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Hendershot Investments

A CONVERSATION WITH JANET YELLEN

This issue:

We attended the recent Schwab Impact 2018 Conference in Washington, D.C. A highlight of the meeting was the interview with Janet Yellen, the former Federal Reserve Chairwoman. In her conversation, she discussed a wide range of topics important to investors.

THE U.S ECONOMY IS IN GOOD SHAPE

Janet Yellen noted that despite the recent stock market correction, the U.S. economy overall is in good shape. GDP growth hit 3.5% in the third quarter, or 3% annualized. She believes the U.S. economic expansion will extend through 2019, making it the longest expansion in the country's history. Unemployment remains low. There are more job openings than people to fill them with the 3.7% unemployment rate at the lowest level in 50 years.

She expects growth of the U.S. economy will slow next year to 2% to 3% with the unemployment rate falling even further and inflation in the range of 2.1% to 2.2%. She thinks 2% GDP growth is consistent with stable employment levels. Productivity and/or the labor market would need to increase for 3% GDP growth to be sustainable.

LOW INTEREST RATES

Given tight labor markets and strong growth, the Federal Reserve is taking its foot off the accelerator by gradually raising interest rates. The Fed has hiked interest rates three times this year and is expected to increase rates once more in December. Janet Yellen agrees that more interest rate increases are needed. Yellen remarked, "At this point, a couple more interest rate increases are necessary to stabilize growth at a sustainable pace and stabilize the labor market so it doesn't overheat." While inflation measures have hovered around 2%, monetary policy acts with long lags. Therefore, the central bank has to head off inflation expectations before they become embedded.

While President Trump has said that the Fed "has gone crazy" by raising rates so much, Janet Yellen disagreed by pointing out that financial conditions remain accommodative. She said that real interest rates (nominal interest rates less inflation) today are essentially zero. She expects the federal funds rate will average around 3% over the next 10 years, which translates into a real (inflation-adjusted) rate of 1%.

"The normal level of real rates is likely to be low and stay low," Yellen forecast. She stated real interest rates historically were around 2%, but most economists believe the average level of rates is trending downward due to an aging population, slow productivity growth and high demand for safe assets not only in the U.S. but in other developed nations.

NEXT RECESSION?

Janet Yellen does not see a recession imminent. However, if the Fed tightens too much and fiscal policy turns to restraint, she put the odds of a recession occurring in 2020 at slightly greater than one in five. If it does occur, she predicts the recession would be mild, explaining it doesn't have to be a "deep, terrible recession."

TRADE TENSIONS

Questioned about the impact of tariffs, Yellen answered that tariffs could boost inflation by 0.1% or 0.2%. However, the uncertainty created by trade tensions may inhibit corporate investment and consumer spending, which ultimately could lead tariffs to be more deflationary than inflationary. If trade tensions escalate with China, she did not envision China using their vast U.S. Treasury bond holdings as a weapon. Since China needs U.S. Treasuries to manage their exchange rates, she conveyed, "It would hurt China more than the U.S."

NATIONAL DEBT AND A MAGIC WAND

Janet Yellen believes the United States is taking on too much debt. National debt is 77% of gross domestic product. With the population aging and the costs of entitlements (Social Security, Medicare and Medicaid) expected to rise from 10.5% of GDP to 15% of GDP over time, the U.S. is on an unsustainable debt path. Asked how to fix the problem, Janet Yellen proclaimed, "If I had a magic wand, I would raise taxes and cut retirement spending."

STOCK PERFORMANCE

Stock-Symbol	Business	Purchase Date(a)	Purchase Price(b)	Price 11-19-18	Total (c) Return	Advice*	Comment
AbbVie-ABBV	Pharmaceuticals	03-09-10 12-03-10	28.57 24.59	89.48	**271%**	**BUY**	Increased dividend 11.5%; dividend yields healthy 4.9%
Accenture-ACN	Consulting	03-06-12	59.95	162.77	**196%**	**HOLD**	New $5 billion share buyback program
Alphabet, Cl A-GOOGL Alphabet, Cl A-GOOGL Alphabet, Cl C-GOOG	Technology	06-10-11 06-08-15 06-10-11	256.38 546.47 254.89	 1,027.42 1,020.00	 **128%** **300%**	**BUY**	3Q sales +21%, EPS +36%; repurchased $6.4 billion of stock YTD and ended 3Q with $105.4 billion of cash
Apple-AAPL	Computers, iPhones	09-07-10	36.97	185.86	**440%**	**HOLD**	In fiscal 2018, generated 56% ROE; ended year with net cash of $123 billion
Automatic Data Processing-ADP	Human capital mgmt.	03-09-16	85.62	143.44	**75%**	**HOLD**	Increased dividend 25%, marking 44th straight year of dividend hikes
Berkshire Hathaway-BRKB	Insurance/diversified	12-28-94! 03-10-00 03-17-00	21.56 27.45 34.13	217.94	**718%**	**HOLD**	Book value increased 8% since year end; operating earning doubled in 3Q; repurchased $928 million of shares in 3Q
Biogen-BIIB	Biotechnology	09-09-15	286.19	319.21	**12%**	**BUY**	New $3.5 billion share buyback program
Booking Holdings-BKNG	Online travel bookings	12-12-12 12-10-14	629.62 1,119.68	1,780.00	**104%**	**BUY**	Repurchased $4.1 billion of shares YTD; ended quarter with $7.5 billion net cash
Brown-Forman-BFB	Liquor	03-10-00	4.25	47.48	**1,240%**	**HOLD**	Increased dividend 5.1%, marking 35th straight year of dividend increases
Canadian National Railway-CNI	Railroad	06-28-15	58.05	86.27	**55%**	**HOLD**	3Q sales +14%, EPS +21%; new 5.5 million share buyback
Cisco Systems-CSCO	Internetworking	03-12-97	5.78	45.75	**793%**	**HOLD**	Free cash flow + 22% in 1Q to $3.6 billion with net cash of $24.3 billion
Cognizant Tech.-CTSH	IT consulting	09-07-12	33.43	69.21	**110%**	**BUY**	Ended 3Q with $4.3 billion in net cash; expect double-digit EPS growth in 2018
F5 Networks-FFIV	Network technology	09-09-15	121.84	169.54	**39%**	**HOLD**	In fiscal 2018, generated 35% ROE; ended year with $1.5 billion of cash
Facebook-FB	Social Media	06-04-18	193.35	131.55	**-32%**	**HOLD**	Repurchased $9.4 billion of stock YTD and ended 3Q with $41 billion in cash
FactSet Research-FDS	Financial information	03-14-14	104.42	230.26	**129%**	**HOLD**	In fiscal 2018, generated 51% ROE
Fastenal-FAST	Industrial supplies	03-10-00 06-10-14 09-07-17	4.89 50.50 41.71	57.48	**49%**	**BUY**	3Q sales +13% and EPS +38%; free cash flow +7% to $399 million YTD
Gentex-GNTX	Auto mirrors	12-08-15	16.29	22.65	**46%**	**BUY**	3Q sales +5%, EPS +35%; repurchased $173 million of stock
Genuine Parts-GPC	Diversified distributor	03-10-00 09-09-15	20.81 84.10	101.66	**63%**	**BUY**	3Q sales +15%, EPS +38%; free cash flow YTD +87% to $834 million
Hormel Foods-HRL	Food	06-14-01	6.01	45.36	**761%**	**HOLD**	Increased dividend 12%, marking the 53rd year of straight dividend hikes
Johnson & Johnson-JNJ	Healthcare products	03-10-00 09-10-18	35.48 137.52	147.73	**56%**	**HOLD**	Raised 2018 sales outlook to $81 billion and EPS outlook to $8.13-$8.18
3M-MMM	Diversified	03-07-07 09-10-18	73.70 213.63	205.58	**25%**	**BUY**	New $10 billion share repurchase program

***All recommendations made in this newsletter may not be suitable for every account, depending on an individual's investment objective, risk-tolerance and financial situation. It should not be assumed that recommendations will be profitable or will equal the performance of securities listed here or recommended in the past. Clients should contact Hendershot Investments, Inc. if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account.** (a) Date purchased for Hendershot IRA. See personal trading restrictions footnote on page 3. ! Received BRKB shares following acquisition of FlightSafety Int'l in Dec '96 and Int'l Dairy Queen in Jan '98 (b) Price includes commissions paid. (c) Total return includes dividends. NI-Net Income, Q-quarter, H-half, YTD-year-to-date, ROE-return on equity

(continued)

Stock-Symbol	Business	Purchase Date(a)	Price(b)	Price 11-19-18	Total (c) Return	Advice*	Comment
Mastercard-MA	Global payments	09-05-14	76.45	189.28	**155%**	**BUY**	Free cash flow +28% YTD to $4.6 billion
Maximus-MMS	Business services	06-02-16	57.54	63.95	**12%**	**HOLD**	$400 million acquisition of certain General Dynamic assets
Microsoft-MSFT	Software	06-07-07 12-03-10	30.16 26.94	104.62	**312%**	**HOLD**	1Q revenue +19%, EPS +34%; increased dividend 9.5%
MSC Industrial-MSM	Industrial distributor	03-07-18	90.58	87.62	**-2%**	**BUY**	In fiscal 2018, generated 24% ROE with free cash flow +47% to $295 million
Nike-NKE	Shoes and apparel	03-07-17	56.55	72.52	**30%**	**HOLD**	Increased dividend 10%, marking 17th consecutive year of dividend increases
Oracle-ORCL	Software	09-05-13	32.32	49.55	**63%**	**BUY**	New $12 billion share buyback
Paychex-PAYX	Payroll processing	12-03-10 08-31-11	29.49 27.28	68.41	**188%**	**HOLD**	1Q sales +9% and EPS +16%
PepsiCo-PEP	Food and beverages	03-14-14 03-07-18	81.89 109.42	119.01	**24%**	**HOLD**	Expects to pay $5 billion in dividends and repurchase $2 billion of stock in 2018
Polaris-PII	Vehicles/snowmobiles/ motorcycles	09-09-15 12-08-15	129.09 98.76	92.49	**-19%**	**BUY**	3Q sales +12%, EPS +17%; despite tariffs, expects double-digit growth for 2018
Ross Stores-ROST	Off-price retailer	06-08-17	61.70	91.19	**49%**	**BUY**	Free cash flow up 29%
Starbucks-SBUX	Coffee retailer	06-14-14 12-11-17	37.26 58.61	67.91	**54%**	**HOLD**	**Trimming position** (see p. 4)
Stryker-SYK	Medical technology	03-11-09	32.09	167.72	**456%**	**HOLD**	Free cash flow more than doubled to $1.2 billion; completed $220 million acquisition
T. Rowe Price-TROW	Investment mgmt.	08-31-11 09-05-14	53.98 80.59	94.96	**117%**	**BUY**	3Q revenues +13%, EPS +47%; assets under management +14% to $1.1 trillion
Thor Industries-THO	Recreational Vehicles	06-04-18	95.06	66.83	**-29%**	**HOLD**	Dividend increased 6%; acquiring Erwin Hymer for $2 billion
The TJX Companies-TJX	Off-price retailer	06-12-00 09-09-15	2.54 36.17	48.96	**103%**	**BUY**	Free cash flow increased 46% YTD to $1.6 billion
Tractor Supply-TSCO	Rural retailer	12-11-17	67.51	92.26	**38%**	**HOLD**	Raised sales and earnings outlook for 2018 with EPS growth of 28%-29%
Ulta Beauty-ULTA	Beauty Retailer	09-10-18	285.84	313.28	**10%**	**HOLD**	Expects mid to high teens EPS growth over next three years
United Parcel Service-UPS	Package delivery	05-27-05 06-09-06 08-31-11	74.92 79.57 67.90	111.29	**88%**	**BUY**	3Q sales +8%, EPS +20%; operating cash flow expanded to $9.4 billion with free cash flow of $4.9 billion
United Technologies-UTX	Diversified-building systems/aerospace	09-10-01	33.44	127.85	**366%**	**BUY**	Increased dividend 5%; paid a dividend every year since 1936
Walgreens Boots Alliance-WBA	Drugstores	09-12-08 06-08-17	36.38 81.83	81.92	**23%**	**HOLD**	In fiscal 2018, generated 19% ROE; free cash flow +17% to $6.9 billion
Walt Disney-DIS	Media/Entertainment	09-02-16	94.43	115.42	**26%**	**BUY**	Free cash flow up 13% in fiscal 2018 to $9.8 billion
Westwood Holdings-WHG	Investment mgmt.	12-08-11 08-10-15	35.88 59.72	38.91	**3%**	**BUY**	Increased dividend 6%, marking 16th year of consecutive dividend increases

PERSONAL TRADING RESTRICTIONS FOR PRINCIPALS AND EMPLOYEES

I take a long-term position in each stock recommended in this newsletter. Having earned the Chartered Financial Analyst (CFA) designation, I fully subscribe to the Code of Ethics and Standards of Professional Conduct of the CFA Institute. Accordingly, transactions for client accounts have priority over personal and employee transactions. To avoid any conflict of interest and to be fair to both my individual clients and subscribers, personal and employee trading is restricted to just four weeks a year. Personal and employee trading will occur only during the week following distribution of the newsletter to subscribers unless otherwise approved by the Chief Compliance Officer. The week following distribution of the newsletter will be measured as five business days after the mailing date of the newsletter. Positions may be purchased or sold for individually managed client accounts at any time and without regard to recommendations made in this newsletter.

PORTFOLIO REVIEW

SIPPING STARBUCKS PROFITS

Starbucks reported fiscal fourth quarter sales jolted ahead 11% to $6.3 billion with net income dipping 4% to $756 million and EPS increasing 4% to $.56 on fewer shares outstanding. Net income grinded lower on restructuring activities and charges related to Teavana mall store closures, partially offset by the company's deal to license its consumer packaged goods business to Nestlé which closed on August 26, 2018. Global comparable store sales increased 3% during the quarter, driven by a 4% increase in average ticket.

For the fiscal 2018 year, Starbucks reported sales of $24.7 billion, up 10%, with net earnings percolating up 57% to $4.5 billion and EPS up 65% to $3.24, including $.82 per share of one-time items. Global comparable store sales increased 2%, driven by a 3% increase in average ticket.

During fiscal 2018, Starbucks generated nearly $10 billion in free cash flow, up from $2.7 billion last year, thanks to the cash received in the Nestlé deal. During the year, Starbucks returned $8.9 billion to shareholders through a combination of dividends and share repurchases. As part of its previously announced plan to return $25 billion to shareholders in the form of share buybacks and dividends through fiscal 2020, Starbucks announced that it is currently executing a $5 billion accelerated share repurchase program. For fiscal 2019, the company expects revenue growth of 5% to 7% on comparable store sales growth near the lower end of its 3% to 5% range with EPS in the range of $2.32 to $2.37.

Starbucks stock brewed up a hot 28% gain in the last three months with the stock now appearing fully valued. As a result, we plan to sip some Starbucks profits by **trimming back our position.**

TAX LOSS HARVESTNG CANDIDATES

As can be seen in the table on page five, we realized substantial capital gains in 2018. In order to mitigate part of the tax consequences, this is the time of the year we look at possible candidates for tax loss harvesting opportunities for **taxable** accounts. Where appropriate in specific client portfolios, the following stocks might be candidates for tax-loss harvesting opportunities this year if their stock prices pulled back materially from initial purchase prices.

FACEBOOK FACING NEGATIVE HEADLINES

Despite negative headlines regarding security and fake news issues on Facebook, the company reported third quarter revenues jumped 33% to $13.7 billion with net income up 9% to $5.1 billion and EPS up 11% to $1.76. Revenue growth was broad based across regions and business segments, but Facebook is investing significantly to improve safety and security threats which is impacting margins. The company estimates that more than 2.6 billion people now use Facebook, WhatsApp, Instagram or Messenger, with more than 2 billion people using at least one of the company's services every day. During the quarter, the average price per ad increased 7% with the number of ad impressions up 25% driven by feed ads on Instagram and Facebook.

Operating cash flow was up 31% to $21.7 billion with free cash flow relatively stable at $12 billion as management invested $9.6 billion in capital expenditures year-to-date to build out its data centers, network infrastructure and office facilities. During the third quarter, Facebook repurchased $4.3 billion of its common stock with $9.4 billion repurchased year-to-date. The firm ended the quarter with a strong balance sheet with more than $41 billion in cash and investments.

THOR INDUSTRIES $2 BILLION ACQUISITION

Thor Industries reported fiscal fourth quarter revenues declined 3% to $1.87 billion with net income and EPS down 26% to $88 million and $1.67, respectively. Earnings reflected reduced production levels, higher promotion costs, elevated labor expense and increased raw material costs primarily due to aluminum and steel tariffs. For the full year, revenues and EPS each rose 15% to $8.3 billion and $8.14, respectively. Return on shareholders' equity was 22%. Thor recently increased its dividend 5%.

On 9/18/18, Thor announced plans to acquire Erwin Hymer Group, Europe's premier RV manufacturer, for approximately $2 billion. Thor will fund the acquisition with cash and equity. As a result, the company will be issuing a significant amount of debt that will bear watching closely due to the cyclical nature of the industry.

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With the profits from **Starbucks**, we plan to **buy Bank of Hawaii** (see p. 10). Personal and employee purchases will be made during the week following distribution of this newsletter. (See Personal Trading restrictions in the box on p. 3.)

DIVIDENDS

Since the last issue, the following dividends per share were received: **AbbVie** ($1.00), **Accenture** ($1.50), **Apple** ($.73), **ADP** ($.70), **Brown-Forman** ($.16), **Canadian National** ($40.), **Cisco** ($.33), **Cognizant** ($.20), **FactSet Research** ($.64), **Fastenal** ($.40), **Gentex** ($.11), **Genuine Parts** ($.72), **Hormel Foods** ($.19), **Johnson & Johnson** ($.90), **Mastercard** ($.30), **Maximus** ($.05), **Microsoft** ($.42), **3M** ($1.36), **MSC Industrial** ($.58), **Nike** ($.20), **Oracle** ($.20), **Paychex** ($.60), **Pepsi** ($.93), **Polaris** ($.60), **Ross Stores** ($.23), **Starbucks** ($.36), **Stryker** ($.50), **T. Rowe Price** ($1.00), **Thor Industries** ($.40), **TJX** ($.20), **Tractor Supply** ($.31), **United Parcel Services** ($.91), **United Technologies** ($.70), **Walgreen** ($.44) and **Westwood Holdings** ($.70).

STOCK DIVIDENDS

The TJX Companies distributed a 2 for 1 stock split on Nov. 7, 2018 with all data adjusted accordingly.

(continued)

REALIZED GAINS AND LOSSES OVER THE LAST 12 MONTHS

COMPANY	DATE PURCHASED	DATE SOLD	GAIN/ LOSS	COMMENT*
APPLE	09/07/10	09/10/18	+487%	Fully valued, trimmed position
BAXTER INTERNATIONAL	09/09/09	03/07/18	+89%	Fully valued, sold position
BECTON DICKINSON	03/13/02	12/11/17	+496%	Fully valued, sold position
BIOVERATIVE	02/02/17 (spinoff date from Biogen)	03/08/18	+118%	Acquired by Sanofi for $105 per share in cash
CANADIAN NATIONAL RAILWAY	06/08/15	06/04/18	+43%	Fairly valued, trimmed position
CHEESECAKE FACTORY	09/02/16	06/04/18	+2%	Sold position due to lack of earnings growth amid challenging environment
EXPRESS SCRIPTS	12/13/96 03/09/11	09/10/18 09/10/18	+7,527% +67%	Being acquired by Cigna
FLUOR	12/08/08 03/11/09 09/07/12	12/11/17 12/11/17 12/11/17	-2% +34% -9%	Sold position as business fundamentals deteriorated with earnings growing backwards and subpar ROE
MASTERCARD	09/05/14	03/07/18	+132%	Fully valued, trimmed position
MAXIMUS	06/02/16	12/11/17	+23%	Fully valued, trimmed position
NIKE	03/07/17	06/04/18	+30%	Fully valued, trimmed position
QUALCOMM	06/06/13	12/11/17	+2%	Sold position as business fundamentals deteriorated with significant litigation charges negatively impacting earnings
T. ROWE PRICE	09/05/14	03/07/18	+40%	Fully valued, trimmed position
WABTEC	12/08/15	03/07/18	+12%	Sold position as debt load significantly increased due to an acquisition and cash flow declined

***A stock meets our price target by reaching its near-term full value based on its expected price range over the next 12-18 months (see pages 6 and 7). When a stock reaches our price target, we generally sell half the position and reinvest the proceeds into other promising opportunities. The remaining shares are held for further potential long-term gains as intrinsic value grows over time. Stocks are also sold if business fundamentals deteriorate or better investment opportunities are available.**

Hendershot Investments, Inc. Investment Advisory Services

Founded in 1994, Hendershot Investments' personalized portfolio management service exists to help you improve your long-term financial success and to conserve and grow your wealth. To that end, we invest in high-quality, well-managed companies at reasonable valuations and hold them for the long term. We extend a big "thank you" for the many client and subscriber referrals, as a referral is the biggest compliment you can pay us!

Our Investment Discipline

We *find* great businesses at reasonable prices through extensive research.

As long-time students of the stock market, we have developed valuation models to assess the relative merits of ***HI***-quality companies. We scour annual reports, SEC filings and news to independently determine company valuations, thereby avoiding the pitfalls of herd-mentality investing. Quarterly earnings conference calls with management keep us abreast of corporate developments and give us insight into the heartbeat of corporate leadership.

We *adhere* steadfastly to rigorous buy and sell disciplines.

Our number one rule on the buy side is "Don't overpay for a stock." We want to buy with a margin of safety. We would rather pay a "fair price for a great business than a great price for a fair business."

As Philip Fisher stated, "If the job has been done correctly when a stock is purchased, the time to sell is almost never."

We *believe* in patient investing for the long term.

Quintessential investor, Ben Graham, described the stock market in the short term as an imperfect voting machine where stock prices are based partly on emotion and partly on reason. In the long term, the stock market is a weighing machine where prices are driven by fundamentals.

For this reason, we are willing to wait patiently until Mr. Market recognizes the value of our ***HI***-quality firms.

PORTFOLIO FUNDAMENTALS

COMPANY SYMBOL	EXP. ** PRICE RANGE	PRICE 11-19-18	This year Actual EPS	Next year Est. EPS	Current P/E	PRICE/ BOOK VALUE	PRICE/ SALES	DIV. YIELD	SALES 4-YR CAGR*	EPS 4-YR CAGR*	Return on Equity	Cash/ Equity	Debt/ Equity	Current Ratio	SALES (000)
AAPL	145-218	185.86	$11.91	$13.50	15.6	8.2	3.3	1.5%	10%	17%	56%	221%	88%	1.1x	$265,595,000
ABBV	84-133	89.48	3.30	6.48	18.6	n/a	4.8	4.9	11%	7%	104%	n/a	n/a	1.2	28,216,000
ACN	130-169	162.77	6.34	7.22	25.7	10.0	2.6	1.8	7%	9%	38%	47	0	1.3	39,573,450
ADP	105-138	143.44	3.66	5.28	37.0	13.4	4.7	2.2	7%	9%	47%	32	43	1.4	13,325,800
BF.B	40-52	47.48	1.48	1.71	31.2	16.7	7.0	1.4	-5%	5%	55%	15	169	3.0	3,248,000
BIIB	293-435	319.21	11.92	22.75	20.7	4.7	5.2	-	15%	11%	21%	41	43	2.7	12,273,900
BKNG	1870-2675	1,780.00	46.86	87.94	30.6	8.3	6.5	-	17%	7%	21%	163	88	2.4	12,681,082
BOH	76-99	79.02	4.33	5.29	16.0	2.7	5.1	3.1	4%	6%	15%	56	15	n/a	642,600
BRK.B !	188-240	217.94	8,785	15,400	23.9	1.4	2.2	-	8%	-1%	13%	n/a	n/a	n/a	240,009,000
CNI	72-98	86.27	7.24	5.40	11.1	3.6	4.8	1.6	33%	24%	33%	2	57	0.7	13,041,000
CSCO	30-40	45.75	.02	2.54	147.6	4.8	4.2	2.9	1%	-66%	0%	97	42	2.1	49,330,000
CTSH	73-98	69.21	2.53	3.91	28.1	3.7	2.7	1.1	14%	6%	14%	43	6	3.2	14,810,000
DIS	103-133	115.42	8.36	7.14	13.8	3.6	2.9	1.5	5%	18%	26%	9	35	0.9	59,434,000
FAST	52-70	57.48	2.01	2.62	22.5	7.1	3.8	2.8	7%	7%	28%	6	17	5.5	4,390,500
FB	154-243	131.55	5.39	7.37	19.8	4.8	9.4	-	51%	73%	21%	51	0	9.0	40,653,000
FDS	195-258	230.26	6.78	8.83	34.0	16.8	6.5	1.1	10%	8%	51%	45	109	1.9	1,221,179
FFIV	139-204	169.54	6.50	7.32	23.2	7.9	4.7	-	6%	16%	34%	81	0	1.5	2,090,041
GNTX	19-27	22.65	1.41	1.66	13.6	3.3	3.4	2.0	11%	16%	20%	26	0	4.8	1,794,873
GOOGL!!	1101-1456	1,027.42	32.00	41.74	25.9	4.2	6.5	-	19%	13%	8%	70	2	4.1	110,855,000
GPC	96-125	101.66	4.18	5.65	20.5	4.1	0.9	2.0	4%	-1%	18%	10	68	1.3	16,308,801
HRL	35-48	45.36	1.86	1.84	24.4	4.1	2.5	1.6	1%	14%	17%	5	19	1.8	9,545,700
JNJ	120-153	147.73	5.41	8.17	26.7	6.1	5.2	2.5	2%	3%	2%	30	46	1.7	76,450,000
MA	178-246	189.28	3.65	6.46	38.2	33.5	15.5	.5	11%	9%	72%	147	101	1.6	12,497,000

** Exp. price range—the expected price range for the stock in the next 12-18 months based on our valuation models and the historical trading range of the stock over the last five years. If the current price is below the low end of the expected range, the stock appears undervalued. If the current stock price is above the high end of the expected range, the stock appears overvalued. The expected price range will change based upon company developments. Highlighted stocks appear undervalued or are new additions. !Berkshire price is for the class B shares, the class A shares approximate 1500 times the B shares. !!GOOGL (the original class A share price is used for the table. GOOGL will typically trade slightly higher than the Class C non-voting shares (GOOG).

(continued)

COMPANY SYMBOL	EXP. ** PRICE RANGE	PRICE 11-19-18	This Year Actual EPS	Next Year Est. EPS	Current P/E	PRICE/ BOOK VALUE	PRICE/ SALES	DIV. YIELD	SALES 4-YR CAGR*	EPS 4-YR CAGR*	Return on Equity	Cash/ Equity	Debt/ Equity	Current Ratio	SALES (000)
MMM	180-246	205.58	$7.93	$8.87	27.6	11.6	3.8	2.6%	1%	4%	42%	34%	131%	2.0x	$31,657,000
MMS	61-80	63.95	3.35	3.65	19.1	3.8	1.7	1.5	16%	12%	20%	34	0	2.9	2,392,236
MSFT	64-91	104.62	2.13	4.44	43.1	9.3	7.3	1.7	6%	-5%	20%	158	81	2.9	110,360,000
MSM	75-111	87.62	5.80	5.89	15.1	3.6	1.5	2.8	4%	11%	24%	3	22	2.3	3,203,878
NKE	55-77	72.52	1.17	2.65	57.1	3.5	3.2	1.1	7%	-6%	20%	48	39	2.3	36,397,000
ORCL	48-60	49.55	.90	2.81	51.1	5.1	5.0	1.5	1%	-22%	8%	156	141	3.4	39,831,000
PAYX	57-73	68.41	2.58	2.85	25.6	10.3	7.3	3.3	8%	11%	46%	33	0	2.2	3,380,900
PEP	104-132	119.01	3.38	5.66	34.2	16.3	2.6	3.1	-1%	-6%	44%	117	298	1.3	63,525,000
PII	97-158	92.49	2.69	6.56	21.7	6.4	1.1	2.5	9%	-16%	19%	20	198	1.2	5,428,477
ROST	79-112	91.19	3.55	4.13	21.5	10.7	2.4	.9	8%	16%	45%	42	10	1.6	14,134,732
SBUX	46-62	67.91	2.41	2.35	21.0	75.5	3.6	2.1	11%	24%	100%	100+	100+	2.2	24,719,508
SYK	139-178	167.72	2.68	6.28	51.8	6.4	5.0	1.1	8%	0%	11%	22	60	1.9	12,444,000
THO	90-136	66.83	8.14	8.66	8.2	1.8	0.4	2.3	24%	25%	22%	14	0	1.7	8,328,909
TJX	48-63	48.96	2.02	2.47	20.1	11.7	1.7	1.5	7%	8%	51%	52	43	1.5	35,864,664
TROW	97-132	94.96	5.97	7.68	13.2	3.6	4.8	2.9	8%	11%	26%	70	0	n/a	4,793,000
TSCO	66-112	92.26	3.30	4.28	22.7	7.5	1.5	1.3	9%	9%	30%	5	39	1.9	7,256,382
ULTA	233-384	313.28	8.96	11.00	30.6	10.4	3.2	-	22%	30%	31%	21	0	2.4	5,884,506
UPS	115-148	111.29	5.61	7.23	17.8	30.8	1.5	3.3	4%	5%	100%	100+	100+	1.1	65,872,000
UTX	122-156	127.85	5.70	7.29	20.6	3.0	1.7	2.3	1%	0%	17%	40	77	1.5	59,837,000
WBA	65-88	81.92	5.05	5.53	16.2	3.0	0.6	2.1	15%	26%	19%	3	47	0.8	131,537,000
WHG	48-71	38.91	2.38	2.78	13.8	2.4	2.6	7.2	10%	1%	13%	76	0	5.7	133,785

* CAGR-Compound Annual Growth Rate. n/a-not applicable due to financial stock or equity less than zero. Estimated EPS reflects consensus earnings estimate for current fiscal year. The valuation measures (P/E, price-to-book value, price-to-sales and dividend yield) are calculated using the closing price on the date listed in column 3. Balance sheet ratios (cash/equity, debt/equity and current ratio) reflect the latest quarterly financial statements. Return on equity and sales figures are as of the company's most recent fiscal year end.

PORTFOLIO HI-LITES

QUARTERLY MOVERS AND SHAKERS

During the past three months, the S&P 500 Index declined 7.7% due to concerns over slowing growth and rising rates. The following ***HI***-quality stocks all generated 6% or better gains during the same period.

WALGREENS DOUBLE-DIGIT GROWTH

Walgreens Boots Alliance reported solid fourth quarter results with sales up 11% to $33.4 billion and EPS more than doubling to $1.55 thanks to the benefits of share repurchases and a lower tax rate. Adjusted EPS increased 13% in the fourth quarter. For the full fiscal 2018 year, sales increased 11% to $131.5 billion with EPS up 34% to $5.05. Return on shareholders' equity for the year was a healthy 19%. Free cash flow increased 17% during the year to $6.9 billion, the highest in the company's history, with management paying $1.7 billion in dividends and repurchasing $5.2 billion of its stock. For fiscal 2019, Walgreens expects adjusted constant currency EPS growth of 7% to 12% in the range of $6.40 to $6.70. **Walgreens' stock rose a healthy 19% during the past three months. Hold.**

HORMEL FOODS INCREASED DIVIDEND 12%

Hormel Foods reported fiscal 2018 year revenues increased 4% to $9.5 billion with net income up 20% to $1.0 billion. Thanks to record earnings and cash flows, Hormel announced a 12% increase in its annual dividend, marking the 53rd consecutive year of dividend hikes. This is the 10th consecutive year of double-digit dividend increases and the 90th year Hormel Foods has paid a dividend. For fiscal 2019, management expects revenues in the range of $9.7 billion to $10.2 billion with EPS expected in the range of $1.77 to $1.91. **Hormel has provided a plump 761% total return over the last 17 years. Hold.**

ULTA BEAUTY PRETTY THREE-YEAR PLAN

Ulta Beauty issued comparable sales and EPS targets for fiscal 2019, 2020 and 2021. The company expects to achieve comparable store sales growth in the range of 5% to 7% and grow earnings per share in the mid to high teens percentage range. Ulta Beauty expects to achieve modest operating margin expansion each year, balancing new investments in supply chain, digital innovation and the guest experience with savings from a comprehensive cost optimization program. The company is committed to working capital improvements with the goal of increasing inventory turns by 50 basis points over the next five years. Ulta's U.S. store target is 1,500 to 1,700 stores with the company planning to open 80 stores in 2019, 75 stores in 2020 and 70 stores in 2021. **Ulta Beauty's stock rose a pretty 10% during the last three months. Hold.**

TRACTOR SUPPLY EXPECTS 28%-29% EPS GROWTH

Tractor Supply reported third quarter sales increased 9% to $1.9 billion with EPS plowing up a 32% gain to $.95. Sales growth was driven by a solid 5.1% increase in comparable store sales growth with growth experienced in all merchandise categories and geographic regions. Given a healthy economic environment with low unemployment and high consumer confidence, the firm raised their full year 2018 outlook with sales expected to top $7.8 billion and EPS in the range of $4.23 to $4.27, representing 28% to 29% growth. **Over the past year, Tractor Supply has produced a bumper profit crop with a 38% total return. Hold.**

JOHNSON & JOHNSON HEALTHY GROWTH

Johnson & Johnson reported third quarter sales rose 3.6% to $20.3 billion with EPS up 5.1% to $1.44. The solid third quarter results reflect continued market share gains in the Pharmaceutical business with sales up 6.7% to $10.3 billion driven by double-digit growth in nine key products; accelerating sales momentum and improved operational performance in the Consumer business with sales up 1.8% to $3.4 billion; and the Medical Devices business stabilizing with sales dipping 0.2% to $6.6 billion. Management raised their outlook for sales and earnings for the full 2018 year with sales now expected in the range of $81.0 billion to $81.4 billion, representing operational growth of 5.5% to 6.0%, with adjusted EPS expected in the range of $8.13 to $8.18, representing operational growth of 9.3% to 10%. **JNJ's stock has more than quadrupled over the last 18 years. Hold.**

PEPSICO STRONG CASH FLOW

PepsiCo reported third quarter revenues increased 2% to $16.5 billion with EPS bubbling 18% higher to $1.75. Organic revenue growth of 4.9% during the quarter was the highest in three years. Core constant currency EPS growth was 9%. Frito-Lay North America generated solid net revenue and operating growth while North America Beverages showed sequential improvement in revenues. For the full year 2018, PepsiCo expects to generate a strong $9 billion in operating cash flow with capital expenditures of about $3.3 billion and a $1.4 billion pension contribution. The company expects to pay $5 billion in dividends for the full year and repurchase $2 billion of its stock. **Over the past four years, PepsiCo's stock has popped 45% higher. Hold.**

(continued)

QUARTERLY RATING CHANGE FROM HOLD TO BUY

MASTERCARD FREE CASH FLOW UP 28%

Mastercard reported third quarter revenues rose 15% to $3.9 billion with net income charging 33% higher to $1.9 billion and EPS up 36% to $1.82. Net revenue increased 17% on a currency-neutral basis driven by an increase in switched transactions of 16%, an increase in cross-border volumes of 17% on a local currency basis and a 13% increase in gross dollar volume, on a local currency basis, to $1.5 trillion. These increases were partially offset by an increase in rebates and incentives, primarily due to new and renewed agreements and increased volumes.

Broad-based growth was across all geographic regions with solid double-digit growth across most regions. Overall, Mastercard is seeing solid global growth although management is watching reduced central bank stimulus, rising interest rates and rising trade tensions.

Free cash flow increased 28% to $4.6 billion during the first nine months of the year with the company paying $785 million in dividends and repurchasing $4 billion of its shares. As of Oct. 25, 2018, Mastercard has $800 million remaining authorized for future share buybacks.

Mastercard continues to see a healthy economic environment and believes revenues in 2018 will grow at a high-teen rate with operating expenses growing at a mid-teen rate leading to further profit margin expansion.

Mastercard reached an agreement to settle monetary damages claims in the U.S. merchant class-action litigation, which is an amendment to a 2012 Class Settlement agreement. Mastercard's share of the financial agreement is an additional $108 million, which was accrued for in the second quarter. **Buy.**

ROSS STORES FREE CASH FLOW UP 29%

Ross Stores reported third quarter revenues rose 7% to $3.5 billion with net income up 23% to $338 million and EPS up 26% to $.91. Comparable store sales rose 3% during the quarter driven by both higher traffic into the stores and higher average ticket. Both sales and earnings were ahead of management's forecast, despite being up against very strong multi-year comparisons. Though above plan, operating margin of 12.4% was down from last year as a higher merchandise margin was more than offset by increases in freight costs and labor costs.

Free cash flow increased 29% year-to-date to $1.2 billion with the company paying $254 million in dividends and repurchasing 9.4 million shares for $806.5 million at an average price of approximately $85.80 per share. Management remains on track to repurchase $1.1 billion of stock for the full fiscal year. Year-to-date, the company has spent $254 million on capital expenditures with 95 new store locations planned for the full year with the company operating Ross Stores in 38 states and dd's Discounts stores in 18 states.

As Ross enters the holiday season, they expect the retail environment to remain fiercely competitive. While they hope to do better, Ross Stores continues to project fourth quarter comparable store sales gains of 1% to 2% versus a strong 5% last year.

Fourth quarter EPS guidance was raised to $1.09 to $1.14, which includes a one-time, non-cash benefit of approximately $.07 per share related to the favorable resolution of a tax matter. This also led to an increase in fiscal 2018 full year guidance for EPS in the range of $4.15 to $4.20. **Buy.**

QUARTERLY RATING CHANGE FROM BUY TO HOLD

BERKSHIRE HATHAWAY $928 MILLION BUYBACK

Berkshire Hathaway reported the company's net worth during the first nine months of 2018 rose 8% since year-end with book value equal to $228,712 per Class A share as of 9/30/18. During the third quarter, net earnings more than quadrupled to $18.5 billion. New accounting rules in 2018 require Berkshire Hathaway to book the net changes in unrealized appreciation/depreciation in net income instead of comprehensive income which resulted in an $11.7 billion gain in net earnings in the third quarter from investments and derivatives. In the third quarter, Berkshire's operating revenues rose 6.5% to $63.4 billion with all operating business groups posting growth, led by 16% revenue growth at BNSF Railway to $6.1 billion. Operating earnings doubled during the quarter to $6.9 billion, thanks in large part to improved insurance results and aided by Berkshire's tax rate falling from 35% to 21% during the period.

Berkshire's financial strength allows Warren Buffett to make significant investments and acquisitions. **Apple** was the largest stock investment in the first nine months of the year. During the third quarter, Berkshire also took new investment positions in **Oracle,** J.P. Morgan, PNC Financial and Travelers. Berkshire added to its positions in Bank of America and other financial stocks. Berkshire revised its buyback policy which now permits the company to repurchase shares at prices below Berkshire's intrinsic value, as conservatively determined by Warren Buffett and Charlie Munger. During the third quarter, Berkshire repurchased 2,984 equivalent A shares for $928 million at an average price of approximately $311,000 per A share with an additional 589 equivalent A shares repurchased subsequent to quarter-end. **Hold.**

NEW STOCK

BANK OF HAWAII (BOH-$79.02)
130 Merchant Street, Honolulu, Hawaii 96813 www.boh.com

Bank of Hawaii Corporation is a 120-year-old regional financial services company with $16.9 billion in assets. Through its subsidiaries, the company provides a broad range of financial products and services to businesses, consumers and governments in Hawaii, Guam and other Pacific Islands. The company's principal subsidiary, Bank of Hawaii, provides banking and investment services through its 69 branch locations, 382 ATMs, online and mobile banking services and 24-hour customer service center.

Fiscal Year Dec.	4-YR CAGR	2017	2016	2015	2014	2013
Revenues (000,000)	4.2%	$642,600	$614,900	$580,300	$559,700	$545,100
Net Income (000,000)	5.3%	$184,700	$181,500	$160,700	$163,000	$150,500
EPS	6.4%	$4.33	$4.23	$3.70	$3.69	$3.38
Dividends	3.2%	$2.04	$1.89	$1.80	$1.80	$1.80
Profit Margin		28.7%	29.5%	27.7%	29.1%	27.6%

EFFICIENT BANK

In 1893, Peter Cushman Jones, a 60-year-old businessman, persuaded his two close friends to join him in organizing a new bank in the Islands. Four years later, with $400,000 in capital, Bank of Hawaii became the first chartered and incorporated bank to do business in the Republic of Hawaii, operating from a two-story wooden building in downtown Honolulu. Today, Bank of Hawaii is the second largest bank in the state with $17 billion in assets offering a broad range of financial products and services through three business segments: Retail Banking, Commercial Banking and Investment Services & Private Banking. The bank also offers services to government entities in Hawaii.

Bank of Hawaii operates in a unique competitive landscape where the top four banks control more than 80% of the regional market, providing the bank with a sticky, low-cost deposit base that reduces its sensitivity to pricing pressure as interest rates rise. In addition to its low-cost deposit base, Bank of Hawaii is a low-cost operator, evidenced by its 2017 efficiency ratio (non-interest expense divided by total revenues) of 55.7%, which places it among the country's most efficiently run banks. The conservatively-managed bank maintains a pristine balance sheet with solid asset quality and robust liquidity and capital levels, far exceeding regulators' requirements.

PROFITABLE GROWTH

During the past five years, Bank of Hawaii has banked profitable growth with revenues compounding 4% annually, net income growing by 5% annually and EPS increasing at a 6% annual pace. During the period, average loans and leases have increased at a 12% annual clip to $9.3 billion while average deposits have grown by 6% annually to $14.5 billion. Return on average equity averaged a profitable 15.2% over the last five years. Credit quality steadily improved with non-performing loans declining over the past five years from $40 million to $16 million.

GROWING DIVIDENDS

Since becoming a public company in 1972, Bank of Hawaii has paid uninterrupted quarterly dividends to shareholders increasing at a 3% annual pace during the past five years. During 2018, Bank of Hawaii increased its dividend twice to $2.48 per share with the dividend currently yielding a solid 3.1%.

Management remains committed to returning cash to investors in excess of that needed to fund operations. Indeed, Bank of Hawaii's strong year-to-date free cash flow of $187 million enabled it to return nearly $140 million to shareholders through dividends of $73 million and share repurchases of $67 million at an average cost of $84.03 per share.

Since 2001, the company returned a total of $2.14 billion to shareholders through share repurchases at an average cost of $38.92 per share with $52.1 million remaining under the current authorization.

THIRD QUARTER 2018

General economic conditions in Hawaii remained positive during the third quarter of 2018. Total visitor arrivals increased 7.2% while total visitor spending increased 8.8%. The statewide unemployment rate was 2.2%. With the strong local economy as the backdrop, net income for the third quarter of 2018 increased 24% to $56.9 million with EPS increasing 26% to $1.36. The increase in net income reflects a drop in the income tax rate from 30.6% to 18.75% and a 6% increase in net interest income due to the shift in the mix of earning assets to loans which generally have higher yields. Net interest margin increased 15 basis points to 3.1%. The return on average assets for the third quarter of 2018 was 1.33%, up from 1.07% in the same quarter last year. The return on average equity for the third quarter of 2018 was 18.1%, up from 14.9% in the third quarter of 2017. The efficiency ratio for the third quarter of 2018 was 55.1%, improving from 55.8% in the same quarter last year.

Investors banking on attractive long-term returns should consider Bank of Hawaii, a ***HI***-quality market leader with an efficient cost structure, profitable growth and growing dividends. **Buy.**

UNDER THE SPOTLIGHT

ALPHABET (GOOGL-$1,027.42)
1600 Amphitheatre Parkway, Mountain View, CA 94043 www.abc.xyz.com

Alphabet provides global online performance and brand advertising services. It operates through Google and Other Bets segments. The Google segment includes principal Internet products, such as Search, Ads, Commerce, Maps, YouTube, Apps, Cloud, Android, Chrome, and Google Play. This segment also sells hardware products comprising Chromecast, Chromebooks, and Nexus. The Other Bets segment includes businesses, such as Access/Google Fiber, Calico, Nest, Verily, GV, Google Capital, X, and other initiatives.

Fiscal Year Dec.	4-YR CAGR	2017	2016	2015	2014	2013
Sales (000,000)	18.9%	$110,855	$90,272	$74,989	$66,001	$55,519
Net Income (000,000)	14.4%	$22,519 *	$19,478	$16,348	$13,620	$13,160
EPS	13.3%	$32.00 *	$27.85	$22.84	$19.82	$19.42
Profit Margin		20.3%	21.6%	21.8%	20.6%	23.7%

*Excludes $9.9 billion, or $14.04 per share, charge from U.S. tax reform.

GLOBAL BRAND

The very first web page was created in 1990 and by late 1992, there were only a mere 26 websites in the world. However, just a few years later, web pages numbered in the tens of millions and searching for information became challenging. To address that challenge, Stanford University graduate students, Larry Page and Sergey Brin, built a search engine from their dorm room that used links to determine the importance of individual web pages. By 1998, they formalized their work and named their search engine Google, a play on the word, googol, which is the mathematical expression for a 1 followed by 100 zeroes. The name reflects the immense volume of information that exists and Google's mission to organize the world's information and make it universally accessible and useful.

Google's strong global brand is one of the most recognized in the world as the number of people who use Google's service every day is in the hundreds of millions with billions of people now having access to the Internet via computers and mobile phones. Search results are no longer just web pages. They include images, videos, books, maps and more. In 2006, Google acquired YouTube, which lets billions of people watch and share original videos and professional content. With searches increasingly coming from mobile devices such as smartphones, Google developed Android, a mobile operating system that allows open interoperation across carriers and manufacturers. To enable faster searches, Google launched a new web browser called Google Chrome which makes it easier for folks to use their favorite Google products like Google Maps, Gmail, Google Play, Google Docs and Google Translate.

Google's core products such as Search, Android, Maps, Chrome, YouTube, Google Play and Gmail each have over one billion monthly active users. In August 2015, Google created a new public holding company called Alphabet. Alphabet is a collection of businesses, the largest of which is Google. It also includes businesses known as the Other Bets which are currently unprofitable but making important strides in their various industries such as driverless cars, healthcare and other innovative ventures.

OUTSTANDING GROWTH

Most of Google's products and services are free for users. The majority of the company's $111 billion in revenue last year came from advertising as Google's proprietary technology automatically matches ads to the content of the pages on which they appear. Advertisers pay the company either when a user clicks on one of its ads or based on the number of times their ads appear on the Google Network. Thanks to the growth of the digital economy and the shift of consumers and advertisers from off-line to online, Google has provided outstanding growth which continued in 2018. Alphabet reported third quarter revenue rose 21% to $33.7 billion with net income and EPS each up 36% to $9.2 billion and $13.06, respectively. During the quarter, Google advertising revenues rose 20% to $28.9 billion with strong growth in mobile search. All geographic regions generated strong growth led by 29% growth from the Asia Pacific and China region. Google other revenues rose 29% to $4.6 billion and Other Bets revenue increased 25% to $146 million. Traffic acquisition costs increased 20% to $6.6 billion, representing 23% of Google advertising revenue. Paid clicks on Google properties increased 62% with cost per click declining 28% during the quarter.

STRONG BALANCE SHEET

The company ended the quarter with $106.4 billion in cash and investments and only $4 billion in long-term debt on its strong balance sheet. During the first nine months of 2018, Alphabet generated $16.9 billion in free cash flow with management repurchasing $6.4 billion of its stock.

Long-term investors should google Alphabet, a ***HI***-quality company with a strong global brand, outstanding growth and robust cash flows. **Buy.**

UNDER THE SPOTLIGHT

BOOKING HOLDINGS (BKNG-$1,780.00)

800 Connecticut Ave, Norfolk, CT 06854 www.bookingholdings.com

Booking Holdings is the world leader in online travel and related services, provided to customers and partners in over 220 countries through six primary brands - Booking.com, priceline.com, KAYAK, agoda.com, rentalcars.com, and OpenTable. Booking Holdings helps people experience the world by providing consumers, travel service providers and restaurants with leading travel and restaurant reservation and related services.

Fiscal Year Dec.	4-YR CAGR	2017	2016	2015	2014	2013
Sales (000)	16.9%	$12,681,082	$10,743,006	$9,223,987	$8,441,971	$6,793,306
Net Income (000)	5.5%	$2,340,765	$2,134,987	$2,551,360	$2,421,753	$1,892,663
EPS	6.7%	$46.86	$42.65	$49.45	$45.67	$36.11
Profit Margin		18.5%	19.9%	27.7%	28.7%	27.9%

STRONG BRANDS

Booking Holdings was launched in 1998 in the U.S. under the priceline.com brand. Since then, the operations have expanded to include other strong travel-related brands, including Booking.com, agoda.com, rentalcars.com, KAYAK and OpenTable.

Booking.com is available in 40 languages and is the most profitable and largest online accommodation reservation service in the world with more than one and a half million properties, including more than 390,000 vacation rental properties, in more than 220 countries. Agoda.com is a leading online accommodation reservation service catering primarily to consumers in the Asia-Pacific region.

Rentalcars.com is a multinational car hire service, offering its reservation services in over 53,000 locations, including more than 900 airports throughout the world.

Priceline.com offers leisure travelers, primarily in the U.S., multiple ways to save on airline tickets, hotel rooms, car rentals, vacation packages and cruises.

KAYAK, acquired in 2013, is a leading travel research site allowing people to easily compare hundreds of travel sites when searching for flights, hotels and rental cars. OpenTable, acquired in 2014, is a leading brand for booking online restaurant reservations. OpenTable primarily does business in the United States with plans to expand internationally.

STRONG CASH FLOW

Booking Holdings' business is not capital intensive and thus generates very strong free cash flows, which have steadily and rapidly grown from $140 million in 2007 to $4.4 billion in 2017.

Through the first nine months of 2018, free cash flow increased an additional 19% to $3.9 billion. Thanks to the strong cash flows, the company ended the 9-30-2018 quarter with more than $7.5 billion in cash and investments (net of debt) on its hospitable balance sheet, after spending $4.1 billion on share repurchases during the first nine months of the year.

STRONG GROWTH

Since 2013, Booking Holdings has provided jet-setting growth with revenues soaring at a 17% annual rate to $12.7 billion in 2017 and net income compounding at a 6% annual rate to $2.3 billion.

The company's business is highly profitable with its five-star 20.8% return on shareholders' equity in 2017.

THIRD QUARTER 2018

Booking Holdings reported better than expected booking growth in the third quarter as European travel increased as weather improved and the World Cup ended. Revenues in the third quarter increased 9% to $4.8 billion with net income up 3% to $1.8 billion and EPS up 8% to $37.02.

Third quarter gross travel bookings increased 12% over the prior year to $24.3 billion. Room nights booked increased 13% to 201.3 million, reaching a new milestone of more than 200 million room nights booked in a single quarter. The number of restaurants on OpenTable is up 55% since Booking Holdings acquired the company with more than 330 million diners seated since 2014.

Fourth quarter bookings are expected to increase 6% to 9% with revenue expected to increase 13% to 16% and EPS expected to climb 12% to 15%.

Long-term investors should consider booking a reservation with Booking Holdings, a ***HI***-quality company with strong brands, strong cash flows and strong growth. **Buy.**

SUBSCRIPTION INFORMATION

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