TEMATICA INVESTING
THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

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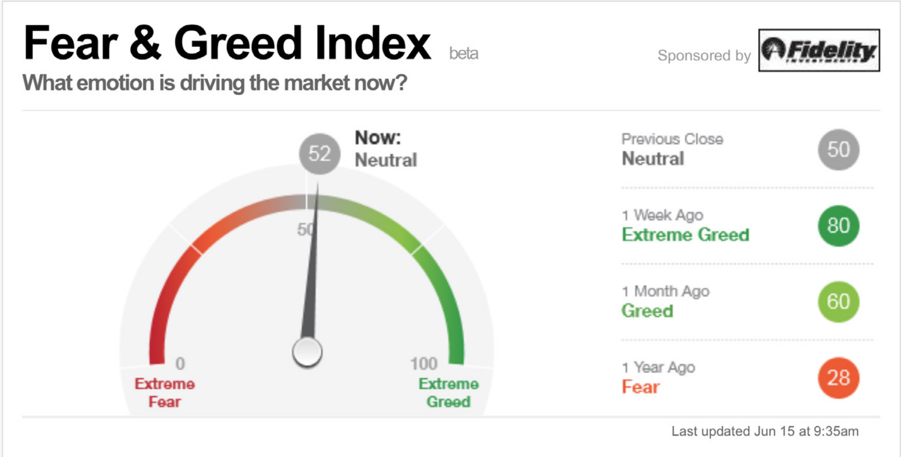
INSIDE THIS ISSUE

Tickers Featured:

GOOGL, AMZN, T, ECOM, CMG, CSCO, DKS, FINL, FL, M, NKE, PETS, DOC, PwC, SBUX, ULTA, UPS, WSM, YHOO

Economics & Expectations

Over the last week, we've seen quite a shift in investor sentiment as fear and worry has come to the forefront, eclipsing greed. We shared the data earlier this week in the Monday Morning Kickoff, but the needle has only moved further toward fear in the last few days. As you can see below, the CNN-Money Fear-Greed Index stood at 80 just a week ago (Extremet Greed) . . . it's precipitously dropped to 52 now.



Emerging investor fear sentiment is not because of what Fed Chairwoman Janet Yellen and her comrades will share at the end of today's FOMC meeting — Yellen essentially telegraphed last week that today will be a non-event. No, it's the increasing concern over the potential Brexit and the growing realization that there is indeed a disconnect between the current stock market valuation compared to global growth and earnings expectations. As you have no doubt realized, the latter is basically what we've been talking about over the past several weeks.

We have been, and will continue to be prudent when it comes to the ***Tematica Select List*** as we see better share prices ahead. We will also be opportunistic, and that has us adding **Alphabet (GOOGL)** shares to the ***Tematica Select List*** today. (More on page 2)

As this has occurred, we've seen our inverse ETF positions rally, and given the June 23 Brexit vote and prospects for a bumpy earnings season that will likely focus on expectations for the second half of 2016, we will continue to hold them.

AT&T (T) shares, as well as recently added **Starbucks (SBUX)**, were among the better performers over the last week. We are reviewing our $42 price target for AT&T subject to the outcome of the bidding for **Yahoo! (YHOO)** given that AT&T has progressed to the final rounds. Our view on this is we like AT&T adding a ***Content is King*** aspect to its business as it helps makes its already inelastic even more so. That said, we would prefer the company not get into a bidding war, particularly given the waning performance of Yahoo's assets. We will continue to closely watch this event unfold.

On the housekeeping front

We were stopped out of **Chipotle Mexican Grill (CMG)** shares earlier this week when they dipped below our $390 stop loss. We continue to see Chipotle as a well positioned ***Foods with Integrity*** play, but we will hold off from boomeranging with the shares until we pass through a cooling off period. As such, we are putting CMG shares back on the ***Tematica Contender List.***

Getting Some Asset-Lite Alphabet

Odds are pretty high that you've used more than one of the products from **Alphabet (GOOGL)**. The company formerly known as Google is arguably one of the best-positioned companies as we march deeper into the ***Connected Society***, with mobile becoming more central to our daily lives. The company has platforms in key verticals — commerce, communications, business services, video, computing and smartphones — that make it a name to own, provided there is sufficient upside to be had in the shares.

One would naturally think that platform array makes Alphabet one of the top technology horsemen in the ***Connected Society*** thematic, and while many will focus on the upside in commerce, video and payments, let's not forget its core Search business. Underneath it all, however, with little hardware, few physical products, modest capital spending and robust cash flow, we have placed Alphabet firmly into our ***Asset-Lite*** thematic, while also benefitting from the ***Connected Society*** tailwind.

Thematic Signals

We continue to gather and share all the latest "ripped from the headlines" data points and other nuggets that point to continued tailwinds associated with our investing themes. Below are just a few from the this past week, or click here to see a full listing on our site.

Microsoft targets enterprise market with LinkedIn buy, but is there a better fit? *Tooling & Retooling America*

New FDA-approved weight loss device sucks food straight from your stomach *Fattening of the Population*

Experience Economy now at your local grocery store . . . *Content is King / Connected Society*

Starbucks "cashing-in" on more than just frappuccinos these days *Cashless Consumption*

Target new 'Connected Living' in-store pilot program signals the Connected Home nears the tipping point *Connected Society*

Don't underestimate Amazon move into apparel and what it means for brick & mortar retail business *Aging of the Population*

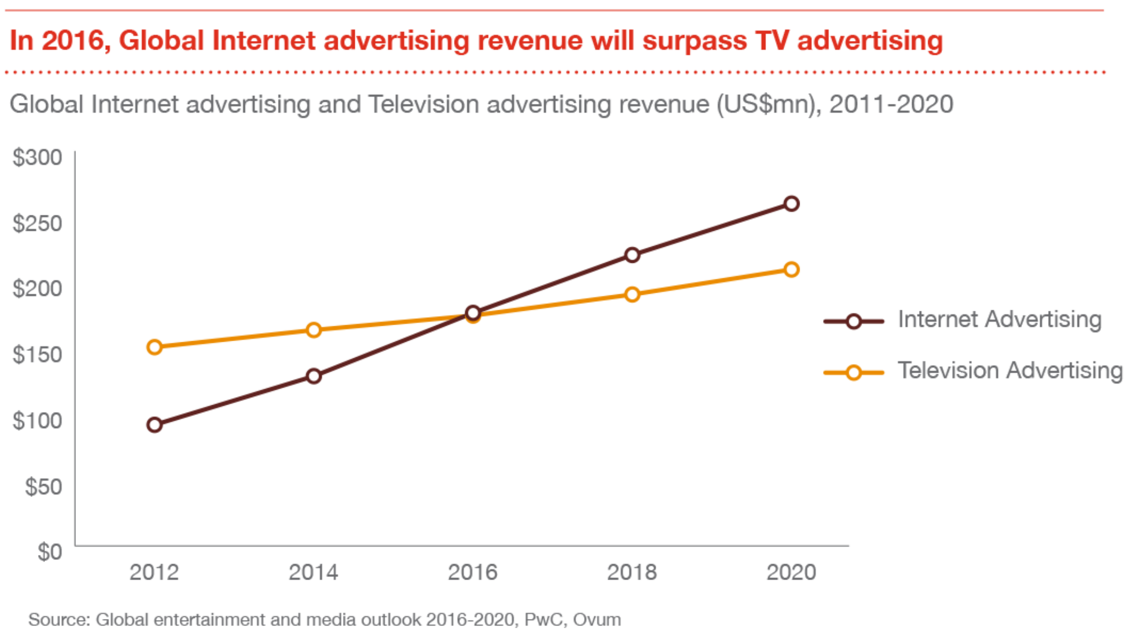
There are many industries and companies that are capital intensive. In our ***Asset-lite*** investment theme we focus on just the opposite — business that leverage intellectual property, patent portfolios and both licensing in and out models, outsourcing and similar business models.

Tailwinds favors Alphabet's advertising led business model

No matter what the economy is doing, people will continue to search the internet — or as most tend to say, "Google it." According to NetMarketshare, Alphabet's share of the desktop search market was 70 percent in May, but that pales in comparison to its dominant position in mobile search. In May the company's mobile/ tablet search market share stood at 95 percent.

With consumers increasingly shifting toward mobile, Alphabet's position in mobile search bodes extremely well for its predominantly advertising based revenue model. In the March 2016 quarter, advertising accounted for 89 percent of Google's overall revenue, and the company has the platforms to take advantage of the rising tide in online advertising that is moving to online and mobile from TV and radio.

According to a new **PricewaterhouseCoopers (PwC)** report, online advertising in the U.S. will surpass TV for the first time next year — with forecasts of $75.3 billion in online sales, vs. $74.7 billion for TV. PwC goes on to forecast that by 2020, internet advertising will bring in $95.3 billion vs. $81.7 billion for TV advertising — and mobile will account for nearly half the total online advertising, up from about a third today.



While the final figures may vary, the vector and velocity are certainly in the right direction for online advertising, with most of Alphabet's business poised to benefit, especially as estimates have Google accounting for roughly two-thirds of U.S. internet advertising spend.

Video is Dominating the Net and Mobile

The surge in video consumption bodes extremely well for Google-owned property YouTube: Estimates put YouTube at around 10 percent of gross revenues, but we see that business benefitting not only from the advertising shift, but also continued Internet and mobile video growth.

Based on data and forecasts from **Cisco Systems (CSCO),** internet video views are slated to double year over year in 2016, with Cisco expecting video to account for 80 percent of all mobile internet traffic by 2019. Google has indicated that growth in watch time on YouTube has accelerated, and has been up at least 50 percent a year for the last three consecutive years. Examine just video advertising, according to Magna Global, global online video advertising spend is expected to increase to $35 billion in 2018 from $19 billion in 2015.

Google is also benefitting from the shift to online shopping.

While many consumers use Google search to find something when they are inclined to shop, Alphabet also has its own digital commerce engine — better known as Google Shopping. Keeping in line with the ***Asset-Lite*** thematic, Google Shopping doesn't actually sell anything, instead allowing users to search for products across various online shopping websites and compare prices between different vendors. Merchants pay Google to list their products on the service.

We know consumers are increasingly shifting their purchasing to digital platforms (online and mobile), given strong results that we've talked about with Tematica Select List holding **Amazon (AMZN)** and the suffering results of other retailers, such as **Macy's (M), William-Sonoma (WSM)** and **Ulta Salon (ULTA).** According to data reported by **ChannelAdvisor (ECOM)**, Google Shopping is also benefitting from this modality shift in consumer purchasing. The most-recent ChannelAdvisor data shows Google Shopping sales accelerated in May (up 42 percent on the previous year period, and up 34 percent vs. April).

As these other platforms rise, we are seeing some disruption in reported monthly click figures for Search, but that reflects clicks that are shifting to Google Shopping and Google Product Listing Ads, which are not included in the search data. As with most data, it's important to understand below the headline movements to see what is really going on and the same holds true for Alphabet click data.

Looking at Alphabet shares

GOOGL shares have under-performed the overall market in 2016, falling just over 5 percent compared to roughly a 2 percent drop for the Nasdaq Composite Index. In looking at the shares from a valuation perspective, we have to remember that the company had $75.3 billion in cash vs. $5.2 billion in debt at the end of the March quarter, which equates to roughly $100 per share in net cash.

Amazon.com Inc.

NASDAQ: **GOOGL**

Theme: ***Asset-Lite***

Price on 06/14/16: **$733.25**

- Alphabet Inc. is a holding company with interests in Google Inc. (Google) and Other Bets.
- Google segment includes Internet products, such as Search, Ads, Commerce, Maps, YouTube, Apps, Cloud, Android, Chrome, Google Play, and hardware products, including Chromecast, Chromebooks and Nexus, which are sold by the Company.
- Google segment is engaged in advertising, sales of digital content, applications and cloud services, as well as sale of Google branded hardware.
- The Other Bets segment consists of various operating segments and includes businesses, such as Access/Google Fiber, Calico, Nest, Verily, GV, Google Capital, X and other initiatives.
- Other Bets segment is engaged in the sale of Nest hardware products, Internet and television services through Google Fiber, and licensing and research and development (R&D) services through Verily.

Shares Outstanding	293.68M
Avg. Volume	1,780,160
Market Cap	504.15B
EPS: '15 / '16 / '17	$47.18 / $26.21/ $31.35
Cash (mrq): $US	73.45B
Debt (mrq): $US	7.381B
Net Cash (mrq)	66.07B
Revenue (ttm)	77.99B
Enterprise Value to Revenue (ttm)	5.61
Dividend Per Share	--
Dividend Yield	--

Backing out the net cash position and subtracting after- tax net interest income, GOOGL shares are trading at 20x adjusted 2016 earnings of $31.55 a share (vs. consensus expectations of $33.55 that include interest income per share) and 16.9x adjusted 2017 earnings of $37.65). With earnings growth poised to accelerate over the coming quarters — given the drivers we discussed above — and Alphabet having $1.4 billion remaining under it current share repurchase program, which has no expiration, we see modest downside in the shares at current levels and upside of more than 20 percent, given our $880 price target.

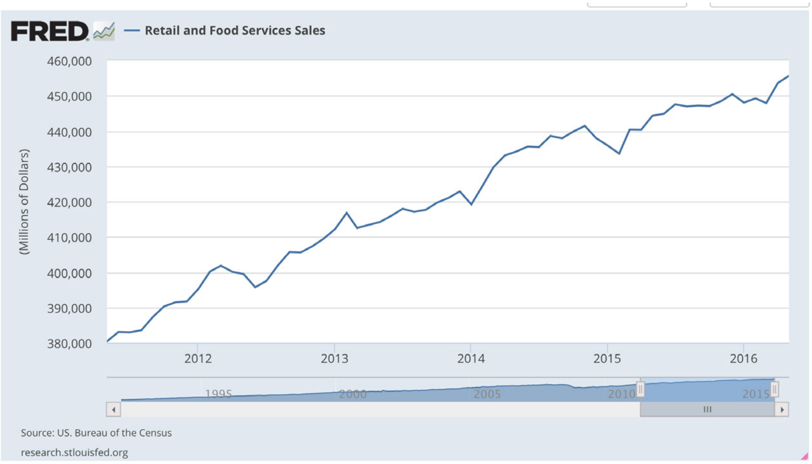
That price target is in line with prior peak multiples, and equates to a price/earnings/growth ratio of 1.4, when applied to 2017 expectations. We would look to use market volatility to round out the position in the coming weeks and months. Given the company's ample cash war chest, we would not be surprised to see another share repurchase program, should the company exhaust the current one sooner than expected.

Bottomline on
(GOOGL) Alphabet, Inc. Shares:

- **We are issuing a BUY rating on Alphabet (GOOGL) shares as part of our Asset-Lite investing theme.**
- **Our target price is $880, and we would be comfortable adding to the position up to $760.**
- **We are not setting a protective stop loss at this time as we expect to scale into the position over the coming month.**

A Thematic View on May Retail Sales

With roughly two-thirds of the domestic economy powered by the consumer and consumer spending, we keep a close eye on related data from an economic and psychographic perspective. The most recent report was May Retail Sales and its headline figure came in better-than-expected for the second consecutive month, up +0.5 percent over April versus expectations for +0.3 percent.



Some of the highlights:

- Strength was had in non-store retailers (+1.3 percent month-over-month) and sporting goods (+1.3 percent month-over-month) with the biggest gains at gas stations (+2.1 percent month-over-month), due to the rebound in gas prices.
- With crude oil prices increasing over the last few months, gas prices rose roughly 10 percent in May and are up another 2.6 percent month-to-date in June, per the Energy Information Administration.
- We saw continued declines at Department Stores (-0.9 percent) and an unexpected drop in Building Materials (-1.8 percent), which has now experienced two consecutive down months. On a three month rolling basis, Building Materials sales were down 4 percent, which is the largest drop since June 2012.

Excluding auto sales, the adjusted May Retail Sales rose 0.4 percent month-over-month, not quite as strong as top line, but still a match for expectations.

Updates, Updates, Updates

Amazon (AMZN) & PetMeds Express (PETS)

The continued growth in sales of non-store retailers, which were up an impressive 12.2 percent year over year in May, essentially represents online and mobile shopping. This and bodes well for both our **Amazon (AMZN)** shares, and it also supports our favorable view on Alphabet's Google Shopping business. As we see it, the +1.3 percent month-over-month increase and the +12.2 percent year-over-year increase both confirm the accelerating shift toward digital (online and mobile) commerce, a cornerstone of our ***Connected Society*** investment theme. This was also the first time ever that more than 10 percent of all sales came from non-store retail, further emphasizing this shift.

We're pretty sure you've noticed the climb in gas prices over the last several weeks when you fill up the tank. Even though gas prices are still down more than 12 percent year-over-year, the sharp climb in gas prices since the bottom in mid-February (up +46 percent), is likely causing sticker shock among consumers, particularly given the modest year-over-year wage increases. We continue to see Amazon benefitting in this ***Cash-Strapped Consumer*** environment, which is more likely than not giving rise to more show-rooming, as consumers diligently ferret out more attractive prices and better deals. The same data and shifting consumer shopping habits also bodes well for online pet pharmacy **PetMeds Express (PETS)**, particularly during its seasonally strongest quarter.

Our price target on Amazon and PetMeds Express shares remain $880 and $20, respectively.

Connecting the dots, the data also points to continued growth in ***Cashless Consumption***; the last time we checked there is no slot to slide cash or a check into your computer or smartphone. If we were to connect the dots one step further, even though the shares are not on the Tematica Select List, packages still need to get to you or the intended person, and that's a favorable tailwind for **United Parcel Service (UPS)** and its shares. **As we head into the holiday shopping filled back half of the year, we'll be putting UPS shares under the Tematica microscope.**

Nike (NKE)

Turning to sporting goods, the +5.2 percent year-over-year increase, which was more than double the rate of overall retail sales growth, is reassuring for our position in ***Rise & Fall of the Middle Class*** company **Nike (NKE)**. That 5.2 percent year over year increase in sporting goods sales in May is an acceleration over the +3.9 percent year over year increase in April, which could mean recent estimate cuts at **Foot Locker (FL), Dick's Sporting Goods (DKS)** and **Finish Line (FINL)** may be more extreme than warranted. We'll look for confirmation of that in third party data, as well as in the June Retail Sales report, which will be released well before those companies report their June quarter results.

Our price target on Nike shares remains $66.

Physicians Realty Trust (DOC)

Finally with our **Physicians Realty Trust (DOC)** shares, spending on health and personal care accelerated in May, with year-over-year spending up 8.3 percent compared to 7.6 percent in April. **We continue to like this Aging of the Population play, but we would not add to the position at current levels.**

Ask Tematica

Each week we get a number of questions from Tematica subscribers, and as part of our goal to help educate investors, we choose one from the digital mailbag to answer. This week's question centers on the difference between a "Day order" and a "Good-Til-Canceled" or GTC order.

There are several reasons behind using one or the other, but there are also some mechanics involved when selecting which one to use. Online trading platform Interactive brokers not only offers a good understanding of GTC orders, but also has an easy to read table that explains which investment products and securities can be used with GTC orders. Interactive also has a video that shows how to set a GTC order. **All of that can be found here**.

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*
AWK	American Water Works	*Scarce Resources*
WTR	Aqua America	*Scare Resources*
CHGG	Chegg Inc.	*Tooling & Retooling*
SCOR	Comscore	*Connected Society*
GLW	Corning Inc.	*Disruptive Technologies*
EPR	EPR Properties	*Content is King*
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*
NLSN	Nielson NV	*Connected Society*
PANW	Palo Alto Networks	*Safety & Security*
SYNA	Synaptics Inc.	*Disruptive Technologies*
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 June 14, 2017

(AMZN) AMAZON.COM — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/24/16	$704.20	$719.30	--	--	2.14%	$880.00	(BUY)

(XLY) CONSUMER DISCRETIONARY SPDR (ETF) — *Content is King*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
4/20/16	$79.57	$77.68	--	--	-2.15%	--	(HOLD)

(DIS) THE WALT DISNEY CO. — *Content is King*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
4/20/16	$102.16	$98.40	--	$87.00	-3.68%	$125.00	(BUY)
5/11/16	$101.78	$98.40	--	$87.00	-3.32%	$125.00	(BUY)

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

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
6/27/14	$14.33	$19.84	$1.58	$16.00	49.44%	$--	(BUY)

(NKE) NIKE INC — *Rise & Fall of the Middle Class*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/18/2016	$56.10	$54.12	--	--	-3.53%	$--	(BUY)

(PETS) PETMEDS EXPRESS — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/4/14	$17.80	$19.01	$0.19	--	7.87%	$20.00	(BUY)

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

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
1/14/16	$22.55	$20.13	--	--	-10.73%	$24.00	(BUY)
3/23/16	$20.56	$20.13	--	--	-2.09%	$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	$19.74	$0.66	$19.00	10.21%	$24.00	(BUY)

(SBUX) STARBUCKS CORPORATION — *Guilty Pleasure*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
5/31/14	$54.89	$55.57	--	--	1.24%	$74.00	(BUY)

(T) AT&T, INC. — *Connected Society*

DATE ADDED	ADD PRICE	CURRENT PRICE	DIVIDENDS	STOP PRICE	RETURN (%)	TARGET	RATING
7/21/15	$34.67	$40.38	$1.40	$36.00	20.50%	$42.00	(BUY)

COMPANIES MENTIONED

Alphabet (GOOGL)

Amazon (AMZN)

AT&T (T)

ChannelAdvisor (ECOM)

Chipotle Mexican Grill (CMG)

Cisco Systems (CSCO)

Dick's Sporting Goods (DKS)

Finish Line (FINL)

Foot Locker (FL)

Macy's (M)

Nike (NKE)

PetMeds Express (PETS)

Physicians Realty Trust (DOC) shares.

PricewaterhouseCoopers (PwC)

Starbucks (SBUX),

Ulta Salon (ULTA)

United Parcel Service (UPS)

William-Sonoma (WSM)

Yahoo! (YHOO)

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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