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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Taking a Long-Term-Oriented Approach to Investments and Relationships

JOHN G. ULLMAN is President, CEO and Founder of John G. Ullman & Associates, Inc. Earlier, he was President of USGM Securities, Inc., and at Corning Inc., worked in financial management. He received an MBA from the University of Chicago, with a focus in financial management. He received a bachelor's degree in economics from Johns Hopkins University. He was named the Corning Chamber of Commerce Small Business Person of the Year in 1997.

SECTOR — GENERAL INVESTING

TWST: Could you tell me a little bit about the firm, its history and what it focuses on?

Mr. Ullman: The company was founded on very key principles going back to early childhood when I was growing up on Long Island. Some people were musicians; some people were scientists, with my ability being in math. I used to follow the New York Yankees and batting averages when I was extremely young. My parents were hoping to get me away from the sports page, so they bought me one share of stock to try to get me to have some other interest, and I did.

At that young age, in the single digits, I was starting to follow markets. And again, in that era, in the 1950s, there was no internet, and the knowledge base that people had was much less than today. Over time, I was asked for advice, and I knew stock prices, but not much more. But by the time, I was in high school I was helping people as a volunteer at a basic level, did more in college and became increasingly active while in graduate school.

Afterward, I wanted to start a business, a comprehensive financial management firm, where everything was to be handled with the highest standards of ethics and values. The organization would provide a very broad range of financial services, all in one place. After graduate school, in the early 1970s, I was unable to find this kind of business structure. My wife and I, we had dated from high school forward, decided — Bobbie was an elementary school teacher — that I would take a position in corporate finance, with the intention of later setting up our own business.

Having grown up in metropolitan areas with undergraduate and graduate schools in urban areas, we found this wonderful community in western New York State, which is the headquarters of **Corning Inc.** (NYSE:GLW), and I believe the city has a population of about 11,000 people. There may not be anything more extreme in the United States with a large company in a very small city. It's a very high-values company.

After joining **Corning Glass Works**, I had five jobs in six years, in three divisions. My strong interest in investments continued. I became friends with a number of the senior executives and was honored to advise them. When I turned 30, this was an important time period, as I needed to decide whether to start a new business or continue on a corporate path. I was very fortunate that a number of these senior executives at **Corning** funded and became the board of directors of our company in 1978 and 1979.

We are finishing our 39th year of operations this summer and will be starting our 40th year. We had a board of directors of seven who were extremely active, with me being the only employee. The firm has grown over time. Nevertheless, we're providing basically the same type of service as was our concept in the beginning. All of our broad services are included and integrated. It's been a real joy.

We recently initiated a bold business initiative to try to expand significantly. There have been major changes in technology and organization structure to facilitate us to be able to try to grow the business, hopefully in a significant way in the coming years.

Everything at the firm is long-term-oriented. We try to hire people who are interested in working at the firm for their entire career. If my numbers are correct, when we had 53 employees at the end of June last year, we had eight that had major anniversaries of 10, 15, 20, 25 and 30 years, which I think for an organization of our size, would be very considerable. However, in 2017, we have 12 more people celebrating 10-, 15-, 20-, 25-, 30- and 35-year anniversaries. Thus, 20 of our staff will have major anniversaries between 10 and 35 years of service over a two-year period. I'm not included in that group because I didn't have a major anniversary last year, with next year being my 40th.

So I believe that we are doing things very differently than many other firms. We try to have long-term relationships with our clients, and we have been very successful in this objective. We have similarly accomplished long-term relationships with our staff, directors and shareholders. We have had a bit of a Camelot story, where a dream has come true. We are privileged to play a very important part in the lives of our clients by working with them in close partnership.

Highlights

John G. Ullman discusses John G. Ullman & Associates, Inc. According to Mr. Ullman, one thing that makes the firm unique is its long-term orientation in everything from investments to relationships with clients, staff, directors and shareholders. The firm is comprehensive, and handles research, portfolio management and securities trading internally. Client accounts are balanced and managed individually. Each account has at least half of its assets in conservative investments, with the remaining divided between high-quality and speculative holdings. When selecting equities, Mr. Ullman looks for companies in preferred sectors that are in a strong position to grow.

Companies discussed: Corning Incorporated (NYSE:GLW); Lindsay Corporation (NYSE:LNN); Schlumberger Limited (NYSE:SLB); Emerson Electric Co. (NYSE:EMR); Granite Construction (NYSE:GVA); Flowserve Corp. (NYSE:FLS); Hardinge (NASDAQ:HDNG); Brooks Automation (NASDAQ:BRKS); CalAmp Corp. (NASDAQ:CAMP); International Business Machines Corp. (NYSE:IBM); American Software (NASDAQ:AMSWA); Intel Corporation (NASDAQ:INTC); Microsoft Corporation (NASDAQ:MSFT); Alphabet (NASDAQ:GOOG); Apple (NASDAQ:AAPL); Johnson & Johnson (NYSE:JNJ); Pfizer (NYSE:PFE); Bristol-Myers Squibb Co. (NYSE:BMY); Quest Diagnostics (NYSE:DGX) and Medtronic plc (NYSE:MDT).

TWST: Why don't we get into some specifics about what you offer in terms of funds and your investment philosophy?

Mr. Ullman: Our approach is comprehensive. For investments, we do our own research internally. We have our research team. Our portfolio management and securities trading are also all in-house. Every security that we buy for our clients, unless they have a specific request and direction for specific issues, is followed by one of us as analysts. We have specific buy and sell price targets for each one of those stocks, which are always subject to periodic adjustment — based on the combination of a company's developments and market conditions. So for a firm of our size, that is extremely unusual.

The investment philosophy is always balanced. We will only manage accounts that are balanced. Clients have the options to have assets outside of our management should they want to be more aggressive or more conservative overall. But for accounts with us, at least half of the assets have to be in what we classify as conservative investments, which would include cash and equivalents, investment-grade bonds and also utility stocks — traditionally conservative, being similar to long-term bonds.

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We categorize our holdings in clients' accounts by high quality and speculative. Each client has an investment target, which can be more conservative than what's defined, but it's not going to be materially more aggressive for any length of time without the client's knowledge and agreement. If we have an account that is, just as an example, 50% conservative, 30% high quality and 20% aggressive/speculative, our management approach is to maintain a minimum of 50% conservative and no more than 20% speculative/aggressive. If an account has 49% conservative and 51% high quality and zero speculative, the situation is one when we are 1% under on the conservative target and also considerably lower on speculative investments, the latter being a violation. If this account moves to a couple percent off conservative as the market fluctuates, we do take action to make sure that the account is back within the targeted range.

In the infrastructure sector, there are very few presently in buying range. As an illustration, **Lindsay Corp.** (NYSE:LNN), which is in irrigation equipment, just came out with a strong earnings' report today. The stock reacted positively, but this company has been quite cyclical over time, with the stock having substantial volatility. **Schlumberger** (NYSE:SLB); **Emerson Electric** (NYSE:EMR), which is diversified; **Granite Construction** (NYSE:GVA), builder of roads, bridges and tunnels; **Flowserve** (NYSE:FLS); and **Hardinge Inc.** (NASDAQ:HDNG), small company in our region in the machine tool business, are among stocks in our infrastructure category.

"We also have preferred sectors, and the present allocations are focused on infrastructure, technology, health care, foreign and value-based. We also track utilities, even though they are in our conservative category. We have ranges for each of these targeted sector categories and manage to that specification. With the individualization of accounts, each will have some differences."

Everything is managed on an individual basis. We regularly buy blocks and allocate to clients' accounts. We have developed our own software to provide prioritization of allocations, based on the individual client account positions. If clients add funds and are well-above the normal conservative target and with a lot of liquidity, the software will evaluate the specifics and would place this account as one with a high position in participating in block trade. We have developed this technology over more than 38 years. It has been a joy to design, develop and implement these and other programs.

We also have preferred sectors, and the present allocations are focused on infrastructure, technology, health care, foreign and value-based. We also track utilities, even though they are in our conservative category. We have ranges for each of these targeted sector categories and manage to that specification. With the individualization of accounts, each will have some differences. For a new account, we do not buy a stock that we think is highly valued. We will not buy that security if it is not at the buy price. Accounts are individually managed, and they'll have similar holdings, but they will not be identical.

TWST: Did you want to highlight a stock that you find interesting?

Mr. Ullman: The market is more elevated, and we currently have a relatively small list of stocks to buy. One of the areas where we have been and continue to be very optimistic is in the field of infrastructure. This sector, for us, includes roads, bridges, tunnels, water and liquefied natural gas — over time, particularly for export. We do separate and include some of these companies in our categories. Energy and natural resource firms would be examples for us of ones that are designated value-based.

We do very little with ETFs and mutual funds. Guggenheim S&P Global Water is one of the few in clients' accounts. We've had many infrastructure companies over the years. Some have been acquired in that sector. I believe that we will have substantial infrastructure programs funded through government in the future. The concern is about funding, but we do believe and have a high confidence that, over the next one to two decades, there will be exceptionally high levels of infrastructure spending, in the United States in particular.

TWST: With a company like Lindsay Corp. or Schlumberger, maybe we could focus on one of those and talk a little bit about what investors may not realize about the companies that would be interesting for them to know about?

Mr. Ullman: With **Lindsay**, as an example, the stock is quite volatile, and with our price point discipline, over a period of years, we can buy, sell and buy again. Primarily, **Lindsay** has a highway safety equipment business. However, if you look at major farms that have these huge irrigation apparatus, **Lindsay** is often a preferred supplier. Their growth rates have recently been very modest, and the stock price has reflected such a reality. The market cap is under $1 billion. **Lindsay** is, therefore, not a huge company.

I think investors may view **Lindsay** as kind of a stodgy, low growth business. We have a longer-term view and are much more positive, especially as valuations become in the range of our buying target. Most of the analysts covering **Lindsay** have been projecting modest growth rates. Over a period of more than 20 years, I think that the cycles have been more severe, with the stock being volatile. **Lindsay** is fairly closely held and, as a company, is in reasonably good financial condition. While we do not intend to chase after any stock, with the earnings report today, **Lindsay** shares are up over 5%, as the earnings were better than expected.

Overall, we like the company's situation, and while now above buying targets, we would make more purchases on any market weaknesses that do not affect our views of this company. In the long term, for **Lindsay**, it's not about the short-term orders. The orders were up nicely over the last year, but this tends to be more extreme. With target prices, we would reduce positions if the valuations became, in our view, too elevated. And if the stock sells off dramatically, we're back adding to positions. These management techniques are part of our technology and structure.

TWST: Do you want to get into some specifics on one of the companies in the technology sector?

Mr. Ullman: Rather than focus on the very large companies, one company that we have held for a long time and completed partial sales as the shares and valuations elevated is the previously mentioned **Brooks Automation**. They are involved in cryogenic applications and manufacturing equipment in a very specialized area. **Brooks** has focused on their strength, with the stock in the recent period having been extremely strong. We continue to like this company and its future but, per our highly disciplined approach, did complete a partial sale. We're currently nowhere near buy levels at the present time but are holding shares until they might reach sell price targets.

"We like companies in designated sectors that are in a strong position to grow, as we are generally long-term investors. Our approach is not to seek stocks of companies as trading vehicles. We look for fundamental value and finding stocks in preferred sectors that also appear to be inexpensive."

Also, I wanted to add that we try to buy companies where we can support management. We strive to invest in companies when we are positive in the long-term future and then invest. We're not looking for things to fall apart with weak companies and benefit from their pure focus on shareholder values. We like to be out there. We greatly prefer companies that are in strong financial condition. For firms that participate in share buybacks, we hope they're limited, avoiding vast amounts of debt. We also are less concerned about dividend payments than most people, as we are seeking good long-term growth potentials in particular sectors.

TWST: Did you want to talk about another sector?

Mr. Ullman: Another area that we like, and it now needs to be selective, is technology. We seek companies that are out of favor, as valuations in some of the technology stocks get to be pretty extreme. We have a pretty good position in **Brooks Automation** (NASDAQ:BRKS). This company has a strong technology and has been out of favor. Other issues include **CalAmp** (NASDAQ:CAMP) and **IBM** (NYSE:IBM), both being out of favor. At certain price levels, we have been acquiring shares. Some of these stocks have excellent technology but need to review their strategies for growth.

A more specialized company is **American Software** (NASDAQ:AMSWA). We like their strong financial condition in their focused consulting business. We look for particular companies in subsectors and also have positions in some of the truly major firms such as **Intel** (NASDAQ:INTC) and **Microsoft** (NASDAQ:MSFT), with smaller positions in **Alphabet** (NASDAQ:GOOG) and **Apple** (NASDAQ:AAPL). Valuations on some have been high. As a result, we generally focus on more compelling valuations.

1-Year Daily Chart of Brooks Automation

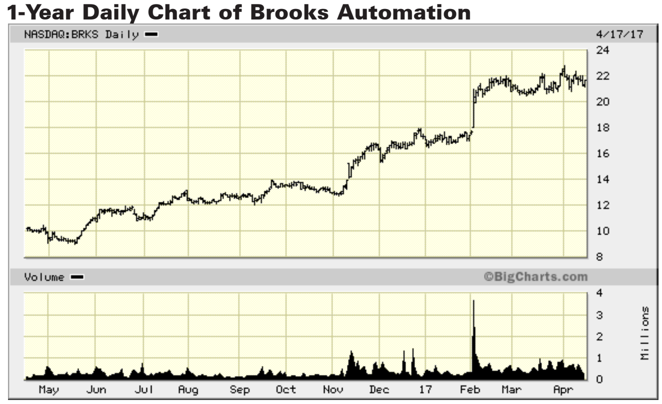

Chart provided by www.BigCharts.com

This is a case of a company that had a specialty niche, which we like. **Brooks** can dominate. The market expectations are for reasonable growth, with the shares doubling over a reasonable time period. While we are not in the buy range, **Brooks** is an example of a company that we find appealing because of their strong compatible position in a field that we like. **Brooks** competes in an interesting sector, and that is valuable to us in our approach.

Brooks also is in reasonably good financial condition, including having no long-term debt. We like companies in designated sectors that are in a strong position to grow, as we are generally long-term investors. Our approach is not to seek stocks of companies as trading vehicles. We look for fundamental value and finding stocks in preferred sectors that also appear to be inexpensive. We assess their products for future potential and value companies where we have confidence in current management.

TWST: Did you want to go into the health care sector?

Mr. Ullman: We have been positive in this sector for more than 25 years. For decades, there has been concern in the market with expectations that these stocks are vulnerable because of the very high cost of health care. This long-term continuing worry by investors ultimately may well happen. We've had confidence that many of these companies will manage these challenges. In recent years, joint ventures, changes in structure and often structural adjustments have occurred.

We expect that, ultimately, drug prices and devices will come down in cost. These companies will need to restructure their business. There is also going to be pressure to simplify FDA — Food and Drug Administration — approvals and pressure for tort reform because a significant amount of the costs that are in the system are tied directly to R&D — research and development — and legal exposures where massive changes can impact economies and pricing. I should also point out that 20, 30, 40, 50 years ago, many of these companies had no debt. In the present environment, growth rates have slowed and financial positions have become more leveraged.

In the big pharmaceuticals, dividend payments and share buybacks have increased. Valuations of many health care firms have moderated because the growth expectations are lower. We have continued optimism about the sector, although this is going to be a riskier area for companies than in prior decades. These companies, we believe, in general, will find ways to continue to be successful, even though the pressure on pricing and management will likely increase.

1-Year Daily Chart of Johnson & Johnson

Chart provided by www.BigCharts.com

Johnson & Johnson (NYSE:JNJ) remains one of our three largest holdings. Also, we have large positions for us in **Pfizer** (NYSE:PFE) and, to a lesser extent, **Bristol-Myers** (NYSE:BMY). There are some out-of-favor stocks that we have smaller positions. We have a moderate position in **Quest Diagnostics** (NYSE:DGX), which at one stage, coincidentally, was owned by **Corning Inc.**, headquartered where we're located. We also have a sizable position in **Corning**, a world-class company, subject to price points and our discipline where we did a recent partial sale at $28-plus. **Corning Inc.** is in our technology sector.

But even though I think the health care sector is going to go through some tougher times, we do think there is fundamentally some good value in some of these holdings, even though they have become more elevated. So companies like **Medtronic** (NYSE:MDT), as an example, or companies in orthopedics are ones that we have had holdings. Some of these have either reached sell price points, or they have been acquired. These are among specialty companies that we follow where the positions are smaller, as they really had tremendous price movement and the valuations have reached the levels that, at least in some cases, generated partial or total sales.

TWST: Did you want to highlight one of the health care companies, maybe Johnson & Johnson or another one?

Mr. Ullman: I think **Johnson & Johnson** is very much a core holding. They are extremely diversified. They have been exceptionally well-managed. While this company's shares were under pressure earlier this year, we were close to being able to buy back additional shares. We did sell some in the mid-$120s some time ago, but **JNJ** is still a very large holding. The valuation currently, for us, is fairly fully valued. We are still a distance away from another partial sale. We are not presently near a buy price at current levels. **JNJ** sells at a premium, but it is the core for current health care issues for us.

JNJ has really been a wonderful company over most of its very long history. They do have consumer products as well as ones that are in the pharmaceutical and device areas. So as a result, it is extremely well-diversified. While, as I mentioned, **JNJ** is one of the core holdings, we do not just buy it at any price level. **JNJ** is projected to have a fairly modest growth rate in coming years, which is true for most of the pharmaceuticals. **JNJ** has expanded a lot through acquisitions and very good management. Thus, even though the price has moved up significantly, we have confidence that the management will do a good job going forward, but **JNJ** certainly is not at an attractive buying price, from our standpoint, at the current levels.

TWST: Changing gears a bit, when you talk with investors now, do they have certain concerns when they look at the market and the economy in 2017?

Mr. Ullman: Without getting into political views, there's probably much more confidence in the economy than we've seen since the 2007 to 2009 financial implosion. A number of clients are extremely concerned about where the country is heading with the current administration. Many are worried about environmental areas, with a large segment of clients just not having faith in the current President.

A significant number, however, are much more positive because the President, putting politics aside, has made statements about corporate taxes being lower, bringing funds back into the country at lower tax rates and reducing regulations, etc. Thus, I believe that there is a much wider view by individual situation and philosophy than has existed for at least the prior eight to 10 years. While some people are very worried, others are enthusiastic.

When the President was elected, the next day, we had a staff meeting with our investment committee. While there was a real upset in the market indicated by an 800-point loss on the Dow at slightly after midnight, we got down to 200 to 400. It seemed that his positions in the near-term would be positive for business, so we fully maintained our investment decisions. But with all of the controversy and battles in Washington that are going on, that could be very detrimental to the country.

From a political standpoint, I guess I would say shame on both parties. They should want to put the country first, but they would much rather just try to make each other look bad. I do think, from a client perspective, there is a high degree of anxiety from the people who are not in support of the President and his policies, and in general, because of the currently high market valuations.

Some, in fairness, could attribute the strong equity market performance since the November election to the President's pro-business positions on taxes and less regulations. With the recent gains in the stock market, we have fewer stocks in buying range. There are stocks that we are buying, but it's much less than what it has been six, 12, 18 or 24 months ago.

To your question, as we have a balanced investment mix and we have very long-term clients, as a generalization, we aren't detecting a huge level of upset except in limited numbers where some clients are truly concerned. Also, we did have a small percentage of clients who asked us to get more conservative right near the election and certainly afterward, but it would be a very small proportion. Overall, I think that there currently would be a higher level of concern than existed 12 months ago.

TWST: As far as the Millennial generation, do you think that they're going to start to get more involved with the market if their incomes improve and they pay off student loans and those kinds of things?

Mr. Ullman: I'm not sure I would have a strong view on your question. Many younger people are doing things more themselves and take a personally active role. A large number of them probably follow the market more than their predecessors would have done. Many are very values-driven, focused on the environment and a variety of social issues. As a result, it will be extremely interesting to see how the combination of hands-on and values for this generation evolves over time.

From my perspective, I believe that many of the younger folks are more personally engaged than people generations earlier. Much is tied to technology, the internet, and being able to find and learn things so quickly. The capabilities of the current generation to do research and address questions are quite impressive.

TWST: Thank you. (ES)

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