TEMATICA INVESTING
THEMATIC COMMENTARY, EQUITY RESEARCH & INVESTING STRATEGIES

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INSIDE THIS ISSUE

ECONOMICS & EXPECTATIONS

As the saying that goes, “March comes in like a lion, and goes out like a lamb.”

Well, last week, as Wall Street and Main Street got back to work after the Labor Day holiday — it was quite the opposite. We entered the shortened trading week on a calm note, still enjoying the restfulness of the 3-day weekend, but it ended with one of the sharpest moves lower in some time.

Since mid-summer, the S&P 500 had experienced a level of sideways trading never seen before. Looking back to when the S&P 500 index began in 1928, it had never experienced a 42-day trading period with a smaller hi/lo spread. Who would have guessed back during the Brexit panic at the end of June that we would be heading into the flattest trading range in history! Then again, in an environment in which investors buy stocks for yield and bonds for capital appreciation, nothing is quite what one would expect.

As we’ve mentioned previously, September tends to be one of the worst months for the stock market, and after trending sideways for a prolonged period, it was hit in the last few days by several items that, combined, raised “caution” flags. As we discussed in this week’s Monday Morning Kickoff, the market was spooked on Friday by Federal Reserve Bank of Boston President Eric Rosengren who said that “a reasonable case can be made” for tightening interest rates to avoid overheating the economy.”

Given the August data received thus far, we’re inclined to think Rosengren is still shaking off the jet lag from his recent trip to China where he made similar comments, or he hasn’t had time to digest the latest data.

How has the Market Responded this Week?

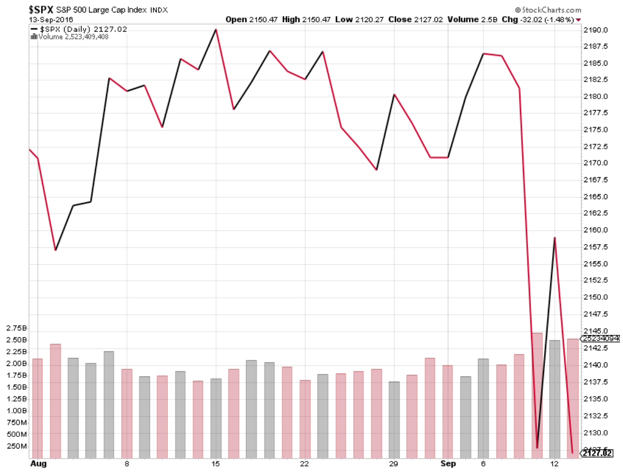
On Monday the stock market flip-flopped, recovering somewhat when Fed Governor Lael Brainard — a voting member of the central bank’s policymaking committee — said that while economic progress continues, it would be wise for the Fed to keep monetary policy loose in a speech she gave today. This was a tonic to help Wall Street lick its Friday sores,and and goes to show just how skittish the market is when it comes to Fed jawboning. Even though we would much prefer a market focused on fundamentals and valuation, as investors, we have to keep the market mindset in tune and for now, it continues to dance to the Fed rap.

Lael Brainard
U.S. Federal Reserve's Board of Governors

I would like to start by describing the contours of today's economy that will be particularly important in shaping the appropriate path of policy before reviewing recent developments. These contours represent noteworthy departures from the "old normal" that prevailed in the decades prior to the financial crisis. I would argue that policy today must rely less on the old normal as a guidepost and instead be sensitive to the contours that shape today's "new normal."

Then yesterday, the market flip-flopped again following the cut in the **International Energy Agency's (IEA)** its global demand growth forecast for 2016, down from 1.4 million barrels to 1.3 million barrels per day. Nothing points to a slower economy like falling oil demand, and this is yet another reason to think the expected economic rebound in the second half of the year is less than likely to happen. The IEA also trimmed its 2017 growth estimate to 1.2 million barrels vs. the prior 1.4 million barrels. Aside from offering a more bearish view on the economy, lower oil demand could throw a wrench in any pending OPEC production cut agreement. This news hit energy names, while financial stocks re-adjusted to the post-Fed jawboning induced flip flop that now points to a no-go on any rate hike on Sept. 21st.

All told over the last several trading days, the often touted Dow Jones Industrial Average lost 470 points or 2.5 percent. Our preferred measure of the market, the S&P 500 fell 2.7 percent since the recent peak on September 6. With more data suggesting the summer slump is likely to continue, we continue to be wary of robust expectations for a rebound in earnings growth in the soon to be upon us December quarter. We would not be surprised if we saw a pick up in negative earnings pre-announcements in the coming weeks, which could force a reset in earnings expectations for 2017.

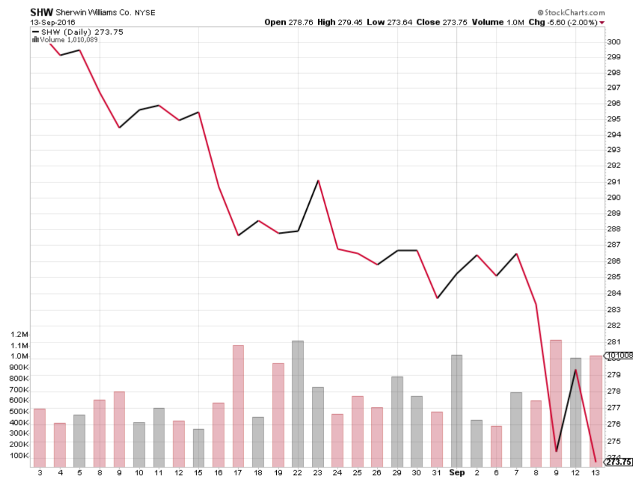


We will continue to tread carefully, keeping our thematics as our investing north star, and using the market pullback to improve our cost basis where appropriate along the way. We do just that with several recently added positions — **Sherwin Williams (SHW), United Natural Foods (UNFI)** and **Whirlpool (WHR)** — and we also have a new selection to the ***Tematica Select List***. It's also been a bit since our last issue, which means.... yes, you guessed it... updates, updates, updates. Let's get crackin...

Scaling into Sherwin Williams, United Natural Foods and Whirlpool shares

The market pullback over the last few days has offered us the opportunity to improve the cost basis in a few of our more recent additions to the Tematica Select List — **Sherwin Williams (SHW), United Natural Foods (UNFI)** and **Whirlpool (WHR)**. As we've moved past Labor Day, each of these stocks has given more than a little ground, for various reasons, but the fundamental theme behind the move stands, so not only are we not bailing on them, we're "doubling down" as the saying goes.

Sherwin Williams (SHW) *Rise & Fall of the Middle Class*



Despite the more than favorable prospects for repair & remodel spending, SHW shares have fallen more than 7 percent over the last month. An eye-opening move to say the least. But we continue to see several favorable drivers of earnings improvement tied to the pending acquisition of **Valspar (VAL)**, which expands Sherwin's product and geographic footprint. More importantly, Valspar recently reported quarterly earnings with margins in excess of those as Sherwin. This tells us, there is likely to be far more cost reduction opportunities to be had as these two coatings companies join forces.

Recently, the National Association of Realtors published its July Pending Home Sales (PHS) Index, which increased 1.3 percent to the second-highest level in over a decade. The Pending Home Sales Index is a leading housing indicator and is based on signed real estate contracts for existing single-family homes, condos and co- ops. Because a home goes under contract a month or two before it is sold, the Pending Home Sales Index generally leads Existing Home Sales by a month or two. We see this report as rather bullish for repair and remodel spending as new owners make their new house a home (i.e. "honey, this shade of white just isn't quite right"), and therefore a strong catalyst for the company's 147 different shades of white and pastel paint colors, and in turn, for our SHW shares.

Our $350 price target is in line with prior peak multiples, and given the improved upside to be had given the pullback in the share price, we are scaling further into SHW shares at current levels.

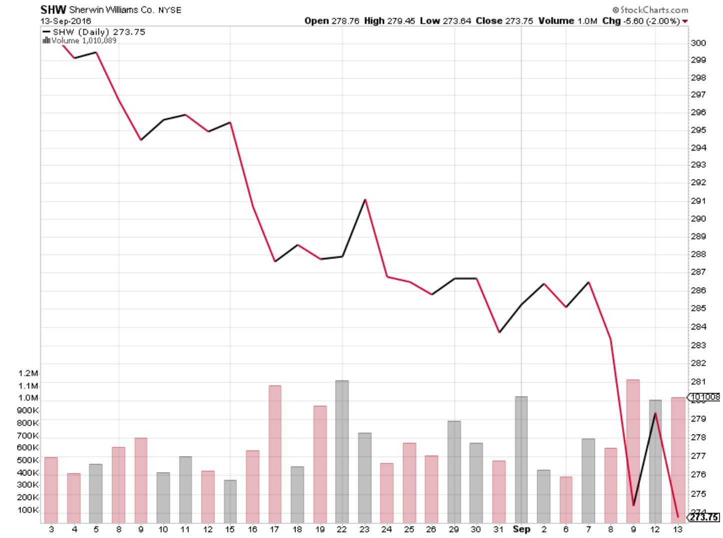
NATIONAL ASSOCIATION OF REALTORS®

Pending Home Sales Index (PHSI)

Year		United States	Northeast	Midwest	South	West	United States	Northeast	Midwest	South	West
2013		104.9	84.8	106.6	117.2	99.4	*	*	*	*	*
2014		100.8	83.7	99.9	114.9	92.9	*	*	*	*	*
2015		108.9	90.5	107.2	123.1	102.5	*	*	*	*	*
		Seasonally Adjusted Annual Rate					Not Seasonally Adjusted				
2015	July	109.8	95.7	107.0	123.4	102.4	121.0	101.5	111.2	141.9	113.7
2015	Aug	108.7	92.6	106.5	121.6	103.4	112.4	92.8	104.7	129.0	110.0
2015	Sept	107.4	89.6	105.7	120.1	103.2	94.4	70.3	89.5	105.6	100.5
2015	Oct	108.1	93.3	105.0	119.2	105.7	104.0	94.1	105.3	111.0	99.3
2015	Nov	107.7	92.2	106.0	120.3	102.0	83.9	68.0	81.5	94.3	82.6
2015	Dec	108.7	97.6	106.3	120.7	101.0	69.7	51.2	67.5	82.2	66.7
2016	Jan	105.4	94.2	101.1	119.9	95.7	80.9	64.9	74.1	93.4	80.9
2016	Feb	109.0	94.0	112.6	121.7	97.0	104.7	83.1	119.6	110.5	96.8
2016	Mar	110.7	97.0	113.6	125.4	95.3	136.5	119.2	135.3	159.6	114.9
2016	Apr	115.0	98.2	112.7	130.6	106.2	139.1	129.6	140.3	154.4	121.4
2016	May	110.8	93.0	108.0	126.6	102.6	136.4	135.2	138.5	146.8	118.9
2016	June r	109.9	96.0	109.0	122.9	101.3	135.9	127.3	135.4	153.7	115.2
2016	July p	111.3	96.8	105.8	123.9	108.7	118.3	99.3	106.1	138.5	114.2
vs. last month:		**1.3%**	**0.8%**	**-2.9%**	**0.8%**	**7.3%**	**-13.0%**	**-22.0%**	**-21.6%**	**-9.9%**	**-0.9%**
vs. last year:		**1.4%**	**1.1%**	**-1.1%**	**0.4%**	**6.2%**	**-2.2%**	**-2.2%**	**-4.6%**	**-2.4%**	**0.4%**

United Natural Foods (UNFI) *Food with Integrity*

Following last week's flare across the food price deflation bow from **Sprouts Farmers Market (SFM)** and **Kroger (KR)**, specialty food distributor **United Natural Foods (UNFI)** reported earnings of $0.70 a share (excluding non-recurring items), well ahead of the $0.63 a share Wall Street was looking for. Revenue for the quarter was essentially in line with expectations, coming in at $2.21 billion vs. the expected $2.22 billion (of course we wish we could miss our income expectations by just $10 million and have it considered to be "in line with expectations").



Viewed another way, the company delivered net margin of 1.59 percent for the quarter, well ahead of the 1.44 percent implied by Wall Street expected earnings. Compared to the year-ago quarter, UFNI's revenue rose 7.4 percent, with recent acquisitions — Nor-Cal Produce and Haddon House Food Products — contributing $138 million to the top line during the quarter.

UNITED NATURAL FOODS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(In thousands, except per share data)

	Three months ended		Fiscal year ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Net sales	$2,213,821	$2,061,313	$8,470,286	$8,184,978
Cost of sales	1,868,358	1,744,907	7,190,935	6,924,463
Gross profit	345,463	316,406	1,279,351	1,260,515
Operating expenses	282,219	251,317	1,049,690	1,017,755
Restructuring and asset impairment expenses	758	—	5,552	803
Total operating expenses	282,977	251,317	1,055,242	1,018,558
Operating income	62,486	65,089	224,109	241,957
Other expense (income):				
Interest expense	4,525	3,769	16,259	14,498
Interest income	(78)	(71)	(1,115)	(356)
Other, net	370	1,831	743	(1,954)
Total other expense (income), net	4,817	5,529	15,887	12,188
Income before income taxes	57,669	59,560	208,222	229,769
Provision for income taxes	22,988	23,462	82,456	91,035
Net income	$ 34,681	$ 36,098	$ 125,766	$ 138,734
Basic per share data:				
Net income	$ 0.69	$ 0.72	$ 2.50	$ 2.77
Weighted average basic shares of common stock	50,381	50,091	50,313	50,021
Diluted per share data:				
Net income	$ 0.69	$ 0.72	$ 2.50	$ 2.76
Weighted average diluted shares of common stock	50,516	50,330	50,399	50,267

On a customer basis — the companies purchasing and / or stocking UNFI products on their shelves — sales were up in all segments — natural, supermarkets, independent channel, foodservice, and e-commerce. In our view, this reflects the continued consumer demand for organic, natural and other lifestyle products, as well as greater customer penetration, as UNFI continues to integrate past acquisitions.

Gross margin during the July quarter, clocking in at 15.6 percent, was the highest seen in several quarters due to continued cost-reduction initiatives, reorganization efforts, and acquisition integration. Offsetting the improved gross margin, operating expenses rose due in part to integrating the higher touch, higher service nature of the business at acquired businesses, as well as roughly $2 million of amortization costs.

The net effect was a modest sequential dip in both the quarter's operating and net margin. But at 2.9 percent and 1.6 percent, respectively, both remained well above the 2.1 to 2.7 percent and 1.2 to 1.5 percent ranges of the prior quarters. And the company delivered better-than-expected net margin relative to forecasts for the July quarter.

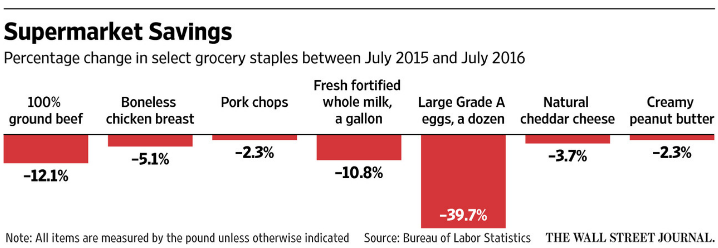
Our thesis on UNFI shares has been that the winding down of the overly competitive food pricing environment, paired with internal cost-reduction efforts, should drive margin expansion in the coming quarters, particularly net margin expansion.

Sales by Channel - FY 2016 (in millions)	Adjusted *	As Reported	Impact of Change	% of Net Sales
Q1 2016				
Supernatural	$ 713	$ 713	$ -	0%
Independently owned natural products retailers	566	675	(109)	-5%
Supermarkets	575	518	57	3%
Other	223	171	52	2% *
Total Q1 2016	**2,077**	**2,077**	**-**	**-**

* - Reflects Rounding

Summary of Channel Definitions

- Supernatural – Chain accounts that are national in scope and carry 90%+ natural products – currently consists solely ofWhole Foods Market, Inc. ("WFM");
- Independently owned natural products retailer – Single store and chain accounts (excluding only WFM) which carry more than 90% natural products and buying clubs of consumer groups joined to buy product;
- Supermarkets - Accounts that also carry conventional products. These include chain accounts, supermarket independents, and gourmet and ethnic specialty stores;
- Other – Includes food service, e-commerce and international customers outside of Canada.



Aside from acquisition integration and other cost initiatives, in August the company reorganized its sales team into a single sales force, which should reduce multiple sales calls and allow for incremental sales gains. Helping this will be the geographic expansion of products across the country from acquired businesses.

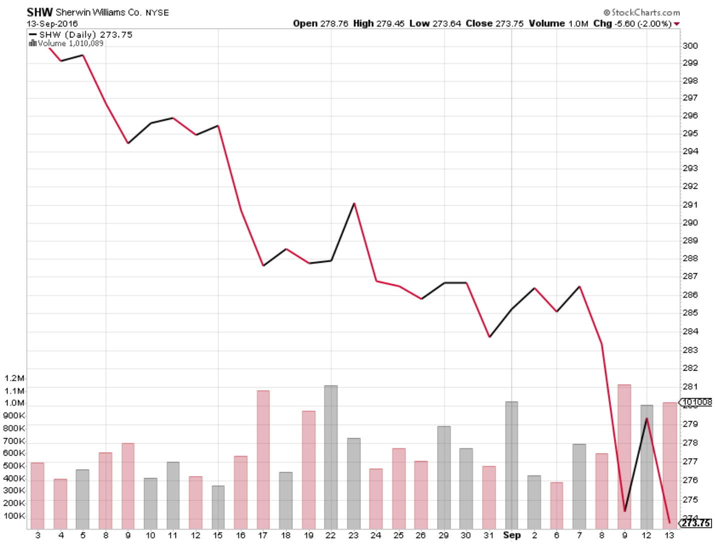
The lone issue with the company's earnings was its rather conservative guidance — even on the company's earnings call, management said that the company has "a fair amount of the uncertainty built into our guidance." And as we would expect, there are no pending acquisitions or customer contracts baked into the guidance cake. So, although the company guided the top line in 2017 between $9.43 to $9.60 billion , modestly ahead of the $9.4 billion Wall Street was looking for in 2017, it guided GAAP EPS in the range of $2.53 to $2.63 for 2017, vs. the $2.69 consensus expectation.

Breaking it down, the guided 2017 net margin of 1.4 percent vs. the 1.6 percent to 1.8 percent achieved in the back half of 2016, is conservative in our view. We believe the company is offering a downbeat outlook, much the way it did for the July quarter, even though there are a number of positives that should drive better-than-expected margins in the coming quarters.

As we said when we added UNFI shares, the company is a show-me story in terms of delivering margin improvement — and we believe it will continue to under-promise, but over-deliver. While we will continue to be patient with UNFI shares as the business continues to benefit from the ***Food with Integrity*** thematic tailwind, **we are going to opportunistically use the 18 percent drop in the shares over the last month to our advantage.** That drop has the shares near the $40 downside threshold we wrote about when we added the shares to the Tematica Select List. **As with SHW shares, scaling in at current levels should serve to improve our average price and improve our return given our $65 price target**.

Whirlpool (WHR) *Rise & Fall of the Middle Class*

As we noted earlier with Sherwin-Williams, the outlook for repair and remodel spending in the back half of 2016, as well as for private residential construction, bode well for Whirlpool shares. Recent bullish comments from **Home Depot (HD), Best Buy (BBY)** and **Lowe's (LOW)** point to solid appliance demand.



There are a number of factors to like with Whirlpool in light of its leading appliance industry position, wide product portfolio and its knack for increasing its annual dividend, not to mention the current valuation relative to its long-term earnings target.

Over the last several days, WHR shares have fallen 8.5 percent — a few multiples of the market fall off — placing them near over-sold territory. Given the pullback, we suspect management is likely to put to work at least a portion of the $900 million it has remaining under its current share repurchase authorization to shrink the share count and help improve EPS growth optics along the way.

As such, we are doubling down and adding more WHR shares at current levels. Our $232 price target remains intact.

Getting Down with Dycom Industries (DY) - A Sleeper Connected Society Play

Dycom (DY) is a specialty contractor primarily serving the communications industry — an industry in the midst of expanding existing network footprints and one that is on the cusp of deploying newer technologies, which will improve data speeds as well as network capacity. Dycom has a key role in the deployment of those networks, and with a backlog of work that stood at $6.031 billion at the end of July vs. $3.680 billion a year prior it has a robust pipeline for the coming quarters.

Data = the main catalyst behind Dycom shares

Given the unquenchable thirst we all have for data on our smartphones, tablets, and laptops that is a hallmark of our ***Connected Society*** investing theme, we see Dycom as a food chain play with a bright outlook ahead. That's the skinny, now for the deep dive on the company and the shares…

One of the key drivers of our ***Connected Society*** investing theme is the continuing, if not accelerating, shift to mobile and online consumption. We see this in increasingly data-driven smartphone usage, the shift in how we shop, and the evolution in how we consume media — be it streaming on a mobile device or at home on the big screen via video on demand such as with **Apple's (AAPL) Apple TV, Netflix (NFLX)** or our own **Amazon's (AMZN)** Prime Video. Recently, **Papa Johns (PZZA)** debuted the ability to order through an app on Apple TV. We only expect the overlap between our ***Cashless Consumption, Content is King*** and ***Connected Society*** investing themes to intensify in the coming months and quarters.

The increase in data demand has carriers actively spending on their networks to respond to the significant increase in data traffic and upgrade network technologies to improve performance and efficiency. As the demand for both fixed and mobile broadband grows, the amount of wireless traffic that must be "backhauled" over customers' fiber networks increases and, as a result, carriers are accelerating their deployment of fiber optic cables.

While the number of households and people with connected devices is expected to increase over the next few years, per **Cisco's VNI Global IP Traffic Forecast**, mobile carriers and cable companies are deploying faster services to the home, including next generation 4G LTE networks and increasingly 1 gigabit fiber to the home (FTTH), while preparing to launch next-generation networks (5G wireless, 10 gigabit FTTH) in the coming years.

These upgrades and new networks will leverage new technologies to offer faster data speeds, richer services, and improved network capacity as consumer and business data consumption continues to grow.

Global IP Traffic, 2015–2020

Table 1 shows the top-line forecast. According to this forecast, global IP traffic in 2015 stands at 72.5 EB per month and will nearly triple by 2020 to reach 194.4 EB per month. Consumer IP traffic will reach 162.2 EB per month and business IP traffic will surpass 32.2 EB per month by 2020.

IP Traffic, 2015–2020	2015	2016	2017	2018	2019	2020	CAGR 2015–2020
By Type (PB per Month)							
Fixed Internet	49,494	60,160	73,300	89,012	108,102	130,758	21%
Managed IP	19,342	22,378	25,303	28,155	30,750	33,052	11%
Mobile data	3685	6180	9931	14,934	21,708	30,564	53%
By Segment (PB per Month)							
Consumer	58,539	72,320	89,306	109,371	133,521	162,209	23%
Business	13,982	16,399	19,227	22,729	27,040	32,165	18%
By Geography (PB per Month)							
Asia Pacific	24,827	30,147	36,957	45,357	55,523	67,850	22%
North America	24,759	30,317	36,526	43,482	50,838	59,088	19%
Western Europe	11,299	13,631	16,408	19,535	23,536	27,960	20%
Central and Eastern Europe	5205	6434	8116	10,298	13,375	17,020	27%
Latin America	4500	5491	6705	8050	9625	11,591	21%
Middle East and Africa	1930	2698	3822	5380	7663	10,865	41%
Total (PB per Month)							
Total IP traffic	72,521	88,719	108,533	132,101	160,561	194,374	22%

Table 1 Global IP Traffic 2015–2020

Comcast (CMCSA) continues to build out its network as it adds quicker Internet connectivity and expands its video on demand platform. This year, Comcast has been increasing its cable capital spending by low double-digits to roughly 14 percent of its cable revenue in the first half of 2016, up from 13.5 percent in the first half of 2016. As it looks to continue upgrading and building out its existing network, the company targets spending 15 percent of cable revenue for 2016 in full, which means that spending will be heavier in the second half of 2016.

Century Link (CTL) expects that by the end of 2018, roughly 85 percent of its top 25 markets will have speeds of more than 40 megabits, with 55 percent of those markets with more than 100 megabits. On the company's June 2016 conference call, management shared that "a lot of that improvement will be coming over the next 12-18 months." By the end of 2019, the coverage of 100 megabits and higher is targeted to reach 42 percent of the company's addressable market with over 70 percent of its top 25 markets having 100 megabits and higher speeds. Following the acquisition of Time Warner Cable, Charter Communications has shared that its first priority is to upgrade Time Warner systems to all digital.

Turning to mobile broadband

Mobile infrastructure market share leader **Ericsson (ERIC)** sees commercial or pre-commercial deployments of 5G networks in 2018 with the U.S., Korea, and Japan as 5G "hotbeds." In testing, these 5G networks have shown 340x higher speeds from the technology, up to 25 Gbps, and 20-30x improvements in battery capability. Comments from the likes of **Verizon (VZ), Sprint (S), AT&T (T)** and others confirm they are conducting various 5G tests this year, with an eye toward potentially deploying commercial services in 2017 and 2018. In order to launch these services, not only will 5G-capable devices need to be available, but new mobile networks from the network core to routers and beyond will need to be put in place over the coming quarters.

While many perceive that mobile service means the network itself is wireless as well, the reality is that about 90 percent of the communication path for a 4G LTE network is wired and with 5G it is expected to rise to 95 percent. What this means is an extensive fiber optic network that needs to be near the to-be-built wireless service; if not, you'll be saying "can you hear me now" irrespective of if you are on Verizon Wireless, AT&T or Sprint, with a new 5G capable device.

Through the first half of 2016, AT&T invested $10.3 billion on capital spending, and much like Comcast, that is expected to pick up in the second half of the year to hit its $22 billion target for 2016. Verizon is also expected to kick up its capital spending in the second half of 2016 as it targets $22 billion for the year but spent just $7.3 billion during the first half due in part to timing and impact of its employee strike, which has since been resolved.

Government Funded Demand on the Rise Too

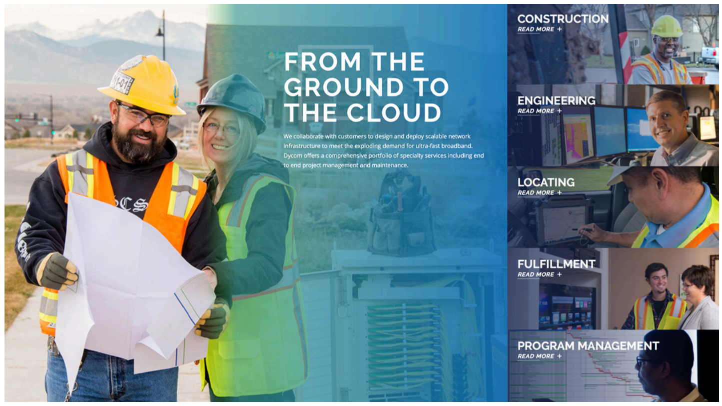
Amid all of those deployments and upgrades, there are also projects resulting from the Connect America Fund II that are deploying fiber deeper into rural networks. This six-year program, administered by the Federal Communications Commission, will provide $1.676 billion in funding per year to expand broadband deployments in rural areas. Some projects resulting from the initiative are in various stages of planning, engineering, and construction, with more multi-year projects likely to emerge over the next few years.

Factoring all of the above together, the outlook for construction activity to build out and upgrade existing broadband networks is expansive to say the least. This includes both wireless and fixed, as well as deploy newer ones that offer faster data speeds and enhance network capacity.

The future for broadband network construction looks rather bright indeed, particularly in contrast to an economic environment in which there is historically weak growth and low rates of capital investing. **A bright future for network construction means a bright future for Dycom.**

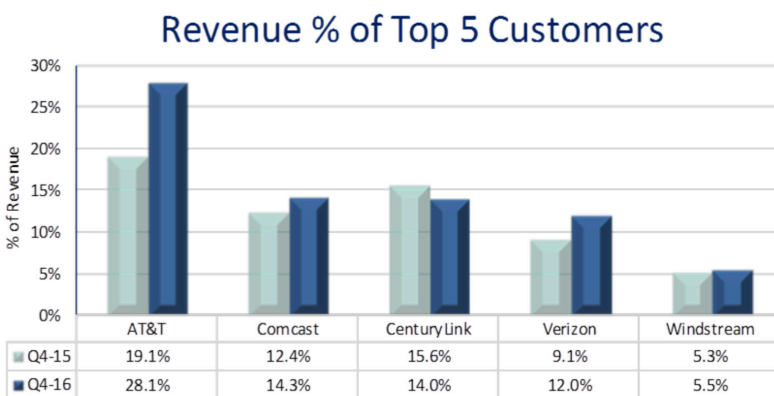
DYCOM (DY) *Connected Society*

Dycom (DY) is a specialist contractor that primarily services the telecommunication industry, providing program management, engineering, construction, maintenance, and installation to underground facility locating. Over the last 12 months, the company's customer mix was 90.7 percent telecommunications, 5.9 percent underground facility locating, and 3.4 percent electric and gas utilities and other customers, which was relatively unchanged compared to the prior year.



Dycom counts AT&T, Comcast, Century Link and Verizon Communications among its top customers, representing 63.5 percent of the company's revenue during its recently completed fiscal year. Of those top four, AT&T was the largest at 24.4 percent and Verizon was the smallest at 11.0 percent. We'd note that tracing back the quarterly progression, AT&T and Verizon grew as a percentage of revenue, which we attribute to those mobile carriers preparing for next generation mobile network deployments, including 5G. Rounding out the top customer list are Charter Communications, Frontier Communications, **Crown Castle (CCI)** and **Quester Gas (STR)**.

Looking at Dycom's relationship with those key customers, it derived roughly 81 percent of revenues last year from master service agreements and long-term contracts. For a majority of the contract services it performs, Dycom's customers provide all materials required, while it provides people, tools and equipment. Given the fixed cost nature of its contracts, the company's profitability could be impacted by greater-than-expected costs and project overruns. Profitability can be influenced by the ability to attract and retain employees, fuel prices and weather, given that a significant portion of the work is outdoors.



	AT&T	Comcast	Century Link	Verizon	Windstream
Q4-15	19.1%	12.4%	15.6%	9.1%	5.3%
Q4-16	28.1%	14.3%	14.0%	12.0%	5.5%

In addition to organic revenue growth tied to existing project work at its customer base as well as winning new opportunities, Dycom also has an acquisition component to growing its business. As one would imagine, Dycom looks to acquire complimentary businesses that expand either its geographic or customer footprint. Some of the more recent acquisitions include:

- July 2016: acquired certain assets associated with the wireless network deployment and wireline operations of Goodman Networks Incorporated. The acquisition not only expanded its wireless construction resources, but improved its position in Texas, Georgia, and Southern California;
- 4Q FY 2016: acquired NextGen Telecom Services Group, Inc. that provides construction and maintenance services for telecommunications providers in the Northeastern United States.
- August 2015: acquired TelCom Construction, Inc., inClearwater, Minnesota;
- 4Q FY 2015: acquired Moll's Utility Services, LLC, a provider of specialty contracting services primarily for utilities in the Midwest United States. Dycom also acquired the assets of Venture Communications Group, LLC, which provides specialty contracting services primarily for telecommunications providers in the Midwest and Southeastern United States.

For the fiscal year that ended this past July, Dycom's contract revenue rose 32 percent to $2.67 billion due to significant revenue gains at AT&T and Verizon as well as Comcast and CenturyLink. Of that year-over-year growth, 22.7 percent was organic revenue, with the balance or $159 million derived from acquired businesses. EBITDA margins rose to 14.6 percent of revenue up from 13.1 percent during the prior year, as a result of improved operating leverage and lower fuel prices offset by higher labor costs due in part to a greater employee count. Exiting July, Dycom employed 12,777 people compared to 11,159 exiting July 2015. In examining the company's balance sheet, its total

DYCOM INDUSTRIES

NYSE: **DY**

Theme: ***Connected Society***

Price on 09/13/16: **$79.75**

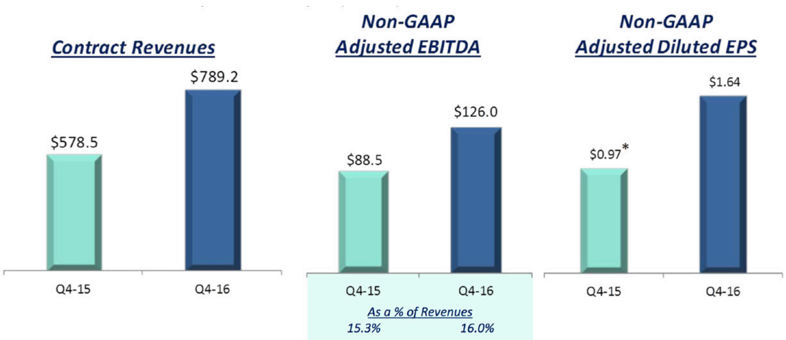
- Dycom Industries, Inc. provides specialty contracting services throughout the United States and in Canada.
- Its services include engineering, construction, maintenance and installation services to telecommunications providers, underground facility locating services to various utilities, including other construction and maintenance services to electric and gas utilities, and others
- It's also provides services include the placement and splicing of fiber, copper, and coaxial cables
- The company was founded in 1969 and is headquartered in Palm Beach Gardens, FL.

Shares Outstanding	31.43M
Avg. Volume	838.09k
Market Cap	2.51B
EPS: '15 / '16 / '17	$4.48/$5.37/$6.27
Cash (mrq): $US	33.79M
Debt (mrq): $US	719.33M
Net Cash (mrq)	-685.54M
Revenue (ttm)	2.67B
Enterprise Value to Revenue (ttm)	1.22
Annualized Dividend Per Share	--
Dividend Yield	--

debt to capital exiting July was 56.3 percent, but with EBITDA/annualized June quarter interest expense clocking in near 10x, we are rather comfortable with its ability to services its debt until its tranches are called in 2020 and 2021.

Outlook for Dycom

For the coming year, consensus expectations have the company delivering EPS of $5.37 on revenue of $3.1 billion. Giving a helping hand to the company's forecast is its backlog, which stood at $6.031 billion at the end of July, versus $3.680 billion a year prior. Over the coming year, Dycom anticipates completing 38.5 percent of projects in its backlog, which equates to $2.3 billion, and offers support to consensus expectations for the coming year.

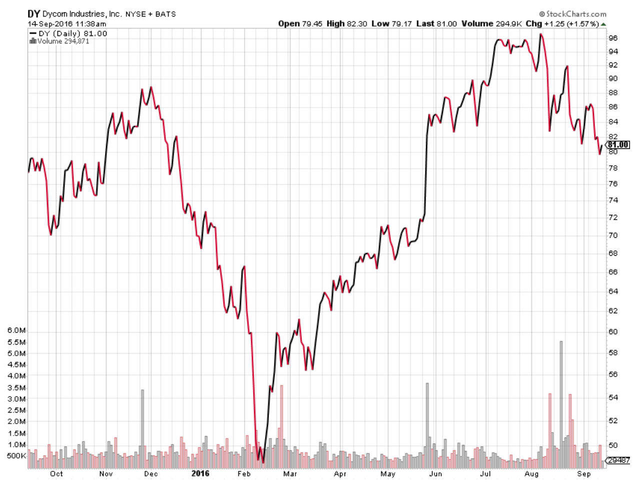


Scale-related synergies, as well as cost savings to be had from acquired companies, should help drive margin improvement year over year. As broadband buildout and newer network deployment accelerate, Wall Street is looking for Dycom to grow its earnings more than 16 percent to $6.27 per share the following year on 13 percent toppling growth.

As part of its July quarter results, Dycom shared its outlook for the current quarter that calls for contract revenue to range from $780-$810 million, up 18-23 percent year over year, with EPS in the range of $1.55-$1.70, up 25 percent-35 percent. While we doubt forecasts bake any share repurchase activity into the earnings cake, we'd note that Dycom currently has $100 million remaining under its current share repurchase program that expires October 2017.

Valuation and Price Target

DY has been a strong performer in 2016, given the expected upswing in demand for its services as its customers expand existing networks and build out newer ones over the coming years. The shares have also experienced a few setbacks that offered a solid entry point. One of them was earlier this year when severe winter weather impacted the company. More recently, the company reset expectations due to issues with its Goodman acquisition. On that outlook revision, DY shares tumbled from $91.71 to a low of $80.68 several days later but soon rebounded.



We chalk the rebound to the realization that even after that revision, continued strength in wireless and broadband deployments among its core customers still has the company delivering better than 18 percent revenue growth in the coming year and expectation for the company to deliver compound annual earnings growth of 45 percent over the 2013-2018 period given the upswing in customer demand.

In looking at the specialty contractor landscape, we would argue that while there are other publicly traded specialty contractors like **MasTec (MTZ), Emcor Group (EME)** and **MYR Group (MYRG)**, there is no true peer company, given Dycom's telecommunications-heavy customer base. The closest is MasTec, but communications represents less than half of its customer base. It has far greater exposure to oil & gas and power generation markets. This makes Dycom a rather unique company during this network buildout.

As of market close last night, DY shares were trading at $79.75 per share, 14.9x expected earnings of $5.37 over the coming year and 12.5x EPS of $6.37 the following year. Viewed another way, the shares closed last night just over 0.8x expected sales over the coming year.

We are setting a $115 price target for DY, which equates to a PE multiple of 21.4x, less than half its expected earnings CAGR and well below peak PE multiples of over the 2011- 2015 period. From a price-to-sales per share perspective, our $115 target equates to a multiple of 1.2x, using consensus revenue expectations of $3.1 billion over the coming year and 1.0x the following year's expected revenue. By comparison, DY shares peaked at 1.57x in 2015 and 1.22x earlier this year.

On the downside, over the last two years, DY shares bottomed out at an average of 12x forward earnings during severe winter storms in 2015 and 2016. While we do not expect a repeat — keep in mind that while we wear a lot of hats at Tematica, none of them is as a meteorologist — those multiples hint at a downside to $75, which equates to a price to sales multiple of 0.7x-0.8x over the next two years.

Upside to $115, versus downside to $75, offers net upside of more than 35 percent. **That gives us cause to add DY shares that closed at $79.95 yesterday to the Tematica Select List**.

Given that September tends to be one of the worst months for the market, we'll look to build out the DY position on any market weakness in the shares.

Other catalysts we'll be watching for over the coming months include customer capital spending budgets for 2017 and beyond, as well as other acquisitions that expand Dycom's customer base and/or strengthen existing customer relationships.

Bottomline on
DYCOM INDUSTRIES (DY):

- **We are adding Dycom Industries (DY) shares, which closed yesterday at $79.75 to the Tematica Select Investment List as part of our Connected Society thematic.**
- **We are setting a price target of $115 for the shares, an upside of more than 35%.**
- **We are not setting a protectice stop loss on the shares at this point. Instead, we'll look for any weakness in the market to scale into the shares and lower our cost basis.**

UPDATES, UPDATES, UPDATES

Alphabet (GOOGL) *Asset-lite Business Model*

While GOOGL shares have come under some pressure along with the overall market, the last few weeks have seen the company make several positive moves. We learned of several developments outside of the core search and advertising business, including a restructuring of its Internet of Things business that now includes Nest and a product offering that is likely to compete with **Amazon's (AMZN)** Echo. Also , Alphabet shared it is shutting Project Ara, its initiative to build a phone with interchangeable modules for various components such as batteries, cameras, and speakers.

We see these moves as Alphabet getting its hardware house in order — a positive — but profits and earnings still will be driven by the core businesses. We continue to see the company's core services as sticky and inelastic (search, video) as well as pointed in the direction that consumers and businesses are headed (online shopping, online advertising). We only see those shifts intensifying in the coming quarters.

We will continue to watch the rumblings about proposals to come in September that would give European news publishers the right to levy fees on Internet platforms if search engines show snippets of their stories. While we expect a fair amount of headlines as this developers, we'd note that similar efforts to charge Google for aggregating news stories in Germany and Spain have failed.

Our price target remains $900.

Amazon.com (AMZN) *Connected Society*

We continue to see meaningful upside to our $900 price target for AMZN, as we delve deeper into the seasonally strong shopping second half of the year at a time when consumers continue to shift more spending to online and mobile. Turning our focus from the shares to the business, last week it was reported that Amazon would open dozens of new pop-up stores at malls across the country starting in 2017 that will showcase its proprietary devices (Echo, the connected home speaker as well as tablets, and e-readers).

Speaking of Echo and the Alexa voice technology that powers it, we're hearing reports that Amazon is gearing up to have its digital assistant convey information before it's requested — "For example, Alexa will be able to tell you via your Echo when your Uber ride has arrived instead of waiting for you to ask." We think this will make an already sticky device even more indispensable as part of the Connected Home.

Our price target on AMZN shares remains $900.

AMN Healthcare Services (AHS) *Aging of the Population*

Last week shares of AHS dropped just under 4 percent, making for a modest return since we added the shares. Despite that retrenchment in the share price, we continue to see growing awareness of the national healthcare worker shortage, especially nurses. Recent headlines hammer home this shortage is only expected to get worse near-term as 78 million aging baby boomers (roughly 24 percent of the domestic population) require more health care services. These headlines call out the ongoing nursing shortage and the impact it is having on hospitals, namely reducing the number of available inpatient beds. We expect AMN's management team will discuss this and other drivers of its business later this week at the Credit Suisse 7th Annual US Small and Mid Cap Conference 2016 (Sep 14-15th).

Our price target for AHS shares remains $47.

AT&T (T) *Connected Society*

Shares of this consumer staple for the digital age came under pressure over the last several days and at just below $40 are flirting with our $39 buy price. The last few weeks have been productive for AT&T at least from a business perspective.

First, AT&T and **Time Warner's (TWX)** Home Box Office inked a multiyear deal that expands HBO's existing contract with AT&T DirectTV and U-verse services to include HBO and Cinemax content on DirectTV Now. That was followed by the news that AT&T will work will wireless module company **Sierra Wireless (SWIR)** to pilot LTE-M network technologies on the West Coast beginning in November. LTE-M brings LTE data speeds to machine-to-machine (M2M) communications and paves the way for the eventual deployment of 5G technologies that should bring a pronounced improvement in data speeds and enable far faster downloads as well as uploads of Ultra HD and other video. And yes, we realize this bolsters the decision behind adding **Dycom (DY)** shares to the Tematica Select List.

We continue to like the stickiness of the AT&T's business model, especially its increasingly data-centric nature on the consumer front as well as the current 4.8 percent dividend yield.

Our price target on the shares remains $44.

CalAmp Corp. (CAMP) *Connected Society*

As you know, CalAmp is a wireless solutions company that competes in developing Internet of Things market, better known as telematics and resonates with our ***Connected Society*** investing theme. CAMP shares rose just under 0.5 percent making it one of the few portfolio positions to log a move higher last week. We attribute that to several LoJack product and service announcements as well as new telematics applications aimed for Internet of Things (IoT) and fleet management applications.

To borrow a baseball analogy, we saw those announcements as nice base hits, but it was the "stand-up double" in the form of the agreement with MapAnything, Inc., a mapping, geo-analytics and location intelligence solution provider for users of Salesforce, that led the shares higher last week. The agreement has CalAmp's Telematics Cloud service being integrated with MapAnything Live, a new solution that enables IoT workflow inside **Salesforce (CRM)**, along with CalAmp hardware to allow for real-time telematics data.

Other pending catalysts to watch for include new rules and regulations from the National Highway Traffic Safety Administration on driver assisted as well as self-driving cars. While the NHTSA is expected to be innovation friendly, we strongly suspect safety will be a key concern. We see the need to monitor and track driverless cars as well as safety prevention as rather bullish for CAMP's business and our shares.

Our price target on CAMP shares remains at $20.

PetMed Express (PETS) *Connected Society*

Over the last four weeks, PETS shares have ebbed and flowed, but for the most part have remained unchanged. During that time, however, the company paid its latest quarterly dividend of 19 cents a share. The accelerating shift toward digital commerce tied to the company's focused spending bode well for additional margin expansion in the coming quarters.

Trading at just over $20 per share, our price target on PETS shares remains $23, which means we would not suggest subscribers new and old commit new capital at current levels. Granted, the annual dividend yield of 3.75 percent at current levels is enticing, but total upside to our new price target means revisiting PETS share closer to $19.

Under Armour (UA) *Rise & Fall of the Middle Class*

Last week UA shares came under modest pressure relative to the market, due partly to the recent beat down the shares experienced coming into September. On the upside, NBA star Stephen Curry and Under Armour's CEO Kevin Plank were on their 2016 China tour making appearances in Guangzhou, Hong Kong, and Taipei. Just like last year, Under Armour used the tour to debut two new styles of the Curry 2.5, inspired by the 16th Century classic Chinese novel "Journey to the West". Because international expansion is a key part of Under Armour's growth, and the fact that China has 1.3 billion people, with an estimated 300 million basketball players, we expect this market will be a continued focus for Under Armour. In other words, this growth strategy fits very much with our ***Rise & Fall of the Middle Class*** investing theme.

We expect consumer demand for UA's products will continue to climb in the back half of 2016 as the company unleashes new ones across its footwear, sportswear and women's businesses and expands the number of physical locations offering its products, like **Foot Locker (FL)** and **Kohl's (KSS)** domestically, as well as in China and other brand conscious markets outside the US.

Our long-term price target on UA shares remains $55.

The Walt Disney Company (DIS) *Content is King*

Disney shares drifted lower this week, much as they did over most of August, and frankly pretty consistently since we added them to the Tematica Select List The lack of company-specific news continued heading into the holiday weekend. We'd note the combined move lower of more than 3 percent since mid-August has DIS shares trading near 15.5x expected 2016 earnings of $6.09 per share, which is well below its three- and five-year average multiples of 19x to 20x.

With no major feature films set to hit in the coming weeks and the opening of Shanghai Disney now behind us, we are not surprised by the continued drift in the shares. Before too long, though, we expect Fat Brain Toys, **Amazon (AMZN)**, Toys R Us and others will have their "Hot Christmas Toys" lists for 2016, and we once again expect Disney's merchandising arm to be well-represented. Also, new films from Disney — Marvel's "Dr. Strange," Disney Animation's "Moana" and "Rogue One: A Star Wars Story" — will start to hit screens in several weeks.

We are inclined to be patient with Disney as we see it as the Content Is King company, with its international efforts propelled by rising disposable incomes and a brand-conscious rising middle class. We continue to see Disney making the right investments (streaming media and turning studio content into park rides and attractions) to drive revenue and profits.

Our price target on DIS shares remains $115.

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 trade-off to reach more appetizing levels.

AWK	American Water Works	*Scarce Resources*
WTR	Aqua America	*Scare Resources*
CHGG	Chegg Inc.	*Tooling & Retooling*
CMG	Chipotle Mexican Grill	*Foods with Integrity*
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*
OME	Omega Protein Corp.	*Fountain of Youth*
PANW	Palo Alto Networks	*Safety & Security*
SYNA	Synaptics Inc.	*Disruptive Technologies*
VZ	Verizon Communications	*Content is King / Connected Society*
XYL	Xylem, Inc	*Scare Resources*

TEMATICA SELECT LIST PERFORMANCE

POSITION	DATE ADDED	ADD PRICE	CURRENT PRICE	DIV. PAID	STOP PRICE	RETURN (%)	TARGET	RATING
ALPHABET, INC. (GOOGL) *Asset-Lite*	6/15/16	$733.94	$759.69	--	--	7.46%	$900.00	(BUY)
AMAZON.COM (AMZN) *Connected Society*	5/24/16	$709.53	$761.01	--	--	7.26%	$900.00	(BUY)
AMN HEALTHCARE SERV. (AHS) *Scarce Res. / Aging of Population*	8/17/16	$33.80	$34.65	--	--	2.51%	$47.00	(BUY)
AT&T (T) *Connected Society*	7/21/15	$34.67	$39.97	$1.91	$39.00	20.80%	$45.00	(HOLD)
Consumer Disc. SPDR (XLY) *Content is King*	4/20/16	$79.57	$78.40	--	--	-1.47%	--	(HOLD)
CALAMP CORP (CAMP) *Connected Society*	8/09/16	$15.46	$15.17	--	--	-1.88%	$21.00	(BUY)
DISNEY (DIS) *Content is King*	4/20/16	$102.16	$92.70	--	$87.00	-9.26%	$125.00	(BUY)
	5/11/16	$101.78	$92.70	--	$87.00	-8.22%	$125.00	(BUY)
NIKE INC. (NKE) *Rise & Fall of the Middle Class*	5/18/16	$56.10	$55.37	$0.16	--	-1.02%	$66.00	(BUY)
PETMEDS EXPRESS (PETS) *Connected Society*	5/4/16	$17.80	$20.27	$0.57	--	14.94%	$23.00	(HOLD)
PHYSICIANS REALTY TRUST (DOC) *Aging of the Population*	6/27/14	$14.33	$19.90	$2.03	$18.00	53.00%	$25.00	(HOLD)
PROSHARES SHORT S&P 500 (SH)	1/14/16	$45.10	$38.83	--	--	-13.86%	$24.00	(BUY)
	3/23/16	$41.12	$38.83	--	--	-3.79%	$24.00	(BUY)
REGAL ENTERTAINMENT (RGC) *Content is King*	11/23/15	$18.51	$21.40	$0.66	$19.00	20.37%	$24.00	(HOLD)
SHERWIN WILLIAMS (SHW) *Rise & Fall of Middle Class*	8/03/16	$301.06	$273.7	--	--	-9.21%	$350.00	(HOLD)
STARBUCKS (SBUX) *Guilty Pleasures*	6/01/16	$54.90	$53.98	$0.20	--	-1.30%	$74.00	(BUY)
UNDER ARMOUR (UA) *Rise & Fall of Middle Class*	7/27/16	$39.26	$38.33	--	--	-2.37%	$55.00	(BUY)
UNITED NATURAL FOODS (UNFI) *Foods with Integrity*	8/31/16	$47.00	$41.16	--	--	-12.43%	$232.00	(BUY)
WHIRLPOOL CORP (WHR) *Rise & Fall of Middle Class*	8/24/16	$186.24	$166.72	--	--	-10.48%	$65.00	(BUY)

as of market close September 13, 2016

STOCKS / FUNDS MENTIONED

Alphabet (GOOGL)
Amazon.com (AMZN)
AMN Healthcare Services (AHS)
Apple (AAPL)
AT&T (T)
Best Buy (BBY)
CalAmp Corp. (CAMP)
Century Link (CTL)
Comcast (CMCSA)
Crown Castle (CCI)
Dycom (DY)
Emcor Group (EME)
Foot Locker (FL)
Home Depot (HD)
Kohl's (KSS)
Kroger (KR)
Lowe's (LOW)
MasTec (MTZ)
MYR Group (MYRG)
Netflix (NFLX)
Papa Johns (PZZA)
PetMed Express (PETS)
Quester Gas (STR)
Salesforce (CRM)
Sherwin Williams (SHW)
Sierra Wireless (SWIR)
Sprint (S)
Sprouts Farmers Market (SFM)
Time Warner (TWX)
Under Armour (UA)
United Natural Foods (UNFI)
Valspar (VAL
Verizon (VZ)
Walt Disney (DIS)
Whirlpool (WHR)
Whole Foods (WFM)

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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