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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Seeking Out Value in Health Care, Infrastructure and Technology

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SECTOR — GENERAL INVESTING

TWST: Let's start with an overview of the firm.

Mr. Ullman: Our firm was founded on August 28, 1978. Now, we have completed 45 years of service. We have a branch office in New York's Hudson Valley — and we're just completing 25 years in that location in Rhinebeck, New York. Our headquarters is in Big Flats, New York, near Corning, New York, our original, and still operating location. Both are located in Western New York.

Also, we just announced that we're in the process of opening another branch in Charlotte, North Carolina.

Guidance counselors are really focused on kids who have all sorts of major problems, so a lot of the kids who are very good students aren't able to get as much attention. College applications and selection is a very complex process. We think we've developed some approaches that are very helpful.

Our services are unlimited. It's very broad and comprehensive, and develops incredibly strong long-term relationships with our clients that are based on trust, ethics, and values at the highest level. That has always been the top priority for us. Having ethics and high values is not only when it's convenient, it's every day.

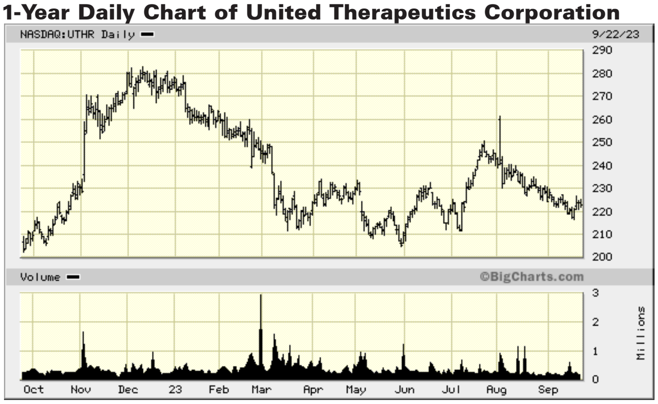
"In terms of our fixed income strategy, in our 45-year history, we are in one of our cycles of shorter-term average maturities. Conventional corporate and government bonds generally go out no more than three years to maturity."

The concept of the firm is, we believe, still quite unique. We offer comprehensive financial management services. They're meant to be all-inclusive, which includes asset management, and where we do our own internal research. We have members of our Investment Committee and our equity research team on the call today. We do all of our securities trading in-house as well — and all of the portfolio management.

We have about 20 technical advisers, and to be full advisers, they have to be Certified Financial Planners — CFPs. There are about 20 in that path right now, and all of us work directly with clients on financial planning and the broad-based services that we provide, which includes cash flow, studies for retirement, survivorship, making decisions on career paths, making major purchases and other directions.

We make sure clients' insurance coverage is adequate. A lot of that is liability insurance, including umbrella policies, as well as property and casualty. We don't sell anything at all. But we'll help people in shopping if they're looking for other insurance policies.

1-Year Daily Chart of United Therapeutics Corporation



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We have a tax department, and we do about 1,400 or more tax returns a year for clients. We also often help people with travel planning and credit card choices which have to do with status on airlines and hotels — and getting major benefits. We're even helping with college counseling for many of our clients who are in school systems in many parts of the country.

We are very blessed to have tremendous retention of long-term clients, as well as long-term staff and shareholders, as well as the members of our board of directors.

In terms of our investment approach, it is very mathematical. We developed our own process in trading, and our own methodologies of allocations of assets. They're almost entirely on individual stocks and bonds. For certain foreign countries, there are some exchange-traded funds, but they're a very small percentage of our clients' portfolios.

We've focused on a number of key sectors that we think have better long-term potential, depending on their valuations. We're value-based in what we do in the fields of interest, where we think there's going to be above-average growth over the next coming decades. That would include areas of technology, infrastructure, health care, as well as eventually getting back into some foreign countries, particularly developing ones in Asia and in the Americas. We have very little exposure in those areas at present.

There is also a miscellaneous group, where we're looking for things that look to be very much undervalued, which is different than the individual sectors.

And as markets rotate, different sectors and different companies become more attractive or less attractive over time. Every security that we have on our "buy" list has a targeted buy price and a targeted sell price. All of us as research analysts make recommendations to our Investment Committee, and make changes based on a combination of company-specific situations, industry circumstances, and market conditions. This does affect a lot of the decisions that we make.

We also have ranges and targets that we do change from time to time, based on market conditions of desired minimums and maximums as percentages of equities of each of the equity categories. And we have guidelines as to amounts of any individual security that would be maximums for us as well. So that's the methodologies that we've set up.

We believe that our approach is, again, very mathematical, and has been successful over a long period of time. In general, our value-based approach will tend to have, on average, much less volatility. We're hoping to get very good overall returns with lower overall risks.

In terms of our fixed income strategy, in our 45-year history, we are in one of our cycles of shorter-term average maturities.

Conventional corporate and government bonds generally go out no more than three years to maturity.

We do have some holdings that go out further. These would include some holdings of particularly high-quality issuers that are in foreign currencies. These could be in Canadian, Australian and New Zealand dollars at this time.

We also have bonds that are tied to the consumer price index, and they can go out further because they are variable rate. Additionally, we also have some bonds that have call provisions. They typically have increasing interest rates by contract over time.

So, those would be the issuers that would go out more than three years. But the vast majority of our bond holdings are intermediate- to high-quality, high-investment-grade, corporate, municipal and government securities right now, with three years or less to maturity.

Technology is where this country has always had strength in innovation, and that is likely to continue. However, those areas will tend to be quite volatile. So we're trying to make strategic investments in areas that have significant growth potential, but making investments in places where the valuations can be more likely justified on expected future earnings and cash flows.

In the area of health care, with the aging of the population and increased access to health care, both domestically and internationally, we think there is tremendous growth potential. Government is at the very early stages of trying to get costs down in health care. We think, over time, a balance will be struck, and areas with proprietary pharmaceuticals and equipment will have very increased potentials. So, in good markets and bad, we feel like there are sectors that have very good potential overall.

"We think the level of spending in infrastructure over the coming decades is going to be far greater than what is presently being anticipated. In the Northeast, there are thousands of bridges that are in very poor condition. Funding is going to be a major problem, but safety eventually is going to prevail."

We also may enhance potentials for fixed income by adding utility stocks, particularly gas and electric securities; there are some telephone issuers in there as well. To the extent they're regulated, these bonds have their pricing tied to different regulatory agencies. There is protection over time for well-managed utilities in an inflationary environment. We much prefer those versus long-term bonds.

We don't have any conventional bonds now, because while dividends are not guaranteed and utilities can omit or cut dividends over a period of time, if costs increase, they're able to pass along increased rates to cover those costs if they're appropriately managed, and they will end up — over a long period of time — having adjustments in their earnings and dividend policies based on interest rates and market conditions.

We had heavy utility holdings through about 2021. When we reduced them, many accounts would have had 22% to 30% of equities in utilities at that time. Right now, we're averaging about 15%, or a little under, of utility equities. That would be about 7.5% of client accounts in utilities.

We think the time is getting closer, with interest rates possibly peaking for the moment, where the utilities are looking to be more attractive.

We have a specific strategy for equities that tie into sectors that we like, which are, again, value-based. In technology stocks, for example, we're looking for companies that may be a bit out of favor, but in sectors that we really like. They're much less expensive and less volatile.

When it comes to the infrastructure, the needs in this country for roads, tunnels, bridges, water, and areas having to do with energy, including power stations for electric cars, the needs are enormous.

Included with this infrastructure sector are railroad crossings, many of which are totally insecure, and very tragic accidents have occurred. We think the level of spending in infrastructure over the coming decades is going to be far greater than what is presently being anticipated. In the Northeast, there are thousands of bridges that are in very poor condition. Funding is going to be a major problem, but safety eventually is going to prevail.

Now, we'll share three companies that illustrate the things we're following.

TWST: Great. Who wants to start with the first company?

Mr. Winnefeld: The company I'm following is **United Therapeutics** (NASDAQ:UTHR). The last price was approximately $229. The analysts have a target of $285. It's widely covered by about 17 analysts. It's a financially strong company, with a market cap of about $10.5 billion. Currently, the company has about $4.7 billion in cash, an enterprise value of approximately $6.8 billion, and it produces about a billion dollars in free cash flow.

1-Year Daily Chart of Albemarle Corporation

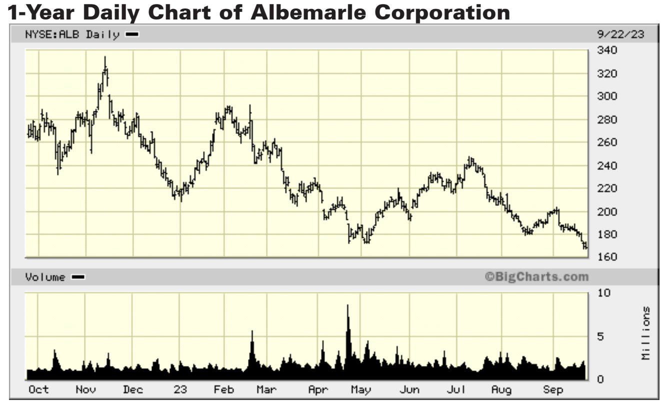

Chart provided by www.BigCharts.com

It was created in 1996 to save a woman's life. It's a public benefit corporation. People may not be aware of what these are. Basically, a public benefit corporation is one that's designed to benefit the public in some way. The focus is on both profit and mission.

So, in this case, the mission is to enhance the life of individuals who have pulmonary arterial hypertension, or PAH. The company's products have extended the lives of thousands of patients in this field. They sell and market four commercial therapies.

The first drug they use is Remodulin. It's an injection. Tyvaso is their key drug. The key thing with that drug is that in 2022, they got approved for an inhaler; it's called Tyvaso DPI. This drug accounted for $875 million in sales in 2022. This is expected to increase to $1.4 billion in 2024. The other medications are Orenitram and Adcirca, and their oncology product, Unituxin. This is used to treat high-risk neuroblastoma.

The current sales of Tyvaso accounts for 30%, Remodulin, 30%, Orenitram is 20%, Unituxin and Adcirca are 15% combined.

The goal in this company is to achieve $4 billion annual revenue by 2025. Currently, they have about $2.3 billion. So to do this, the company is actively advancing a pipeline in research and development, to include new indications, new formularies, delivery practices, as well as new products to treat PAH, cancer and other conditions.

So, right now, Tyvaso is approved to treat pulmonary arterial hypertension in about 45,000 patients. However, the company is currently in Phase III testing for the use for interstitial lung disease. If approved, the universe includes 30,000 new patients, and this also would extend their patent but would need FDA approval.

Mr. Abdalla: Yes, John mentioned that we like the infrastructure sector. That is due to some of the legislation that has been passed in recent years, including the Infrastructure Bill passed in 2021. It's worth $1.2 trillion of government spending, and provides incentives for the sector. In addition, the Inflation Reduction Act was passed in 2022, and that's worth $1.75 trillion. John also mentioned that we see a need for increased infrastructure spending over time that will facilitate electric cars, including electric charging stations.

One stock that I like, in line with this infrastructure investment thesis, is **Albemarle** (NYSE:ALB). **Albemarle** is a lithium mining and processing company. They had $7 billion of net sales last year. That is expected to grow to $11 billion in 2023.

They are seeing a lot of growth, due to the rise in electric vehicle adoption rates. There are more and more electric vehicles being produced. In fact, last year, the electric vehicle penetration rate of all cars manufactured globally was at 14%. That is expected to increase to 48% by 2030. That's a long-term increase in electric vehicle demand that we see will happen over time. That bodes well for lithium producers such as **Albemarle**, as electric vehicles have lithium-ion batteries.

"They believe within the next decade that they will be able to produce organs, including lungs, kidneys, or hearts. Currently, they are testing with animals, but they believe this could be a game changer for the company if they're successful in doing this."

They currently are active in late-stage testing in many different areas. These include PAH, which is pulmonary arterial hypertension, Phild, which is the pulmonary hypertension associated with interstitial lung disease, PFF, progressive pulmonary fibrosis, gene therapy, and organ manufacturing.

They believe within the next decade that they will be able to produce organs, including lungs, kidneys, or hearts. Currently, they are testing with animals, but they believe this could be a game changer for the company if they're successful in doing this.

The company's earnings in 2022 were about $15 a share. They're expected to grow this to $19.20 per share, which is a 28% increase, over the next two years. The following year's EPS is expected to grow by about 10%. This year, the p/e for the company is 11.7. This is much cheaper than the overall market, with the S&P selling for about 20 times earnings. So you're getting an extreme discount for a company that is actually growing faster and is stronger than most other companies.

But saying all this about the company, there are also risks. The biggest risk involves one active ingredient which is treprostinil. This accounts for three of their marketed products. There's a high risk in that there's a substitution effect in generic. When generics are involved with manufacturing a different drug, generally the prices go down and your margins go down.

So, the key factor with this company is, are they able to extend their patent lives? They have key drugs in PAH that have been a success, but can they create new formularies or new avenues to use these drugs? If they are able to achieve their results with new R&D and more successful testing, we believe that this could be a big winner over the next few years.

TWST: Do we want to go to the next company?

Now, it's not all good news for the lithium market. In fact, it is in a current state of oversupply. There's a lot of lithium supply that came to market last year from Australia. And with that, lithium spot prices dropped 50% from last year's high. We saw that as a buying opportunity for **Albemarle**, as it traded below six times price to earnings. Brett mentioned that the average stock in the S&P 500 trades around 20 times, where a six times multiple offers us an attractive entry point.

1-Year Daily Chart of Taiwan Semiconductor Mfg. Co. Ltd.

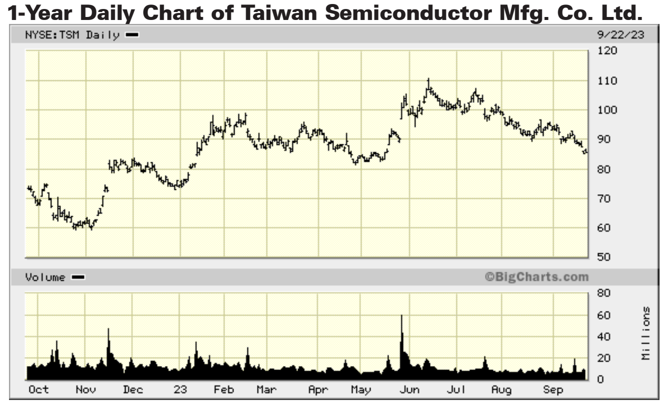

Chart provided by www.BigCharts.com

So, not only does **Albemarle** have a good secular long-term growth history, it also trades at an attractive valuation. And that's the combination that we look for here when we identify securities to invest in for our clients.

TWST: And did you want to talk about a third company?

Mr. Armstrong: Sure. The company I'd like to talk about is **Taiwan Semiconductor** (NYSE:TSM). **TSM** is trading at approximately $95 a share right now. Market cap of just under $500 billion, with about $24 billion in net cash. **Taiwan Semiconductor**, as you can tell by its name, is headquartered in Taiwan. Most of its production facilities are also in Taiwan.

Taiwan Semi pioneered the so-called foundry model in the 1980s. The foundry model of semiconductor production is basically that they don't design the chips, they merely produce them. Their key insight in developing this model was that production of semiconductor chips is extremely difficult. It requires a very high level of technological capability and it's very capital intensive.

They take chip designs from companies like **Apple**, **Qualcomm**, **Nvidia**, etc. They actually manufacture the chips and package them. They don't compete with their customers, so they can serve any semiconductor design company in the world.

Today, they are the preeminent semiconductor foundry company in the world. They are well ahead of **Samsung** (OTCMKTS:SSNLF) and **GlobalFoundries** (NASDAQ:GFS).

I think that's what makes **TSM** in a very attractive situation right now. This company has strong pricing power, driven by their technological leadership. They also have high barriers to entry that we've talked about, including technological capabilities and capital intensity. They spend over $30 billion a year and in capex.

Worldwide demand right now is in a cyclical downturn. Customers, especially in smartphones and automotive, had really bulked up their inventories in the last couple of years out of fears of supply chain disruptions. Now they are over-inventoried. So they're working their inventories down.

And I think that's one of the reasons why we've seen **Taiwan Semi's** stock price lag a bit. But I think we're going to see some improvement in order flow by the fourth quarter of this year, or certainly by the first half of next year.

I think we've got a good opportunity here. This company is growing their earnings, both earnings per share and EBITDA, at a 20% compound rate over the next two to three years, trading at a 15 p/e and an 8.2 times EBITDA multiple. So I think we've got a company with strong earnings growth, and whose valuation multiples don't really reflect the growth potential of this company going forward.

"TSM is a key enabler of the proliferating artificial intelligence semiconductors, as well as leading-edge custom chip manufacturing. They are the sole supplier for Nvidia's AI chips, their graphic processing units, and that puts them in a strong position."

They lead the industry in cutting-edge technology. They are now selling 3 nanometer chips, and are well on the way to introducing to the market 2 nanometer chips, which will probably start hitting the market next year. What that refers to is the width of the circuits that go through the chips and the wafers.

As most of us know, a nanometer is one-billionth of a meter. So, these are extremely tiny specifications we're looking at and very difficult to reproduce. And that's why there are only a very few companies in the world who are capable of doing this.

The key end markets are high performance computing, which would include data centers, gaming computers, servers, smartphones, Internet of Things, and automotive applications. So, **TSM** produces chips for all of these applications worldwide. They're the biggest chip supplier to **Apple**, **Nvidia**, **Qualcomm**, and many other large companies.

They've been called perhaps one of the most important companies in the world in terms of the world economy, because semiconductor chips are now powering almost everything that we use, from phones to cars, to industrial machinery. Without semiconductors, the world economy would come to a very rapid slowdown.

TSM is a key enabler of the proliferating artificial intelligence semiconductors, as well as leading-edge custom chip manufacturing. They are the sole supplier for **Nvidia's** AI chips, their graphic processing units, and that puts them in a strong position.

As I'm sure you and your readers know, **Nvidia's** stock has really just exploded extraordinarily, with these very strong earnings numbers that they've been reporting. **Taiwan Semiconductor**, on the other hand, has not really followed suit yet. We'll get into that in a minute.

We have a target sell price of $152 on **Taiwan Semi**, and as I mentioned, it is trading at about $95 right now.

TWST: So, what's on the minds of a lot of your clients right now? What advice are you giving them?

Mr. Ullman: I would think there's a lot of concern about the general economy. I think a fair number of people who have investments are concerned about the fiscal situation in this country. We have programs that we're not paying for and we're raising the deficit. I think there are concerns about higher inflation down the road and potentially higher interest rates and a weaker dollar.

Politically, there are people who either want to have more programs and spending or less spending. There are people who are concerned about having a balance between spending and revenues and that's not necessarily Republican or Democrat. It's about being fiscally responsible.

The amount of debt of around $32 trillion that's out there, the fact that every 1% higher interest rate that the federal government pays generates about $320 billion pre-tax additional costs for the federal government, per year, in deficit. So, a little over 3% change in interest rates the government is paying is a trillion dollars greater deficit, which helps stimulate the economy over time.

However, this debt is a real problem, and I think a lot of people are very worried about the political situation in this country, regardless of party. I think most people just want to be Americans, and they feel very uncomfortable with the level of confrontation that's going on in Washington.

So I think the level of concern about the direction of the country is higher than it typically ever has been. I also think that people have a high degree of discomfort with where things are headed, and that really is often independent of political views.

TWST: And how does that play out with how your clients handle their investments?

Mr. Ullman: The volatility in the market — for example, last year many of the technology stocks were getting hit very hard. Then the very small percentage of extremely large companies that have done exceptionally well this year, we think it just raises clients' anxiety about what the risks are down the road.

We think many clients who have assets under our management will tend to be older, even though that's not always the case. There's probably a greater level of concern over whether the future may be as bright for their children and grandchildren as it was for themselves.

We think there's an overall higher level of anxiety about the country and a lot of the uncertainties.

TWST: And anything we haven't talked about, you care to bring up?

Mr. Abdalla: Well, I can mention the dynamics of the market over the past few years that have been very unique. We had a COVID world, with a very high unemployment rate that was a very scary time for everyone, including our clients, and many concerns around that high unemployment rate. With that, the federal government did respond. We saw massive spending with higher fiscal deficits over time. But that stimulus led to higher inflation rates, that were also due to the logistical constraints of the pandemic, and we saw that. That was the big story last year, and we had a bear market last year.

Now, this year, inflation rates have come down — and not yet to the Federal Reserve target of 2% — but around 3%. So, this is very much more reasonable than what it was last year, which was above 9%. But we see a strong economy right now with that low unemployment rate, and a lower inflation rate.

The question is, what's going to happen next year? There were a lot of predictions of a recession this year that did not materialize. Some leading economic indicators, including the yield curve inversion, did indicate a recession. One of the reasons why that recession did not happen was due to the strength of the American consumer. We saw higher earnings in terms of wages and higher purchasing power.

The consumer feels confident for two big reasons. One is the equity they have in their home is much higher than the debt they have on their home. Second, they still have cash left from that massive government spending during the COVID era. So we do see a short-term healthy economy. That's why the market year-to-date is up but there's uncertainty on where it's heading next year.

One big risk to the market is how concentrated it is in certain stocks. Those stocks have driven the market upwards during the bull year, but, as well, it can drive the market downwards when they correct. So market volatility is a key concern going forward.

Also, the fact that we have short-term bonds that yield more than long-term bonds and that's unsustainable over time. So that will lead to volatility both within the stock market and the market overall.

Those are key monitoring points that we're paying attention to here as the Research team.

Mr. Ullman: And Mark's comments brought another point to mind. Our view has been more constructive of the market than many. When we looked at this — it is pre **Silicon Valley Bank** — I think that really did set the economy back quite a bit, but when we look at the incredibly low unemployment rates, the difficulty in many sectors even though there have been recent layoffs in a number of areas, when we look at those jobs that couldn't get filled, and Mark's point about consumer spending, there seemed to be less price sensitivity after COVID.

Airline prices, car rental prices, hotel prices, restaurant prices went up dramatically and demand seemed not to be badly affected; there is a lot of consumer interest. So, with the very low unemployment rates, the pent-up demand, we have been much more positive on the short to short-intermediate economy than many, and we've stayed very fully invested.

But having said that, when **Silicon Valley Bank**, **Signature Bank**, **Republic Bank**, and **Credit Suisse** basically all failed, that put a real strain on the economy and overall creditworthiness, and that does hurt the prospects quite a bit.

Now, we fortunately, with our value-based approach, did not have any equity exposure to any of those banks within the recent time period. Fortunately, our limited bank exposure was largely **JPMorgan Chase**, and some very small community banks. Again, that's on a value-based concept.

For disclosure though, we did have a number of millions of dollars of bonds in one regional bank which came due in July, but we sold them right away, so our clients' accounts were not terribly affected.

But I did want to mention that we have been more optimistic than many because of the unusual circumstances that have been described with the unemployment rate and pent-up demand being as strong as they have been coming out of COVID.

TWST: Thank you. (ES)

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