

TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

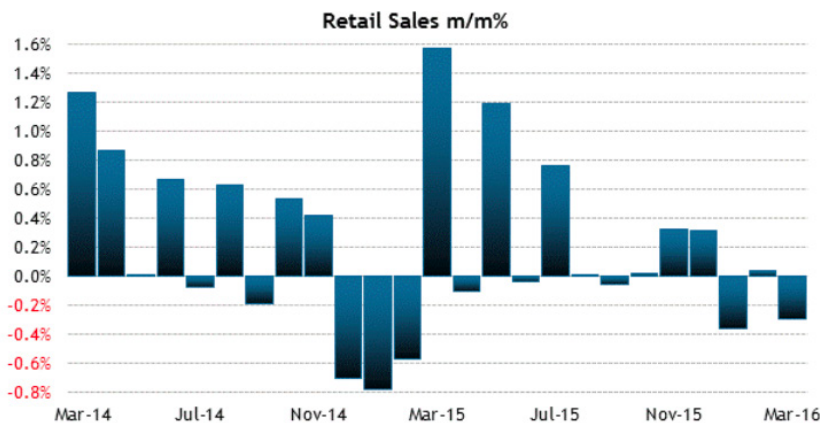


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Tematica Investing, a weekly publication by Chris Versace, is designed for the experienced or professional investor, providing in-depth information on real-time developing thematic strategies, economic outlook, investment trading ideas, and analysis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

Retail Sales Disappoint Yet Again in March

Each week in the [Monday Morning Kickoff](#) we share the economic data and other key items to watch over the coming days. One of the key reports we mentioned we would be closely watching this week given our predominantly consumer and services driven economy was the **March Retail Sales** report, which once again disappointed expectations. For the month, overall retail sales fell 0.3 percent in March, missing the forecasted 0.1 percent for the month. Even after excluding auto sales, March Retail Sales fell 0.3 percent, despite strength in building materials and gas sales, which reflect the recent rebound in gas prices. For those wondering March Retail Sales, like many similar reports in recent months missed expectations of 0.4 percent for the month.



Source: Census Bureau; updated 04/13/16

Briefing.com

Category	MAR	FEB	JAN	DEC	NOV
Retail Sales	-0.3%	0.0%	-0.4%	0.3%	0.3%
Excluding Autos	0.2%	0.0%	-0.3%	0.4%	0.3%
Durable goods					
Building Materials	1.4%	1.4%	-0.4%	4.9%	0.6%
Autos/parts	-2.1%	0.0%	-0.5%	0.0%	0.6%
Furniture	0.3%	-0.2%	0.0%	0.2%	-0.8%
Nondurable goods					
General Merchandise	0.5%	-0.3%	-0.7%	0.1%	0.0%
Food	0.0%	0.0%	0.5%	-0.4%	0.8%
Gasoline stations	0.9%	-5.4%	-3.0%	-1.2%	-2.0%
Clothing	-0.9%	0.3%	-0.1%	0.0%	1.0%
e*retailing/non-store	-0.1%	0.1%	1.8%	0.0%	0.4%



When we pair this with recent **Personal Income & Spending data**, which shows little to no gains in disposable income and a health savings rate, we can infer a few things. Consumers are socking more away, perhaps because of the looming retirement crisis, ballooning education costs, the need to save for mortgage or all of those. It also means consumers continue to look to stretch what disposable dollars they have, which means changing where and how they shop. From a thematic perspective, this is rather confirming of our **Cash Strapped Consumer** investing framework as are a number of other data points:

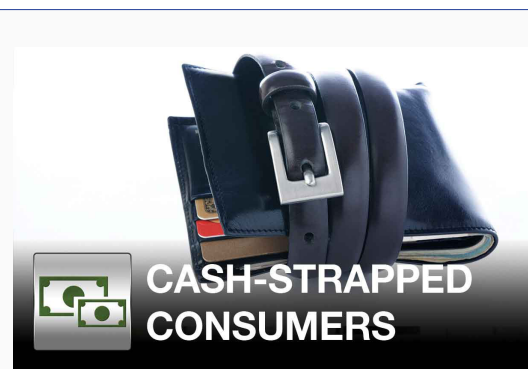
- According to Dollar General (DG), 60 percent of Americans don't have a savings safety net of \$1000 and 20 percent don't have a savings account at all.
- Wage growth has been muted this recovery, with other costs, like healthcare, sapping purchasing power despite the benefit from lower gas prices.
- More than 40 percent of the roughly 22 million Americans who borrowed from the government's main student-loan program aren't making payments or are behind on more than \$200B owed, according to a quarterly snapshot of the Department of Education's \$1.2 trillion student-loan portfolio.
- The rate of seriously delinquent subprime car loans soared above 5 percent in February, according to Fitch Ratings. That's worse than during the Great Recession and the highest level since 1996.

Also too, in last week's Thematic Signals we shared the following:

"According to Pew, a decade ago a poor family in the lower third of the scale, had about \$1,500 per year in extra income. Today, they are \$2,300 in debt, and that figure is rising. This matches reports that credit card debt is rising rapidly."

Despite all the claims coming out of Washington over the improving economy, whether we look at the Atlanta Fed's latest GDPNow readings or other signals we are getting, it's rather clear:

The Cash Strapped Consumer will continue to be with us for some time to come.



The concept behind the **Cash-Strapped Consumer** reflects the economic backdrop of the last few years, which is looking more and more like the new normal. Low labor force participation and payroll to population figures, increased savings rates, lack of available credit, stagnant income growth and inflation concerns for food has led to consumers saving where they can, trade down when possible and seek value for each dollar that is actually spent. This influences not only on what and when consumers will buy, but also where and how when they buy. Will they shop at Whole Foods or Costco? Will they dine out or eat in? Do they take a vacation or remain home for a "stay-cation?" Do they pay with cash, or with debit or credit cards?

This investment theme looks to profit from those psychographic pains and others like them as consumer behavior shifts and certain companies benefit while others suffer.

Adding Costco Wholesale Shares

One of the keys to identifying a good investment is to look for companies that are benefitting from a thematic tailwind, but are also growing faster than their respective peers and overall industry to capture market share and in some cases consumer wallet share. One such company, which we see as extremely well positioned as consumers look to stretch their consumer spending dollars is **Costco Wholesale (COST)**.

We suspect most have heard of Costco Wholesale (COST), but for those that haven't had the pleasure of walking the company's cavernous stores, the company is a membership warehouse club, focused on bringing the best possible prices on quality, brand-name merchandise to its members. We here at Tematica are fans of the company given our first hand experience shopping at various Costco locations, but also as investors because Costco is a prime beneficiary of our **Cash Strapped Consumer** investing theme. As Cash Strapped Consumers continue to look for ways to stretch their disposable spending dollars, Costco's warehouses are a prime beneficiary.

If we look at Costco's reported same-store sales growth adjusted for gasoline sales and foreign currency, the company's sales rose:

- +5 percent in December vs + 0.3 percent for reported Retail Sales
- +4 percent in January vs - 0.4 percent for reported Retail Sales
- +4 percent in February vs 0.0 percent for reported Retail Sales
- +4 percent in March vs - 0.3 percent for reported Retail Sales

That's several multiples better than the reported headline Retail Sales figures for those months, and the same can be said for the Retail Sales ex-auto figures. While Costco sells a great number of things, and the company continues to expand its offerings in categories like organics and fresh goods to lure club members back more frequently, Costco doesn't sell cars... at least not yet! The bottom line is that Costco continues to take consumer wallet share.

There are also several company specific drivers that should benefit COST shares. The company is on track to open



COSTCO Wholesale Corporation

NASDAQ: **COST**

Theme: **Cash-Strapped Consumer**

Price on 4/12/16: **\$150.32**

- Currently the largest membership-only warehouse club in the United States and as of 2015, the second largest retailer in the world (after Walmart).
- Worldwide headquarters: Issaquah, WA.
- 698 warehouses, spread throughout the United States (474), Canada (89), Mexico (34), United Kingdom (26), Japan (20), South Korea (12), Taiwan (12), Australia (8), and Spain (2).



Shares Outstanding	439.04M
Avg. Volume	2.45M
Market Cap	66.08B
EPS: '13 / '14 / '15	4.68 / 4.69 / 5.41
Cash: \$US	6.28B
Debt: \$US	4.86B
Net Cash	1.42B
Revenue:	116.55B
Enterprise Value to Revenue:	.57
Dividend Per Share	1.60
Dividend Yield	1.06%

WAREHOUSE / DISCOUNT RETAILERS: VALUATION TABLES

APRIL, 2016

COMPANY	TICKER	STOCK PRICE	MARKET CAP	EARNINGS			PRICE TO EARNINGS RATIO		
				2015	2016	2017	2015	2016	2017
Big Lots	BIG	\$45.42	\$2,230.12	\$2.97	\$3.30	\$3.77	15.3	13.8	12.0
Five Below	FIVE	\$39.31	\$2,145.93	\$1.05	\$1.30	\$1.59	37.4	30.2	24.7
PriceSmart	PSMT	\$84.93	\$2,579.32	\$2.95	\$3.14	\$3.49	28.8	27.0	24.3
Wal-Mart Stores	WMT	\$68.80	\$217,545.60	\$4.59	\$4.16	\$4.36	15.0	16.5	15.8
Target	TGT	\$80.78	\$48,648.14	\$4.69	\$5.27	\$5.77	17.2	15.3	14.0
Average							22.7	20.6	18.2
Costco Wholesale	COST	\$150.52	\$66,117.42	\$5.27	\$5.36	\$6.07	28.6	28.1	24.8

COMPANY	TICKER	TOTAL DEBT	CASH	NET CASH PER SHARE	DIVIDEND	DIV. YIELD	BOOK VALUE	PRICE TO BOOK VALUE
Big Lots	BIG	\$62.30	\$54.14	-\$0.17	\$0.84	1.8%	\$12.98	3.5
Five Below	FIVE	\$0.00	\$99.42	\$1.82	\$0.00	0.0%	\$3.66	10.7
PriceSmart	PSMT	\$91.06	\$173.01	\$2.70	\$0.70	0.8%	\$19.86	4.3
Wal-Mart Stores	WMT	\$50,034.00	\$8,343.00	-\$13.19	\$2.00	2.9%	\$25.28	2.7
Target	TGT	\$12,760.00	\$4,046.00	-\$14.47	\$2.24	2.8%	\$21.51	3.8
Average						1.7%		5.00
Costco Wholesale	COST	\$4,975.00	\$4,855.00	-\$0.27	\$1.60	1.1%	\$24.67	6.1

Source: Capital IQ

additional locations as it recently announced it bought a 175,000-square-foot warehouse in Northeast Minneapolis and plans to convert the building into one of its Business Center stores.

As you've probably read in recent headlines, Costco and **American Express (AXP)** have ended their relationship. We have started to get more clarity on the coming Costco credit card switch to **Citigroup (C)/Visa (V)**, and early reviews are very favorable. Reward terms for the new card include 4 percent cash back on up to \$7,000 of gasoline purchases per year (AmEx offered 3 percent on up to \$4,000) and 3 percent cash back on restaurant purchases versus 2 percent from AmEx. We expect Citigroup and Costco will tout these rewards and use them to drive membership as well as spending both inside and out of Costco stores.

Finally, while Costco's primary business is its membership fees and sales in its warehouse style stores, the management team continues to expand its online offerings. Recognizing that Costco is a thoughtful and methodical company, we do not see its online sales efforts eclipsing its brick & mortar sales anytime soon, but we do see the online business as being additive to the company's profit profile.

Currently COST shares are trading at roughly 28x forward earnings of \$5.36 per share, which is a good discount to the recent peak of 31.5x reached in late 2015, and the shares bottomed out along with the overall market in early February.

At that time, COST shares were trading at 26.7x earnings. **Applying these valuation bumpers to 2017 earnings makes us more than comfortable with a \$170 price target, and has us adding COST shares to the Tematica Select List.**

Bottomline on (COST) Costco Warehouse:

- We recommend adding COST shares up to \$153.
- We would look to scale into the position between \$140-\$145 on any market related volatility like we saw earlier this year.
- We will assess adding a protective stop once we've scaled into the position.
- Our price target on COST shares is \$170.

Ripped From Thematic Signal - AHS Enters Our Radar Screen

Over the last few weeks we've shared a number of Thematic Signals with you and as a reminder, these are just some of the thematic data points and nuggets that we collect as part of our daily due diligence. After digging into one the signals we shared recently — per the Association of American Medical Colleges, **the United States faces a shortage of as many as 90,000 physicians by 2025** — we learned there is another, related healthcare shortage on the horizon as well.

Today, America's 3 million nurses make up the largest segment of the health-care workforce. Even though nursing is one of the fastest-growing occupations in the country, demand is outpacing supply. According to the Bureau of Labor Statistics, 1.2 million vacancies will emerge for registered nurses between 2014 and 2022. According to data published by Vanderbilt University, by 2025, the shortfall is expected to be "more than twice as large as any nurse shortage experienced since the introduction of Medicare and Medicaid in the mid-1960s."

The primary driving force in this looming crisis is the aging of the Baby Boomer generation:

- Today, there are more Americans over the age of 65 than at any other time in US history.
- Between 2010 and 2030, the population of senior citizens will increase by 75 percent to 69 million, meaning one in five Americans will be a senior citizen.
- By 2050, an estimated 88.5 million people in the US will be aged 65 and older.

As we have said before, the only thing we love more than matching a company prospect with an investment theme is when it bleeds over into more than one. In this case, we're talking about **Aging of the Population** and **Scarce Resources**.

In doing our diligence we uncovered a company that has only modest Wall Street exposure with what appears to be good earnings growth ahead of it. The company we're describing is **AMN Healthcare Services (AHS)**, which is a healthcare workforce solutions and staffing services company with a strong presence in the nursing industry as it helps place nurses in a variety of markets. AHS shares have been a solid performer in 2016, handily beating the overall market.

As we dig into the company and it's shares, we'll look to determine if the shares have a sufficient risk-to-reward profile to warrant adding to the Tematica Select List or if we should add them to the Tematica Contender List with an eye toward a better entry share price. Stay tuned . .



NYSE: **AHS**

Theme: **Aging Population / Scarce Resources**

- 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.

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.

AHS	AMN Healthcare Services	<i>Aging Population / Scarce Resources</i>
AMZN	Amazon.com	<i>Connected Society</i>
CHGG	Chegg Inc.	<i>Tooling & Retooling</i>
CMG	Chipotle Mexican Grill	<i>Foods that Are Good for You</i>
SCOR	Comscore	<i>Connected Society</i>
GLW	Corning Inc.	<i>Disruptive Technologies</i>
IMMR	Immersion Corp.	<i>Disruptive Technologies</i>
KIM	Kimco Realty	<i>Rise & Fall of the Middle Class</i>
LOCK	Lifelock	<i>Safety & Security</i>
MKC	McCormick & Co.	<i>Cashstrapped Consumer / Middle Class</i>
MRK	Merk & Co.	<i>Aging of the Population</i>
NKE	Nike Inc	<i>Affordable Luxury</i>
NLSN	Nielson NV	<i>Connected Society</i>
PANW	Palo Alto Networks	<i>Safety & Security</i>
SYNA	Synaptics Inc.	<i>Disruptive Technologies</i>
SBUX	Starbucks Inc.	<i>Rise & Fall the Middle Class</i>
UNFI	United Natural Foods	<i>Foods with Integrity</i>
VZ	Verizon Communications	<i>Content is King / Connected Society</i>
XYL	Xylem, Inc	<i>Scarce Resources</i>

Thematic Signals: Ripped from the Headlines

As you can see from the previous pages, Thematic Signals can be the building blocks to uncovering prospective Tematica candidates. Not every company becomes a candidate let alone makes it to the **Tematica Select List**, but we have to start somewhere as well as gather confirming data points for our themes and positions, as well as once that could signal a storm is on the horizon.

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 several signals ripped from this week's headlines...



Connected Society

- While **Amazon (AMZN)**, **Google (GOOGL)** and a number of startups like Instacart, Postmates, Shipt and others are focused on quick, same-day deliveries of groceries and household items, **Walmart (WMT)** has been taking a different approach. It has instead tapped into its large brick-and-mortar footprint to roll out curbside grocery pickup in a number of locations across the US, allowing customers to shop online or on mobile, then pull up at their local store to grab their order.

Content is King

- Video played a major part in the keynote at **Facebook's (FB) F 8** event this week, with the company announcing a new API that will let developers build live-streaming video into their apps and products. Two examples that Facebook showed off on stage were an interactive game show from BuzzFeed and a DJI drone that was streaming live on Facebook even while flying dozens of feet in the air.

Economic Acceleration/Deceleration

- On Monday, The Organization for Economic Cooperation and Development said its monthly leading economic indicator, a measure designed to flag turning points in the world economy, showed a deteriorating outlook in the United States and Britain while the German economy is losing steam.
- A poll conducted by Reuters showed China's economy is expected to slow to 6.5 percent this year, the weakest growth since 1990 and down from 6.9 pct in 2015.
- In its latest World Economic Outlook, the International Monetary Fund forecast global economic growth of 3.2 percent this year, compared to a forecast of 3.4 percent in January. The growth estimate also was lowered in July and October of last year.

Fattening of the Population

- **JC Penney (JCP)** is launching a private label plus-size brand for women called Boutique+. Partnering with Project Runway winner Ashley Nell Tipton to create two capsule collections for the new brand that's aimed at millennial shoppers. Boutique+ will hit 500 stores as well as online on May 1, and will be released in conjunction with a new store-within-a-store concept and online section called Boutique.

Food with Integrity

- In a new report, Research and Markets forecasts the Organic Food & Beverage Market as worth \$84 billion in 2014 and is poised to reach \$212 billion by 2020, an estimated compound annual growth rate of 16.7% in the next 5 years.
- According to the 2016 organic drinks market report, growing awareness about the importance of nutrition, health, and quality of food among consumers worldwide has resulted in the increased consumption of organic foods and beverages. Consumers have become increasingly conscious of what they eat. The analysts forecast the global organic drinks market to grow at a CAGR of 16.43% during the period 2016-2020.

Safety & Security

- The latest count from the Identity Theft Resource Center (ITRC) reports there have been 227 data breaches recorded through April 5, 2016, and that more than 6.2 million records have been exposed since the beginning of the year. The total number of reported breaches has increased by 50 in the past two weeks. The total number of breaches in 2015 came in at 781, just two shy of the record 783 breaches that ITRC tracked in 2014.
- FBI background checks for gun purchases have surged by more than a third this year, compared to the first quarter of 2015. Background checks, also known as NICS, for National Instant Criminal Background Check System, totaled 7,682,141 in the first quarter this year. That's an increase of 36% from the same period last year, when there were 5,644,866 background checks.

Tooling & Re-tooling

According to a new survey from ASCD, 80 percent of school and district leaders responding to a recent survey said they use digital content in their curriculum or outside the classroom in certain ways, although equity concerns prevent some educators from going all-digital.

TEMATICA SELECT LIST PERFORMANCE

as of market close April 12, 2017

(AGNC) AMERICAN CAPITAL AGENCY CORP

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/17/15	\$18.98	\$18.79	\$1.60	\$17.00	7.43%	\$23.00	(BUY)

(COST) COSTCO WHOLESALE CORPORATION

Cashstrapped Consumer

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
4/13/16	--	\$150.32	--	\$140.00	--	\$170.00	(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	\$18.58	\$1.58	\$16.00	42.22%	\$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	\$20.56	--	--	-8.82%	\$24.00	(BUY)
3/23/16	\$20.56	\$20.56	--	--	--	\$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	\$19.96	\$0.44	\$19.00	10.21%	\$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	\$38.39	\$0.95	\$36.00	13.47%	\$42.00	(BUY)

Companies Mentioned

Amazon (AMZN)
AMN Healthcare Services (AHS)
Big Lots (BIG)
Citigroup (C)
Costco Wholesale (COST)
Dollar General (DG)
Facebook (FB)
Five Below (FIVE)
Google (GOOGL)
JC Penney (JCP)
PriceSmart (PSMT)
Target (T)
Visa (V)
Wal-Mart Stores (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.

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.

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