Porter & Co.

THE BIG SECRET ON WALL STREET

Don’t Let Stagflation Get You Down

- Rising Inflation and Slow Growth Take Shape
- Reviewing Our Portfolio Before the Economy Declines

FROM THE DESK OF PORTER STANSBERRY

#49
MAY 3, 2024

The Big Secret

In its efforts to increase sales and profits, one company in our portfolio is finding new ways to bring more value that does not include raising prices, the strategy used by its competitors that is driving away its customers.

Don't Let Stagflation Get You Down

Rising Inflation and Slow Growth Take Shape

Reviewing Our Portfolio Before the Economy Declines

Times were tough, and steak was even tougher.

It was New Jersey in April 1973, and James Leone had just opened his new butcher shop, Leone's Meat Market, in the front room of a former pizza parlor.

The cuts on sale? Filets, rib roasts, and sirloin tips – all carved out of prime meat… prime *horse* meat, that is.

And sold to hungry humans, who were fed up with soaring nationwide beef prices that had doubled during the past year.

Protesters lined the sidewalk in front of Leone's shop, waving signs like "Stop Eating Horses" and "Would Roy Rogers Eat Trigger?" But the reality was, in the depths of 1970s stagflation, the famous movie cowboy might have fricasseed his trusty steed, too.

The picket lines were long, but the line of customers was longer. An hour after the grand opening, Leone had sold out of horse filets and made a sizable dent in the rest of his 10,000-pound inventory.

"I love horses," he told the *New York Times*, "but the economic situation has placed normal table meat beyond the reach of most people. We're here to provide the public with quality meat it can afford."

It was the nadir of the 1970s economic slump – a time of stagflation and stallion filet. Runaway government spending on the Vietnam War, amplified by the massive expansion of social welfare programs, pushed the U.S. government budget deficit to the highest levels since the Great Depression. Predictably, the government printed more paper to finance the borrowing – so inflation surged. Yet growth remained weak, as much of the government spending went to nonproductive areas of the economy.

Finally, Fed Chair Arthur Burns had bowed to intense pressure from President Richard Nixon to keep monetary policy easy ahead of the 1972 presidential election – which allowed inflation to become entrenched in the following years.

This lethal (and unusual) combination of high inflation and weak economic growth crushed the economy. Between 1971 and ‘79, prices in the U.S. rose 92% – meaning American purchasing power was nearly cut in half. Wages stagnated, while both stocks and bonds suffered a decade of negative real returns (i.e., returns after adjusting for inflation). All this, while Americans waited in mile-long lines at the gas station during an Arab oil embargo that caused fuel shortages.

Faced with prohibitive beef prices in the early 1970s (along with rising prices on countless other consumer goods), many hungry U.S. citizens turned to alternative sources of meat. And it wasn’t the first time: Historically, horse meat has been an entrée of last resort. World War II food shortages put ponies in the pâté, and besieged Parisians consumed all 70,000 steeds in the city during the 1870 Franco-Prussian war.

Fast forward to 2024… and we may end up pulling the trigger on Trigger yet again…

Though we’re not there yet, those who remember the turbulent 1970s will see eerie echoes of that era today. **As we’ve written before**, runaway government deficits means high inflation and high interest rates are here to stay. That means consumers will continue feeling the pinch from sluggish income growth and higher costs. As they pull back on spending, growth will slow further. But unlike a typical recession, sticky inflation means the Fed can’t come to the economy’s rescue.

It’s stagflation all over again. (We’re even currently experiencing the **worst beef shortage since the 1970s**… you can draw your own conclusions from that.)

In February, we warned that a slowdown was coming, even among resilient consumer staple companies like spice-maker McCormick (MKC), fast-food giant McDonald’s (MCD), and coffee retailer Starbucks (SBUX). The most recent Q1 earnings reports make clear that this consumer pullback has turned into outright retreat.

The SBUX Stops Here

The biggest surprise came from Starbucks, which just reported dismal Q1 results. The company experienced a 4% decline in same store sales (“SSS”) – sales from existing stores, excluding the impact of new store openings – the biggest drop since many of its locations were still closed during the pandemic. This marked a sharp reversal from just two quarters ago, when the company reported 10% SSS growth in Q3 2023. Management cited “a deteriorating economic outlook has weighed on customer traffic, an impact felt broadly across the industry.”

Starbucks is just one example of many. For now, the bottom line is clear: the recent string of data indicates the long-awaited recession may be rapidly approaching. We believe investors should brace for more weakness in the economy and in financial markets.

That means maintaining a defensive stance across your portfolio. Hold fewer high-risk, cyclical stocks with exposure to consumer spending and overall economic activity. And maintain a strong cash position. We expect attractive bargains to emerge when the economy regains strength after the coming downturn.

And for the capital you choose to keep invested in the market, focus mostly on the highest quality companies. The kinds of world-class, capital efficient businesses we regularly recommend in *The Big Secret on Wall Street* portfolio.

With deteriorating economic conditions in mind, we are devoting this issue to an expanded portfolio review – looking at five of our holdings that are finding ways to win in this new stagflationary-looking environment. Companies like the world's leading pizza maker, Domino's…

Domino's Bucks the Fast Food Slowdown

Shares of **Domino's Pizza (NYSE: DPZ)** approached record highs as the company's growth accelerated in Q1, bucking recent declines experienced by other quick service restaurant ("QSR") companies like McDonald's and Starbucks, as we mentioned above.

In its April 29 Q1 earnings report, Domino's reported 5.9% revenue growth versus Q1 2023. Meanwhile, higher profit margins and a falling share count (from stock buybacks) boosted earning per share ("EPS") 22.2%, from $2.93 to $3.58.

The company's U.S. results were the highlight, with SSS growing 5.6%. The Q1 numbers were double the 2.8% SSS growth reported in Q4, and the highest level in three years. Notably, Domino's management reported gains "across all income cohorts" in the U.S.

This contrasts with QSR peers like McDonald's. In February, its CEO noted declining orders from the "low-income" cohort, which he defined as those making under $45,000 per year. The fast-food leader reported Q1 earnings on April 30, with U.S. SSS falling to 2.5% – down from 12.6% in Q1 of last year.

Domino's is winning market share among cash-strapped consumers for one simple reason. Unlike McDonald's, which has raised prices by mid-to-high single-digit percentages in each of the last two years, the pizza maker has avoided aggressive price hikes. After raising prices 5.4% in 2022, Domino's dialed back, with just a 1% increase in 2023, followed by 0.9% of YOY price increases in Q1.

In its efforts to increase sales and profits, the company is finding new ways to bring more value to customers. This includes its revamped rewards program, **which it rolled out in Q4 2023**.

Previously, Domino's required customers to accumulate at least 60 rewards points before they could redeem them for a free medium two-topping pizza. And the minimum order required to earn points was $10. In the new program, the company lowered the threshold for earning points to $5 and began offering a greater selection of free items, redeemable in 20-point increments.

Reducing the threshold to earn points has attracted participation among the pizza maker's lower-income demographic – those more likely to spend less than $10 per visit. Likewise, lowering the point threshold has encouraged more frequent transactions, because when consumers redeem points, they tend to purchase additional items with the order. In the end, consumers are getting more value while

Domino's generates more business.

Management cited the new rewards program as "the key driver of our strong U.S. comp [same store sales] performance."

Another growth catalyst we've written previously about is Domino's partnership with UberEats. Domino's became available for orders on the food-delivery app in Q1, and the partnership contributed to 1.4% of the company's sales in the quarter. Management expects that number will grow to 3% by year-end.

Instead of raising prices on an increasingly tapped out consumer, Domino's is positioning itself for sustainable long-term growth.

Following 2023's first annual revenue decline since 2010, analysts currently expect the company will grow sales roughly 6% to 7% per year through 2028. Meanwhile, the company expects continued gains in profitability as it benefits from further operating leverage through growth – since fixed costs increase considerably less than revenue.

Finally, Domino's capital efficient business model allows it to continue funneling its free cash flow into share buybacks. Higher profitability and a falling share count should contribute to 10% to 12% growth in EPS annually over the next five years, with EPS reaching $25 by 2028.

Despite DPZ's impressive 73% gain from our $300 entry price in February 2023, we see more upside ahead from the current price of around $513 per share.

Over the past 10 years, DPZ shares have traded in a range of 25x to 45x earnings. If DPZ achieves $25 EPS in 2028, and trades at the midpoint of its historic valuation range at 35x, that leaves a path to $875 per share over the next four years. While we see plenty of long-term upside from current prices, Domino's currently trades at a full valuation of 36x earnings, making the stock a hold today.

Action to Take: Hold shares of **Domino's Pizza (NYSE: DPZ)**

Smoke-Free Success Transforms Philip Morris Into a Growth Stock

The world's largest nicotine company, **Philip Morris International (NYSE: PM)**, has used the transition away from traditional tobacco and to smoke-free products as a way to take market share, increase profits, and outperform other Big Tobacco companies.

In its Q1 2024 earnings released on April 23, Philip Morris reported a 25% increase in sales of its smoke-free products, which currently generates about 40% of total revenue. And despite a 0.4% volume decline in its traditional tobacco business, higher prices drove a 3.7% increase in segment revenue.

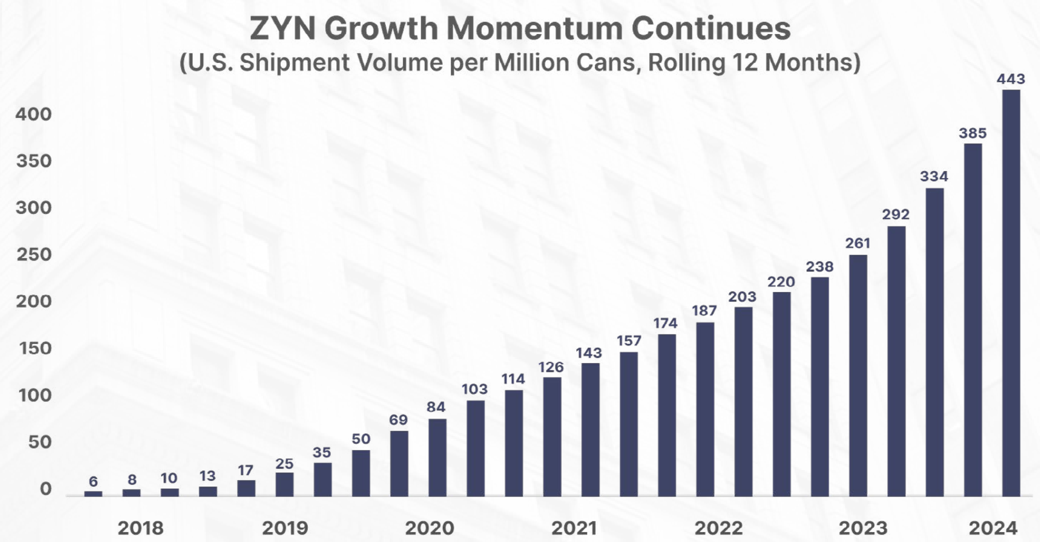
Together, both the tobacco and smoke-free segments generated 10% YOY revenue growth for Philip Morris in Q1, which follows 11% revenue growth in 2023. This is in stark contrast with its Big Tobacco peers Altria (MO) and British American Tobacco (BTI) – both of which are suffering from declining revenue.

PM's key growth drivers include the IQOS "heat not burn" tobacco device, and its ZYN brand of tobacco-free oral nicotine pouches, which are the two largest smoke-free nicotine brands globally.

The company launched its IQOS device in 2014, and it has become the world's number-one smoke-free tobacco device. The company sells specially designed tobacco sticks for its IQOS device, and it groups sales of devices and sticks together into its Heated Tobacco Unit ("HTU") segment. PM reported a 20.9% volume increase for its HTU segment in Q1.

After just 10 years, IQOS is close to becoming the number-one nicotine brand in the world. IQOS holds 8.4% of the global market share among all tobacco brands, just behind industry leader Marlboro cigarettes, with 10.2% global market share. In 11 of the 72 markets Philip Morris sells in, IQOS has already displaced all legacy tobacco brands to become the number-one market leader.

PM's other smoke-free crown jewel is ZYN, the world's largest tobacco-free nicotine pouch brand. ZYN's largest market by far is in the U.S., where over the last six years, sales have exploded from 6 million cans to 443 million cans as of the end of Q1 (on a trailing 12-month basis). In Q1, ZYN hit 80% YOY growth. The brand also expanded its already-dominant market share, which hit a new record high of 79% by retail sales value in the U.S. in Q1:



Source: PMI Finanncials or Estimates, Circana, LLC, Nictotine Pouches, Week Ending 3/31/24

As ZYN's dominance grows, PM is flexing the brand's pricing power. The company raised ZYN prices by 3% (or $0.15 per can) in March. Despite higher prices, volume growth continued. One month after raising prices, management boosted its prior guidance for U.S. ZYN shipment volume by 8%, to 560 million cans in 2024.

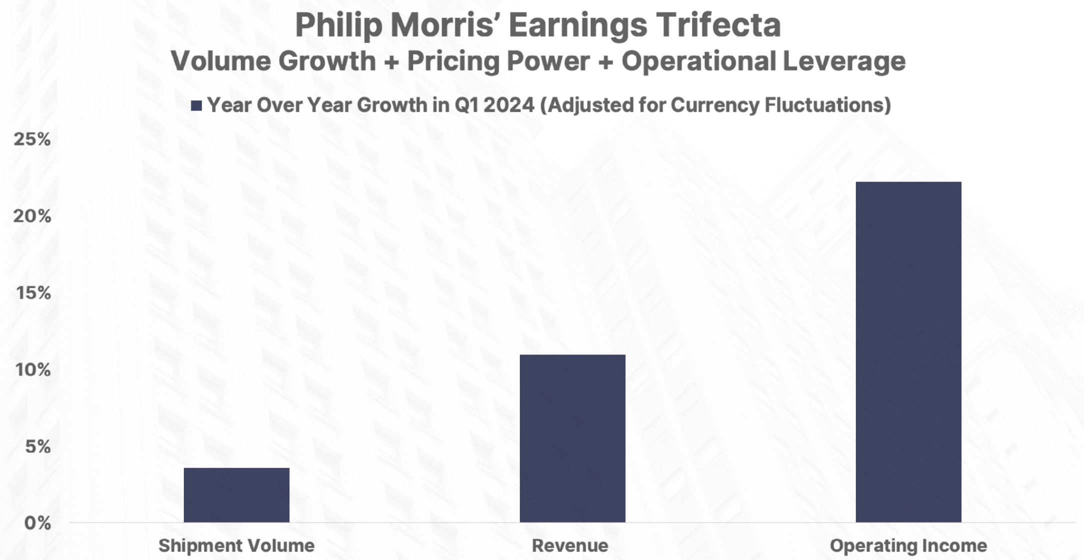
International expansion could deliver ZYN's next growth catalyst. Currently, PM sells ZYN in 11 countries, compared to the 72 countries it sells its other nicotine products. Management plans to leverage its distribution channels to expand ZYN's presence into more international markets later this year.

Meanwhile, rapid volume growth is also helping PM's smoke-free segment become more profitable. As the company boosts production capacity, it's able to spread fixed costs over a larger volume of products sold, allowing added revenue to drop to the bottom line. This operating leverage contributed to PM's smoke-free segment generating a 38% increase in gross profit over Q1 2023. (Gross profit is sales minus the direct costs of producing each product.)

Over time, the rapid growth of ZYN and IQOS will make smoke free an increasingly larger portion of PM's business. Smoke free currently makes up 40% of total sales, and traditional tobacco products make up 60%. Management expects the smoke-free segment will make up more than two-thirds of sales by 2030.

Finally, even as PM's legacy tobacco business fades relative to smoke free, it continues generating healthy cash flows and revenue growth. Higher prices are more than offsetting the volume declines in PM's cigarette business. Meanwhile, the Marlboro brand remains as strong as ever in international markets (Altria owns the U.S. rights to the Marlboro brand). PM's global market share in cigarettes increased by 0.3% in Q1.

Across its entire business, Philip Morris' total shipment volume increased by 6.3 billion, or 3.6% YOY. The combination of volume growth, pricing power, and operational leverage have created an earnings trifecta, delivering a 22% increase in PM's operating income in Q1 (after adjusting for foreign exchange fluctuations):



Source: Company Filings

Management expects the company will generate about $6.25 in EPS in 2024. That's 12% growth over 2023, with analysts currently forecasting 10% growth in 2025 followed by 9% in 2026.

Its booming smoke-free business is transforming the company from a boring consumer staple with stagnant earnings into a growth stock. And yet, the market hasn't reflected this higher growth rate into its valuation.

PM shares trade at just over 15x the 2024 $6.25 EPS estimate – roughly 25% discount to the S&P 500. And unlike most S&P 500 companies, PM's recession-resistant business should prove resilient against an economic slowdown.

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

Danaher Remains on Track for a Return to Growth in 2024

The Q1 earnings report for life-sciences conglomerate **Danaher (NYSE: DHR)** showed signs of an earlier-than-expected return to revenue growth and higher profitability. On April 23, the company released solid results across the board, including:

- $5.8 billion in revenue versus expectations of $5.63 billion
- $1.92 EPS versus expectations of $1.71
- $1.73 billion in operating cash flows versus expectations of $1.6 billion

In our **March 22 recommendation**, we noted that following a boom in pandemic-driven demand, business for this buyout firm has declined in the last two years.

After revenue surged 65% from 2019 to new record highs in 2021, revenue has declined 19% over the last two years. Management has told investors to expect continued revenue declines through the first half of 2024, before returning to mid-single digit growth in the second half of 2024. While management reiterated that outlook on its Q1 call, it also reported several promising data points indicating growth could return quicker than expected.

Let's begin with Danaher's Biotechnology segment, which accounts for 30% of sales. This segment has suffered the most from the post-pandemic slump, with bioprocessing recording the biggest drop. This unit provides equipment and consumable materials for biopharmaceutical drug manufacturing, including mRNA vaccines and COVID-19 treatments, like monoclonal antibodies. The post-pandemic decline in demand for these treatments persisted in Q1, causing bioprocessing revenue to fall by a mid-teens percentage. This caused DHR's Biotechnology segment to experience a 17% drop in Q1 revenues. However, two key data points suggest a faster-than-anticipated recovery.

First, DHR's bioprocessing orders increased by what the company called "mid-single digits" versus Q4 – bucking the segment's normal seasonal trend of declining orders this time of year.

The second key data point was an improving book-to-bill ratio for bioprocessing orders. This metric refers to the ratio of customer orders received (booked) versus the units delivered and billed for a given period. Any number above 1.0 indicates net new order growth. Over the previous five quarters, Danaher's book-to-bill ratio in bioprocessing was stuck in the 0.8 to 0.85 range. But in Q1, Danaher reported a better-than-expected 0.95 book-to-bill ratio, and it is confident this number will increase in each quarter of this year.

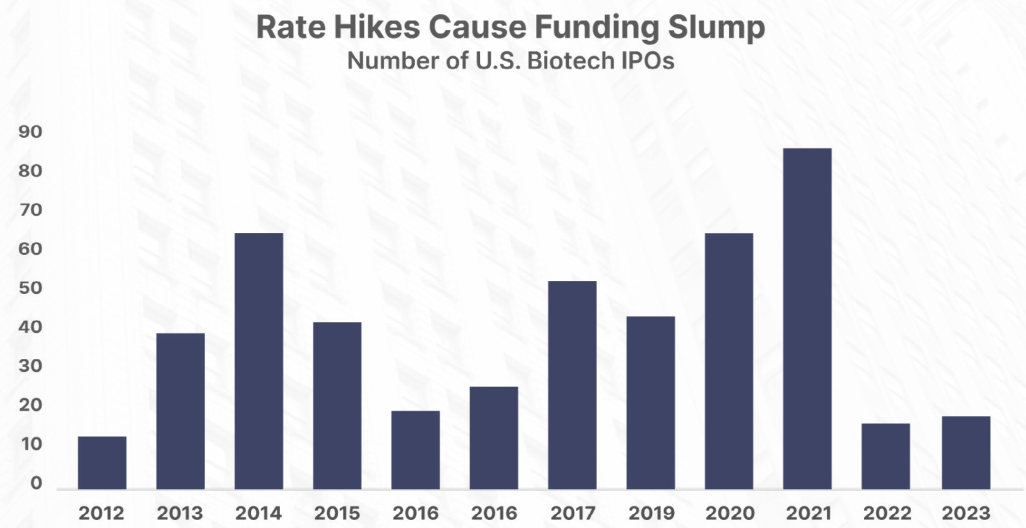
With both orders and the book-to-bill ratio exceeding expectations, Danaher's Q1 momentum indicates an expedited return to growth in its Biotechnology segment.

In Danaher's Life Sciences segment, which also accounts for 30% of sales, revenue fell 3% in Q1. The key demand driver in this segment is equipment and consumable materials used in biopharmaceutical drug discovery. As with the bioprocessing unit, the boom in research into COVID-19 vaccines and treatments has abated, leading to a mean-reversion in growth.

However, on the company's Q1 earnings call, management noted an increase of activity in its sales funnel – the early steps of talking with potential customers about future sales.

Finally, there is additional reason for optimism for Danaher's Life Sciences and Biotechnology segments based on the improving environment in biotech funding. First, it's important to note that the previous declines in these two segments have mirrored a broader decline in funding for biotech in recent years. Many biotech companies are considered "long duration" assets, because their expected cash flows lie in the distant future, after the years-long investment of bringing new drugs to market. As a result, higher interest rates – which punish long-duration assets the most – have caused a freeze in early-stage biotech funding.

We can see this effect at play in the chart below, which shows the number of biotech initial public offerings (IPOs) plunging 80% after the Fed began hiking rates the last two years:



Note: For Venture-Capital-Backed Companies; 2024 As of Feb.20 / Source: Pitchbook

But even as higher rates remain, investors returned to biotech in Q1. In the first quarter of 2024, nine IPOs came to market, raising $1.3 billion in funding – more than triple the $375 million raised in the first quarter of 2023. Meanwhile, in the private market, healthcare and biotech beat out artificial intelligence ("AI") companies as the number-one funded sector. Data from start-up analytics firm Crunchbase shows healthcare and biotech companies raising $15.7 billion globally in Q1, or 24% of the total in venture capital funding, compared with $11.4 billion for AI.

As we wrote in our **original DHR recommendation**, the pandemic boom in biopharma drug discovery will kickstart a decade-long boom in new drug discovery and development. While the sector is still working through a post-pandemic slump and higher interest rates, we're seeing early signs of a recovery in progress. As growth returns, Danaher's Biotechnology and Life Science divisions will benefit along with the entire sector.

The picture is even brighter for Danaher's largest segment, Diagnostics, which accounts for 40% of revenue. This segment has proven the most resilient against the post-pandemic slump, with a 7.5% increase in core revenue in Q1. This helped offset the weakness in Danaher's other segments, keeping the overall decline in revenue to just 2.6%. Meanwhile, Diagnostics' higher profit margins pushed overall operating margins up to an impressive 30% for the quarter.

The resilience and profitability of the company's Diagnostics business comes from one key feature: recurring revenue, which makes up 91% of the segment's sales.

Consider the case of Cepheid, Danaher's respiratory diagnostics business that produces the four-in-one test for COVID-19, Flu A, Flu B, and RSV (respiratory syncytial virus). Cepheid delivered standout results in Q1, with revenue growing to $675 million – exceeding by 17% management's forecast of $575 million.

The COVID-19 pandemic provided a major demand boost for the four-in-one tests, which allowed hospitals and doctors offices to quickly distinguish whether patients were suffering from COVID-19 or from flu/RSV illnesses that present similar symptoms. As doctors' offices and hospitals originally bought the product out of sheer necessity, they've since realized the long-term value of the test – indicated by Cepheid's continued ability to gain market share and sell new machines. The installed base grew to over 55,000 in Q1 – up more than 3x from pre-pandemic levels in 2019.

In our **original Danaher recommendation**, we explained how this four-in-one test follows the razor/razor-blade model. After Danaher sells a customer a test machine, these customers then get locked into recurring purchases of swabs, cartridges, and other consumable materials used in the testing machines. Each installed test machine generates a recurring source of long-term, higher-margin sales. So even as Cepheid's installed base is up an impressive 3x from 2019, management expects Cepheid will generate $1.6 billion in revenue this year, up over 6x from $250 million in 2019.

Danaher's Q1 results indicate the company will soon re-ignite its growth trajectory. Management has a history of under promising and over delivering. Thus, despite better-than-expected Q1 growth, the company didn't change its guidance for 2024. However, if the early-year momentum persists, the stage is set for greatly improved results for the rest of the year and our recommendation remains the same.

Action to Take: Buy **Danaher (NYSE: DHR)** up to $270 per share

EQT's Lower Break-Even Point Drives Profits

As a result of warmer winter weather and increased production, the U.S. natural gas market remains oversupplied, with storage levels 37% above the five-year average. Despite low gas prices caused by this supply glut, **EQT (NYSE: EQT)** – America's largest and lowest-cost natural gas producer – continues to find ways to win.

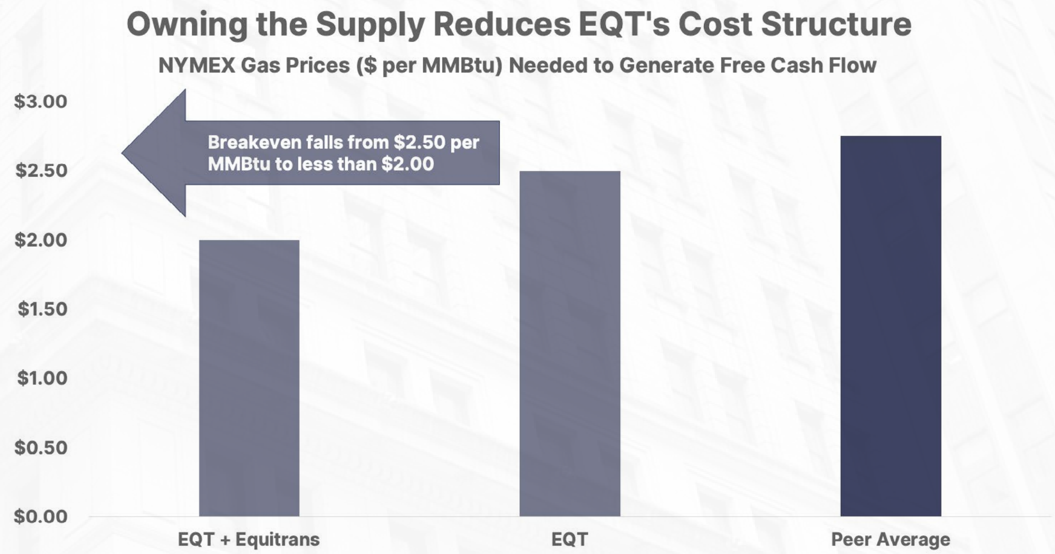
EQT posted surprisingly strong results in the first quarter, generating $1.7 billion of revenue, 8% higher than expected. Despite gas prices trading 22% lower than the same period last year, revenue was only down 9%, as increased sales volume partially offset reduced prices. Earnings per share of $0.77 also exceeded analysts' consensus estimates by 27%.

With gas prices trading below EQT's breakeven level, the company voluntarily reduced drilling and production activity in late February by 1 billion cubic feet ("Bcf") per day, an 18% reduction from 2023. Despite production cuts, EQT's unit operating costs came in at the midpoint of guidance at $1.36 per thousand cubic feet equivalent ("Mcfe") in the first quarter and only two cents higher per Mcfe compared to last year. This cost control is a testament to EQT's position as America's leading, low-cost natural gas producer.

EQT announced it will extend production cuts by 1 Bcf per day through May. Initially EQT estimated total sales volume for 2024 to fall between 2,200 and 2,300 Bcf. With the extended output reduction, it lowered this guidance to 2,100 to 2,200 Bcf.

As we wrote in our most recent update, EQT is positioning itself to emerge stronger on the other side of today's oversupplied market, by becoming the first fully vertically integrated U.S. gas producer. This means controlling every stage of the gas value chain, from production to transportation into end-demand centers.

The company made further progress toward this goal by completing the acquisition of Equitrans Midstream, a pipeline business that will add more than 2,000 miles of pipelines to its previous 4,000 miles of capacity. This will lower EQT's break-even price to $2 per million British thermal units ("MMBtu") – $0.75 below its peer average.



Source: Company Filings

This lower cost structure will allow EQT to continue producing above breakeven when gas prices are low and to drive significantly more profits when gas prices are higher. The lower cost structure also means that EQT will no longer need to hedge the majority of its production. A hedge provides downside protection against lower gas prices, but eats into profits when gas prices rise. In 2022, EQT hedged 65% of its gas production and lost nearly $6 billion when gas prices skyrocketed due to Russia's invasion of Ukraine.

But now that EQT's cost structure will be less than $2.00 per MMBtu. If gas prices were to average $2.75 per MMBtu between 2025 and 2029, EQT would generate $8 billion of cumulative free cash flow, compared to most of its peers who would be cash flow negative.

The Equitrans acquisition will mean EQT will control every aspect of getting gas from the ground through the pipelines and delivered to power plants and liquefied natural gas ("LNG") terminals. EQT has contracts with four separate liquefaction facilities to supply 4 million metric tonnes of LNG per year – a key piece of the puzzle that will enable EQT to supply gas to the highest priced international markets. In addition to these contracts, EQT is expanding capacity for its Mountain Valley Pipeline – a 303-mile pipeline running from northern West Virginia to southern Virginia – from 2.0 to 2.5 Bcf per day to meet the growing demand for power generation.

As we reported on April 19, in our recommendation of electrical-infrastructure supplier **Atkore**, there will be ravenous energy demands to power the electric-vehicle ("EV") and artificial-intelligence ("AI") revolutions over the next decade. Experts project that the U.S. will need to bulk up its electricity transmission capacity by 60% through 2030. This will require a massive undertaking, especially considering that U.S. power generation has remained flat for the last 15 years.

With natural-gas prices trading near $2.00 MMBtu, or 38% below the 10-year average price, industry leader EQT is best suited to meet this rise in demand for natural gas, a key source in electricity generation. EQT will deliver natural gas directly from its wells through its pipelines to data centers in Virginia, making EQT's low-cost natural gas a crucial component of the AI revolution.

The proliferation of AI data centers and EV charging needs will drive an incremental 10 bcf per day of natural gas demand by 2030.

Despite today's oversupplied market, EQT continues setting itself up for long-term success. It's now the premier, vertically-integrated U.S. natural gas producer with the lowest cost of production. And it will benefit most from the rising demand for low-cost American gas, both domestically and abroad.

Shares of EQT are down 14% from November 2023. Trading at a $17 billion market cap, and expecting to produce $16 billion in cumulative free cash flow between 2025 and 2029, EQT remains an attractive long-term value.

Action to Take: Buy EQT **(NYSE: EQT)** up to $50 per share

PayPal's Fastlane Feature Accelerates Growth

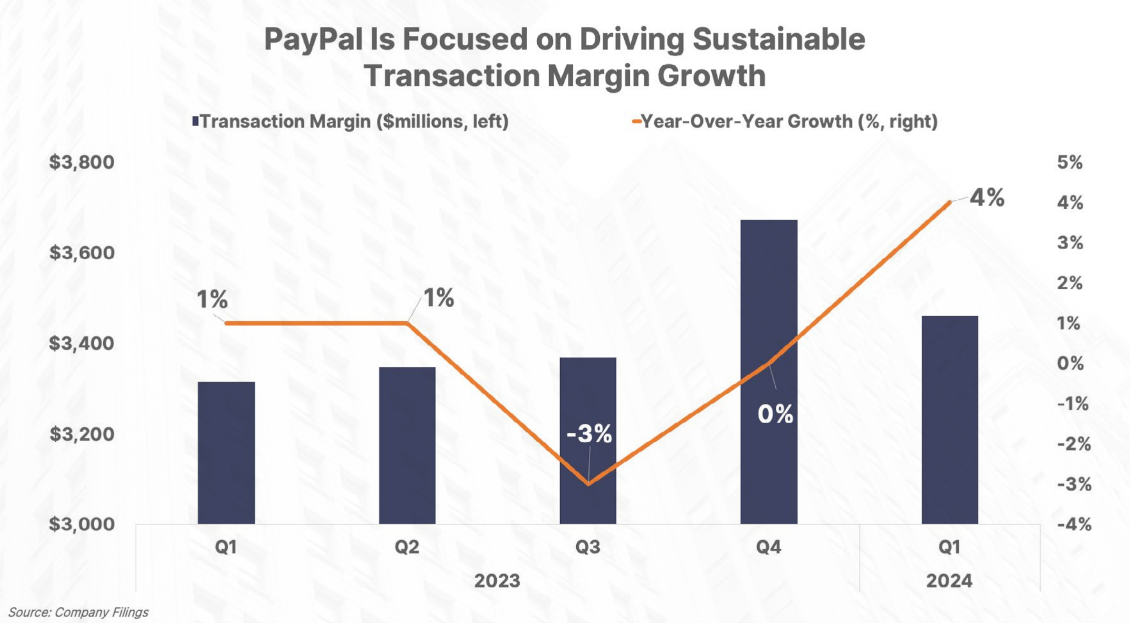
PayPal (Nasdaq: PYPL) shares jumped 7.8% on April 30 when the company reported excellent Q1 results, including the following highlights:

- Total payment volume (the dollar value of PayPal transactions) increased 14% YOY to $404 billion
- Revenue increased 9% over Q1 2023
- Adjusted earnings per share increased 27% YOY, to $1.08

Since he took over less than a year ago, CEO Alex Chriss has introduced several key product innovations to jumpstart PayPal's revenue growth and profitability. One notable example is Fastlane, which is aimed at improving the guest checkout experience. Fastlane makes the checkout process simpler for recognized shoppers (those with a PayPal account) by eliminating the need to enter payment details – such as name, address, and credit-card info. Removing this friction has delivered impressive results so far. PayPal reports that, among the returning users who see Fastlane at the checkout page, 80% make a purchase – 40% higher than the purchase rate for unrecognized users (those without a PayPal account). The company is leveraging this faster, improved checkout experience to bring unrecognized shoppers into the PayPal ecosystem and onto Fastlane.

Since shoppers using Fastlane are more likely to become a buyer, and are more likely to use Fastlane the next time they make an online purchase, it is a win-win for PayPal and its merchants that offer the service.

PayPal has also launched several new products designed to encourage shoppers to make future PayPal branded transactions. For example, AI-powered receipts and package tracking drive buyers to the PayPal app and incentivize future transactions with ads targeted to each shopper. In only 12 months since launch, PayPal had 7 million accounts using package tracking, which consumers like because they can track their shipments and receive relevant offers directly from the PayPal app. These efforts are beginning to pay off: transaction margins accelerated by 4% in the first quarter compared to 1% in the first quarter of 2023.



Management continues to identify opportunities to operate more effectively while investing in new products that help merchants and shoppers. But there's still a lot of work to be done, as only 7% of small- and medium-sized business ("SMB") customers are using PayPal Commerce Platform ("PPCP") – PayPal's comprehensive payment solution that includes the latest products like Fastlane. SMBs that adopt the PPCP use on average four PayPal products, doubling the average revenue over PayPal's legacy SMB solution. With only 7% of SMB using PPCP, there's still a massive opportunity to drive more SMB adoption and earn higher revenues.

PayPal's business is moving in the right direction as growth and profitability slowly return. In the meantime, it's generating plenty of cash and returning it to shareholders. Over the past two years, the company has repurchased 10% of its outstanding shares. In 2024, the company expects to generate $5 billion in free cash flow and repurchase at least $5 billion more in shares – or roughly 7% of its current equity value.

With $6.7 billion of net cash on its balance sheet and a high cash flow generating business, PayPal is well positioned to continue returning capital to shareholders through steady buybacks. Now, with the core business hitting its stride, the combination of earnings growth and a falling share count should set the stage for healthy returns from here.

Action to Take: Hold shares of PayPal **(Nasdaq: PYPL)** with a stop-loss at $50

Portfolio Update

The Big Secret on Wall Street PORTFOLIO

Ticker / Latest Update Link	Description	Entry Date	Cost Basis	Latest Close	Yield	Income Received	Total Return	Status / Risk Rating
ENERGY & COMMODITIES								
EQT EQT	U.S. Gas-Focused E&P	06/02/2022	$48.87	$39.48	1.60%	$1.07	-17.03%	Buy Under $50 / 4
BWXT BWX Technologies	Nuclear Power Equipment	12/22/2022	$58.05	$95.54	1.00%	$1.16	66.58%	Buy Under $110 / 3
BTC/USD Bitcoin	Cryptocurrency	05/11/2023	$27,011.85	$58,297.57	N/A	$0.00	115.82%	Buy Under $50,000 / 4
BTU Peabody Energy	Coal Mining	06/22/2023	$21.29	$21.54	1.39%	$0.23	2.23%	Buy Under $25 / 4
CNX CNX Resources	U.S. Gas-Focused E&P	09/28/2023	$22.82	$23.20	N/A	$0.00	1.67%	Buy Under $30 / 3
BATTLESHIP STOCKS								
CACC Credit Acceptanc	Consumer Finance	07/28/2022	$560.28	$501.16	N/A	$0.00	-10.55%	Buy Under $600 / 3
WINA Winmark	Specialty Apparel Stores	09/15/2022	$217.60	$360.57	0.89%	$17.00	73.52%	Hold / 1
NVO Nordisk Sp ADR-B	Pharmaceuticals	10/27/2022	$53.31	$124.02	1.50%	$2.55	137.44%	Hold / 2
FNV Franco-Nevada	Precious Metals Streamer	05/11/2023	$154.77	$120.91	1.19%	$1.74	-20.75%	Buy Under $125 / 2
PYPL PayPal Holdings	Payment Processor	07/20/2023	$73.02	$66.98	N/A	$0.00	-8.27%	Hold / Stop Loss at $50 / 3
FOREVER STOCKS								
DPZ Domino's Pizza	Restaurants	02/27/2023	$300.00	$512.70	1.18%	$6.35	73.02%	Hold / 3
DE Deere & Co	Agricultural Machinery	08/31/2023	$410.94	$395.96	1.48%	$4.29	-2.60%	Buy Under $450 / 3
DEO Diageo Sp ADR	Alcoholic Beverages	12/14/2023	$145.72	$136.57	2.37%	$1.62	-5.17%	Buy Under $160 / 3
DHR Danaher	Medical Technology	03/21/2024	$254.11	$246.84	0.44%	$0.27	-2.75%	Buy Under $270 / 3
NKE NIKE -B-	Athletic Footwear & Apparel	04/18/2024	$95.74	$92.41	1.60%	$0.00	-3.48%	Buy Under $100 / 2
HSY Hershey	Consumer Luxury Staples	04/18/2024	$184.86	$195.88	2.80%	$0.00	5.96%	Buy Under $200 / 2
HIGH YIELD								
PM Philip Mrrs Int	Tobacco Maker	07/14/2022	$89.62	$97.31	5.34%	$8.98	18.60%	Buy Under $105 / 1
VNOM VIPER ENERGY-A	Oil and Gas Royalty	09/01/2022	$29.68	$37.15	N/A	$2.71	34.30%	Buy Under $34 / 3*
BSM BLACK STONE MIN	Oil and Gas Royalty	02/16/2023	$15.90	$16.20	11.73%	$1.90	13.84%	Buy Under $18 / 2
BRW SABA CAP INM & OPP	High Yield Bond Fund	03/16/2023	$8.01	$7.29	13.99%	$1.23	6.30%	Buy Under $9 / 3
OCSL OKTR SPCLY LNDG	Specialty Investments	03/30/2023	$18.57	$19.29	11.40%	$2.27	16.10%	Buy Under $22 / 2
PROPERTY & CASUALTY INSURANCE								
WRB W.R.Berkley	P&C Insurance	05/25/2023	$56.10	$79.01	0.56%	$1.44	43.40%	Buy Under $62 / 2
PGR Progressive (Ohi	P&C Insurance	06/08/2023	$131.08	$209.03	0.19%	$1.15	60.34%	Buy Under $160 / 2
CB Chubb N	P&C Insurance	06/08/2023	$191.60	$250.25	N/A	$3.44	32.41%	Buy Under $220 / 2
SKWD SKYWARD SPEC	P&C Insurance	06/16/2023	$24.66	$35.77	N/A	$0.00	45.05%	Buy Under $35 / 2
EXPONENTIAL GROWTH								
TELL TELLURIAN	U.S. LNG Exporter	06/16/2022	$3.82	$0.42	N/A	$0.00	-88.91%	Buy Under $5 / 5
EVVTY Evolution UnSp ADR	Casinos & Gaming	11/30/2023	$103.87	$111.11	N/A	$0.00	6.97%	Buy Under $145 / 4
INMD INMODE	Medical Devices	01/11/2024	$21.19	$17.36	N/A	$0.00	-18.07%	Buy under $25 / 5
BUR BURFORD CAP NPV	Litigation Finance	02/08/2024	$14.36	$15.87	0.78%	$0.00	10.52%	Buy Under $20 / 4
CELH Celsius Holdings	Energy Drinks	03/07/2024	$89.56	$74.38	N/A	$0.00	-16.95%	Buy Under $100 / 5

CPNG Coupang Inc	E-commerce	04/04/2024	$18.32	$22.50	N/A	$0.00	22.82%	Buy Under $25 / 4
ATKR Atkore	Electrical Infrastructure	04/18/2024	$171.18	$175.26	0.73%	$0.00	2.38%	Buy under $200 / 4
BETTER THAN THE MARKET								
SYLD CAMBRIA SHHLDR YLD	Yield Focused ETF	01/05/2023	$59.67	$68.83	3.00%	$1.82	18.39%	Buy Under $65 / 2

The Big Secret on Wall Street WATCHLIST

Ticker	Description	Latest Close	Initial Analysis	Yield	Status
PAYC Paycom Software	Application Software	$166.72	01/26/2024	0.90%	Buy Under $150
HD Home Depot	Home Products Stores	$335.53	11/10/2023	2.68%	Buy Under $240
SHW Sherwin-Williams	Specialty Chemicals	$304.46	04/14/2023	0.94%	Buy Under $150
ULTA Ulta Beauty	Specialty Retail	$397.33	09/15/2023	N/A	Buy Under $350

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

Porter & Co.

New to the *Big Secret* 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 edition of *The Big Secret*, we highlight three current portfolio picks that are at an attractive buy point.

1. **Burford Capital (NYSE: BUR)** is the leading global provider of litigation finance, managing a $7.1 billion portfolio of assets. Burford funds lawsuits and when it wins, it takes a cut of the payout. These cases can turn small investments into supersized pay days. Now, with the courts fully reopened in 2023 after the COVID-19 shutdowns, Burford's backlog of cases are beginning to come to trial and reach final judgment. Many of those judgments are in Burford's favor, with net income surging 55% to $610 million in 2023. Plus, there's additional upside from a multibillion-dollar ruling in Burford's favor that's not priced into shares today. See our recent Portfolio Update **here**.

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 57% 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 Cobre Panama mine contributed 20% of Franco-Nevada's revenue and 16% of net asset value in 2023. FNV shares have dropped 16% since August, effectively pricing in a total loss of the mine. Meanwhile, with the price of gold at all time highs, the rest of Franco-Nevada's portfolio is performing well. Still, 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

27% average return on capital. It's also a recession-proof business, and trades at an attractive valuation of just 15x earnings, with a 5.3% dividend yield.

Mailbag

That's it for this week. If you have comments or questions for Porter or about The Big Secret on Wall Street, please email us at **mailbag@porterandcompanyresearch**.com. We'd love to hear from you!

Porter answers letters from readers. He cannot offer individual investment advice, but can respond to general questions.

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**