

As expected, the coronavirus pandemic had a major impact on **Visa's** fiscal third-quarter results. However, the company's disclosures on weekly trends suggest the situation is improving. We remain comfortable with our full-year projections, and will maintain our \$166 fair value estimate and wide moat rating. For the quarter, Visa saw net revenue decline 17% year over year, driven primarily by a 13% decline in processed transactions. The fixed cost nature of the business model led operating margins (on a net revenue basis) to decline to 62.0% from 66.9% last year. As a result, net income fell 23% year over year. However, we believe most investors will focus on the weekly volume and transaction data the company has provided. These disclosures suggest ongoing improvement through July. From the trough of a roughly 30% year-over-year decline in April, overall transactions have steadily recovered to be roughly flat year over year by the start of July. U.S. payment volumes have followed a similar trajectory, returning to year-over-year growth in June, and maintaining solid single-digit growth in July. This suggests the impact should diminish significantly going forward, and that the long-term secular tailwinds that have driven Visa's growth historically remain in place. We believe the impact on cross-border volumes will be much more stubborn, and Visa's disclosures support this view.

Amgen reported second-quarter results that were in line with our expectations, and we're maintaining our \$219 per share fair value estimate. Shares continue to look slightly overvalued, although several potential pipeline catalysts in the second half of the year could lead us to increase our assumed probabilities of approval if data are positive. Overall, demand for Amgen's newer products like immunology drug Otezla are countering the temporary headwind from COVID-19 (lower use of hospital and doctor's office-administered therapies, like bone-strengthening drug Prolia) and the expected continuing headwinds from generic Sensipar and biosimilar versions of neutropenia drug Neulasta and anemia drug Epogen. Amgen's diversified portfolio and solid pipeline continue to support a wide moat. We expect Amgen to continue to face pricing pressure for migraine drug Aimovig, particularly as oral competitors begin to reach the market, but pricing headwinds for cholesterol-lowering drug Repatha should abate in the second half of the year as the firm reaches the anniversary of past price drops. While the loss of the CVS national formulary positioning for Repatha reduces coverage, Amgen still has coverage for 75% of the market, and we think its dominance over Regeneron/Sanofi's Praluent and solid cardiovascular outcomes data will allow it to continue to see strong growth despite incoming competition from Novartis' inclisiran.

We expect investor sentiment on wide-moat **Starbucks** will start to shift away from the pace of its COVID-19-related recovery and instead focus on its post-pandemic growth potential following third-quarter results that matched its mid-June update and a relatively upbeat outlook for the fourth quarter and fiscal 2021. While it still lags many QSR chains due to morning commute disruptions and its experience-focused formats, we see several ways that Starbucks is positioned to take market share in a specialty coffee category that will likely be hit harder than many other restaurant subcategories. First, it is finding ways to give consumers greater access. In the past, we've been constructive on plans to increase drive-thru and pickup locations in several key markets, but strategic initiatives such as digitally enabled curbside pick-up at 700-1,000 locations by the end of the fourth quarter will give consumers even greater access to the brand. Second, digital capabilities (mobile ordering, loyalty program, and delivery capabilities) have kept sales trends ahead of most small specialty coffee chains, a trend we expect to accelerate in fiscal 2021. Finally, because Starbucks continues to invest more heavily in its business than peers (employee wages and benefits, other COVID-19-related safety measures), we expect it will face fewer operating issues over the near term (even if profits lag sales in fiscal 2021, as CFO Pat Grismer pointed out).

The travails of the pandemic started to emerge in wide-moat **Mondelez's** second-quarter results, as underlying sales edged up a mere 0.7% over the prior-year period--a marked

stepdown from the 6.4% organic levels posted in the first quarter--while adjusted gross and operating margins deteriorated to the tune of 90 and 80 basis points, respectively, to 39.7% and 15.9%. The sales corrosion was concentrated in emerging markets (30% of sales, down 5.1%), attributable to the closure of the traditional trade channels in several countries including Mexico (in line with sentiment from peers). Further, the profit hit reflects the incurrance of more than \$130 million in costs (labor, safety, sanitation, and supply chain) stemming from COVID-19. When taken together, we don't believe this evidences any cracks in Mondelez's competitive armor, but rather largely stems from the transitory impact of the pandemic. And we don't surmise management is sitting still. Rather, we posit the firm is committed to maintaining a stringent focus on extracting inefficiencies from its operations (including the target to shed more than 25% of its noncore stock-keeping units to reduce complexity), while also fueling additional spend behind its brands (with our forecast calling for research, development, and marketing to equate to 7.5% of sales annually, or \$2.3 billion) to ensure its fare resonates with consumers and it remains an entrenched retail partner.

Advanced Micro Devices reported second-quarter results that exceeded management's guidance, while 2020 revenue growth was guided higher to 32% (one quarter after it was lowered to 25% from 29% due to COVID-19). The firm expects to continue gaining market share at Intel's expense in the second half of the year. Based on the full year guidance, AMD's second half sales are implied to be up 39% over the first half, which we attribute to the ramp of new game console chips for the latest PlayStation and Xbox as well as continued momentum in server chip sales. After increasing some of our share gain and gross margin assumptions for no-moat AMD, we are raising our fair value estimate to \$31 per share from \$25 per share. Shares were up over 10% during after-hours trading, and about 25% since Intel announced its 7-nanometer process would be delayed. Despite Intel's ongoing manufacturing woes, we continue to believe market expectations for AMD's share gains are too high. Second-quarter revenue was up 26% year over year to \$1.93 billion, as lower game console chip sales were more than offset by PC and server CPU growth. Computing and graphics sales were \$1.37 billion, up 45% year over year due to Ryzen processor strength. While AMD has been gaining share in the notebook sub-segment, we think Intel's upcoming Tiger Lake laptop chips will slow AMD's traction and potentially even regain share in the upcoming quarters.

Chubb recorded a \$331 million loss in the second quarter, primarily due to claims related to the coronavirus. While the pandemic increases uncertainty for Chubb and the industry, we think results to date support our view that the situation is manageable. Further, recent pricing trends raise the prospect of a truly hard pricing market in its wake. We will maintain our \$138 fair value estimate and narrow-moat rating. Chubb's combined ratio spiked to 112.3% from 90.1% last year, primarily due to the \$1.4 billion in coronavirus-related claims that the company previously announced. An additional negative in the quarter was a modest amount of unfavorable reserve development. However, the underlying combined ratio (which excludes catastrophe losses and reserve development) improved modestly to 87.4% from 88.9% last year, suggesting the base level of underwriting profitability has actually improved a bit. Compared with peers, Chubb took a relatively small coronavirus charge in the first quarter, so we believe this quarter's figure reflects some catch-up. To put the impact in perspective, Chubb's total coronavirus charges year-to-date equate to about 4% of annual 2019 net earned premiums. While uncertainty remains and future losses will hinge on the direction the pandemic takes, this is a very manageable level, in our view.

Narrow-moat **BASF** reported second-quarter EBIT that matched the preliminary estimate announced on July 10. However, shares are trading off 4%-5% intraday, which is likely due to the weak outlook for the third quarter. BASF is still not providing guidance for the full year. However, third-quarter EBIT is expected to be similar to the low level of the second quarter, which is well below consensus. Our forecast for the full year is below consensus,

which reflects our view that recovery is likely a fourth-quarter event. Consequently, we don't expect to make a material change to our forecast or EUR 63 fair value estimate. At current levels, the shares look undervalued. EBIT was negative in the chemicals, materials, and surface technologies segments. Chemicals was down due primarily to lower margins and turnarounds in the petrochemicals division and lower volumes in the intermediates division. Materials was mainly impacted by weak demand from the automotive industry, in addition to declines in consumer goods and construction. This led to lower margins in isocyanates and lower volumes in performance materials. Surface technologies was also negatively impacted by weak automotive demand, which led to lower volumes in both catalysts and coatings. EBIT in the industrial solutions segment was still positive but down 33% over 2019. Lower volumes in both dispersions and pigments, and performance chemicals was the main driver.

No-moat **Dexcom**'s strong second-quarter performance is a testament to the larger secular trend of diabetes patients embracing continuous glucose monitors thanks to a spurt of meaningful innovation. We've raised our fair value estimate to \$207 per share, up from \$185, after adjusting our estimates for sensor growth upwards for 2020. Nonetheless, shares remain overvalued, from our perspective. We'd originally projected 15% topline growth for the full year on the assumption that the pandemic would significantly disrupt new patients from starting on the G6 CGM. We now think we substantially undershot, based on how quickly Dexcom saw new patients return through the second quarter, and have increased our projection for 28% revenue growth this year. Dexcom saw 20% to 25% declines in new patient starts in late March and during April when shelter-in-place orders descended. However, this pipeline of new patients had recovered fairly well by end of June. Considering the on-going flareups of COVID-19 in different areas, we now expect positive growth in new patients, albeit at lower levels than usually seen as the pandemic continues to damp normal consumer activity. As we've discussed earlier, the pandemic has provided Dexcom with an opportunity to get its G6 into more hospitals, as medical personnel seek ways to minimize contact with COVID-19 patients who need glucose monitoring.

CoStar continued its impressive streak of growth during the second quarter despite the ongoing coronavirus crisis. Second-quarter revenue increased by 16% as compared with the second quarter of 2019, with adjusted EBITDA increasing by 17%. The firm has reached a mammoth \$3.5 billion cash position, which it intends to use for acquisitions as dislocations arise across the commercial real estate industry. Following the positive results, management reinstated 2020 full-year guidance, after pulling guidance due to the uncertainty spawned by the outbreak of the coronavirus pandemic. We were impressed by the second-quarter results and are maintaining our \$612 per share fair value estimate for wide-moat rated CoStar. Apartments.com demonstrated resilience and countercyclicality that allowed the business to achieve impressive growth. During the second quarter, the multifamily business grew revenue by 21%. Although we were impressed by this growth, we think the level of countercyclicality is more specific to the idiosyncratic nature of the current environment. Federal stimulus and CARES Act funds have provided a cushion that have allowed most residents to comfortably make their rental payments, meaning the multifamily industry has yet to feel the full effects of the economic shock. Furthermore, social distancing requirements have forced transactions online, elevating the importance of platforms such as Apartments.com.

Fortive's second-quarter revenue and margins held up relatively well given significant headwinds due to the coronavirus outbreak. The narrow-moat diversified industrial firm's second-quarter sales of \$1.6 billion and adjusted EPS of \$0.68 both beat CapIQ consensus estimates of \$1.5 billion and \$0.58, respectively. Fortive refrained from reinstating guidance for full-year 2020 due to ongoing uncertainty around the impact of the coronavirus, but management anticipates third-quarter sales to be down 5% to 8% year over year. After adjusting our near-term forecast, we expect to raise our fair value estimate to around \$75 from \$70. Amid a challenging economic environment due to the COVID-19 pandemic,

Fortive's second-quarter core sales declined 16.8% year over year. Professional instrumentation organic revenue was down 14.4%, driven by a high-single-digit decline in the advanced sterilization products business, high-teen decline in Fluke, and low 20% decline in Tektronix. Industrial technology core sales were down 20.8% from the prior-year period, with a mid-teen decline at Matco, and a low 20% decline at Gilbarco Veeder-Root. Revenue performance improved sequentially through the quarter as economies began to lift lockdown restrictions, suggesting that sales in Western Europe and the United States likely bottomed out in April.

Wide-moat **Maxim Integrated** reported solid fiscal fourth quarter results that were in line with the firm's preannouncement earlier this month in conjunction with Analog Devices' proposal to acquire Maxim. Maxim did not host an earnings call or provide forward looking guidance because of the pending transaction with ADI, but looking across the broader analog chip landscape, demand appears to not be as bad as what investors likely feared at the start of the COVID-19 pandemic. We will maintain our \$65 fair value estimate for Maxim, which is based on a weighted average of the two scenarios of the deal closing or falling apart. We still assign a 75% probability to the merger achieving regulatory approval, with any risks mostly tied to geopolitical concerns rather than monopolistic overlap. Based on our \$106 fair value estimate for wide-moat ADI, we value the soon-to-be-acquired shares for Maxim shareholders at \$67. For the remaining 25% probability, we use a \$59 fair value estimate for Maxim, equal to our standalone valuation of Maxim plus a termination fee if the deal falls apart. Maxim's revenue in the June quarter was solid in total but a mixed bag across end markets. Communications and data center chip demand rose 36% year over year, thanks to nice exposure to hyperscale data centers and the work-from-home trend in technology. Industrial chip sales rose 13% year over year.

With its second-quarter results, **Akamai** again exceeded consensus estimates (as compiled by FactSet), this time by wide margins on both revenue and profits. Security solutions continues to grow at an amazing clip, but the difference this quarter was strength in the content delivery network, or CDN, that has been missing for years. The stay-at-home environment led to tailwinds from media customers, but even so, results were exaggerated by some items that shouldn't recur in the second half. We're maintaining our \$70 fair value estimate after making only minor adjustments to our forecast. CDN revenue, which makes up two thirds of sales, grew 7% year over year following seven straight quarters where it grew 2% or less. The jump was driven by media and carrier customers, from whom revenue grew an astonishing 20% year over year. With much of the world sheltering in place, growth in gaming and over-the-top, or OTT, video traffic were primarily responsible. As more OTT services have arrived, we expect some of this revenue bump will be sustainable. However, we don't anticipate a repeat of second-quarter levels, as we think traffic will cool as people get out more. Apart from seasonal factors, reasons management cited for guiding to a sequential revenue decline for the third quarter include the loss of some revenue in India due to the country's decision to ban some Chinese apps as well as lower revenue from Akamai's big six Internet platform customers.

Narrow-moat **SS&C Technologies** reported solid second-quarter financial results. Revenue of \$1.14 billion represented a 1.4% organic revenue decline, 3% above the consensus expectations. Given the coronavirus uncertainty, SS&C is not providing formal 2020 guidance but its middle-case scenario of \$4.6 billion was unchanged while adjusted net income of \$1.09 billion was tweaked 4% higher. Overall, there was little in SS&C's earnings release that materially altered our long-term view of the firm and we maintain our \$60 fair value estimate. Within SS&C's businesses, DST continues to face some headwinds in both financial services and healthcare, but management believes a promising pipeline could have that business return to growth. SS&C Eze and Intralinks are seeing growth, but below pre-COVID-19 levels. On the positive side, the firm's alternative fund administration business is seeing solid growth. The market rebound has improved asset levels and SS&C is seeing new

mandates. Revenue retention continues to be strong. Revenue retention was 96.0% during the quarter in line with the 95.8% seen in 2019. SS&C continues to keep a lid on expenses. The firm has reduced hiring, marketing, and travel/entertainment expenses. The firm's adjusted EBITDA margin of 39.3% improved from 38.8% in the year-ago period. SS&C also increased its share repurchase authorization to \$750 million.

Seagate reported growth on both the top and bottom lines in a quarter that exhibited mixed effects from the COVID-19 pandemic. The firm's key market of mass capacity storage is fueling its growth as it takes up a larger and larger chunk of revenues with each passing quarter. We maintain our \$42 fair value estimate for no-moat Seagate. Even with shares trading down to \$45 after-hours, we would recommend a greater margin of safety before investing. Fourth quarter revenue of \$2.5 billion marked 6% growth year over year. While COVID-19 caused a restriction in IT spending with Seagate's small and mid-sized customers, the global pivot to remote learning and working from home accelerated investments in data centers. This shift helped power 25% growth for the firm's mass capacity revenue, specifically in mission-critical "nearline" storage, which shipped a company-record 80 exabytes in the quarter. Mass capacity storage now represents 58% of Seagate's revenue, up from 46% a year ago, and shows no signs of decelerating. Management forecasts the total addressable market for mass capacity storage to double to \$24 billion over the next five years, with the transition potentially accelerated by an enduring remote work and learning environment. Non-GAAP EPS for the quarter came in at \$1.20, an 8% downside to Capital IQ consensus estimates, with a management-estimated \$0.25-\$0.30 negative impact attributable to COVID-19.

Monolithic Power Systems reported strong second quarter results, as revenue and adjusted earnings per share exceeded CapIQ consensus estimates. Management provided investors with a positive outlook for the September quarter ahead of our expectations, despite pandemic-related uncertainty. We are encouraged by Monolithic's solid performance across its diversified segments, and as a result, we are raising our fair value estimate to \$155 from \$140 for the narrow-moat company. With shares trading around \$247, however, we do not see an appropriate margin of safety for prospective investors. Second quarter revenue grew 23% year over year to \$186.2 million, which represents a 12% increase sequentially. Computing and storage sales grew 54% year over year and 23% from the previous quarter. The growth was powered by demand for storage products, while server revenue remained flat. Consumer sales also rose 9% year over year and 27% sequentially, driven by heightened demand for home applications and gaming products. Additionally, the communications and industrial segments were bright spots for Monolithic, as sales rose year over year by 37% and 19%, respectively. As we anticipated, the automotive end-market was significantly impacted by supply chain disruptions from COVID-19, as OEMs and Tier 1 suppliers across the globe were forced to shut down. Thus, automotive sales fell 16% year over year and 24% sequentially, yet we anticipate a marginal recovery in the third quarter.

While narrow-moat **Pegasystems** fell short of our model, the company delivered upside to headline numbers relative to Street expectations. Despite macro disruptions from the coronavirus, the firm continues to see minimal impact on its operations. In fact, Pegasystems' ongoing model transition to subscription revenue has led to increased recurring revenue and better positions the firm well to weather near-term volatility. We share management's optimism that customers will look to streamline their processes in order to navigate the uncertainty from the pandemic, which bodes well for the firm's digital transformation solutions. The company is already seeing strong interest in the platform. After adjusting our model for results we are raising our fair value estimate to \$113 per share from \$100. While software stocks have run, we do see modest upside to shares from here and now that the model transition has passed the halfway point, we think owning the stock becomes easier for the next couple years. Second quarter revenue grew 11% year over year to \$227.4 million, compared with CapIQ consensus of \$225.8 million. Strength in cloud

continues to carry the day, as cloud revenue grew 54% year over year to \$48.8 million. Management indicated that more than 90% of new business through the first half of the year is recurring revenue, which bodes very well for visibility and growth.

No-moat **Juniper Networks**' 2% year-over-year revenue decline and non-GAAP EPS of \$0.35 came in higher than management's expectations and slightly above CapIQ consensus. Although revenue declined due to supply constraints and extended lead times because of the pandemic, orders grew mid single-digits year over year. With positive momentum across various customer segments with nascent products, supply chain challenges alleviating, and year-over-year comparisons becoming easier after many quarters of declines, we believe Juniper is close to hitting its growth inflection point. While we believe that Juniper is making wise technological and strategic moves, the competitive environment may limit its expansion trajectory. In turn, we are maintaining our \$22 fair value estimate and see shares as slightly overvalued. While cloud, service provider, and enterprise all grew on a sequential basis, the year-over-year comparison was less favorable, with cloud flat, service provider declining by 3%, and enterprise contracting by 2%. Compared with the year before, routing was down 3%, switching declined by 3%, security contracted by 1%, but services grew by 1%. Wide-area networking and routing products are performing well in the cloud vertical among hyperscale and tier 2 cloud providers. The firm had its first 400Gb win and sees a healthy pipeline.

No-moat **L Brands** remains determined to go it alone on a separation process, attempting to improve Victoria's Secret's (VS) performance ahead of carving it out from Bath & Body Works (BBW). While management previously set into motion 250 store closures, put the U.K. business into administration (with Next rumored to become franchise partner in the locale), and executed on an inventory management overhaul (with fall receipts set to be 50% lower), it has announced further efforts to right size the brand. Specifically, L Brands plans is decreasing headcount by 850 (15% of office personnel) and re-imagining the store labor model. These efforts are set to deliver \$400 million in run rate savings, which could move the VS segment back toward breakeven operating margin performance. While \$175 million in expenses are anticipated for extraction in 2020, these come at a cost, with \$75 million in severance set to flow through second-quarter results. Given the uncertainty around COVID-19, we don't think such efforts will provide an immediate panacea to L Brand's profitability issues, as preliminary second-quarter results offered 40% sales declines at VS and 10% growth at BBW, implying year-to-date sales declines of 27%. Our second-half outlook models low-single-digit sales declines, leading to a full-year downtick of 15%, something we view as achievable with stores reopened and the key holiday season still ahead.

United Therapeutics, which specializes in therapies for pulmonary arterial hypertension, reported second-quarter results that were mostly in line with our expectations, with revenue of \$362 million, down 3% from last year. After making some near-term top-line adjustments in our model, we are maintaining our \$107 fair value estimate. Given United's patent profile and the competition in PAH, we're also maintaining our no-moat rating. Remodulin (intravenous or injectable treprostinil for PAH), which was once United's flagship product but now competes with generics, fared worse than we expected, posting a 24% decline in revenue from last year. On the other hand, revenue from Tyvaso (inhaled treprostinil for PAH) outperformed and even matched quarterly revenue from Remodulin for the first time, with high-single-digit growth bringing Tyvaso revenue to \$119 million. We expect Tyvaso to be a key part of United's growth story, especially given the recent positive results in pulmonary hypertension in interstitial lung disease. The company filed for approval in PH-ILD, and we currently weight the opportunity with a 50% probability of success. Orenitram (oral treprostinil for PAH) also outperformed our expectations, despite a tough competitive landscape due to Johnson & Johnson's PAH treatments, which have been growing in the double digits.

No-moat **FireEye's** 6% year-over-year revenue growth and adjusted earnings of \$0.09 solidly exceeded CapIQ consensus estimates for the second quarter, and FireEye provided strong guidance amid a challenging macro spending environment. FireEye had record adjusted operating margin of 10% as the company benefited from lower travel expenses and previous restructuring efforts. We believe the combination of FireEye's services expertise with updated product strategy is performing well, and provides the company with a differentiation in a rapidly challenging market. Shares rose 11% after FireEye posted strong results and guidance; we are maintaining our \$14 fair value estimate and view shares as fairly valued. Compared with the prior year, platform, cloud subscriptions and managed services grew 30%, professional services increased by 21%, while product and related subscriptions and support declined by 12%. Annual recurring revenue for platform/cloud grew by 27% year over year, and represented 51% of the company's ARR (compared with 43% of total a year prior). Revenue strength came from security validation solutions, threat intelligence offerings, and managed defense. Cloud-based security, specifically endpoint and email protection, performed very well, and we expect the cloud platform growth to continue to outpace the decline in traditional appliance products.

Imax generated almost no revenue in the second quarter as theaters around the world largely remained shuttered due to coronavirus. Management guided that 90% of its theaters will reopen by end of August. While that timeline strikes us as overly optimistic given the ongoing issues in the U.S. and other markets, 40% of the theater network (624 screens) has already generated box office in July. While some regions may reopen faster, Imax's box office, as well as the industry's, will depend on the timing of the release slate from major U.S. and Chinese studios, capacity constraints, and the willingness of consumers to return. We maintain our \$21 fair value estimate, and shares remain undervalued in our view. Total revenue for the first quarter was \$9 million, down 92% versus a year ago. The firm reported Imax box office grosses of \$3 million in the quarter, down 99% year over year. The revenue decline was almost completely driven by the theater closures globally. Due to the first-half drop in revenue and the potential for continued closures, the firm implemented a number of cash burn reduction policies which helped the firm to lower its cash burn to \$10 million per month. The lower monthly loss along with its \$319 million cash balance should allow the firm to continue to operate for an extended period with limited to no revenue. The firm also restructured its credit agreements to provide Imax with more flexibility until the third quarter of 2021.