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THE BIG SECRET ON WALL STREET

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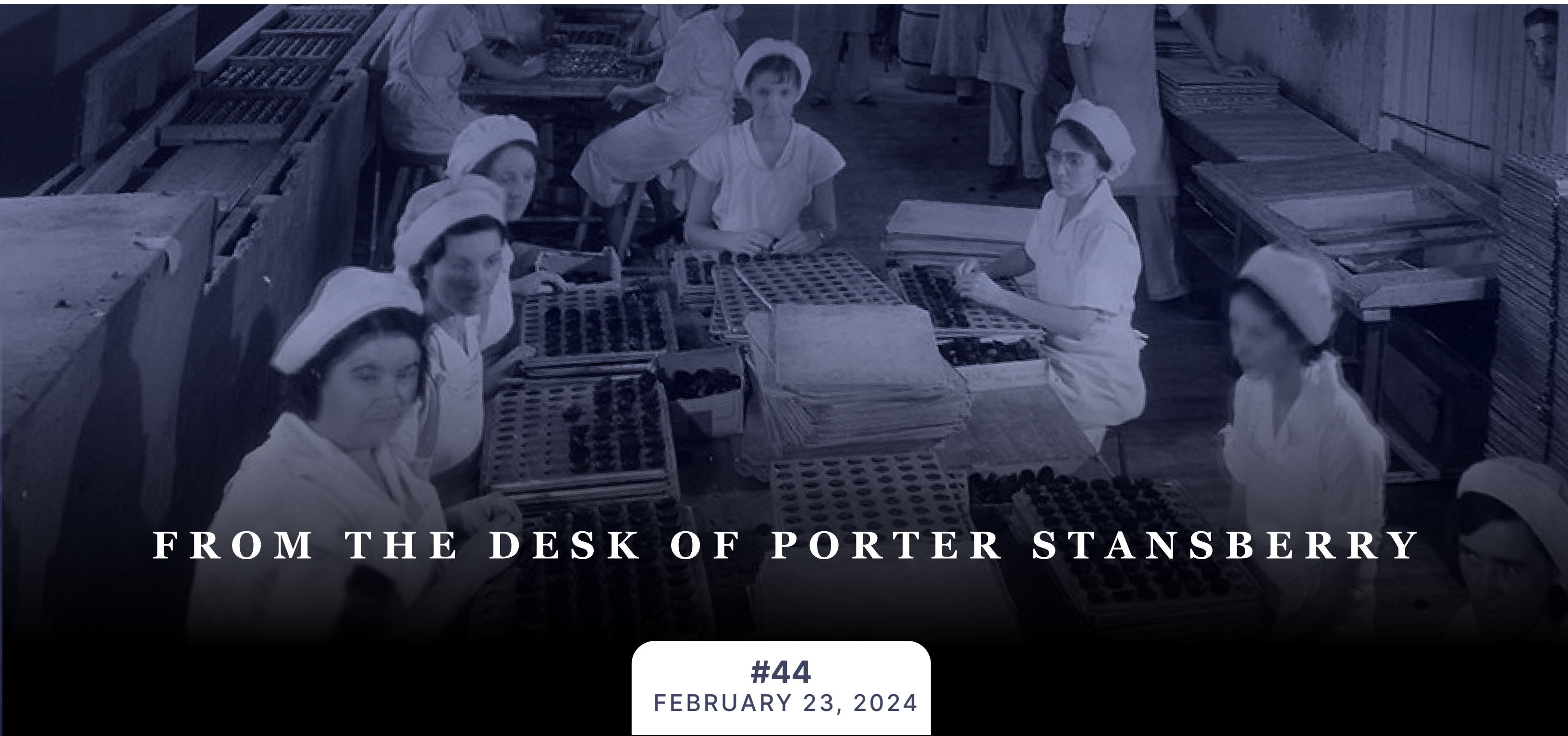
- An Iconic American Brand at a "No Risk" Price
- AI Might Change the World, But It Won't Change Chocolate



FROM THE DESK OF PORTER STANSBERRY

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AI Might Change the World, But It Won't Change Chocolate

Harry Burnett's 1928 chocolate experiment spawned a $2 billion candy brand that's now one of the biggest sellers in America.

But it wasn't a straight path to fortune and fame for him.

H.B., as people called him, had for years struggled to hold down a job. In 1919, the 40-year-old dairy-farm manager was laid off from his job in rural Pennsylvania, and decided to go out on his own.

In 1920, following his candy-maker mother's footsteps and with the backing of investors, he launched the R&R Candy Company in Hummelstown, Pennsylvania.

R&R sold chocolate-covered almonds and raisins, the kind H.B.'s mother had made and sold when he was a kid. But H.B.'s upstart company was competing head-to-head against America's largest chocolate maker, located just one town over.

H.B.'s company folded after just 18 months. With 10 children and a blind wife to support, he swallowed his pride and went to work for the chocolate company that had just put the R&R Candy Company out of business.

H.B. began in the shipping department of the former competitor, and his boss Milton quickly promoted him to foreman. But his foreman's salary didn't stretch far enough to feed his family, which eventually grew to 16 children.

So in 1923, H.B. left his job to launch his second candy company. With limited funds, he set up shop in his basement and began experimenting with new formulations of chocolate. Drawing upon lessons he learned from his first failure, the business sold enough candy to keep the doors open, but not much beyond that.

Everything changed in 1928 on a sales trip in Harrisburg, Pennsylvania. One of H.B.'s retail customers was selling so many peanut-butter cups that he couldn't keep his shelves stocked. H.B. decided to come up with a similar product. He purchased a 50-pound container of peanut butter and began playing with new creations in his basement chocolate factory.

And he found a winner… He came up with a ball of peanut butter covered in chocolate. The combination was perfect, but he soon found that store-bought peanut butter didn't work in mass production. So he developed his own line of super-roasted peanut butter that bordered on burnt. The extra roasted peanut butter mixed perfectly with milk chocolate, delivering the flavor combination in what is now known as the Reese's Peanut Butter Cup.

In 1933, the H.B. Reese Candy Company launched its first ad campaign featuring H.B.'s wife and 16 children, with the slogan "16 Reasons to Eat a Reese's." Business boomed, and he expanded his product line to include chocolate-covered honeydew melon and coconut-caramel chocolate bars.

Then another challenge led to a huge business breakthrough. Because of sugar rationing during World War II, the Reese Candy Company stopped making everything else, and doubled down on the candy that required the least sugar: the Reese's Peanut Butter Cup.

Focusing exclusively on the hit peanut butter cup took the company to the next level. By the 1950s, Reese's had become a nationally recognized brand, with large-scale production and distribution at retail giants like Sears Roebuck.

When H.B. Reese passed away in 1957, his six sons took over the business. Ultimately, in 1963, the brothers decided to sell to the descendants of Reese's former boss Milton, whose candy empire had solidified itself as America's largest chocolate maker.

Backed by the industry's dominant distribution and marketing machine, Reese's Peanut Butter Cup thrived. Within just six years of the transaction, it became the company's best-selling product with over 300 million units sold each year.

The Reese's brand also thrived under the innovations of its new owner. The company introduced a variety of Reese's branded products, including baking chips in 1977, followed by Reese's Pieces in 1978. By the end of the 20th century, Reese's products filled supermarket shelves in the form of branded cereals, ice cream, cake frosting, and peanut butter.

Today, the basic Reese's Peanut Butter Cup formulation, handcrafted in a basement nearly a century ago, continues to be the company's largest and fastest growing product line, bringing in over $2 billion annually.

And the business that acquired Reese's has gone on to become a great American success story. The enduring demand for the company's products has thrived through two world wars, the Great Depression, and every other episode of macroeconomic and social upheaval. Its premium business model typically commands a premium share price.

But on rare occasions, a macroeconomic shock pushes its share price down into the bargain bin.

One of those occasions came on the eve of the Great Financial Crisis. In December 2007, I recommended the company as "Our Best 'No Risk' Opportunity Ever" – even while warning about the coming economic fallout from the subprime-mortgage meltdown.

The company's shares escaped the Great Financial Crisis with a modest 21% peak-to-trough decline, versus a 53% drop in the S&P 500. And in the 16 years since that original recommendation, the shares have delivered a 610% total return, compared with a 356% gain in the S&P 500 over the same time period.

Today, the stock is once again approaching a valuation that I believe is low enough to deliver a repeat no-risk performance. The company is facing the same consumer weakness that's recently pressured other world-class consumer brands across the board.

Consumers Hit the Wall

The long-expected consumer slowdown and recession may finally be near.

The latest retail sales data and earnings results from a number of consumer-goods companies reflect a worrying trend: Tapped-out shoppers are pushing back against higher prices.

Consumers are tired of price increases. Big brands are paying attention.

Even Walmart lowered the price of its French bread back to $1, but consumers shouldn't expect broad-based cuts across the economy.

Included in this trend is global beverage-and-snacking giant PepsiCo, which reported a 0.5% decline in year-on-year sales in Q4 – its largest revenue decline since the COVID-19 pandemic in Q2 2020. This comes after a series of double-digit price increases that helped boost revenue 45% from Q1 2022 through Q3 2023.

Pepsi's North American segment was among the weakest performers, with a 3.5% sales decline. Management noted on the February 9 earnings call that the drop could be partly described by "a slowdown due to pricing and the disposable-income situation," corporate-speak for a decline in consumer spending. Pepsi also cut its 2024 sales guidance.

Fast-food giant McDonald's reported a sharp deceleration in Q4 sales growth, with management noting that customers had become "weary of pricing," as diners began placing smaller orders.

This showed up in the key same store sales ("SSS") metric, which measures the revenue growth generated from a company's existing store base and excludes growth from new store openings. McDonald's SSS fell to 3.4% in Q4, down from a prior range of 8% to 12% growth in 2022 and earlier in 2023. The company had previously instituted double-digit price increases to power a streak of rapid SSS growth.

The alarming takeaway is how swiftly this consumer weakness has finally appeared. As recently as McDonald's Q3 earnings call in October 2023, management noted that its aggressive price increases hadn't created any meaningful drag on demand. That story changed as SSS dropped by more than six percentage points from 8.8% in Q3 to 3.4% in Q4.

Coffee retailer Starbucks also reported weaker-than-expected sales and earnings growth in Q4, citing slower customer traffic. SSS for the coffee giant fell to 5%, down by half from the 10% SSS growth reported in Q3. The company also noted its January sales were weaker than expected. This caused the company to cut its forecast for 2024 revenue and SSS growth, noting its results will "take some time to normalize."

Finally, even one of the most resilient and recession-proof consumer-staple companies, McCormick – the world's largest seller of food spices and hot sauces – reported a 3% decline in product volumes. Even though McCormick raised prices 5%, the drop in volume caused sales growth to decelerate to just 2%.

The company also cut its 2024 forecast, citing "greater-than-expected pressure on the consumer." Analysts now forecast McCormick's revenue will decline in 2024. This expected revenue drop is notable given that the spice maker has reliably grown its revenue every year since 2002, including during the 2007-2009 downturn.

With across-the-board weakness in everything from coffee and fast food to cooking spices, America's key economic engine – consumer spending – appears to be hitting the wall.

Let's see what's behind the sudden stagnant spending.

COVID Savings Running Dry and Credit Cards Maxed Out

With sticky inflation eroding real wages, the two main sources of extra cash that American consumers have been spending are both running low.

The main source is the COVID-era stimulus savings. A recent study by the Federal Reserve Bank of San Francisco indicates that the extra cash households built up from pandemic-era stimulus has dropped from a peak of $2.1 trillion in August 2021 to $430 billion by Q4 2023. The study indicates that this excess savings will likely be fully depleted in the first half of 2024.

The other is a record amount of credit-card debt. For the last two years, consumers have tapped into their plastic to offset eroding savings and purchasing power from the ravages of inflation. But now, it appears consumers have reached their borrowing limits.

December data from the Federal Reserve showed an alarming drop off in credit-card borrowing, which increased by a tiny $1.56 billion – a 90% miss against Wall Street expectations of $15.9 billion. This followed November's $24.75 billion surge, which was the second-highest November increase ever. Reduced credit-card debt, though good on one level, means less money for consumers to pump into the economy.

It appears consumers enjoyed one final splurge ahead of the Christmas holidays, and are now putting away the credit cards and scaling back consumption.

The most recent retail sales figures for January confirm this retreat. Data from the U.S. Commerce Department revealed a 0.8% decline in January retail sales, more than double the 0.3% expected drop.

These early warning signs are eerily reminiscent of the environment of late 2007. Leading up to that point, rampant use of home equity lines of credit (HELOCs), a second mortgage that lets homeowners access cash against a home's value, juiced consumer spending, as real wages stagnated.

But by 2007, higher interest rates increased the cost of borrowing, causing mortgage lending and home equity values to plunge. Thus, consumers lost their ability to tap into HELOCs. As a result, they turned to plastic. Credit-card debt peaked at a then-record $350 billion in December 2007, compared with $315 billion in December 2006, before starting to turn lower in January 2008 as the Great Financial Crisis kicked into gear.

Now, as then, a slow-motion debt crisis is working its way through the economy. The details, of course, are different – just replace trillions in delinquent mortgage bonds in 2007-2009 with trillions in underwater Treasuries and commercial-real-estate loans today. The symptoms and ultimate result will likely be the same: gradual economic distress morphing into a full-blown financial panic and a sharp recession.

Now, for the good news. Today's sluggish consumer spending trends have produced a temporary hiccup in the operating results of the same American chocolate giant I first recommended in December 2007. And just like back then, when the coming economic distress inevitably passes, the long-term prospects of this world-class consumer brand will remain intact.

For investors who can look beyond this short-term weakness, the stage is set for a once-in-a-decade opportunity to buy shares in one of the world's greatest consumer brands at a rare discount.

A Simple Business With Staying Power

In this issue, we are focusing on **The Hershey Company (NYSE: HSY)**, the iconic $40 billion chocolate maker founded by Milton Hershey in 1894.

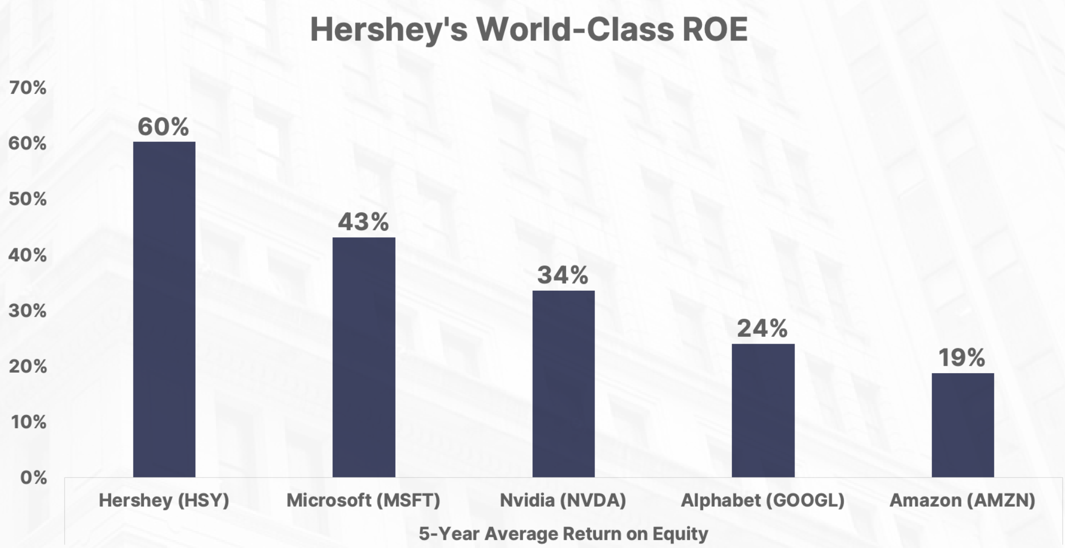
Hershey's business model is incredibly simple. It transforms commodities like sugar, milk, and cocoa into premium-branded chocolate, candies, and other snacks. And simple can be wonderful, as Warren Buffett once explained...

"'Buy commodities, sell brands' has long been a formula for business success."

What Buffett refers to is the business of buying low-cost, commoditized raw materials (like peanut butter or cocoa) and transforming them into premium, high-margin products like Reese's Peanut Butter Cups. Brand power is what enables this economic transformation. Over the last century, Hershey has established one of the most dominant consumer brands of all time. This gives it the ability to consistently increase prices each year, at rates well above the pace of inflation.

In 2022, for example, Hershey raised prices 8.5% compared with a 6.4% increase in the U.S. consumer price index ("CPI"). Last year, it raised prices 6.5%, or nearly double the 3.3% growth in CPI.

By turning cheap, raw commodities into branded products with pricing power, Hershey generates world-class, 18.2% net income margins on roughly $11 billion in annual revenue. The company is also highly capital efficient. Over the last five years, it's produced an average of 60.3% annual return on equity ("ROE"), which measures the amount of profit earned relative to shareholder equity. These returns put Hershey on par with some of the world's most dominant, money-minting enterprises:



Source: Bloomberg

But there's one critical difference between Hershey and today's high-growth, capital efficient tech leaders: staying power. The technological landscape has shifted dramatically over the last several decades. Today's big winners are obvious only in hindsight. Rewind the clock 25 years, and consider the world-dominating tech giants that led the dot-com bull market of the late 1990s. Few of these dot-com heroes remain on top today, and many have since vanished.

Fall From Grace: Dot-Com World Dominators Then vs. Now

	Market Value in 1999 ($billions)	Market Value Today ($billions)	Change in Market Value Since 1999
Cisco	$353	$196	-44%
Intel	$271	$186	-31%
Nokia	$197	$20	-90%
Lucent*	$252	$13	-95%
Nortel**	$262	$0	-100%
Average	$267	$83	-72%

**Lucent was acquired for $13.4 billion in April 2006*
***Nortel declared bankruptcy in January 2009*

Source: Bloomberg and Visual Capitalist

Over the next two decades, it's likely that some of today's Magnificent 7 stocks (Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla) could fade, displaced by the next generation of disruptors.

But there's one thing we can bet on with a high degree of confidence: our children and grandchildren will continue consuming Hershey's bars, Kit Kat Bars, and Reese's Peanut Butter Cups – just like our parents and grandparents have done for generations.

The artificial-intelligence revolution might radically revolutionize our society and economy, but it won't disrupt chocolate.

Forever Brands Create Generations of Growing Demand

The Hershey Company's iconic brands have become household products over the last century. It started with the original milk-chocolate Hershey's bar, first created in 1900, followed by Hershey's Kisses in 1907. More than a century later, they remain two of the top-10 best-selling chocolates in America.

Over the last 100 years, Hershey expanded its empire by buying equally enduring brands with generational staying power.

Consider the Reese's Peanut Butter Cup. Half a century after Hershey acquired the brand from H.B. Reese Candy Company, it still reigns as one of the best-selling chocolate candies in America. And despite its age, demand for the product hasn't slowed a bit – it's currently Hershey's fastest-growing product line.

Hershey also acquired the U.S. rights to distribute the Kit Kat Bar from the H.B. Reese company (Swiss chocolate maker Nestlé owns the overseas rights to Kit Kat). The Kit Kat Bar became another staple of American chocolate consumption, and today ranks among the top-10 most-consumed U.S. chocolates.

The Kit Kat Bar and Reese's Peanut Butter Cup each brings in more than $2 billion in annual revenue for Hershey. Those are just two names in Hershey's portfolio of more than 100 branded products – making it the largest chocolate maker in America. Some of its most enduring brands are Milk Duds (established 1928), Almond Joy (established 1946), Twizzlers (1929), Jolly Rancher (1949), and York Peppermint Pattie (1940).

These classic candies remain as popular today as they were generations ago. The enduring value of these brands enables Hershey to consistently increase volume sales and raise prices across its portfolio.

In recent years, Hershey has expanded beyond its traditional focus on chocolate and sugary candies (labeled as its Confectionery segment) into a new product line of salty snacks (its Salty Snack segment).

Hershey's Salty Bet Hits the Snackpot

Hershey CEO Michele Buck engineered one of the company's biggest strategy shifts in its history with an aggressive push into the Salty Snack segment. Shortly after her promotion from COO to CEO in March 2017, she oversaw Hershey's largest acquisition in its history – the $1.6 billion purchase of Amplify Snack Brands. This brought, among other products, the Skinny Pop brand of premade popcorn into the Hershey portfolio.

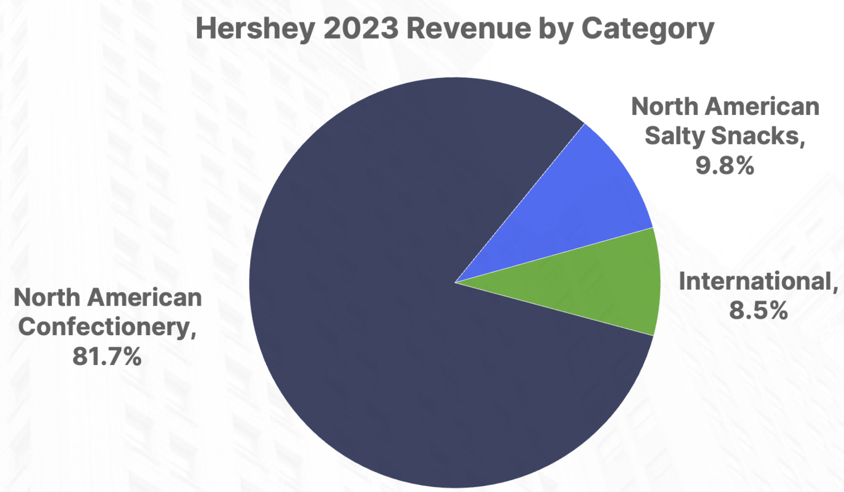
Next, Buck oversaw the $420 million purchase of Pirate Brands in September 2018, which gave Hershey ownership of the popular Pirate's Booty puffed corn and rice snack. This was followed by the $1.2 billion purchase of Dot's Pretzels in December 2021.

Buck's big bet on salty snacks has paid off with stellar results, supercharging Hershey's growth. Since entering this segment six years ago, Hershey's pace of revenue growth has nearly doubled to 7% annually, up from 3.7% annual growth rate in the six years prior.

Salty snacks currently make up two of the company's top-10 best-selling products. And while the key brands in this segment are younger than those in Hershey's Confectionery portfolio, the premium brands have delivered just as much pricing power. Over the last three years, Hershey has raised prices across its portfolio of Salty Snacks by an average of 7.7% annually compared with 6.4% for Confectionery.

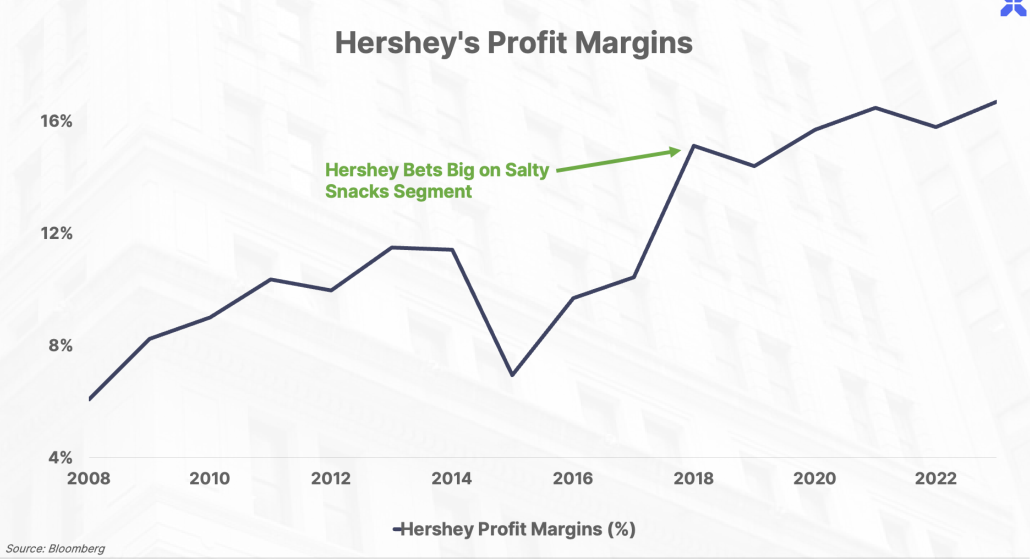
The upside from salty snacks comes from their higher-volume growth. Hershey Company's more mature confectionery brands typically grow volumes in line with gross domestic product ("GDP"), at around 2% to 3% per year. The company's salty snacks, on the other hand, have increased volume sales by an average of 9.0% per year over the last three years.

The combination of robust volume growth and potent pricing power of Hershey's Salty Snack segment now accounts for 10% of company sales – or $1.1 billion. It's now the company's second-largest revenue generator, ahead of international sales:



The key risk Hershey faced when expanding outside of its core business of confectionery candies was an erosion of its world-class profit margins. The history of corporate America is filled with the cautionary case studies of companies that diluted their high-margin cash cows with less profitable expansions into new product lines.

For Hershey, it has been the complete opposite. The Salty Snacks segment has delivered a substantial uplift in profit margins. In its first full year after the acquisition of Amplify Snack Brands, Hershey's net profit margins soared to new all-time highs of 14.7% in 2018, compared with 13.7% in 2017. Margins have continued trending upward since then, reaching a new record high of 18.2% last year:



Dominant Distribution Turbocharges New Product Growth

Savvy deal-making is only part of the success behind Hershey's salty snacks expansion. Another major factor comes from the company's distribution power. As America's largest chocolate maker, The Hershey Company has established a dominant distribution network that feeds its products to retail giants like Walmart, Costco, and 7-Eleven.

So when Hershey acquires a new brand, it can immediately turbocharge sales by getting the product onto the premium shelf space at America's largest retailers – something most of its smaller competitors could not do. For example, within two years of Hershey acquiring Dot's Pretzels in 2021, it became the fastest-growing large-pretzel brand in the country.

In addition, Hershey's newly acquired salty-snack production facilities provide the opportunity to develop new products around its existing brands. One example includes the Reese's Take5, which combines a pretzel with the traditional Reese's Peanut Butter Cup. Another is Reese's Popcorn, which adds a mixture of Reese's-based chocolate-and-peanut-butter creme drizzle to pre-popped popcorn:

Therein lies one of the wonderful features of the Hershey business model. It can consistently create new products that expand the scope of appeal to a wider array of consumer tastes, with only minor tweaks to existing products – and leverage brand identity along the way. This works for new salty snacks, as well as with Hershey's legacy brands. One of its latest hit products adds a single new ingredient – caramel – into the classic Reese's Peanut Butter Cup. H.B.'s 1928 creation still inspires innovation nearly 100 years later.

Those who tuned into Super Bowl LVIII might have noticed Hershey's ad for its new Reese's Caramel Big Cup:

The cost of a 30-second TV spot for this year's Super Bowl was about $7 million. For Hershey, this is just one-third of 1% of its $2 billion annual budget for selling, advertising, and marketing.

Therein lies the final component of Hershey's enduring competitive advantage. As America's largest chocolate maker, Hershey has the largest marketing and advertising budget in the industry to further cement its brands into the lifestyle patterns of the consuming public each year.

This affords Hershey the ability to reach into the homes of millions of Americans as they gather to watch the ultimate national pastime, as just one example. The company's dominant marketing budget keeps brands like Reese's as relevant for each new generation as they were for their parents and grandparents.

The Ultimate Inevitable Business

Putting it all together, it's easy to see why Hershey has maintained its market leadership for generations – and why it will continue to maintain that leadership for decades to come. It all started with a winning product, which gradually expanded into a portfolio of more than 100 world-class brands. Today, Hershey's sheer size alone provides it with two critical scale advantages. These are a dominant distribution network for turbocharging growth of newly acquired products and an unmatched marketing budget to maintain and grow its brand value.

Generational brand power, amplified by growing economies of scale in distribution and marketing, means the big grow bigger and more dominant with each passing year. That's why the list of top-10 American candy bars has remained virtually unchanged for decades, and it's why it will likely remain in place for decades to come.

This makes Hershey the ultimate "inevitable" business. With a competitive moat so wide, and so enduring, it's virtually impossible to imagine a competitor disrupting its spot at the top of the pack.

For investors, the upside comes from the increasing capital efficiency gained from these advantages all working together.

The Compounding Power of Capital Efficiency

Long-time followers of my work have undoubtedly heard me pound the table on the importance of capital efficiency for achieving superior investment results. After all, it's the key framework used by the greatest investor of all time, Warren Buffett. As I detailed in the original Hershey recommendation from December 2007:

> *"The importance of corporate capital efficiency is the key to understanding Warren Buffett's success as an investor. He never mentions the words 'capital efficiency.' Instead, he talks about the importance of returns on net tangible assets and the value of economic goodwill. Don't let the accounting language distract you: Both concepts are measures of capital efficiency. As Buffett says, 'Ultimately, business experience, direct and vicarious, produced my present strong preference for businesses that possess large amounts of enduring Goodwill and that utilize a minimum of tangible assets.' Where do you find stocks with these qualities? Buffett answers: 'Consumer franchises are a prime source of economic Goodwill.'"*

Hershey's world-class consumer franchise allows it to extract maximum economic value from a minimum of tangible assets. It's how the company can turn cheap, commoditized raw materials into premium-priced consumer-branded products. The enduring value of its brands allows the company to continue stoking new demand for 100-year old products. And the single most valuable component of its business is Hershey's ability to consistently raise prices at rates well above inflation.

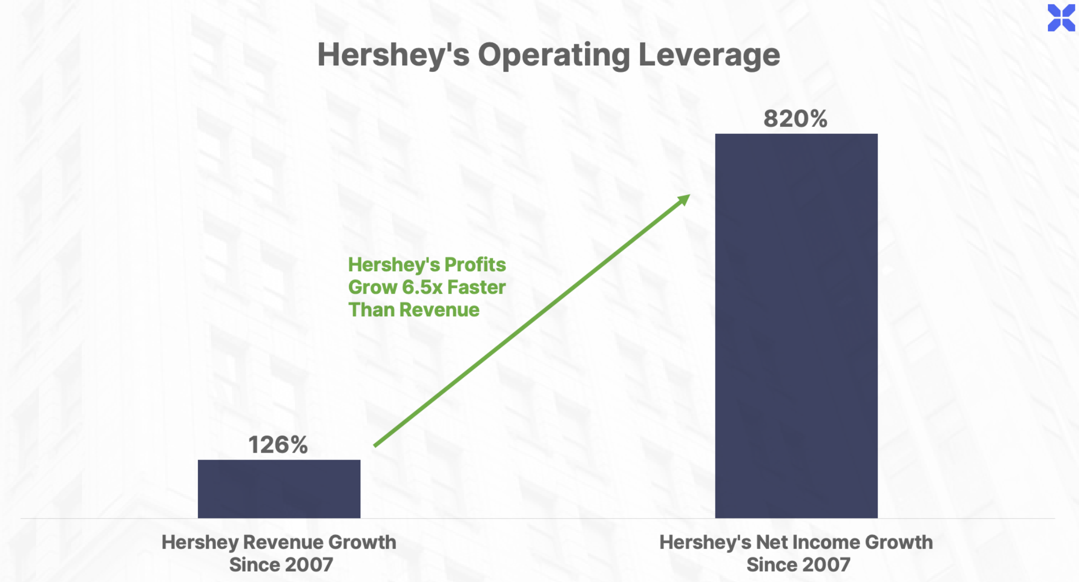
When Hershey raises prices faster than the rate of inflation, the company doesn't incur additional operating expenses, like buying more commodities or adding production staff. As a result, the incremental revenue from higher inflation-adjusted prices flows directly to the bottom line.

So on the surface, Hershey may look like a boring, slow-growth business. But analyzing the business through this lens of capital efficiency reveals a high-powered business model capable of rapid profit growth. As I first explained in my original Hershey recommendation in 2007:

> *"First, this is a slow-growth business. Sales have only increased 24% over seven years. That, surely, will turn off most investors. Most people simply don't understand the impact of even slow growth over time in businesses that are extremely capital efficient."*

Consider the following two key metrics of Herhsey's business since my original recommendation more than 16 years ago. From that point, Hershey has grown revenue 126%, or 5.6% annually. Pretty boring, right? But over the same time period, Hershey's profits have increased by a stunning 769%, or 15.5% annually.

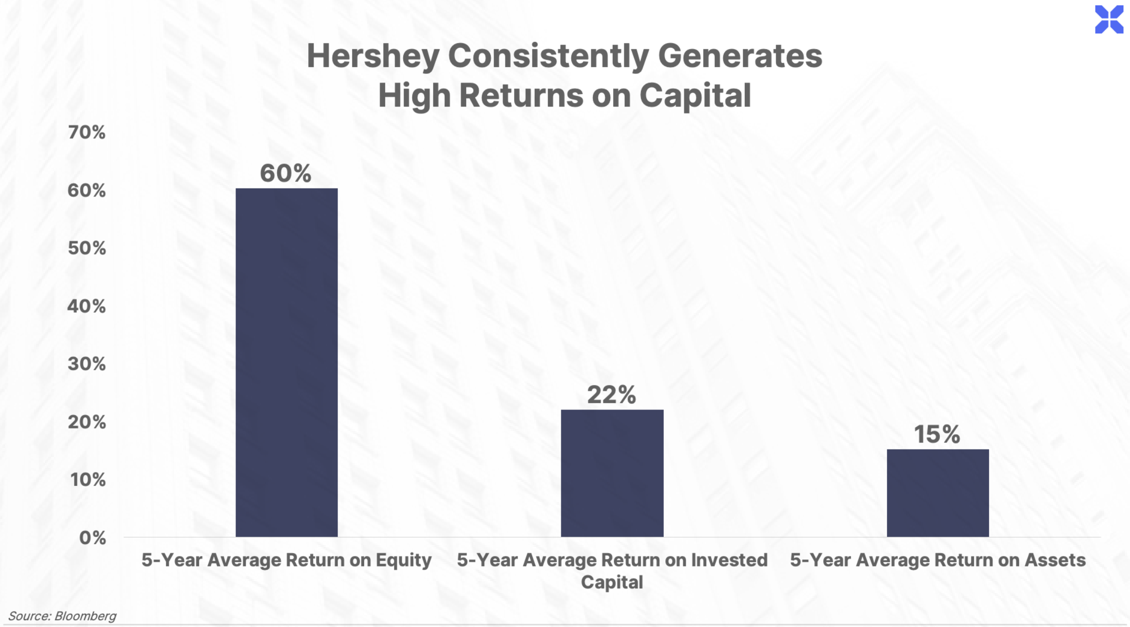
Few corporations in the world can increase profits more than 6x faster than their rate of revenue growth. This is a function of Hershey's world-class operating leverage, where each incremental dollar of revenue comes with a fraction of additional operating expenses.



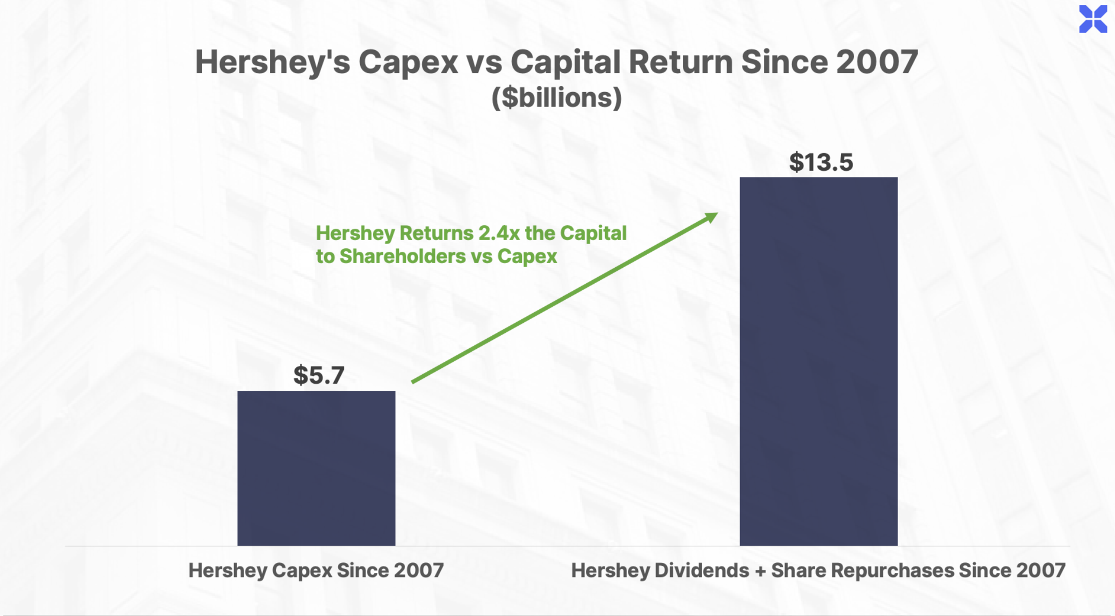
Hershey's pricing power also enables the company to make efficient use of the tangible capital it employs. Here again, boosting prices doesn't require any additional investment into plants and equipment to generate higher sales and profits.

Meanwhile, as discussed earlier, Hershey's brand power means it can introduce slight tweaks on existing products to stoke new demand (i.e., adding Reese's chocolate and peanut butter mix to popcorn and pretzels). This minimizes the need for excessive new capital spending on equipment for engineering completely new products.

This is how Hershey consistently generates high returns on a minimum of tangible capital.



This capital efficiency means Hershey can send a substantial portion of its profits to investors, instead of sinking it back into the business for capital expenditures (capex). Since 2007, for every dollar of investment into capex, Hershey has returned $2.4 to investors through dividends and share repurchases.



This capital returned to investors has reduced HSY share count by roughly 12% since 2007. By reducing the total share count, today's investor owns 12% more of the company versus 2007, without adding a single dollar of new investment capital. Meanwhile, the company has boosted its dividend 361% over the same period. Shareholders who consistently reinvested these dividends also own, all else equal, 47% more shares than they did in 2007.

The combined effect of owning a larger share of the company's earnings, both through the company repurchasing its own shares and through dividend reinvestment, creates a powerful compounding effect over time.

The only strategy required to generate market-beating returns, while taking less risk along the way, is to purchase Hershey shares when they trade at a reasonable valuation.

In December 2007, shares traded below 20x earnings for the first time in 12 years. Back then, I said it was my "best 'no risk' opportunity ever." I explained that, as long as you held the shares for at least three to five years, you could not lose.

A $100,000 purchase of Hershey shares on the date of that recommendation would have grown to $709,412 today, assuming dividend reinvestment along the way. That compares with a similar $100,000 investment in the S&P 500 that's now worth $454,500.

The maximum loss an investor experienced (on paper) from that original $100,000 purchase was 20.8% – meaning the stock price dropped by a maximum of 20.8% from the time of the original recommendation. As a frame of reference, that same original Hershey investment now pays out nearly that amount in annual dividend income, $19,953 per year (and growing).

Compare that to an equivalent investment in the S&P 500, which suffered a maximum paper loss of $53,620 as the economy and overall market careened into the Great Financial Crisis. Meanwhile, those who held on and reinvested dividends now earn just $5,527 in annual income, or roughly 25% of what Hershey currently pays out:

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Comparison of a $100k Investment

Since December 7, 2007		
	S&P 500	Hershey
Current Value	$454,500	$709,412
Current Annual Income	$5,527	$19,953
Maximum Loss on Original Investment	-$53,620	-$20,800

Note: Returns assume dividend reinvestment. Returns through February 13, 2024.

Most investors don't view Hershey as a dividend-generating powerhouse. That's because, at any given time over the last 16 years, the current dividend yield on the stock typically fluctuated between 2% and 3%, and never exceeded 4%. And yet, it now generates a 20% yield on the original $100,000 investment in 2007 (versus a 5.5% yield on the original S&P 500 investment). The compounding power of capital efficiency simply takes time.

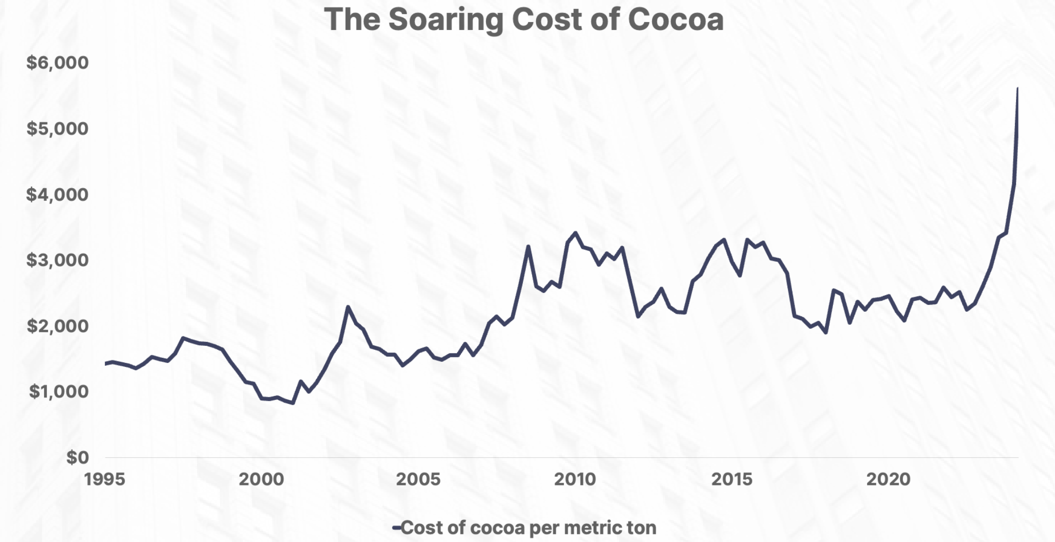
The real challenge for investors is having the patience to wait for the right purchase price. The market is mostly efficient most of the time. So it normally prices Hershey's premium business model at a premium valuation of between 25x and 30x earnings.

However, the market is unforgiving when short-term quarterly results disappoint. Hershey normally doesn't disappoint. But on those rare occasions when it does – typically caused by macroeconomic factors beyond its control – long-term investors can buy the shares at a virtually no-risk price.

That's the opportunity unfolding today, as Hershey faces two short-term macroeconomic factors weighing on its business.

Short-Term Struggles Create Rare Opportunity for Investors

The first factor weighing on Hershey today is the sky-rocketing price of cocoa – one of its largest commodity input costs. Poor crop conditions have plagued West Africa over the last few years, a region that produces roughly 70% of the world's cocoa-bean supply. This has caused a global cocoa shortage, sending prices to new record highs above $6,000 per metric ton, up from $2,300 per metric ton at the end of 2022:



Source: Bloomberg

Hershey hedges its commodities exposure, which means it's typically protected from a spike in rising commodity prices for roughly 12 to 18 months. Next year, as these hedges begin rolling off, Hershey will likely experience a temporary profit squeeze until West African crop conditions normalize.

The second factor is the consumer exhaustion mentioned earlier. Hershey is suffering from the same broad-based slowdown in consumer demand that's hit other best-in-class consumer franchises like Pepsi, McDonald's, Starbucks, and McCormick spices.

The weakness showed up in the company's Q4 earnings report released on February 8. On the February 8 earnings call, Hershey management cited an increase in "value seeking behavior" that caused volumes to drop 6.6% in Q4. This fully offset the 6.5% increase in prices across its portfolio. By "value seeking behavior," the company means that consumers are hesitant to pay increased prices and have thus pulled back on the volume of chocolate and salty snacks they would normally purchase.

On the positive side, Hershey cited broad-based market-share gains across its portfolio in the key Halloween and Christmas holiday shopping seasons during Q4. This provides further evidence that the weakness is not Hershey-specific, but rather a broader trend impacting the entire sector.

The combination of tapped-out consumers and spiking cocoa costs resulted in lackluster guidance for 2024. In its Q4 earnings report, Hershey guided investors to expect $9.65 in earnings per share next year – roughly flat versus the $9.59 it generated in 2023. That's a dramatic slowdown versus the double-digit earnings growth the company achieved in 2022 and 2023.

Hershey shares sold off after the release of the report. At $193 per share, the business now trades at just over 20x earnings – near the cheapest valuation levels of the last decade:

Source: Bloomberg

Hershey is now approaching the target entry point we first highlighted **last September**, at around 17x earnings. A 17x multiple puts our Hershey entry price target at $165, or just 15% away from its current price of $195.

We expect at least another year of weakness in the Hershey share price. The company will struggle with elevated input costs and an emerging slowdown in consumer buying power that we believe will accelerate into a sharp recession.

For long-term investors with a three-to-five-year time horizon, buying Hershey on this weakness should deliver the same no-risk proposition it delivered starting back in December 2007. All that's needed is the discipline to buy at the right price, and the patience to let the capital compounding work its magic.

15% Returns With Virtually No Risk

Despite the temporary weakness in its business, the company continues generating ample cash and returning it to shareholders. This includes a newly increased share-repurchase program and a substantial boost in Hershey's dividend payout.

In its latest Q4 earnings report, the company announced a $500 million expansion of its existing $370 million buyback authorization. If fully exercised, the updated $870 million buyback program could repurchase 2.3% of the company's outstanding shares at current prices. Hershey also boosted its quarterly dividend 15% to $1.37, representing an annual yield of 2.8%. Together, the dividend and buyback represents a roughly 5% annual shareholder yield (i.e., the percentage of equity value returned to shareholders each year).

With Hershey continuing to take market share during this stretch of consumer weakness, the company's brand power remains as strong as ever. When today's short-term economic and cost inflation obstacles subside, the long-term outlook is compelling.

The new growth engine from its Salty Snacks segment should help Hershey deliver high single-digit revenue growth in the range of 6% to 8% over the long run. Meanwhile, with a 5% shareholder yield, this combination alone should deliver a total shareholder return in the range of 11% to 13% annually.

Plus, there's additional upside from further gains in operating leverage.

As we showed earlier, Hershey's operating leverage transformed 5.6% annual revenue growth into a 15.9% annual gain in earnings since 2007. Even assuming a more modest pace of future gains in operating leverage, this could add another surprise benefit for Hershey to unlock mid-single-digit percentage increases in earnings growth. Add it all up, and we see the opportunity for Hershey shares to deliver a 15% compounded annual return over the long run. And with an entry point of 17x earnings coming soon, this should come with a significant margin of safety along the way.

Action to Take: Add The Hershey Company (NYSE: HSY) to the watchlist to buy when it trades below $165 per share.

New to the Porter & Co. Portfolio? Start With Our Top 3 "Best Buys" Today

Our goal at Porter & Co. is to bring you world-class investment research, focused on "inevitable" businesses that you can buy and hold forever. This is the surest and safest path to building permanent wealth.

While we don't believe in timing the market, we do keep a constant eye out for bargains. In each issue of *The Big Secret*, we highlight three current portfolio picks that are at an attractive buy point. We suggest you focus on these:

1. Howard Marks is the Warren Buffett of debt. **Oaktree Specialty Lending Corporation (Nasdaq: OCSL)** is a subsidiary of Marks' Oaktree Capital Management and is capitalizing on higher-yielding private loans. Oaktree Specialty Lending makes primarily floating-rate loans to private middle-market companies. Because private companies aren't required to report the same level of disclosure as public companies, they are considered higher risk, and must pay higher rates to issue debt. Oaktree's expertise in analyzing the risks of these private companies gives them an opportunity to capitalize on higher yields from these private market loans. The weighted-average yield on the company's debt portfolio is 12.2%, which it returns to shareholders through an enticing 10.9% dividend. Best of all, Oaktree offers a chance to capitalize on what's likely to be an explosion in the opportunity set for distressed-debt when today's credit cycle turns.

2. **Franco-Nevada (NYSE: FNV)** – the "Gold Digger" That Gets Paid to Do Nothing – is the leading gold royalty company. Franco-Nevada provides financing for mining companies to do the capital-intensive work of pulling rocks out of the ground, in exchange for a percentage of the mine's output. As a result, Franco-Nevada is highly capital efficient, generating 58% free cash flow ("FCF") margins. Its world-class management team has established one of the best track records in the industry. FNV shares have sold off since October, when the Panamanian government shut down a large copper mine that is one of the company's largest royalty assets. The decline is overdone as the market capitalization of Franco-Nevada has fallen by $6.5 billion while the mine is worth roughly $5 billion, effectively pricing in a total loss of the mine. Meanwhile, with gold prices approaching record highs above $2,000 per ounce, the rest of Franco-Nevada's portfolio is firing on all cylinders. As a result, the shares trade near their lowest valuation on record. (We provided more details of the latest developments in a recent Portfolio Update.)

3. **Philip Morris (NYSE: PM)** owns the international rights to Marlboro, the world's leading traditional tobacco brand. Over the last decade, the company has invested heavily in less-harmful alternatives to traditional tobacco products. These investments have made Philip Morris the global leader in less-harmful nicotine consumption, including its hit IQOS and ZYN brands. Unlike most traditional tobacco companies suffering from declining sales, Philip Morris' smoke-free business is delivering double-digit revenue and earnings growth. The company is incredibly capital efficient, with 40% operating margins and a 24% average return on capital. It's also a recession-proof business, and trades at an attractive valuation of just 14x earnings, with a 5.7% dividend yield.

Portfolio Update

The Big Secret on Wall Street PORTFOLIO

ENERGY & COMMODITIES	Ticker	Description	Purchase Date	Cost Basis	Closing Price	Yield	Income Received	Total Return	Status	Risk Rating (1 - 5)
EQT CORPORATION	EQT	U.S. Gas-Focused E&P	06-02-2022	$48.87	$37.32	1.29%	$0.91	-21.78%	Buy Under $50	4
VIPER ENERGY	VNOM	Oil and Gas Royalty	09-01-2022	$29.68	$35.72	6.38%	$2.24	27.90%	Buy Under $34	3
BWX TECHNOLOGIES, INC.	BWXT	Nuclear Power Equipment	12-22-2022	$58.05	$90.09	1.02%	$0.92	56.78%	Buy Under $80	3
BLACK STONE MINERALS	BSM	Oil and Gas Royalty	02-16-2023	$15.90	$15.42	12.32%	$1.43	5.97%	Buy Under $18	2
BITCOIN	BTCUSD	Cryptocurrency	05-11-2023	$27,011.85	$50,990.60	0.00%	$0.00	88.77%	Buy Under $50,000	4
PEABODY ENERGY	BTU	Coal Mining	06-22-2023	$21.29	$24.87	1.21%	$0.15	17.52%	Buy Under $25	4
CNX RESOURCES	CNX	U.S. Gas-Focused E&P	09-28-2023	$22.82	$20.74	0.00%	$0.00	-9.11%	Buy Under $30	3
BATTLESHIP STOCKS										
CREDIT ACCEPTANCE CORP	CACC	Consumer Finance	07-28-2022	$560.28	$548.83	0.00%	$0.00	-2.04%	Buy Under $600	3
NOVO NORDISK	NVO	Pharmaceuticals	10-27-2022	$53.30	$124.52	0.50%	$0.74	135.00%	Hold	2
WINMARK CORPORATION	WINA	Specialty Apparel Stores	09-15-2022	$217.60	$391.76	0.82%	$16.20	87.48%	Hold	1
FRANCO-NEVADA CORP	FNV	Precious Metals Streamer	05-11-2023	$154.77	$106.36	1.28%	$1.02	-30.62%	Buy Under $125	2
PAYPAL	PYPL	Payment Processor	07-20-2023	$73.02	$58.35	0.00%	$0.00	-20.09%	Hold / Stop Loss at $50	3
FOREVER STOCKS										
PHILIP MORRIS	PM	Tobacco Maker	07-14-2022	$89.62	$90.57	5.74%	$7.68	9.63%	Buy Under $105	1
DOMINO'S PIZZAS INC	DPZ	Restaurants	02-27-2023	$300.00	$428.01	1.03%	$4.84	44.28%	Hold	3
DEERE & COMPANY	DE	Agricultural Machinery	08-31-2023	$410.94	$356.78	1.65%	$2.82	-12.49%	Buy Under $450	3
DIAGEO PLC	DEO	Alcoholic Beverages	12-14-2023	$145.72	$151.72	3.31%	$0.00	4.12%	Buy Under $160	3
INCOME & DISTRESSED DEBT										
SABA CAPITAL INCOME & OPPORTUNITIES FUND	BRW	High Yield Bond Fund	03-16-2023	$8.01	$7.19	14.19%	$0.97	1.87%	Buy Under $9	3
OAKTREE SPECIALTY LENDING CORP	OCSL	Specialty Investments	03-30-2023	$18.57	$20.14	10.92%	$1.72	17.72%	Buy Under $22	2
PROPERTY & CASUALTY INSURANCE										
W.R. BERKLEY	WRB	P&C Insurance	05-25-2023	$56.10	$85.71	0.47%	$1.33	55.15%	Buy Under $62	2
PROGRESSIVE CORPORATION	PGR	P&C Insurance	06-08-2023	$131.08	$191.69	0.21%	$1.05	47.04%	Buy Under $160	2
CHUBB LIMITED	CB	P&C Insurance	06-08-2023	$191.60	$255.44	0.16%	$2.58	34.67%	Buy Under $220	2
SKYWARD SPECIALTY	SKWD	P&C Insurance	06-16-2023	$24.66	$35.98	0.00%	$0.00	45.90%	Buy Under $35	2
EXPONENTIAL GROWTH										
TELLURIAN INC.	TELL	U.S. LNG Exporter	06-16-2022	$3.82	$0.73	0.00%	$0.00	-80.89%	Hold	5
EVOLUTION AB	EVVTY	Casinos & Gaming	11-30-2023	$103.77	$128.81	1.68%	$0.00	24.13%	Buy Under $130	4
INMODE	INMD	Medical Devices	01-11-2024	$20.19	$20.69	0.00%	$0.00	2.48%	Buy Under $25	5
BURFORD CAPITAL	BUR	Litigation Finance	02-08-2024	$14.37	$15.32	0.82%	$0.00	6.61%	Buy Under $20	4
BETTER THAN THE MARKET										
CAMBRIA SHAREHOLDER YIELD	SYLD	Yield Focused ETF	01-05-2023	$59.67	$68.35	2.27%	$1.30	16.73%	Buy Under $65	2
WATCHLIST										
SHERWIN-WILLIAMS	SHW	Specialty Chemicals	NA	-	$319.90	3.03%	-		Buy Under $150	
ULTA BEAUTY	ULTA	Specialty Retail	NA	-	$538.79	0.00%	-		Buy Under $350	
NIKE	NKE	Athletic Footwear & Apparel	NA	-	$105.08	0.00%	-		Buy Under $75	
HOME DEPOT	HD	Home Products Stores	NA	-	$371.34	2.25%	-		Buy Under $240	
PAYCOM SOFTWARE	PAYC	Application Software	NA	-	$181.71	0.83%	-		Buy Under $150	
THE HERSHEY COMPANY	HSY	Consumer Luxury Staples	NA	-	$193.54	2.83%	-		Buy Under $165	

Disclaimer: this hypothetical portfolio should not be considered investment advice or a recommendation to buy/sell any financial instrument. For informational purposes only. Investors should perform their own due diligence before buying or selling any financial instrument. No express or implied guarantee [illegible] accuracy or applicability to [illegible] trading. Risk Rating [illegible] a security's fundamentals a[illegible] rather tha[illegible] valuation. [illegible] refer [illegible] closing price the day before a security is recommended.

CLOSED POSITIONS	Ticker	Description	Purchase Date	Cost Basis	Sell Price	Yield	Income Received	Total Return	Status
HOVNANIAN ENTERPRISES	HOV	Homebuilder	06-30-2022	$42.79	$36.50	0.00%	$0.00	-14.70%	Sold Sept. 29, 2022
ACTIVISION BLIZZARD	ATVI	Video Games	03-02-2023	$77.71	$90.99	0.00%	$0.00	17.09%	Sold July 11, 2023
AMERIGO RESOURCES	ARREF	Base Metals	03-30-2023	$1.21	$0.91	8.84%	$0.04	-21.90%	Sold Oct. 12, 2023
DREAM FINDERS HOMES, INC.	DFH	Homebuilder	04-27-2023	$14.89	$20.69	0.00%	$0.00	38.95%	Sold Oct. 12, 2023
QURATE RETAIL, INC.	QRTEP	8% Cumulative Preferred Stock	01-19-2023	$40.64	$29.28	27.32%	$6.00	-13.19%	Sold Oct. 12, 2023
ANNALY CAPITAL MANAGEMENT	NLY	Real Estate Investment Trust	02-02-2023	$24.12	$17.78	19.80%	$1.30	-20.90%	Sold Oct. 12, 2023
MICROSTRATEGY INC.	CUSIP: 594972AC5	2025 Convertible Bond	10-13-2022	$758.00	$1,371.14	0.55%	$7.50	81.88%	Sold Nov. 9, 2023
ALTRIA	MO	Tobacco Maker	07-14-2022	$41.63	$42.03	9.33%	$4.74	12.35%	Sold Nov. 30, 2023
HALL OF SHAME									
ICAHN ENTERPRISES	IEP	Specialty Investments	12-08-2022	$50.65	$20.63	38.78%	$4.00	-51.37%	Sold May 25, 2023
ALTISOURCE ASSET MANAGEMENT	AAMC	Asset Management	07-06-2023	$58.00	$10.02	0.00%	$0.00	-82.72%	Sold Aug. 17, 2023

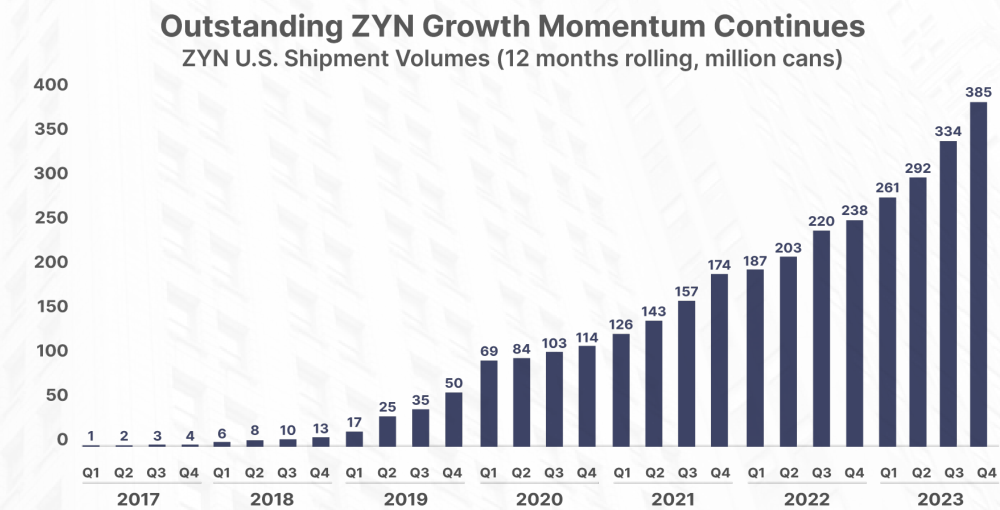
Despite Temporary Setback, Philip Morris's Smoke-Free Future Remains Bright

Shares of **Philip Morris (NYSE: PM)** fell 4% on February 8 after reporting an earnings miss reflecting lower-than-expected shipments of heated-tobacco products due to several delayed launches internationally. But surging demand for Zyn oral nicotine pouches and the upcoming release of heated-tobacco products (which burn tobacco enough to release nicotine without creating smoke) in the U.S. continue to make shares of PM a compelling investment today.

While the company owns the international rights to the world's leading tobacco brand, Marlboro, it is also transforming its business away from cigarettes and smoking tobacco to less-harmful alternatives. Philip Morris has invested $10.5 billion since 2016 in smoke-free products. And it's paying off. Several of these smoke-free products are becoming staple brands among tobacco users, highlighted by the consistent growth of Zyn nicotine pouches.

Zyns are oral nicotine pouches that are discreet and easy for users to consume on the go. Now the most popular smokeless nicotine brand, Zyn is bigger than Copenhagen, Grizzle, and Skoal in the U.S.

Zyn's rise in popularity comes less than 10 years after it was first introduced in 2016. Since Philip Morris acquired Zyn maker Swedish Match in November 2022, sales for Zyn increased from 238 million cans sold in 2022 to 385 million just the following year.



Source: PMI Finanncials or estimates, Circana, LLC, Nictotine Pouches, Week ending 12/24/23

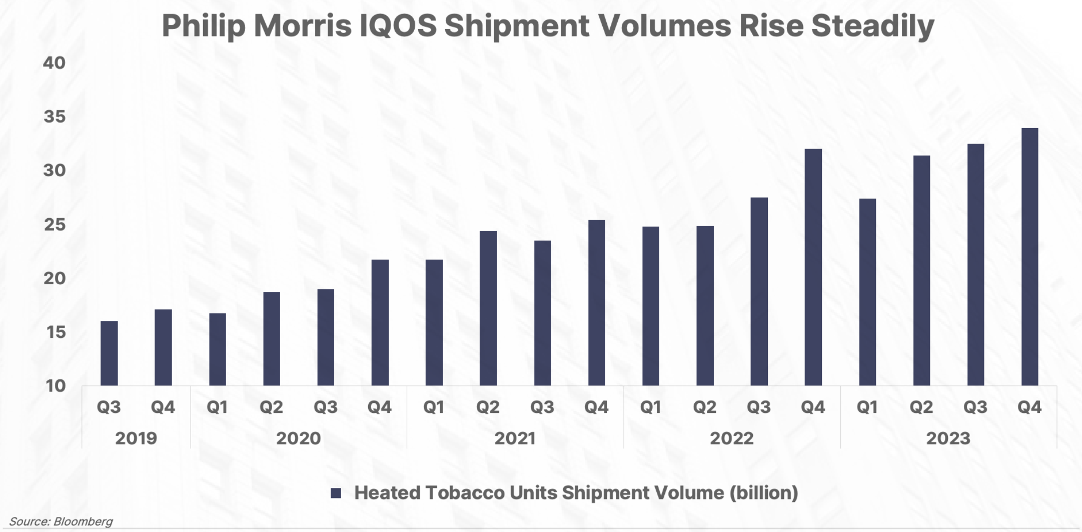
With 77% market share in the U.S., Zyn has become the fastest-growing U.S. smoke-free product with revenue increasing 60% in 2023 and over 75% in Q4. As a result of better-than-anticipated growth, the company expects to capture a return on its investment in Swedish Match well ahead of its five-year target. Philip Morris forecasts gross profits for smoke-free products to accelerate from 2023's 19% growth achieved in 2023.

And while Zyn is growing rapidly in the U.S., the international opportunity remains largely untapped.

Philip Morris, however, is unable to keep up with demand. The company expects Zyn sales volume growth of 35% or 520 million cans in the U.S. in 2024, down from 62%. The slowdown in growth is due to capacity constraints. To meet the rapid growth in demand, Philip Morris will invest $1.2 billion in 2024 to expand manufacturing of Zyn and IQOS.

IQOS is Philip Morris's flagship heated-tobacco brand and is one of the most popular smoke-free products internationally. The IQOS device heats up specially made tobacco "heat sticks" to a temperature that releases the nicotine within tobacco leaves without combusting harmful products as smoking tobacco does. In Q4 2023, IQOS net revenue surpassed Marlboro's, the world's leading tobacco brand.

IQOS shipment volume increased 6.1% in Q4 and 14.7% for the full year, compared to Philip Morris's expectation of 17% growth heading into the year. Lower-than-expected shipping volumes were due to delayed launches of IQOS in Saudi Arabia and Taiwan and lower-than-expected growth in Russia and Ukraine. Despite these setbacks, the growth of IQOS remains robust, with shipment volumes increasing.



Pending an updated Food and Drug Administration ("FDA") approval, the company plans to launch IQOS in several test cities in the U.S. in May 2024, followed by widespread U.S. roll out of IQOS in 2025. (In 2020, the FDA ruled that IQOS qualifies as a device that can protect public health. If re-approved by the FDA this year, it means IQOS can be marketed with the highly coveted "reduced exposure" label. Since Philip Morris already received approval in 2020, the company anticipates IQOS should be approved for the "reduced exposure" label again.)

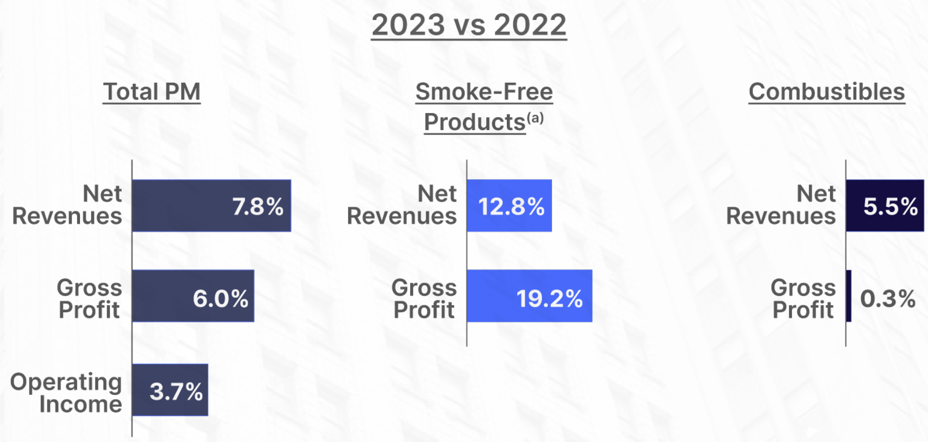
Furthermore, on February 2, Philip Morris resolved its patent dispute with British Tobacco, allowing it to import and sell IQOS devices in the U.S. Prior to the resolution, Philip Morris – which manufactures IQOS devices outside the U.S. – was forced to halt imports due to the FDA siding with British Tobacco on a patent dispute. Now that the patent roadblock has been cleared, it opens the door for a widespread rollout of IQOS products across the U.S.

The launch of IQOS in the U.S. opens a huge new untapped market for Philip Morris. Unlike international markets, where IQOS users largely come from existing Philip Morris smokers, each new IQOS user in the U.S. comes as a new customer. Since Philip Morris doesn't sell cigarettes in the U.S., each new IQOS user it attracts brings on entirely new sales.

Heated tobacco closely resembles the sensory experience of smoking tobacco and scientific evidence supports that IQOS has a lower risk of lung cancer and cardiovascular diseases compared to cigarettes. Moreover, IQOS heated-tobacco units contribute higher revenues and margins for Philip Morris compared to cigarettes. IQOS net revenue is approximately 2.5x higher per unit compared to combustible cigarettes with a higher profit margin.

Philip Morris is leading the pack when it comes to smoke-free alternatives. In Q4, smoke-free products represented nearly 40% of Philip Morris's net revenue, up from 32% the prior year. The strong growth in smoke-free products is driving Philip Morris revenue and profit growth, as seen below.

Smoke-Free Products Drive Philip Morris Profits



(a) Smoke-Free Products include the Wellness and Healthcare segement

Note: Chart not to scale. Growth rates presented on an organic basis reflect currency-neutral adjusted results, excluding acqusitions | Source: PMI Finanncials or estimates

Philip Morris generates 40% operating margins and a 24% average return on capital. And trading at 14x earnings, and paying a well-covered 5.7% dividend, Philip Morris is a compelling opportunity today.

Action to Take: Buy Philip Morris (NYSE: PM) up to $105 per share.

Diamondback's Merger Is a Win for Viper

Shares of royalty company **Viper Energy (Nasdaq: VNOM)** hit five-year highs after its parent company, Diamondback Energy (FANG), announced a strategic acquisition that will make it the third-largest operator in the Permian Basin – the highest-producing oil field in the U.S. The acquisition directly benefits Viper, which should get mineral rights to the vast majority of the newly acquired acreage that is part of the deal.

On February 12, Diamondback agreed to acquire Endeavor Energy for $26 billion. The purchase will increase Diamondback's production levels in the basin by 70% and increase the number of Diamondback drilling locations there by 60%. Once Diamondback completes the deal, it can sell the newly acquired land to Viper, which can then lease out the rights to other producers.

The beauty of Viper's business model is that it doesn't pay any production costs or take any developmental risks to produce oil. Rather, Viper acquires the mineral rights upfront and leases the land to producers, which incur all of the capital and operating costs. Viper simply owns the land upon which other companies drill – and collects a percentage of the cash flow.

Best of all, Viper relies on Diamondback's staff to run its operations since it has zero employees of its own – helping Viper to generate 77% free cash flow margins in 2023.

Recall from our **original recommendation** in September 2022, Diamondback Energy owns a 57% stake in Viper. When Diamondback sells land to Viper, it uses the proceeds to invest in future production while Viper leases the rights to the oil-rich land to other producers.

This acquisition of Endeavor will likely be a boost for VNOM shares. Endeavor has been in the business of leasing acreage since 1979. Its vast holdings equate to about two-thirds the size of Viper's current holdings. Once the acquisition is complete, Diamondback's board will determine how much land it will sell to Viper.

Diamondback Energy was already one of the fastest-growing oil producers in the Permian Basin. This acquisition will make the combined entity the third-largest producer there, behind ExxonMobil and Chevron.

On the merger-announcement call, Diamondback's CEO said this about how the deal plays out for Viper in the energy & production (E&P) industry:

> *"This deal... puts Viper in more of a category-killer position than it is today. You can think about Viper as being a mid-to-small large-cap competitor in the space. I mean, it could be one of the top-10-to-15-sized E&Ps in the space... I think that's a pretty exciting story."*

There are no guarantees that the land or how much of it will be sold to Viper, but there's a strong incentive for Diamondback to do so, since it can reinvest the proceeds of the sale while at the same time benefiting from the revenue stream that Viper's royalty operation generates. Based on previous Diamondback acquisitions and the alignment between it and Viper, the majority of proven reserves will likely be transferred to Viper.

Diamondback's acquisition of Endeavor provides long-term upside for shares of Viper. We recommend buying shares of Viper Energy (Nasdaq: VNOM) up to $34 per share.

EQT Finds Ways to Win Despite Gas Bear Market

Last winter registered as the fourth-warmest on record, and this winter is on pace to be *the* warmest ever for at least 20 cities across the U.S.

Two consecutive winters of extreme warmth have sent the natural-gas industry into its deepest bear market since the depths of the COVID-19 outbreak. Prices have fallen from 15-year highs of $10 per thousand cubic feet (Mcf) in August 2022 to lows of $1.53 per Mcf this week – the lowest level since the summer of 2020. Before that, the last time prices traded this low was 1995.

Despite today's rock-bottom prices, **EQT (NYSE: EQT)** – America's largest and lowest-cost natural gas producer – continues finding ways to win during the downturn. In the company's latest Q4 earnings report, it announced three new milestones of operational efficiency.

1. The company achieved new highs in drilling efficiency, setting a new world record for 48 hours of drilling, at 18,264 feet. This exceeded its own previous world record (17,409 feet) by 5%. Across its entire drilling program, EQT increased average drilling speeds 6% year-on-year. EQT is now drilling nearly 70% more footage per day versus its peers in southwest Pennsylvania and West Virginia.

2. EQT is also setting new records for the length of its wells. When creating new shale wells, drillers first go down and then out in order to tap into the horizontal layers of shale formations. Drilling more lateral feet helps shale companies increase their capital efficiency and productivity, since the investment to set up a drilling rig for each well is the same regardless of how deep or wide they go. EQT has led the industry's move toward increasingly longer laterals in recent years. In Q4, the company set a new industry record with 20,818 feet of lateral footage in a single well. This exceeded EQT's previous record by over 10%.

3. The company is also setting new records on the completions side of the business. Completions refer to the post-drilling step, which involves pumping high-pressure fracking fluid into the lateral well section to release oil and gas from tight shale rocks. In Q4, EQT set a new record of 542 monthly pumping hours for a single frac crew, beating its previous record by 7%. EQT's average frac crew increased its monthly pumping hours by 16% year-on-year to a new record high.

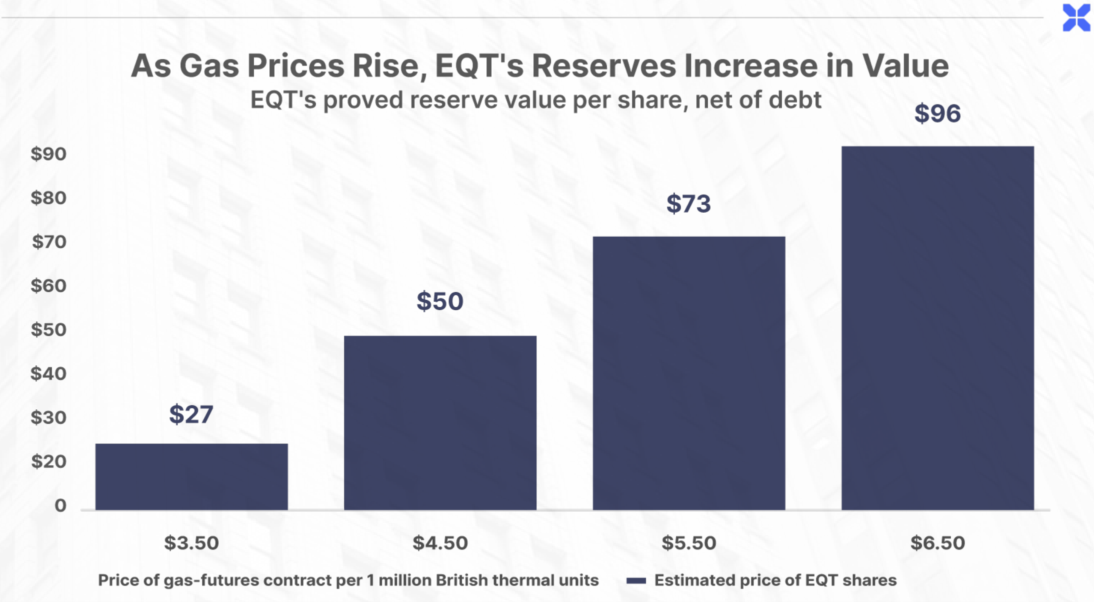
EQT's operational excellence is a testament to the brothers Toby and Derek Rice, or **The Gods of Gas**, as we like to call them. Our original bullish thesis on EQT was a big bet on the Rice brothers turning the company into America's most efficient natural-gas producer. And the Gods of Gas have delivered.

Today, EQT is America's most-efficient natural-gas producer by a wide margin. The company is currently producing over 2 billion cubic feet equivalent per day (Bcfe/d) per drilling rig. That's 2.5x more than its peer average of 0.8 Bcfe/d per drilling rig.

That's how EQT continues generating ample cash flow, despite the bear market in prices. In 2023, the company produced $880 million of free cash flow in 2023 even with the average price of natural gas just $2.74 per Mcf.

Even with low prices weighing on the share price in the near term, we remain bullish on EQT for the long run. The company sits atop the largest source of low-cost gas inventory in America, and its operational excellence will allow it to transform that inventory into mountains of cash when prices inevitably recover.

The following chart shows the value of EQT's proved reserves on a per-share basis, net of debt, at various price ranges:



While gas producers can't control mother nature, the Gods of Gas continue finding ways to win in the one area they can control: operational efficiency.

We stand by our recommendation to buy EQT (NYSE: EQT) up to $50 per share.

Mailbag

In *The Big Secret on Wall Street* mailbag, Porter answers letters from readers. He cannot offer individual investment advice, but can respond to general questions.

Please email us at **mailbag@porterandcompanyresearch.com** to have your questions answered. We'd love to hear from you!

In the February 2, 2024, ***The Big Secret on Wall Street***, Porter referenced "Meat Day," which he hosts each fall on his farm. At the end of the issue, he asked readers to send their "delicious meat recipes or tips."

Among the many sent, here is one of our favorites, from B.B., who writes:

"Porter,
This beef-brisket recipe has been handed down in my family for at least 75 years. When most people look at it, they think the meat will turn out dry. They are wrong. Years ago, I took an evening course in conversational Hebrew as part of my job. For the last session, we had a potluck dinner. I volunteered to bring brisket. No one believed me when I said I would add no additional liquid. During the dinner, everyone asked for the recipe! Here's your copy:

Brisket of Beef

Get a "first" or "straight" cut of brisket, not too lean (preferably, a layer of ¼-inch or so of fat on one side), three to four pounds.

- Preheat oven to 350°
- Sprinkle with salt, pepper, garlic salt, onion salt, paprika
- Slice large yellow onions (Bermuda or Spanish, not vidalia) into rings
- Place brisket into roasting pan, fat side up, then pile onion rings on top until the cover of the pan just barely closes
- Roast for one hour at 350°, then reduce heat to 300° and cook for two hours

Remove brisket from the oven and cool. Slice thinly (remove layer of fat first if you'd like) against the grain and put back in the pan. Cover with cooked onions. Cook for 45 minutes at 300°.

Serve.

Reheated leftovers can be frozen and are frequently better."

Porter Stansbury

Porter & Co.
Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** here: **@porterstansb**