
COMMODARI ANTINORI GROUP / BMO NESBITT BURNS

COMPANY DEVELOPMENTS: JULY 2021

In building portfolios, our task, as always, is to protect and grow capital through purchasing stakes in a limited number of companies that have superior long-term economic prospects and then, hold them for long periods of time as business owners.

This is no easy feat since it's hard to stare into the future and know with certainty what the outcome will be. Thankfully, the task gets a little more manageable by focusing our efforts on superior businesses and - because they're more likely to navigate the potholes you'll inevitably overlook - easier still if you focus on companies run by gifted managers.

Outlined below are developments in a handful of our holdings that we believe meet the criteria above as well as an introduction to our three newest additions: Intercontinental Exchange, Micron Technology, and Anthem.

Facebook's first quarter 2021 revenues grew an astonishing +48% (constant currency), compared to +18% growth from a year ago and monthly active users advanced 12%, to 2.8 billion. Facebook has grown its headcount significantly during the past few years with a particular focus on content curation capabilities with the goal of making its platforms safer and more accessible for brands and users.¹ Going forward, Facebook should be able to increasingly automate these functions as its heavy investments in artificial intelligence, especially machine learning, yield productivity benefits. The stock continues to trade at a meaningful discount compared to other companies that are growing revenues this quickly and finished the mid-year as our fourth largest holding.

UnitedHealth Group (UNH) - First-quarter results exceeded expectations. Revenues at the legacy UnitedHealthcare business climbed by \$4 billion on a year-over-year basis, as they added some 1 million new lives to their client roster via contract wins. The digital revolution in healthcare was sped up by the coronavirus, whether it be analytics, mobile apps, cloud computing, or telemedicine. Through Optum Insight, UNH offers all this and more and recently upped its scale with the \$13 billion purchase of Change Healthcare, a healthcare tech provider.¹

Micron Technology, Inc. is in the business of chips - not the Frito Lay variety but rather, semiconductor devices and components used in the computer, telecom, and office automation industries. Pent-up demand and strong growth in end markets like automotive, the cloud, industrial, and mobile should benefit the company in the future as Micron scales up efficiency to meet demand and thus drives down unit costs all the while fattening margins.¹

Anthem Inc. - Serving 42.9 million medical members through its affiliated health plans, Anthem is a health benefits company offering a variety of network-based managed care plans to large and small employer, individual, Medicaid and Medicare markets. As the population ages and demand for health benefits continue to grow, we believe that a shrewd operator like Anthem will be able to carve out a nice piece of that growth.

Intercontinental Exchange is one of the largest and, in our view, most successful financial exchange operators in the world. The company was created through a series of shrewd acquisitions executed by its founder and CEO, Jeff Sprecher. Today, Intercontinental Exchange competes in three primary business segments: exchanges, fixed income/data services and mortgage technology. We believe each of these businesses exhibits attractive economic characteristics and that each should grow earnings well in excess of GDP over the long term. Despite a favorable outlook, the company currently trades at a P/E ratio that is roughly in line with the S&P 500. We believe a business with Intercontinental Exchange's strong competitive position, excellent management team and attractive growth outlook deserves to trade above its current level and so, we initiated a position earlier this year.

Alphabet's first quarter revenues advanced roughly 34%, to \$55.31 billion, thanks to greater traction with regard to advertising spending by many of its customers. Google Search and YouTube combined to generate nearly \$38 billion of that revenue, up over +30% year-over-year and 100 basis points more than they reported in the fourth quarter of last year.¹ The Google business segment generated robust margin expansion on moderated expense

growth and continues to have several long-term revenue and profitability drivers firmly in place. Despite trimming the name slightly, it still remains our sixth largest holding.

CarMax, our fifth largest holding, reported fiscal 2021 first quarter results that far exceeded expectations. Earnings soared to \$2.63 a share, leaving the prior year's \$0.03 figure and fiscal 2019's \$1.59 result in the dust. Sales clocked in at \$7.7 billion, which eclipsed last year's pandemic-stricken tally by 138% and fiscal 2019's haul by 43%. This solid top-line growth was underpinned by 452,188 units sold through its combined retail and wholesale channels, which is an increase of 128% from the same period last year and 31% from fiscal 2019.¹ Due in part to a global chip shortage for new cars, we

believe the market for used cars will remain robust for some time.

Toronto Dominion Bank's lower provisions for credit losses, growth in both loans and deposits, plus higher transaction and fee-based revenue in their Wealth business led to a modest 10% increase in first quarter per share earnings relative to last year. Moving forward, management plans to expand business and, to that end, recently announced plans to purchase Headlands Tech Global Markets, a Chicago-based electronic fixed-income trading business as well as Wells Fargo's Canadian Direct Equipment Finance unit, with C\$1.5 billion in assets, for an undisclosed amount.¹

As outlined in our recent video, the most significant contributors to our performance during the first half of 2021 were the iShares Energy Index, Alphabet, CarMax, Power Corp and TD Bank. Posting muted returns, the laggards were Saputo and Vivendi while Rolls Royce brought home the prize, yet again for most disappointing performance.

Thanks for your continuing support and remember: a diverse collection of strong businesses such as ours is an excellent hedge against a future that is always unknown.




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BMO  **Gestion de patrimoine**
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¹ Source : Company Reports