

# Hendershot Investments

## INTEREST RATES ARE LIKE GRAVITY

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In response to last year's 9% inflation, the Federal Reserve embarked on the fastest pace of interest rate increases in decades. Warren Buffett has said, "Interest rates are to asset prices like gravity is to the apple. They power everything in the economic universe. If interest rates are nothing, values can be almost infinite. If interest rates are extremely high, that's a huge gravitational pull on values."

When the Federal Reserve lowers interest rates following crises like the Great Recession or the pandemic, it helps asset prices rebound to stimulate economic growth. Conversely, when inflation is too high, the Federal Reserve raises interest rates with attempts to achieve a "soft landing," a cyclical slowdown in economic growth that avoids a recession.

The homebuilding industry is extremely sensitive to the change in interest rates given the direct influence on mortgage rates. Last June, when we profiled our reasons for purchasing homebuilder **PulteGroup**, we wrote:

*The Federal Reserve has been very clear in signaling that interest rates will rise as it seeks to control inflation. This has resulted in rising mortgage rates, which have pulled back homebuilder stock prices, resulting in very attractive valuations.* Pulte was trading at about 1.4 times book value and just five times earnings with a dividend yield of 1.4%.

Indeed, the 30-year average mortgage rate had dramatically climbed to 6.38% by June 2022, which was more than double the rate of 2.89% seen just 10 months earlier. Then another surge in September and October 2022 outdid the summer peak, with the 30-year average mortgage rate ultimately climbing further and recently recording a 21-year high of more than 7.2%.

Our profile on Pulte concluded: *Pulte is in a much better financial position to manage rising rates compared to a decade ago given the housing supply/demand imbalance and its focus on owning less land, maintaining prudent debt lev-*

*els, and generating strong cash flows. Long-term investors should consider building a foundation in PulteGroup, a HI-quality market leader with an attractive valuation, robust cash flows, a sturdy balance sheet and strong financial results.*

Despite rising interest rates, Pulte's stock price soared over the last year with the stock up 70% since our purchase. This is prompting us to pocket some profits as the stock quickly went from undervalued to fully valued (see p. 4). However, we will retain part of our PulteGroup position as the supply/demand imbalance for homes will likely continue for another decade and should continue to build long-term value for investors. Indeed, **Berkshire Hathaway** recently revealed through a regulatory filing that Berkshire had invested close to \$800 million into three homebuilders, including **NVR**, which we also own and invested in a couple of years ago.

The Pulte example demonstrates why we believe in focusing on individual business valuations rather than trying to predict interest rates or make macroeconomic forecasts. Pulte's depressed business valuation overcame rising interest rates even in a very interest-rate sensitive industry.

While interest rates are extremely important in valuing businesses, Warren Buffett has also said, "There's nobody whose predictions on interest rates I would pay attention to, even myself, even Charlie." Yet trying to predict interest rates is Wall Street's favorite game. The Federal Reserve "paused" its interest rate hikes in June, but resumed increasing interest rates in July. Many are betting that was the last rate hike of the year. In response to the Fed's multiple interest rate hikes, the stock market tumbled last year as economic gravity took hold and many anticipated a recession. However, the recession has remained elusive. The Fed's gravity-defying gymnastics may stick the soft landing, after all. Inflation is abating, unemployment is low and the U.S. economy remains strong. Mr. Market is applauding with the S&P 500 index vaulting to double-digit gains so far this year. Even better, most **HI**-quality company valuations appear attractive.

# STOCK PERFORMANCE

Stock-Symbol	Business	Purchase Date(a)	Price Price(b)	Price 8-25-23	Total (c) Return	Advice*	Comment
Accenture-ACN	Consulting/Outsourcing	03-06-12	59.95	318.76	484%	BUY	YTD, paid \$2.1 billion in dividends and repurchased \$3.3 billion of stock
Alphabet, Cl A-GOOG Alphabet, Cl A-GOOG Alphabet, Cl C-GOOG	Online advertising; technology	06-10-11 06-08-15 06-10-11	12.82 27.32 12.74	129.88 130.69	478% 926%	BUY	In first half, free cash flow +40% to \$39 billion; repurchased \$29.5 billion of stock
Apple-AAPL	iPhones, computers, services	09-07-10	9.24	178.61	1,914%	HOLD	YTD, paid \$11.3 billion in dividends and repurchased \$56.5 billion of stock
Automatic Data Processing-ADP	Human capital mgmt.	03-09-16 03-11-20	85.62 148.95	253.05	131%	BUY	Repurchased \$11 billion of stock over past decade including \$1.1 billion in 2023
Bank of Hawaii-BOH	Financial services	09-09-20	53.68	52.02	21%	SELL	<b>Selling position (see p. 4)</b>
Berkshire Hathaway- BRKB	Insurance/diversified	12-28-94! 03-10-00 03-17-00	21.56 27.45 34.13	355.93	1,236%	BUY	Free cash flow +49% during first half to \$12.7 billion; repurchased \$5.9 billion of common stock
Booking Holdings-BKNG	Online travel	09-07-21 06-02-22	2,338.50 2,374.34	3,042.51	29%	BUY	2Q sales +27%, EPS +66%; repurchased \$5.2 billion of stock in first half
Brown-Forman-BFB	Liquor	03-10-00	4.25	68.09	2,127%	HOLD	Selling Finlandia Vodka for \$220 million
Canadian National Railway-CNI	Railroad	06-08-15 12-03-19	58.05 88.61	112.48	43%	BUY	Expect C\$4 billion in share repurchases during 2023-2024
Cisco Systems-CSCO	Internetworking	03-12-97 03-10-21	5.78 48.41	55.70	58%	BUY	In fiscal 2023, free cash flow +49% to \$19 billion; plans \$5 billion annual share buybacks and continued dividend hikes
Cognizant Tech.-CTSH	IT consulting	09-07-12 08-31-22	33.43 63.99	70.06	35%	BUY	Over last 12 months, bookings increased 14% to \$26.4 billion
FactSet Research-FDS	Financial information	03-14-14	104.42	429.57	334%	BUY	Increased dividend 10%, marking 24th consecutive year of dividend increases
Fastenal-FAST	Industrial supplies	03-10-00 09-07-17	2.44 20.85	57.16	276%	HOLD	1H free cash flow doubled to \$600 million; paid \$400 million in dividends
General Dynamics-GD	Aerospace and defense	12-03-19	176.29	223.59	37%	BUY	Ended 2Q with record backlog of \$91.4 billion
Gentex-GNTX	Auto mirrors	12-08-15 05-31-23	16.29 26.35	31.96	53%	BUY	2Q sales +26%, NI + 50%
Genuine Parts-GPC	Diversified distributor	03-10-00 09-09-15	20.81 84.09	153.04	180%	BUY	In 1H paid \$260 million in dividends; has hiked dividends for 67 straight years
Hormel Foods-HRL	Food	06-14-01	6.01	39.38	738%	BUY	In 1H paid \$293 million in dividends; has paid dividends for 95 straight years
Johnson & Johnson-JNJ	Healthcare products	03-10-00 09-10-18	35.48 137.52	166.25	100%	BUY	Exchanging consumer health business, Kenvue, for > 190 million JNJ shares
LVMH Moët Hennessy – Louis Vuitton-LVMUY	Luxury Goods	03-07-23	173.40	170.55	-1%	BUY	2Q sales +15%, EPS +30%
Mastercard-MA	Global payments	09-05-14	76.45	402.89	442%	BUY	2Q sales +14%, EPS + 28%
Meta Platforms-META	Social Media	06-04-18	193.35	285.50	48%	HOLD	2Q sales +11%, EPS +21%
Microsoft-MSFT	Software	06-07-07 12-03-10 12-07-22	30.16 26.94 244.54	322.98	219%	BUY	In fiscal 2023, generated 35% ROE and \$59.5 billion in free cash flow; repurchased \$22 billion of stock

\*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 Price(b)	Price 8-25-23	Total (c) Return	Advice*	Comment
Nike-NKE	Shoes and apparel	03-07-17	56.55	98.84	86%	BUY	In fiscal 2023, generated 36% ROE and repurchased \$5.5 billion of stock
NVR Inc. -NVR	Homebuilder	06-09-21	4,795.98	6,081.14	27%	HOLD	New \$500 million share buyback program
Oracle-ORCL	Software	09-05-13	32.31	116.06	286%	HOLD	Free cash flow +68% in fiscal 2023 to \$8.6 billion; paid \$3.7 billion in dividends
Paychex-PAYX	Payroll processing	12-03-10 08-31-11	29.49 27.28	121.87	425%	BUY	In fiscal 2023, generated 45% ROE and \$1.6 billion in free cash flow
PepsiCo-PEP	Food and beverages	03-14-14 03-07-18 03-10-21	81.89 109.42 132.97	179.42	79%	BUY	Reported double-digit sales and EPS growth in 2Q; plans to pay \$6.7 billion in dividends and repurchase \$1.0 billion of stock in 2023
PulteGroup Holdings-PHM	Homebuilder	06-02-22	45.26	77.17	72%	HOLD	Trimming position (see p. 4)
RTX-RTX	Aerospace/Defense	09-10-01 03-06-19	18.45 78.40	84.69	20%	BUY	Expanded dividend and share buyback program to \$33 billion-\$35 billion by 2025
Roche Holding ADR-RHHBY	Pharmaceuticals and diagnostics	06-09-21	47.39	36.68	-17%	BUY	During first half, paid CHF 7.79 billion in dividends
Ross Stores-ROST	Off-price retailer	06-08-17	61.70	119.00	102%	BUY	Raised sales and earnings outlook based on strong first half results
Starbucks-SBUX	Coffee retailer	06-10-14 12-11-17	37.26 58.61	95.48	102%	BUY	3Q sales +13% and EPS +25%; free cash flow +21% YTD to \$2.4 billion
Stryker-SYK	Medical technology	03-11-09	32.08	278.12	838%	BUY	Free cash flow +81% in first half to \$850 million, paid \$569 million in dividends
Texas Instruments-TXN	Semiconductors	03-08-22	165.02	167.81	6%	HOLD	Paid \$1.1 billion in dividends in 2Q
Texas Roadhouse-TXRH	Restaurants	03-07-23	105.87	104.45	-1%	BUY	2Q sales and NI each up 14%
The TJX Companies-TJX	Off-price retailer	06-12-00 09-09-15 05-31-23	2.54 36.18 76.75	88.82	117%	BUY	Raised sales and earnings outlook based on strong first half results; plans to repurchase \$2.0 to \$2.5 billion of stock for full year
Tractor Supply-TSCO	Rural retailer	12-11-17	67.51	213.54	234%	BUY	In 1H, free cash flow +20% to \$433 million; repurchased \$346 million of stock
Ulta Beauty-ULTA	Beauty retailer	09-10-18	285.84	407.15	42%	BUY	Stronger than expected first half; raised sales and earnings outlook for the year
UnitedHealth Group-UNH	Health care management	08-29-19	231.64	489.12	121%	BUY	Increased dividend 14%; buying Amedisys for \$3.3 billion in cash
United Parcel Service-UPS	Package delivery	03-11-20	88.03	168.87	151%	BUY	In 2023, plans to pay \$5.4 billion in dividends and repurchase \$3.0 billion of stock
Visa-V	Global payments	11-30-21	193.39	242.57	27%	BUY	3Q sales +12%, EPS +25%; acquiring Pismo for \$1 billion in cash
Western Alliance-WAL	Regional Bank	08-31-22	77.81	49.13	-35%	HOLD	Expects deposits to increase \$2 billion per quarter

## 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

## PULTEGROUP POCKETING PROFITS

Despite higher mortgage rates, Pulte reported 2023 second quarter revenues increased 8% to \$4.2 billion with net income up 10% to \$720 million and EPS jumping 18% to \$3.21. Home sale revenues for the second quarter increased 8% to \$4.1 billion, driven by a 3% increase in the average sales price to \$540,000 and a 5% increase in closings to 7,518 homes. New orders increased by 24% during the quarter to 7,947 homes, reflecting Pulte's ability to help solve affordability challenges caused by today's higher mortgage rates and capitalize on the ongoing strength in demand for new homes. The dollar value of new orders increased 9% to \$4.3 billion, and the company operated out of an average of 903 communities, which was a 14% increase over the prior quarter. The cancellation rate in the second quarter was 9% of beginning backlog, down almost 350 basis points from the first quarter.

Year-to-date, free cash flow was \$1.4 billion. During the first half of 2023, the company paid out \$72 million in dividends and repurchased 6.4 million shares of its common stock for \$400 million at an average price of \$62.28 per share, representing 3% of shares outstanding. The ongoing strength of Pulte's quarterly financial results has allowed the company to deliver a high return on equity of 32% for the trailing 12 months. While there remains an extremely limited supply of existing homes, Pulte has an expanded community count and a much improved supply chain that has them well positioned to meet buyer demand going forward.

Last year, Pulte's stock valuation dwelled in the basement. **A year later, Pulte raised the roof with its stock up 70%.** We plan to pocket some hefty profits by **trimming our position** as the stock has gone from undervalued to fully valued in the blink of a carpenter's eye.

## ALOHA, BANK OF HAWAII

Bank of Hawaii reported second quarter net revenues declined 4.3% to \$167.6 million with net income falling 19.7% to \$44.1 million and EPS down 18.8% to \$1.12. Net interest income declined 6.4% to \$124.3 million, primarily due to higher funding costs. Bank of Hawaii's net interest margin was 2.22% in the second quarter, down 25 basis points from last year on higher funding costs.

Non-interest expense increased 1.1% to \$104.0 million, representing an efficiency ratio of 62.1%, compared to 58.8% last year. Return on average common equity was 14.95% during the quarter, compared with 18.19% in the same quarter of 2022. Return on average assets declined 23 basis points from last year's second quarter to 0.77%.

Total deposits increased 0.1% during the quarter to \$20.5 billion. Total loans increased 0.7% during the quarter to \$13.9 billion, boosted by both consumer and commercial businesses. Commercial real estate loans (CRE) and office loans were 27.3% and 2.7%, respectively, of total loans at quarter end with both categories having weighted average loan to values (LTVs) of 56%. Bank of Hawaii's capital position, which is well-above regulatory well-capitalized levels, improved slightly during the quarter.

Banks are facing higher interest rates and rising deposit costs. Commercial real estate loans may also suffer from higher rates leading to credit concerns over the loans. Hawaii's economy has remained strong with unemployment of 3%. However, visitor arrivals may drop following the tragic wildfires in Maui. **After three years, we decided to bid aloha to Bank of Hawaii by selling our position due to challenges in the banking sector for a 21% total return.**

## RETAINING JOHNSON & JOHNSON

After carefully evaluating the Johnson and Johnson exchange offer for Kenvue shares, we decided to decline to participate in the exchange offer and simply retain our JNJ shares. Kenvue's profitability as a standalone company is much lower than JNJ's overall profitability. We, therefore, did not want to exchange a high profitability business (the remaining JNJ pharmaceutical and medical technology businesses) for a lower profitability business (Kenvue-the consumer health business).

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**With the profits and proceeds from PulteGroup and Bank of Hawaii, we plan to buy Molina Healthcare (see p. 10) and add to our RTX position (see p. 11).** 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: **Accenture** (\$1.12), **Apple** (\$.24), **ADP** (\$1.25), **Bank of Hawaii** (\$.70), **Brown-Forman** (\$.21), **Canadian National** (\$.60), **Cisco** (\$.39), **Cognizant** (\$.29), **FactSet Research** (\$.98), **Fastenal** (\$.35), **General Dynamics** (\$1.32), **Gentex** (\$.12), **Genuine Parts** (\$.95), **Hormel Foods** (\$.28), **Johnson & Johnson** (\$1.19), **Mastercard** (\$.57), **Microsoft** (\$.68), **Nike** (\$.34), **Oracle** (\$40.), **Paychex** (\$.89), **Pepsi** (\$1.27), **Pulte** (\$.16), **Raytheon** (\$.59), **Ross Stores** (\$.34), **Starbucks** (\$.53), **Stryker** (\$.75), **Texas Instruments** (\$1.24), **Texas Roadhouse** (\$.55), **TJX** (\$.30), **Tractor Supply** (\$1.03), **United Parcel Services** (\$1.62), **UnitedHealth** (\$1.88), **Visa** (.45) and **Western Alliance** (\$.36).

# (continued)

## REALIZED GAINS AND LOSSES OVER THE LAST 12 MONTHS

	DATE	DATE	GAIN/	
<b>BAXTER INTERNATIONAL</b>	09/07/21	12/07/22	-37%	Deteriorating business fundamentals with declining cash flow and impairment charge, sold position
<b>GENERAL DYNAMICS</b>	12/03/19	12/07/22	+40%	Fairly valued, trimmed position
<b>GENUINE PARTS</b>	09/09/15	08/31/22	+86%	Fairly valued, trimmed position
<b>INTEL</b>	09/09/20	08/31/22	-36%	Sales, earnings and free cash flow declined, sold position
<b>MAXIMUS</b>	06/02/16 12/03/19	03/07/23 03/07/23	+41% +16%	Fully valued, sold position
<b>3M</b>	03/07/07 09/10/18	03/07/23 03/07/23	+47% -43%	Sales, earnings and free cash flow declined and looming litigation charges, sold position
<b>SEI INVESTMENTS</b>	06/10/20	05/31/23	-6%	Sales, earnings and cash flow declined, sold position
<b>T. ROWE PRICE</b>	08/31/11 09/05/14	05/31/23 05/31/23	+99% +33%	Sales and earnings declined, sold position
<b>UNITEDHEALTH</b>	08/29/19	08/31/22	+126%	Fairly valued, trimmed position

\*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 8-23-23	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	144-236	178.61	\$6.11	\$6.07	30.0	46.4	7.1	0.5%	11%	20%	150%	276%	163%	1.0x	\$394,328,000
ACN	260-381	318.76	10.71	11.05	28.4	7.9	2.8	1.4	11%	14%	31%	34	0	1.4	61,594,305
ADP	232-325	253.05	8.21	9.14	26.9	29.7	5.8	2.0	6%	12%	97%	59	85	1.4	18,012,200
BF.B	68-83	68.09	1.63	2.06	41.8	10.0	7.7	1.2	6%	-1%	24%	11	82	3.5	4,228,000
BKNG	2803-4548	3,042.51	76.35	124.56	46.2	n/a	6.4	-	4%	-2%	100%	100+	100+	1.6	17,090,000
BRK.B !	313-408	355.93	21,095	24,000	23.9	1.4	2.6	-	5%	12%	7%	n/a	n/a	n/a	302,089,000
CNI	113-155	112.48	7.44	7.37	14.4	3.7	4.4	2.2	5%	6%	24%	3	78	0.9	17,102,000
CSCO	47-66	55.70	3.07	3.26	18.1	5.1	4.0	2.8	2%	4%	28%	59	15	1.4	56,998,000
CTSH	64-89	70.06	4.41	4.38	16.4	2.7	1.8	1.6	5%	5%	19%	20	5	2.3	19,428,000
FAST	47-70	57.16	1.89	1.99	29.0	9.7	4.7	2.4	9%	10%	34%	7	6	4.3	6,980,600
FDS	384-528	429.57	10.25	12.57	33.0	10.0	9.1	0.9	8%	11%	30%	31	100	2.1	1,843,892
GD	197-277	223.59	12.19	12.65	18.4	3.1	1.5	2.4	2%	2%	18%	6	47	1.4	39,407,000
GNTX	30-44	31.96	1.36	1.77	20.5	3.4	3.9	1.5	1%	-4%	15%	22	0	3.7	1,918,958
GOOGL!!	112-187	129.88	4.56	5.64	27.5	6.1	5.8	-	20%	20%	23%	44	5	2.2	282,836,000
GPC	129-195	153.04	8.31	9.24	17.9	5.3	1.0	2.5	7%	13%	31%	13	73	1.1	22,095,973
HRL	43-56	39.38	1.66	1.73	25.6	2.7	1.9	2.9	6%	1%	13%	8	42	2.4	11,386,189
JNJ	165-205	166.25	6.73	5.50	33.7	5.7	4.6	2.9	4%	5%	23%	37	44	1.1	94,943,000
LVMUY	155-243	170.55	6.09	7.88	24.8	7.2	5.1	1.5	12%	20%	26%	10	15	1.2	84,759,000
MA	468-587	402.89	10.22	12.16	37.8	68.5	17.0	0.6	10%	16%	100%	112	260	1.1	22,237,000
META	177-433	285.50	8.59	13.42	33.3	5.5	6.3	-	20%	3%	19%	45	14	2.3	116,609,000

\*\* 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 8-25-23	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)
MOH	295-392	318.96	\$13.55	\$19.59	20.2	5.1	0.6	-	14%	6%	27%	243%	60%	1.5x	\$31,974,000
MSFT	317-455	322.98	9.68	10.96	33.4	11.6	11.3	0.9%	14%	18%	35%	54	20	1.8	211,915,000
NKE	111-146	98.84	3.23	3.73	36.5	3.5	3.0	1.4	7%	7%	36%	76	64	2.7	51,217,000
NVR	4761-7533	6,081.14	491.82	453.12	13.0	4.8	1.9	-	10%	26%	49%	65	22	n/a	10,575,325
ORCL	91-137	116.06	3.07	3.51	37.8	n/a	6.5	1.4	6%	1%	100+	100+	100+	0.9	49,954,000
PAYX	107-155	121.87	4.30	4.68	25.6	12.6	8.8	2.8	7%	11%	37%	35	23	2.3	5,007,100
PEP	172-224	179.42	6.42	7.50	31.4	14.0	2.9	2.7	8%	3%	52%	37	203	0.8	86,392,000
PHM	47-88	77.17	11.01	11.67	6.4	1.7	1.1	0.8	12%	33%	29%	18	21	n/a	16,288,995
RHHBY	39-47	36.68	2.43	2.71	16.0	7.9	3.4	3.5	4%	5%	44%	28	77	1.2	68,442,000
ROST	111-163	119.00	4.38	5.22	25.3	9.1	2.2	1.1	6%	1%	36%	103	55	1.8	18,695,829
RTX	86-118	84.69	3.51	4.01	22.4	1.7	1.8	2.8	18%	24%	7%	7	45	1.1	67,074,000
SBUX	94-140	95.48	2.83	3.45	32.4	n/a	3.4	2.2	7%	-3%	n/a	n/a	n/a	0.8	32,250,300
SYK	251-348	278.12	6.17	9.37	39.3	6.1	5.7	1.1	8%	-10%	14%	9	64	1.5	18,449,000
TJX	82-108	88.82	2.97	3.72	26.0	15.4	2.0	1.5	6%	5%	55%	75	43	1.2	49,936,000
TSCO	198-311	213.54	9.71	10.30	21.3	11.2	1.6	1.9	16%	23%	53%	30	83	1.6	14,204,717
TXN	154-199	167.81	9.41	7.35	21.4	9.6	7.6	2.9	6%	14%	60%	60	69	5.7	20,028,000
TXRH	94-142	104.45	3.97	4.66	24.1	6.5	1.7	2.0	13%	16%	27%	10	0	n/a	4,014,999
ULTA	457-689	407.15	24.01	25.35	16.3	9.9	2.0	-	11%	22%	63%	19	0	1.7	10,208,600
UNH	433-628	489.12	21.18	23.57	12.3	2.0	1.4	1.4	9%	15%	25%	106	68	0.8	324,162,000
UPS	156-219	168.87	13.20	9.62	14.6	7.3	1.4	3.9	9%	24%	58%	39	97	1.3	100,338,000
V	215-306	242.57	7.01	8.68	30.7	10.0	13.3	0.8	9%	12%	42%	45	53	1.5	29,310,000
WAL	8-88	49.13	9.70	8.05	5.9	1.0	2.1	3.1	28%	14%	20%	n/a	n/a	n/a	2,540,900

\* 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 gained 5% thanks to abating inflation and an improving economy. The following **HI**-quality stocks all generated strong double-digit gains during the same time period.

### WESTERN ALLIANCE DEPOSITS GROWING

Western Alliance reported second quarter net revenues increased 8% to \$669.3 million with net income declining 17% to \$212.5 million. Net interest margin declined by 37 basis points during the quarter to 3.42% due to higher rates on increased borrowings and higher deposit costs. Western Alliance generated a 1.23% return on average assets during the second quarter and an 18.2% return on average equity. Deposits as of June 30 were \$51.0 billion, increasing \$3.5 billion during the quarter. In the second half of 2023, management expects deposits to increase further by \$2 billion per quarter. **Western Alliance's stock rebounded 43% during the past three months** from depressed levels resulting from banking sector woes. **Hold.**

### ADP ROBUST SHARE BUYBACKS

In fiscal 2023, ADP reported revenue increased 9% to \$18.0 billion with EPS increasing 17% to \$8.21. During the fiscal year, ADP returned \$3.0 billion to shareholders through share repurchases of \$1.12 billion and dividends of \$1.9 billion. ADP has a robust share repurchase program that has returned more than \$11 billion to shareholders during the past ten years. In fiscal 2024, ADP expects revenues to increase between 6% to 7% with operating margins expanding 60 to 80 basis points, leading to expected EPS growth of 10% to 12%. **ADP's stock has more than doubled over the last seven years. Buy.**

### META DOUBLE-DIGIT GROWTH

Meta Platforms reported second quarter revenue increased 11% to \$32.0 billion with EPS up 21% to \$2.98. During the second quarter, Meta generated \$11.1 billion in free cash flow and repurchased \$793 million of its stock. About \$41 billion remains under the current share repurchase authorization. For the third quarter, Meta expects revenue in the range of \$32 billion to \$34.5 billion, up 20% from last year at the midpoint. **Meta's stock rose a likable 16% during the last three months. Hold.**

### GENTEX DOUBLE-DIGIT GROWTH

Gentex reported second quarter sales jumped 26% to a record \$583.5 million with net income and EPS speeding ahead more than 50% to \$109.2 million and \$0.47, respectively. Free cash flow increased 87% from last year to \$73.4 million. During the second quarter, Gentex repurchased 900,000 shares of its common stock, leaving about 18.8 million shares remaining available for repurchase. **Gentex's stock motored 14% higher during the past three months. Buy.**

### ROSS STORES \$950 MILLION BUYBACK

Ross Stores rang up a 7.7% increase in second quarter sales to \$4.9 billion with EPS up 19% to \$1.32. Inventories declined 15%. Ross returned \$694 million to shareholders during the first half through dividends of \$229 million and share repurchases of \$465 million. Ross remains on track to repurchase a total of \$950 million of its stock in fiscal 2023. **Ross' stock rang up a 14% gain during the last three months. Buy.**

### ORACLE FREE CASH FLOW +68%

Oracle reported fiscal 2023 revenues increased 18% to a record \$50 billion with net income up 27% to \$8.5 billion. Free cash flow increased 68% to \$8.5 billion during the year with the company paying \$3.7 billion in dividends and repurchasing \$1.3 billion of its common stock. Oracle expects very good free cash flow results in fiscal 2024. **Over the past decade, Oracle has provided a divine 286% total return. Hold.**

### CISCO SYSTEMS FREE CASH FLOW +49%

Cisco Systems' fiscal 2023 revenues rose 11% to \$57.0 billion with net income up 7% to \$12.6 billion. Return on shareholders' equity for the year was an impressive 28%, reflecting the high profitability of the business. Free cash flow during the year jumped 49% to \$19.0 billion with the company paying \$6.3 billion in dividends and repurchasing \$4.3 billion of its stock. **Cisco's stock has routed up a nearly tenfold gain over the last 26 years. Buy.**

### THE TJX COMPANIES \$2.0-\$2.5 BILLION BUYBACK

TJX reported strong second quarter results with sales ringing up an 8% gain to \$12.8 billion and net income up more than 22% to \$989 million. Robust free cash flow during the first half of the year approximated \$1.3 billion with the company paying \$725 million in dividends and repurchasing \$1.05 billion of its common stock at an average price of \$79.55 per share. The company plans to repurchase between \$2.0 billion to \$2.5 billion of its stock for the full fiscal year. The third quarter is off to a very strong start with "phenomenal" product availability for the holidays. **Over the last 23 years, TJX's stock has bagged a 35-fold gain! Buy.**

# (continued)

## QUARTERLY RATING CHANGE FROM HOLD TO BUY

### GENUINE PARTS 67 YEARS OF RISING DIVIDENDS

Genuine Parts reported second quarter sales motored ahead 6% to a record \$5.9 billion with net earnings decreasing 8% to \$344 million and EPS down 7% to \$2.44. Adjusted net income and EPS, which excludes a non-recurring gain last year, both increased 10%. Sales growth reflects a 4.9% gain in comp store sales and a 1.8% benefit from acquisitions, partially offset by a 1.1% foreign currency headwind.

Automotive sales were \$3.7 billion, up 5.4% from last year, powered by a 4.3% increase in comp store sales. Automotive operating margin decreased 30 basis points to 9%. Industrial sales of \$2.3 billion increased 5.9% from last year, driven by a 6% increase in comp store sales and a 0.6% contribution from acquisitions, partially offset by a 0.7% foreign currency headwind. Industrial segment operating margins increased 190 basis points from last year to 12.5%.

During the first half of 2023, Genuine Parts generated \$252 million in free cash flow, with the company returning \$394.7 million to shareholders through dividends of \$259.9 million and share repurchases of \$134.8 million.

The company's 2023 annual dividend of \$3.80 per share is up 6% from last year, marking the 67<sup>th</sup> consecutive year of dividend increases. Genuine Parts ended the quarter with \$530 million in cash, \$3.0 billion in long-term debt and \$4.1 billion in shareholders' equity.

For the full year, management expects sales growth of 4% to 6%. The company once again raised its outlook for 2023 EPS, now expecting EPS in the \$9.15 to \$9.30 range, up from \$8.95 to \$9.10, previously. Free cash flow is expected in the \$900 million to \$1.0 billion range. **Buy.**

### MICROSOFT 35% RETURN ON EQUITY

Microsoft reported an 8% increase in revenue for the fourth quarter of fiscal 2023 to \$56.2 billion with net income up 20% to \$20.1 billion and EPS rising 21% to \$2.69. During the quarter, Microsoft generated \$19.8 billion in free cash flow, up 12% from last year despite a 30% jump in capital expenditures as the company continues to invest in its AI infrastructure.

For full fiscal year 2023, revenue increased 7% to \$211.9 billion with net income declining slightly to \$72.4 billion and EPS increasing to \$9.68. During fiscal 2023, Microsoft generated a stellar 35% return on shareholders' equity and \$59.5 billion in free cash flow. Microsoft returned \$42.05 billion to shareholders during fiscal 2023 through dividend payments of \$19.8 billion and share repurchases of \$22.25 billion. Microsoft ended the fiscal year with \$111.3 billion in cash, \$42.0 billion in long-term debt and \$206.2 billion in shareholders' equity on its fortress balance sheet.

During the first quarter of fiscal 2024, Microsoft expects Productivity and Business Processes revenue to grow between 9% and 11% to \$18 billion to \$18.3 billion. Intelligent Cloud revenue is expected to grow between 15% and 16% to \$23.3 billion to \$23.6 billion. Segment revenue will continue to be driven by Azure which is expected to grow at a 25% to 26% pace in constant currency, including roughly 2 points from all Azure AI services. More Personal Computing revenue is expected in the range of \$12.5 to \$12.9 billion, down 3% to 6% from 2023.

Capital expenditures are expected to increase sequentially on a dollar basis during the fiscal year, driven by continued investments in artificial intelligence infrastructure. **Buy.**

### NIKE 36% RETURN ON EQUITY

Nike reported fourth quarter revenues increased 5% to \$12.8 billion with growth across all brands, channels and geographies. Net income declined 28% to \$1 billion and EPS was down 27% to \$0.66. Strong digital growth continued during the quarter as NIKE Direct revenues grew 15% and NIKE Brand Digital grew 14%. Gross margin decreased 140 basis points to 43.6%, primarily due to higher product input costs and elevated freight and logistics costs, higher markdowns and continued unfavorable changes in net foreign currency exchange rates.

For the full fiscal 2023 year, Nike reported sales of \$51.2 billion, up 10% from last year, with earnings down 16% to \$5.1 billion and EPS down 14% to \$3.23. During fiscal 2023, Nike generated a winning 36% return on shareholders' equity.

Nike has a strong track record of investing to fuel growth and running up shareholder returns through share repurchases and dividends, including 21 consecutive years of dividend increases. During 2023, Nike returned \$7.5 billion to shareholders through dividend payments of \$2 billion, representing a 10% increase from the prior year, and share repurchases of \$5.5 billion at an average cost per share of \$110.

For the first quarter of fiscal 2024, Nike expects revenue growth to be flat to up low single-digits. For the full fiscal 2024 year, Nike expects revenue to grow mid single-digits, led by Nike Direct, with gross margins expected to expand 140 to 160 basis points, reflecting the beginning of recovery from transitory headwinds, including more favorable ocean freight rates and a modest improvement in markdowns versus the prior year. **Buy.**

# NEW STOCK

## MOLINA HEALTHCARE (MOH—\$318.96)

200 Oceangate, Suite 100, Long Beach, CA 90802 [www.molinahealthcare.com](http://www.molinahealthcare.com)

*Molina Healthcare provides managed healthcare services under the Medicaid and Medicare programs and through the state insurance marketplaces (the Marketplace). Its health plans are operated by a network of subsidiaries, each of which is licensed as a health maintenance organization (HMO). The company's mission is to improve the health and lives of its members by delivering high-quality healthcare.*

### INDUSTRY LEADER

Molina Healthcare was founded in 1980 by David Molina, a physician, with the aim of providing quality healthcare services to underserved and low-income populations. The company started as a single clinic in Long Beach, California, and eventually expanded its operations to include managed care services for Medicaid and other government sponsored health programs. The company's unique approach focused on preventive care and community-based services, emphasizing cost-effective healthcare solutions for vulnerable populations.

Over the years, Molina has gradually become one of the largest Medicaid managed care organizations in the U.S., operating across 19 states and serving approximately 5.3 million members. The company achieved this feat by following its long-term growth strategy of growing the business organically by winning new contracts and retaining existing contracts and by making accretive acquisitions. Molina focuses on strict management of its medical cost ratio (MCR) to drive attractive and sustainable margins and reinvests excess capital in the business or returns it to shareholders through share repurchases.

During 2022, Molina's performance on Medicaid state procurements was exceptional, as it was successful on every request for proposal (RFP) response it submitted. The company's five recent state RFP wins will drive more than \$5 billion in incremental premium revenue. Since 2020, the acquisition component of its growth strategy has produced eight transactions, representing approximately \$11.8 billion in annual premium revenue, including the acquisition of Bright Health Company of California announced

Fiscal Year Dec.	4-YR CAGR	2022	2021	2020	2019	2018
Revenues (000,000)	14.1%	\$31,974	\$27,771	\$19,423	\$16,829	\$18,890
Net Income (000,000)	2.9%	\$792	\$659	\$673	\$737	\$707
EPS	6.3%	\$13.55	\$11.25	\$11.23	\$11.47	\$10.61
Profit Margin		2.5%	2.4%	3.5%	4.4%	3.7%

on June 30, 2023. Molina Healthcare acquired the company for an attractive purchase price of \$510 million in cash, or 28% of expected 2023 premium revenues of \$1.8 billion.

### STRONG FREE CASH FLOW

Last year, Molina Healthcare generated \$682 million in free cash flow and repurchased \$400 million of its stock. During the past five years, the company has generated \$4.6 billion in free cash flow and has repurchased \$1.2 billion of its shares. During the first half of 2023, free cash flow increased 97% to \$1.3 billion, driven by higher earnings and favorable working capital changes.

During the past five years, the company generated an outstanding 33% average return on shareholders' equity, a sign of the solid underlying profitability of the business.

### SECOND QUARTER RESULTS

Molina reported solid second quarter results with revenues increasing 3% to \$8.3 billion, net income jumping 25% to \$309 million and EPS up 26% to \$5.35. By segment, Medicaid revenue increased 3% to \$6.7 billion, Medicare revenue increased 10% to \$1.1 billion, Marketplace revenues decreased 5% to \$524 million and Other revenues increased 11% to \$20 million. Management noted that its Medicaid business, representing

over 80% of revenues, continues to produce strong, predictable operating results and cash flows. The company ended the quarter with \$8.8 billion in cash and investments, \$2.2 billion in long-term debt and \$3.6 billion in shareholders' equity on its healthy balance sheet. During the quarter, Molina continued to generate industry leading margins in its Medicaid and Medicare business with an MCR of 88.3% and 89.2%, respectively, which is in line with its long-term targets.

### DOUBLE-DIGIT GROWTH

For the full year, management expects premium revenues of \$32 billion and EPS of \$19.51, representing an increase of 4% and 44%, respectively. Based on known business building blocks, management expects \$38 billion of premium revenue in 2024, representing 19% growth. During Molina's May investor conference, the firm announced that it plans to grow premiums at 13% to 15% annual rates through a combination of growth in its current footprint, strategic initiatives and accretive acquisitions. Molina also established a 2026 premium revenue target of \$46 billion, a 49% increase over 2022 premium revenues.

Long-term investors seeking healthy returns should consider Molina Healthcare, a **HI**-quality industry leader with strong free cash flow, profitable operations and a double-digit revenue growth outlook. **Buy.**

# UNDER THE SPOTLIGHT

**RTX Corporation (RTX- \$84.69)**

**1000 Wilson Boulevard, Arlington, VA 22209 [www.rtx.com](http://www.rtx.com)**

*RTX Corporation is an aerospace and defense company that provides advanced systems and services for commercial, military and government customers worldwide. With three industry-leading businesses—Collins Aerospace, Pratt & Whitney and Raytheon—the company delivers solutions that push the boundaries in avionics, cybersecurity, directed energy, electric propulsion, hypersonics and quantum physics.*

## GLOBAL LEADER

RTX Corporation, formerly Raytheon Technologies, launched in 2020 with the merger of United Technologies Corporation and Raytheon Company after the former spun off its Otis Worldwide and Carrier Group businesses. RTX traces its roots to The United Aircraft and Transportation Corporation, founded in 1929 when Frederick Rentschler of Pratt & Whitney and William Boeing joined forces to form a vertically integrated aviation business to provide aircraft manufacturing and aviation services to the military and civilians. Today, RTX Corporation provides systems and services for commercial, military and government customers worldwide. It operates through three segments: Collins Aerospace, Pratt & Whitney and Raytheon.

Collins Aerospace is a leading global provider of technologically advanced aerospace and defense products and aftermarket service solutions for aircraft manufacturers, airlines and regional, business and general aviation, as well as for defense and commercial space operations. During 2022, Collins Aerospace generated revenues of \$23.05 billion with operating margins of 11.4%.

Pratt & Whitney is among the world's leading suppliers of aircraft engines for commercial, military, business jet and general aviation customers. Pratt & Whitney posted revenues of \$20.53 billion in 2022 with operating margins of 5.2%.

Raytheon—a leading provider of end-to-end solutions for U.S. and foreign government customers to detect, track and engage threats—focuses on producing missiles including shipborne surface-to-air missiles and missile defense systems, such as the Patriot, which is an integral part of the United States' and allied nations' missile

Fiscal Year Dec.	4-YR CAGR	2022	2021	2020	2019	2018
Revenues (000,000)	17.9%	\$67,074	\$64,388	\$56,587	\$45,349	\$34,701
Net Income (000,000)	39.5%	\$5,327	\$4,145	-\$2,928	\$3,731	\$1,406
EPS	23.7%	\$3.51	\$2.58	-\$2.29	\$4.06	\$1.50
Dividends	n/a	\$2.16	\$2.005	\$2.16	\$2.94	\$2.84
Profit Margin		7.9%	6.4%	-5.2%	8.2%	4.1%

defense systems. Raytheon recorded revenues of \$25.18 billion in 2022 with operating margins of 9.9%.

## PROFITABLE GROWTH

Boosted by its merger with Raytheon in 2020, RTX generated healthy growth during the past five years with revenues compounding at an 18% average annual rate as net income rocketed up at a 40% annual pace and EPS increased at a 24% clip while free cash flow flew ahead at a 42% annualized rate.

Management expects profitable growth to continue with average annual revenue growth in the 6% to 7% range through 2025, using 2020 as a base year. Adjusted segment margins are expected to increase by 550 to 650 basis points from an adjusted pro forma margin of 7.9% in 2020. Free cash flow is targeted at \$9 billion in 2025. RTX expects to return \$33.0 to \$35.0 billion to shareholders through 2025.

## SECOND QUARTER RESULTS

RTX reported second quarter sales rose 12% to \$18.3 billion with net income and EPS increasing 2% to \$1.3 billion and \$0.90, respectively. Backlog at the end of the second quarter was a record \$185 billion, of which \$112 billion was from commercial aerospace and \$73 billion was from defense. New awards of \$25 billion during the quarter

brought RTX's book-to-bill ratio to 1.34 at quarter's end, which bodes well for future growth.

RTX returned \$1.44 billion to shareholders during the second quarter through dividends of \$844 million and share repurchases of \$596 million with the company on track to repurchase \$3 billion of its shares during 2023. RTX ended the quarter with \$5.4 billion in cash, \$32.7 billion in long-term debt and \$72.5 billion in shareholders' equity on its solid balance sheet.

## 2023 FULL YEAR OUTLOOK

Given the strong year-to-date results, RTX updated full year guidance with sales now expected in the \$73.0 billion to \$74.0 billion range, representing 9% to 10% organic sales growth, up from prior guidance of 7% to 9%. Management increased the lower end of its adjusted EPS by 5 cents to a range between \$4.95 to \$5.05. Free cash flow for 2023 is expected to be about \$4.3 billion, down from prior guidance of \$4.8 billion due to an accelerated inspection schedule for turbine disks in Pratt & Whitney's engines that power Airbus A320s.

Investors seeking long-term growth should consider taking a ride on this **HI**-quality global leader with profitable growth and strong cash flows. **Buy.**

# UNDER THE SPOTLIGHT

## MASTERCARD (MA - \$402.89)

2000 Purchase Street, Purchase, NY 10577 [www.mastercard.com](http://www.mastercard.com)

*Mastercard, a technology company in the global payments industry, operates one of the world's fastest payments processing networks, connecting consumers, financial institutions, merchants, governments and businesses in more than 210 countries and territories. Mastercard products and solutions make everyday commerce activities - such as shopping, traveling, running a business and managing finances - safe, secure, simple, smart and accessible for everyone.*

### STRONG GLOBAL BRAND

Founded more than fifty-five years ago by a group of bankers as the Interbank Card Association, Mastercard was renamed to its current name in 1979, reflecting a commitment to international growth. In 2022, Mastercard derived more than sixty-five percent of its \$22.2 billion in revenues outside the U.S.

The Mastercard brand is among the most recognized in the world. The company offers a wide range of payment solutions, including credit, debit, prepaid, digital wallet and commercial programs through a family of well-known brands, including Mastercard, Maestro and Cirrus. With a proprietary global payments network, Mastercard connects more than three billion cardholders with tens of millions of merchants around the world. Mastercard also offers services including cyber and intelligence products, information and analytics, identity verification, consulting, loyalty and reward programs, processing and open banking.

During the last five decades, people and businesses around the world have transformed how they pay for goods and services. The rise of electronic payments has fueled economic growth while delivering value to merchants, consumers and governments. From its earliest days of credit cards to the contactless and wireless payment options of today, Mastercard continues to lead the industry with its innovative and growing range of products and solutions. With most of the world's transactions still made with cash and checks, significant opportunity remains for further long-term growth as billions of people migrate away from cash to a more efficient and secure global payment network.

Fiscal Year Dec.	4-YR CAGR	2022	2021	2020	2019	2018
Revenues (000,000)	10.4%	\$22,237	\$18,884	\$15,301	\$16,883	\$14,950
Net Income (000,000)	14.1%	\$9,930	\$8,687	\$6,411	\$8,118	\$5,859
EPS	16.2%	\$10.22	\$8.76	\$6.37	\$7.94	\$5.60
Dividends	17.2%	\$2.04	\$1.76	\$1.60	\$1.32	\$1.08
Profit Margin		44.7%	46.0%	41.9%	48.1%	39.2%

### PROFITABLE GROWTH

Over the past five years, Mastercard has generated double-digit growth with sales, net income and EPS increasing at 10%, 14% and 16% compounded annual growth rates, respectively. Mastercard's business model is highly profitable with net profit margins expanding from an excellent 39% in 2018 to a stellar 45% in 2022.

### STRONG CASH FLOWS

With profitable operations and minimal capital expenditure needs, Mastercard generates strong free cash flows. The dividend has been increased significantly in the last five years compounding at a 17% annual clip. During 2023, Mastercard announced a 16% increase in the dividend to \$2.28 per share. Free cash flow increased 10% during the first half of 2023 to \$4.43 billion with the company paying \$1.1 billion in dividends and repurchasing \$5.3 billion of its common stock, including 6.5 million shares repurchased at an average cost of \$369.23 per share during the second quarter. The company has \$6.4 billion authorized

under its buyback program for future share repurchases. Since the beginning of 2018, Mastercard has repurchased more than \$30.0 billion of its shares. Mastercard ended the quarter with \$6.5 billion in cash and investments, \$14.3 billion in long-term debt and \$5.5 billion in shareholders' equity.

### SECOND QUARTER RESULTS

Mastercard reported second quarter revenue increased 14% to \$6.27 billion with net earnings charging ahead 25% to \$2.85 billion and EPS increasing 28% to \$3.00. Growth during the quarter was supported by resilient consumer spending, especially in travel and experiences, and the continued strength in services. Cross-border travel volume showed strong growth again this quarter, reaching 154% of pre-pandemic levels. Mastercard expects full year 2023 revenues to grow in the low-teens with operating expenses up in the high-single-digits. Long-term investors should add Mastercard to their wallets, a **HI**-quality firm with a strong global brand, double-digit growth, highly profitable operations and strong cash flows. **Buy**.

#### SUBSCRIPTION INFORMATION

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