disney DIS**  
**Whirlpool Corp. (WHR)**

## 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.

## IMPORTANT DISCLOSURES AND CERTIFICATIONS

Analyst Certification - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/ her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

Investment opinions are based on each stock's 6-12 month return potential. Our ratings are not based on formal price targets, however our analysts will discuss fair value and/or target price ranges in research reports. Decisions to buy or sell a stock should be based on the investor's investment objectives and risk tolerance and should not rely solely on the rating. Investors should read carefully the entire research report, which provides a more complete discussion of the analyst's views.

This research report is provided for informational purposes only and shall in no event be construed as an offer to sell or a solicitation of an offer to buy any securities. The information described herein is taken from sources, which we believe to be reliable, but the accuracy and completeness of such information is not guaranteed by us. The opinions expressed herein may be given only such weight as opinions warrant. This firm, its officers, directors, employees, third party data providers or members of their families may have positions in the securities mentioned and may make purchases or sales of such securities from time to time in the open market.