TEMATICA INVESTING

THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

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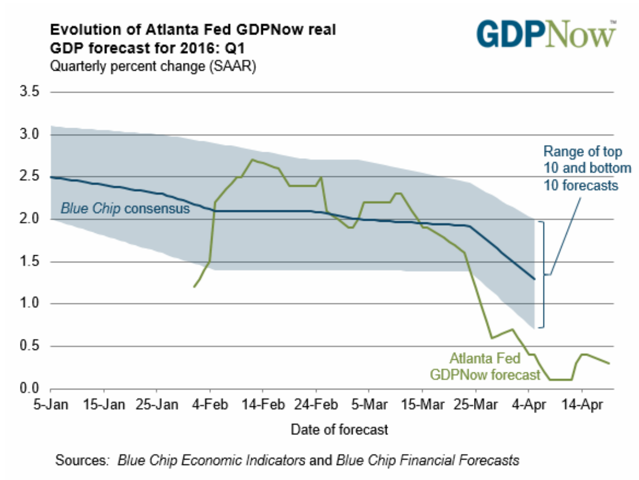
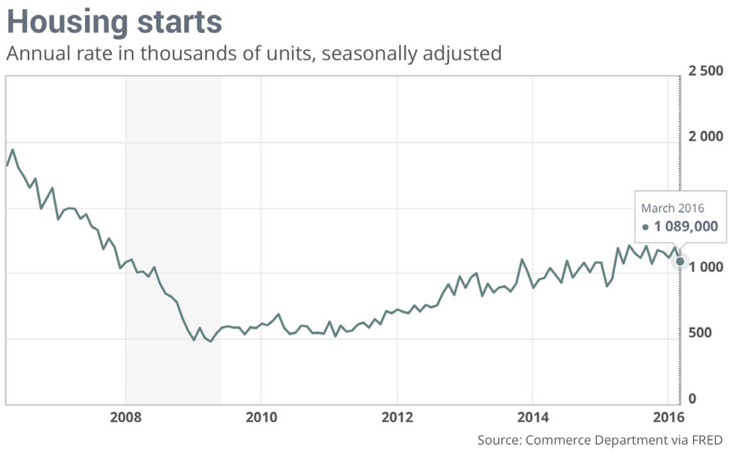
Tematica Investing, a weekly publication by Chris Versace, is designed for the experienced or professional investor, providing in-depth information on real-time developing thematic strategies, economic outlook, investment trading ideas, and analysis of the most pressing developments for the market, as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

ECONOMICS & EXPECTIONS

For the past several weeks, we've been sharing in each issue of the Monday Morning Kick Off the growing list of data points that have raised our concern over the current earnings season, all while the Atlanta Fed has continued to ratchet down its March quarter GDP expectations.



When we think of the domestic economy, we tend to think of also of multiplier effects that spring out of certain industries. One of the more common ones surrounds the housing market because when a new single family home is built (which requires lumber, plumbing, electrical wiring, and corresponding labor) it also drives demand for all sorts of longer-lived assets (like the hot water heater and HVAC), appliances (dishwasher, refrigerator), wall and floor coverings (paint, wallpaper, rugs, tile and the like), furniture, consumer electronics, and other decorative items.



Given the rash of data for March that showed a drop in Retail Sales and Industrial Production, which continued the trend of more disappointments than upside surprises, mixed with low quality Employment Reports of the last few months we were bound to see housing take a hit. That's exactly what we got in yesterday's March Housing Starts report, that showed an overall drop of 8.8 percent and a greater drop of 9.2 percent for single-family housing starts. The difference between the two is the multi-family category, which for the most part reflects apartments and similar projects.

What's especially disconcerting is housing tends to see a seasonal pick up in the spring, but the data for March puts monthly housing starts at their lowest level in several months. One argument will be the mild weather pulled activity forward, but the near 8 percent drop in building permits (the leading indicator for housing starts) tends to suggest otherwise. Looking at the available inventory for new homes sitting at 5.6 months, we wonder — more than wonder actually – how strong will the spring selling season for housing be and what that means for the US economy over the next few months?

Adding Disney Shares to the Tematica Select List

Disney is a brand we all know, and most love. When it comes to **The Walt Disney Company (DIS)**, most Americans immediately think of the companies amusement parks it now operates around the world. From a business perspective, at its core, Disney is a content company with several moats around its business. Many of those are key franchises such as Marvel, Star Wars, Frozen and the Pixar movies, with each of them driving merchandising and amusement park attendance, as well as other products (TV shows and music).

As you might have suspected, this makes Disney a central tenant in the Tematica ***Content is King*** investing theme (see right), and **today, given its current risk-to-reward ratio, we are adding DIS shares to the Tematica Select List with a price target of $125**. **Closing at $102.64 on Tuesday April 20th, that's 17 percent upside to be had in the share price alone. However, when paired with the company's $1.42 per share dividend, we see a nearly 20 percent upside from current levels, plus we expect the Wall Street investment community to turn increasingly bullish on the shares given a number of catalysts.**

Let us explain . . .

A number of these catalysts center on recent and upcoming films — remember, at it's core Disney is a content company. These films have included *Star Wars: The Force Awakens, Zootopia* and more recently *The Jungle Book*, all of which have killed at the box office. More importantly, all three films squarely hit in the key merchandizing demographic. We expect this to continue with the slate of movies to be had in the coming months that include Marvel's *Captain America: Civil War,* which is already receiving rave reviews ahead of its May 6th release; *Finding Dory*, the company's next film from Pixar and a sequel of sorts to the *Finding Nemo* franchise; Marvel's *Doctor Strange* and several others this

Whether its TV, music, film, books or comic books, games, magazines, sporting events or another format people hand a near unquenchable thirst for content. This investment theme looks to not only capitalize on that thirst but look for those companies best position to offer compelling content, but also distribute and monetize that content.

We are seeing a new era of content given the entrance of companies like Netflix (NFLX), Amazon (AMZN) and Hulu as well as the growing influence of gaming, which has already spawned several cross platform properties. New technologies bring challenges, but at the end of the day no matter where consumers are with whatever device they have in their hands, content is what they will be consuming in one form or another.

year. Last, but not least, this week saw the debut of the trailer for the next installment in the Star Wars franchise, *Rouge One*, and we have to say it looks good … very good.

That strong slate expands into 2017 and 2018 with additional Pixar films that include another Toy Story, The Incredibles 2 as well as several Marvel films, including an all new Spider-Man that will finally be developed by the company that created the character. And yes, there are a number of additional Star Wars films beyond *Rogue One* that continue the story line set out in 2015's The Force Awakens — in fact, movie goers will be able to see a new Star Wars film each year for the next several years.

Why are Disney's slate of new movies so important?

In today's increasingly digital society, these films quickly translate into games, digital downloads and the like. Even after being released just short time ago, Star Wars: The Force Awakens is already leading the digital download league tables, and we expect even more once it becomes available for rental on iTunes, Google Play and other platforms. Let's not forget how the film will likely drive viewers to the back catalog of material as well.

Then there are the games for gaming consoles and smartphones as well as music and other content forms. While you may not think of it with Star Wars, how about Frozen which is not only slated for a sequel, but soon it will be a new feature attraction at Disney theme parks? Lest we forget, Disney has shared plans to make over Tomorrow Land by leaning heavily on its Star Wars franchise. On the one hand it will be great to finally get rid of those analog dials and meters, but on the other, the inner geeks in us can't wait to see how they transform the park. We suspect we are far from alone.

Next, **Comcast (CMCSA)** and Disney inked a licensing deal that makes Disney's content library, including new titles, available for purchase by Xfinity TV users. As part of the agreement, Comcast also is joining Disney Movies Anywhere, a cloud-based "locker" that allows Disney customers to access purchased content across a variety of devices and platforms. We see this as another step in Disney's plan to allow customers to consumer the company's content anytime, anywhere on any device. We expect more of these type of announcements as Disney looks to flex its content muscle.

The Walt Disney Company

NYSE: **DIS**

Theme: ***Content is King***

Price on 04/19/16: **$102.64**

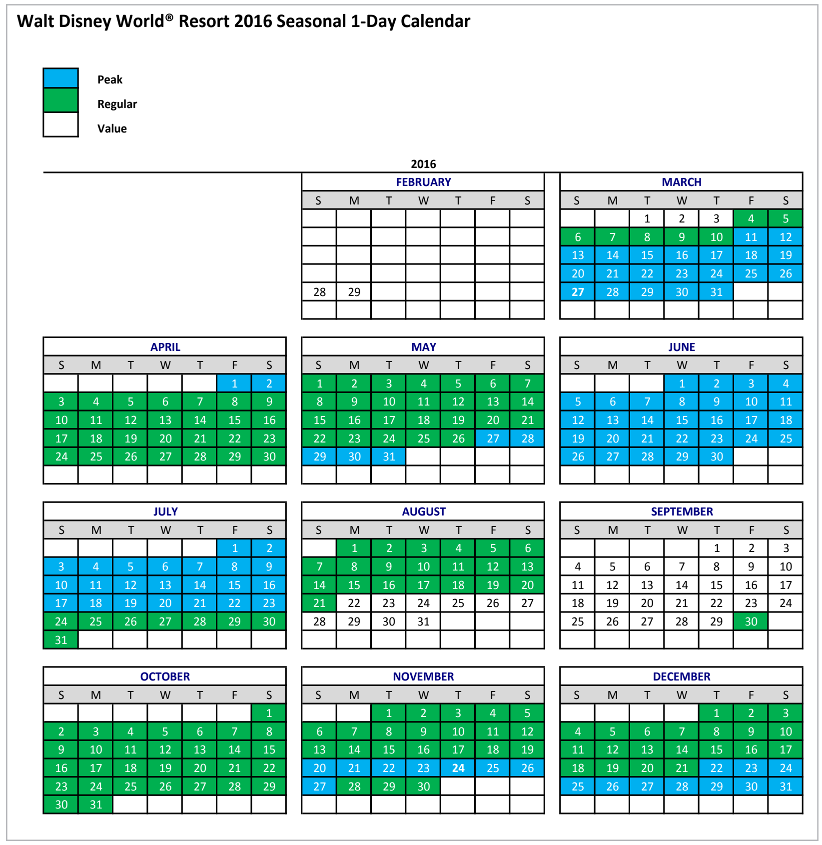
- The company operates broadcast and cable television networks including ESPN, Disney Channels, and ABC Family, as well as UTV/Bindass and Hungama.
- It also owns and operates the Walt Disney World Resort in Florida, Disneyland Resort in California, Disney Resort & Spa in Hawaii, Disney Vacation Club, Disney Cruise Line, Adventures by Disney, Disneyland Paris, Hong Kong Disneyland Resort, and Shanghai Disney Resort, and Tokyo Disney Resort in Japan.
- Disney produces and acquires live-action and animated motion pictures, direct-to-video content, musical recordings, and live stage plays; licenses trade names, characters, and visual and literary properties to retailers and publishers; publishes entertainment and educational books, magazines, and comic books; and operates English language learning centers in China.
- The company was founded in 1923 and is based in Burbank, California.

Shares Outstanding	1.63B
Avg. Volume	8.45M
Market Cap	167.46B
EPS: '13 / '14 / '15	.77 / 1.03 / 1.27
Cash (mrq): $US	4.30B
Debt (mrq): $US	18.92B
Net Cash (mrq)	-14.62B
Revenue (ttm)	54.32B
Enterprise Value to Revenue (ttm)	3.32
Dividend Per Share	1.42
Dividend Yield	1.44%

While a content company, the Parks still are key to Disney's strategy

With moves like these from the Disney marketing machine and a near unquenchable thirst for the Disney experience, it's no wonder Disney has been able to pass along price increases to consumers as it boosts ticket prices at its parks. Recently, Disney announced it was embracing "surge pricing" for tickets at its Walt Disney World resort in Florida and Disneyland in California, depending on the time of year.

According to Inside the Magic, "With surge pricing, 1-day ticket prices will be organized into peak, regular and value tiers. Peak days at Disneyland will now cost $119 and regular admission will increase from $99 to $105. Value tickets are being priced at $95. At Walt Disney World, a 1-day ticket at Magic Kingdom will set guests back $124 on peak days while Epcot, Disney Hollywood Studios and Animal Kingdom will cost $114. Peak days include holidays, spring break and several weekends in the summer. Most value days will fall on weekdays."



Disney is no stranger to ticket price increases at its park, and we'd note the current boost is timed ahead of the May 2016 opening of Frozen at Disney World and the slated opening of Star Wars Land, which as yet does not have a projected opening date.

While there is a modest risk the price hike will result in some balking, we see the net effect boosting margins in the company's Parks & Resorts business (28% of park revenues and 23% of operating profits in the recently completed December quarter). Finally, in June Disney will take the wraps off its latest theme park — Shanghai Disney, which is expected to be the company's boots on the ground assault on the Chinese market. Naturally opening days and subsequent weeks have already sold out, and there is a high probability this will be a key contributor to the company's June quarter and beyond.

How all this impacts Disney shares

Current consensus expectations have Disney earning $5.82 per share in fiscal 2016 (ending Sept. 27), up from $5.15 for the previous 12 months ending in September. While 2016 expectations could prove conservative based on the Star Wars effect and a slate of other movies to be released in coming quarters, we can use them as a guide until Disney reports its September quarter in early November. We see DIS shares fairly valued at $125, or 21.5 FY 2016 earnings.

We'd note that in recent years, DIS shares have peaked near 24x earnings and bottomed around 18x, and currently trade at 17.5x FY 2016 expectations. **In our view, this offers a compelling risk-to-reward entry point in DIS shares, and as such we are adding Disney to the Tematica Select List. We would be comfortable adding to the position up to $106, and would look to take advantage of any weakness in the shares this March quarter earnings season. From a risk management perspective, we are setting a protective stop at $87, and expect to move this higher as DIS shares climb.**

Investors desiring an alternative strategy to invest in DIS shares could consider **Consumer Discretionary Select Sector SPDR Fund (XLY)** which counts Disney as its third largest position at 6.7% behind Amazon.com (AMZN,10.4%) and Home Depot (HD,7.4%).

Bottomline on (DIS) WALT DISNEY Shares:

- **We recommend adding DIS shares up to $106.**
- **We are setting a protective stop at $87.**
- **Our price target on DIS shares is $125.**
- **Investors desiring an alternative strategy could consider Consumer Discretionary Select Sector SPDR Fund (XLY).**

Speaking of the Box Office...

In talking about our new ***Content is King*** position in Disney, we could not help but check in on the domestic box office. What we found was more than music to our ears and our position in **Regal Entertainment Group (RGC)**.

Given the success of a number of films, most of which happen to be Disney properties like *Star Wars: The Force Awakens, Zootopia* and *The Jungle Book*, the domestic box office is up 7% year-to date through April 18 compared to the same period in 2015. Looking at the historical figures, this is the best domestic box office in years! With Disney's *Captain America: Civil War* expected to have a $175 million opening, and a robust of movies to follow in the balance of the year, we will continue to keep RGC shares and their better than 4 percent dividend yield on the ***Tematica Select List***.

Our official price target for RGC remains $24, however based on continued box office strength, we are examining upside potential to that target.

Holding Off on Nike Was the Right Call

While Nike's famous slogan is "Just Do It", a few weeks ago we decided to "Just Wait on it", as we slated shares of athletic apparel and footwear company **Nike (NKE)** to the ***Tematica Contender List*** (see below), which is where we place companies that we're doing more work on and in some cases wait for the risk to reward tradeoff to reach more appetizing levels.

We didn't make a move on Nike shares at the time because we were concerned about the lack of upside to be had in the shares as well as tougher competitive landscape as **Under Armour (UA)** continued to press into several key Nike markets like women's and footwear. After being added to the Contender List, Nike gave lackluster guidance and lowered its forecast for the year, and now we are hearing the market share leader is stepping up its efforts to take back share with some aggressive promotional activity at **Foot Locker (FL)** and other retailers.

This chatter has led Nike shares lower, but not so low that they've approached the $55 level that in our view offers more upside than downside in the shares. We will continue to keep close tabs on Nike shares as we look for confirmation on this kicked up promotional activity would more than likely hit its margins and EPS in the short-term.

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	*Aging Population / Scarce Resources*
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*

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 some of the Ripped from the Headlines that caught our eyes this week filled with corporate earnings reports.

Cash Strapped Consumer

A study conducted by Annamaria Lusardi of George Washington University, Peter Tufano of Oxford, and Daniel Schneider at Princeton, asked individuals whether they could "come up with" $2,000 within 30 days for an unanticipated expense. They found that slightly more than one-quarter could not, and another 19 percent could do so only if they pawned possessions or took out payday loans. The conclusion: Nearly half of American adults are "financially fragile" and "living very close to the financial edge."

Connected Society

Apple (AAPL) officially confirmed that its annual Worldwide Developers Conference would take place from June 13th through June 17th in San Francisco. The WDC has typically been the event where Apple has made major announcements in the past. This year, the expectation is the company will unveil the latest versions of iOS and OS X, but most of Apple's Mac lineup is due for an update and we'll be watching to see what the company has planned to pump up its computer sales.

Intel (INTC), the company that bet heavily on the stability of the PC business years ago, announced it is cutting 11 percent of its work force (12,000 people) as it shifts focus from PCs to convertible laptop-tablet devices, gaming, data center and Internet of Things businesses.

Fattening of the Population

In 1975, the underweight outnumbered the obese more than 2 to 1 around the globe. But the tables turned by 2014, according to a new study of obesity rates in much of the world: There are now more obese people than underweight people on Earth. For men, the obesity rate more than tripled over the past four decades, rising from just over 3 percent to nearly 11 percent. Among women, the rate more than doubled, rising from more than 6 percent to nearly 15 percent.

Food with Integrity

Coca-Cola (KO) has invested in Chi Limited, Nigeria's leading value-added dairy and juice company. This adds to other recent investments, including Monster, Suja, and fairlife, expanding the company's presence in the energy juice and value-added dairy categories.

Rise & Fall of the Middle Class

Income inequality has been rising since the early 1980s, and the median household income is now lower than it was in 1999. The status of the middle class has become a highly charged political issue.

NPR has added a new weekly segment that examines the increasing pressure on the middle class and how that's driving political discourse.

Safety & Security

A new report from SecurityScorecard found U.S. federal, state and local government agencies rank in last place in cybersecurity when compared against 17 major private industries, including transportation, retail and healthcare. SecurityScorecard said it tracked 35 major data breaches across government from April 2015 to April 2016.

The Global Fraud Index, a PYMNTS and Forter collaboration, shows that online fraud attacks have jumped by 11 percent since the shift. Digital goods retailers have suffered the worst of all as those merchants (think games, songs, movies) have seen a more than 300 percent increase in fraud attacks since the liability shift.

TEMATICA SELECT LIST PERFORMANCE

as of market close April 19, 2017

(AGNC) AMERICAN CAPITAL AGENCY CORP

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/17/15	$18.98	$18.83	$1.60	$17.00	7.64%	$23.00	(BUY)

(COST) COSTCO WHOLESALE CORPORATION

Cashstrapped Consumer

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
4/13/16	$152.83	$153.68	--	$140.00	0.56%	$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	$1.80	$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	$19.99	--	--	-11.35%	$24.00	(BUY)
3/23/16	$20.56	$19.99	--	--	-2.77%	$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	$20.85	$0.44	$19.00	15.02%	$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	$38.92	$0.95	$36.00	15.00%	$42.00	(BUY)

Companies Mentioned

Amazon (AMZN)
Apple (AAPL)
Coca-Cola (KO)
Comcast (CMCSA)
Disney (DIS)
Foot Locker (FL)
Intel (INTC)
Netflix (NFLX)
Nike (NKE)
Regal Entertainment Group (RGC)
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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