TEMATICA INVESTING

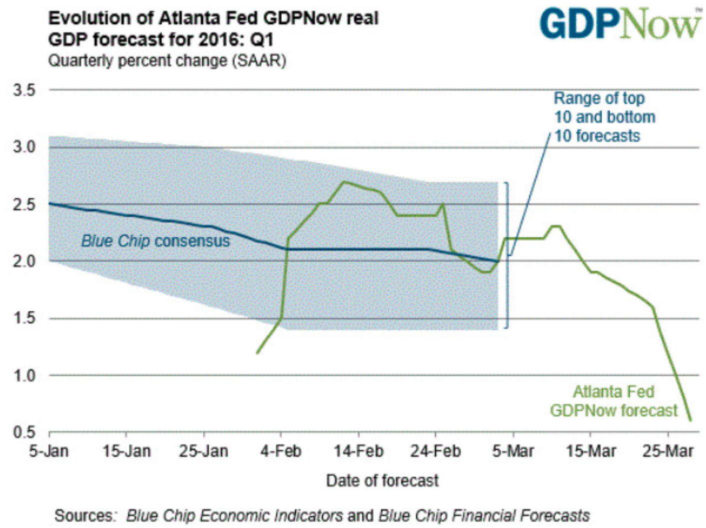
THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

Christopher Versace
CHIEF INVESTMENT OFFICER, TEMATICA RESEARCH, LLC

Tematica Investing, a weekly publication by 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.

Economics & Commentary

If you digested the regularly insightful, sometimes witty, but always must-read commentary that puts our Monday Morning Kick Off (MMKO) in high demand by the professional investment community this week, then you've noticed the confirmation of the slowing domestic economy reflected in the Atlanta Fed's GDPNow report. That report was updated earlier this week to a GDP reading of just 0.6 percent for the current quarter, down from 1.4 percent just last week and more than 2 percent just a few weeks ago. The "official" data is catching up with many of the other indicators that we here at Tematica keep a watchful eye on for you.



Given data like the above, as well as string of reports, both CPI and PPI, that show little to no inflation in the domestic economy, it was far from surprising that Fed Chairwoman Janet Yellen gave a cautious view on the Fed's next move. Just a few weeks ago, the Fed cut the number of likely interest rate hikes to two from the projected four in December, and on the QT, trimmed its economic growth forecast for 2016-2018.

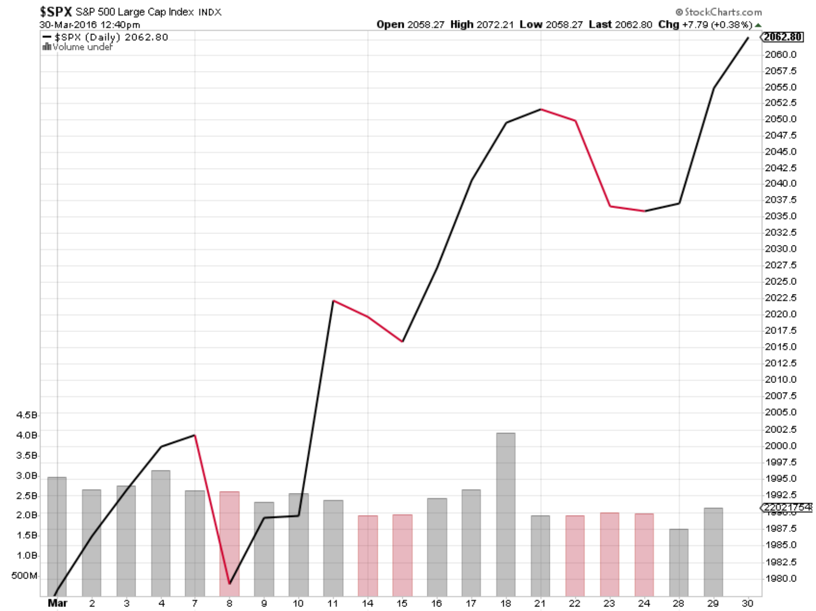
With yesterday's speech to the he Economic Club of New York Yellen signaled that the Fed will proceed "cautiously" and noted the U.S. economy has been "mixed" since the beginning of the year. Let's remember that Fed Chairs are not really professional economists, but rather central bankers that are charged with using monetary policy to drive the economy – two very different things, which helps explain Yellen's less than accurate assessment of the current economic climate in our view.

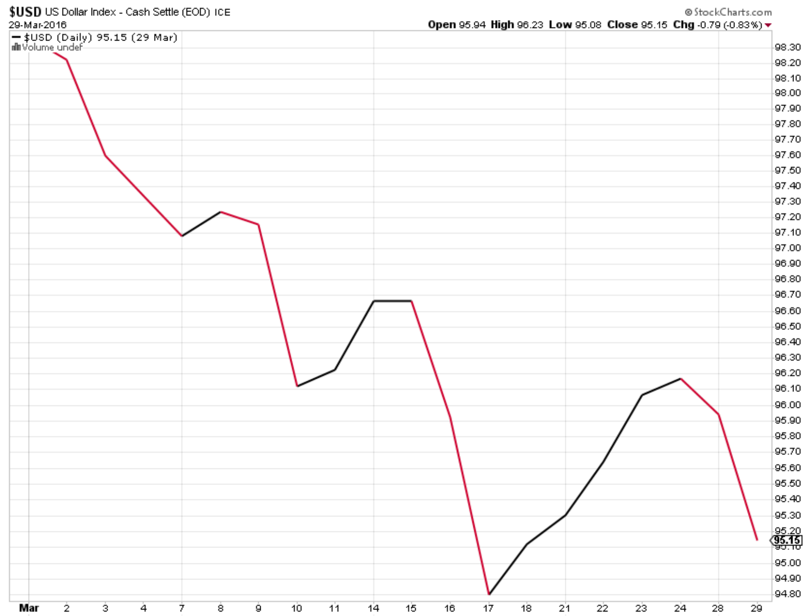
How did the stock market take Yellen's commentary, which was practically a directly opposing view from that offered up by St. Louis Fed Chair James Bullard last week?

The US dollar fell and equity markets rallied, especially interest rate sensitive ones like our thematic dividend payers, which should find greater interest given the combination of slowing growth and pushed out expectations for the next Fed rate hike. Some will contemplate the June FOMC meeting as the next one to watch, especially since during an appearance on CNBC this morning Chicago Fed President Charles Evans said "the Federal Reserve is reluctant to plow ahead with more interest rate hikes because of increased global risks." According to Bloomberg, the fully-price rate hike is now January 2017.

This means thematically positioned dividend dynamo companies, like our **AT&T (T)** and **Physicians Realty Trust (DOC)** shares will be with us for some time to come. **Even after our AT&T shares hit a new multi-year high earlier this morning, you should continue to hold both those shares as well as your DOC shares given the enviable dividend yield of 4.9 percent for both stocks at current levels.**

Despite some tepid reviews, "Batman v. Superman" was a hero at the box office this past weekend, and bodes well for our ***Content is King*** position in **Regal Entertainment Group (RGC)**. With more expected from the box office in the coming months, and consumers having some extra cash in their pockets thanks to lower gas prices, **we recommend you continue to hold your RGC shares and collect your quarterly dividend of $0.22 per share.**





Putting Nike (NKE) onto the Tematica Contender List

One of the investment strategies that we like to employ is what we call "buy the bullets, not the guns". This refers to buying key suppliers of technology, components, products and the like, depending on the company. For example, RF semiconductor company **Qorvo (QRVO)** is a "buy the bullets, not the gun" ***Connected Society*** play on **Apple's (AAPL)** iPhone business, because Qorvo supplies not just Apple, but Samsung and other key vendors in the smartphone space. If the smartphone industry does well, so does Qorvo, because it is not overly reliant on the success of any one smartphone manufacturer over another. That is but one example, and "buy the bullets, not the guns" applies to many others as well.

Another is found in the retail sector that is benefitting from the global adoption of a healthier lifestyle as well as branded sports apparel that is fueling the current athleisure boom. While many consumers may go to **Finish Line (FINL), Foot Locker (FL), Dick's Sporting Goods (DKS)**, and others including **Target (TGT)**, increasingly they are looking for branded athletic apparel and footwear, especially the brand conscious tween and teens. Overall commentary on the athletic footwear business has been favorable with Foot Locker, **Shoe Carnival (SCVL)**, Dick's Sporting Goods and even Finish Line all pointing to robust demand and one of the best pipelines of new products.

From a "buy the bullets, not the guns" perspective, the question is: are there any companies that supply all of these and other other retailers that sell athletic footwear and sports apparel? The two obvious answers are **Nike (NKE)** and **Under Armour (UA)**.

Digging Under the Hood of these two Athleisure Powerplayers

While we like the attributes and growth prospects at both **Nike (NKE)** and **Under Armour (UA)**, there are several differentiators between the two, including:

- Nike's industry position as the leading footwear company and far greater scale in the athletic apparel market;
- Nike has the most number of retail outlets, strong distribution channel, and large customer base globally;
- Nike's existing global footprint and strong brand recognition that should allow it to better capitalize on growing global awareness about healthy and active life style as well as the Olympics;
- Last year, Nike was named the No. 1 most valuable apparel brand in the 10th annual BrandZ Most Valuable Global Brands published by advertising company Millward Brown;
- Nike is a dividend paying company, which can aid returns, but also adds another layer in valuing the shares.

At the end of the day, despite all of these positive attributes to be had with Nike's business that makes it the undisputed king of athletic apparel and footwear, we must examine the shares from a stock price perspective to determine if it makes sense to add them to the Tematica Select List.

How Nike Stacks Up

In looking back over the last few years and applying a historical valuation perspective, we find NKE shares have peaked at an average P/E multiple of 28.3x forward earnings over the 2012-2015 period, and bottomed out at an average of 20x over the same period. Applying those bumpers to expected earnings per share of around $2.45 in fiscal 2017 (FYE May 2017) implies upside to $69 and downside to $50 or upside of 12% and potential downside of 20% from current levels. A similar dividend yield analysis, which assumes Nike continues to modestly increase its annual divided this year and next year, suggests upside to $66 and downside to $48 -- again based on historical peaks and troughs over the 2012-2015 period – which finds the potential risk-to-reward trade off even less compelling.

While we like Nike's business for several fundamental and thematic reasons, we would prefer to wade into the shares closer to $55, where the upside to be had more than outweighs the potential downside, or if it looks increasingly like FY2017 earnings are more likely to be closer to $2.65 per share vs. the current $2.46 per share consensus expectation.

Let's take a look at Under Armour (UA)

We are fans of the company's products and its intention to copy Nike's playbook to target international expansion as it grows its presence in the women's and footwear markets. The bigger issue for UA shares is the valuation. Even though the company is likely to grow its earnings at a 20 percent clip over the 2013-2017 time-frame, the shares are trading at more than 65x expected 2016 earnings of $1.31 per share. Viewing UA shares on a price-to-earnings growth rate basis, we find they are trading at more than 3.0, which makes them rather expensive on a PEG ratio basis as well.

Not all that shocking given the current PEG ratio for the S&P 500 has only climbed even higher from recent record high levels following the Yellen fueled rally in the last 24 plus hours, but expensive enough to warrant not adding them to the Tematica Select List at current levels. We see similar issues with many growth stocks, and while we've yet to add any to the Tematica Select List in 2016, we continue evaluate more growth-y and thematically well positioned companies.

Here's the bottom line

While UA may grow its business faster because its starting a few decades behind Nike, the risk is the valuation accorded to UA shares begins to reflect its actual earnings growth prospects rather than the "story stock" status they currently enjoy. We are putting Nike shares on the Tematica Contender List and will keep a watchful eye on them for when it makes sense to add them to the Tematica Select List.

Thematic Signals: Ripped from the Headlines

We've had great response to the real world confirmation of our Tematica investing themes, so much so that we have some plans for Thematic Signals that we will be sharing with you soon. With that said, here are this week's Ripped from the Headlines...

Asset Lite

The U.S. Supreme Court declined to hear Florida-based **ParkerVision's (PRKR)** patent infringement lawsuit against **Qualcomm (QCOM)**, putting an end to an intellectual property dispute dating back to 2011.

Cash Strapped Consumer

A recent study put together by Go Banking Rates says Americans are not in a good place when it comes to saving for retirement. The youngest of the Boomers, those born in 1964, would need $1.3 million earmarked for retirement. A Gen Xer born in 1975 would need about $1.6 million. The figure for a Millennial: $1.8 million.

Cashless Consumption

Total mobile transactions were up more than 60 percent last year in China and the volume driven by mobile on **Alibaba's (BABA)** Singles' Day last year – 11/11/15 was $9.8 billion – And it was all mobile all the time... Merchants are preparing a new battle in the seemingly never-ending debit-card interchange fee wars... New research from Technavio shows that the global self-checkout terminal market's revenues are expected to hit $2.19 billion by the year 2019... **Facebook's (FB)** Messenger lands first airline as chat app pushes into commerce.

Connected Society

According to research conducted by SimilarWeb, mobile commerce has become a veritable global force for digital sales. In the U.K. alone, mobile-based traffic constituted 65 percent of all eCommerce searches and purchase.

Content is King

Tribeca Shortlist, the streaming movie service from **Lions Gate Entertainment (LGF)** and Tribeca Enterprises (the organization behind the Tribeca Film Festival), is releasing its **Apple (AAPL)** TV app... Spotify raises $1 billion in debt with devilish terms to fight Apple Music

Economic Acceleration/Deceleration

Spending among middle-market companies has slowed as executives' growth expectations for the U.S. economy have moderated, according to the survey report, America's Economic Engine: Tapping the Brakes, from Deloitte Growth Enterprise Services.

Food with Integrity

General Mills (GIS) CEO, Ken Powell said General Mills will have to adapt and change to consumer demands as "consumers wants simple foods they understand, so natural and organic will continue to be a bigger part of who we are."

Safety & Security

An entirely new approach to internet security is needed to protect businesses and consumers as new research suggests up to 80% of connected devices are vulnerable to malicious attacks and data breaches according to research by AdaptiveMobile... CNBC inadvertently exposed peoples' passwords after it ran an article Tuesday that ironically was intended to promote secure password practices.

Tooling and Re-Tooling

Facebook's (FB) Oculus Rift to begin shipping, VR technology can help improve learning... EON Reality cited that virtual reality can boost the students' interest to up to 92 percent and improve their test scores by 35 percent. A case study from Unimersiv explained that students can have a greater recollection from what their senses pick up. According to the study, students remember 20 percent from hearing, 30 percent from seeing and 90 percent from feeling.

If you have a news item or three that you think we should be reviewing or that other subscribers may find helpful, be sure to send it our way at insights@tematicagroup.com.

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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 tradeoff to reach more appetizing levels.

AMZN	Amazon.com	*Connected Society*
CHGG	Chegg Inc.	*Tooling & Retooling*
CMG	Chipotle Mexican Grill	*Foods that Are Good for You*
SCOR	Comscore	*Connected Society*
GLW	Corning Inc.	*Disruptive Technologies*
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*
NKE	Nike Inc	*Affordable Luxury*
NLSN	Nielson NV	*Connected Society*
PANW	Palo Alto Networks	*Safety & Security*
SYNA	Synaptics Inc.	*Disruptive Technologies*
SBUX	Starbucks Inc.	*Rise & Fall the Middle Class*
UNFI	United Natural Foods	*Foods with Integrity*
VZ	Verizon Communications	*Content is King / Connected Society*
XYL	Xylem, Inc	*Scare Resources*

TEMATICA SELECT LIST PERFORMANCE

as of market close March 29, 2017

(AGNC) AMERICAN CAPITAL AGENCY CORP

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/17/15	$18.98	$18.46	$1.60	$17.00	5.7%	$23.00	(BUY)

(DOC) PHYSICIANS REALTY TRUST — *Aging of Population*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/27/14	$14.33	$18.63	$1.58	$16.00	41%	$18.00	(HOLD)

(SH) PROSHARES SHORT S&P 500 (ETF)

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
1/14/16	$22.55	$20.47	--	--	-9.22%	$24.00	(BUY)
3/23/16	$20.56	$20.47	--	--	-0.43%	$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	$21.56	$0.44	$19.00	18.7%	$24.00	(BUY)

(T) AT&T, INC. — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/21/15	$34.67	$39.45	$0.95	$36.00	16.50%	$42.00	(BUY)

Companies Mentioned

Alibaba (BABA)
Apple (AAPL)
AT&T (T)
Dick's Sporting Goods (DKS)
Facebook (FB)
Finish Line (FINL)
Foot Locker (FL)
General Mills (GIS)
Lions Gate Entertainment (LGF)
Nike (NKE)
ParkerVision (PRKR)
Physicians Realty Trust (DOC)
Qualcomm (QCOM)
Regal Entertainment Group (RGC)
Shoe Carnival (SCVL
Target (TGT)
Under Armour (UA)

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

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