The Zion Effect

YEAR TWO OF THE BB&L’S MARKET MADNESS Tournament

THE “ZION” REGION

Stocks with “Z” in their ticker symbol

SEE PAGE A1, BELOW

THE “WILLIAMSON” REGION

Stocks with “W” in their ticker symbol

SEE PAGE A2, OVER

Your Professors Pick the Winners in a Tournament of Investments

Bracket Headlines

STZ vs. ZTS: Modelo Parent Takes on Pet Medicines in Palindromic Match-Up

Pro Gamer “Ninja” Helps Stock Take Round One Win

Late Night Food Favorites Clash

See page B1 for the Final Four

Jon Sheridan: “In a world where Amazon squeezes and the rest of the world catches a cold, I see no alibi to keep Zynga healthy from this plague. While most know the Seattle-based company for its online store and Prime two-day delivery, AMZN has rolled out several profitable ventures, including video streaming, cloud computing services, and brick-and-mortar retail food via its 2017 Whole Foods acquisition.

Another important business in this discussion is AMZN’s Twitch, a video game streaming service. This sector’s dollar votes are being won by Generation Z and Generation Alpha, whose ideals include professional gamers, such as Ninja on Twitch. With the introduction in recent months of Google Stadia (omni-platform gaming service) and Apple Arcade (which includes established brand collaborations such as LEGO), and Microsoft’s well-established Xbox Business, Amazon may soon realize the greater revenues by moving into gaming content.

For Zynga, games such as Farmville and Words With Friends were revolutionary shortly after the iPhone’s inception, but today ZNGA does not have a single brand or offering with that can compete with other games making societal waves in the mobile gaming industry.”

Dr. Hume: “Domino’s delivers the tip-off compared with Mondelez as my stock pick for the short-term.

Domino’s is the largest Quick Service Pizza Delivery firm in the world, delivering over 2 million pizzas a day. DPZ’s forecasted one-year stock price is $120 compared with $240 currently. While its forward P/E is a rich 23x, this figure is below that of competitors. Forecasted earnings growth is 18% over the next year and is about 15% over the next five years. Over the long run, while DPZ has made progress in its product line (70% of product items are new over past five years), competitors such as Blaze Pizza offer healthier options that today’s consumers crave.

MDLZ is trading close to its forecasted one-year stock price of $51 with limited upside. Its earnings growth is projected at under 3% this year and 6% over the next five years. Its forward P/E is 18x. From its heavy presence in Europe, where GDP growth is forecasted to flat to negative in the near-term, MDLZ’s stagnant growth prospects are reaffirmed.

If you were evaluating your stock buys based on sustainability metrics you might not buy DPZ for the long-term. DPZ is in the bottom 4th percentile of ESG prospects are reaffirmed. Five years. Its forward P/E is 18x. From its heavy presence in Europe, where GDP growth is forecasted to flat to negative in the near-term, MDLZ’s stagnant growth prospects are reaffirmed.

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Connor Introna: “These are two very different companies. Constellation Brands has a diverse portfolio of well-known alcoholic beverages, including Corona and Modelo beers. In addition, the company has exposure to cannabis via its stake in the Canopy Growth Corporation. Zoetis, meanwhile, is gaining popularity in the pharmaceutical end of the humanization of pets, a powerful investing theme. The stock of Zoetis has returned more than 100% to shareholders over three years, while Constellation Brands, after a brutal 2018, has been virtually flat (beer pun intended).

At current levels, Zoetis trades at a greater premium than Constellation Brands, but rightly so. After all, this match-up is between a company that is doing well versus a company that needs to make some structural changes in order to jumpstart growth. On the next pullback, Zoetis should be on the shopping list.”

Dr. Choi: “I chose Zillow over Verizon as Zillow is tech firm with a huge addressable business market with very limited balance sheet needs while Verizon is a communications firm which exists in a highly capital intensive and low growth industry, in addition to having limited balance sheet flexibility. Zillow’s revenue was up 28% YoY in 2018 and is expected to ramp up over the next few years. Given its strong balance sheet with net debt being negative, it has enough balance sheet capacity to make its transition into both direct homes and mortgage initiatives.”
BAY AREA BATTLE

"ACQUISITION HEAD-FAKE" SIDELINES CORPORATE.

Dr. Hume: “Overall, there are two fundamental reasons to expect Wynn’s stock price to remain at current levels, if not drop:
1. An acquisition head-fake. One day after Wynn announced the acquisition of Crown Resorts, an Australian gaming company, the bid was canceled due to premature disclosure by the bidder itself. Pre-announcement, Wynn’s price had increased 15% over a three-week period and dropped over 5% on announcement day.
2. Poor Environmental, Social and Governance (ESG) rating. Firms with low scores are not as valued by investors. Wynn has a poor ESG score of 48/100, in the bottom 25th percentile according to Sustainalytics, well below its peers. The firm’s founder, Steve Wynn, resigned amid sexual misconduct allegations and WYNN will pay an undisclosed fine in Nevada.

Dr. Choi: “I chose WBA. WBA is the world’s largest retail pharmacy chain operating globally. It trades at a 2019 P/E of 9x and expects earnings to grow at low single digits over the next two years. Its 2018 ROE of +18% with a dividend payout ratio <35% leaves a lot of flexibility for management to reward shareholders. The company has been consistently FCF positive for many years. One has to acknowledge the concerns of Amazon entering the pharma space, but given current valuations, it is worth being an investor at current levels.”

Connor Introna: “This is a tough one. Historically, both Sherwin-Williams and Waste Management have been industry leaders and terrific stock market performers. On one side, Sherwin-Williams is a paint and coatings company which has grown its revenue very robustly over the past few years. On the other hand, Waste Management, whose stock is up almost 20% from December lows, has fewer competitors than Sherwin-Williams. Waste Management is a pure industrial play and very steady, but Sherwin-Williams may have more upside if its market share continues to grow and boost its top and bottom lines. Both would benefit immensely from increased spending in infrastructure, but are also both really well-run enterprises. However, there is a strong reason to believe that Sherwin-Williams could offer investors more upside at current levels when considering its growth rate and ability to generate higher revenues.”

Jon Sheridan: “Two Bay Area innovators clash for a bid to the Elite Eight. In 1852, a small bank was founded in San Francisco that would gradually flourish into one of the world’s largest. Then, 154 years later, a small tech firm started up in the same city would help change the world via communication and social networking, in 140 characters or less. After a slew of allegations involving fake accounts and unethical mortgage fees, one of America’s oldest banks has lost the country’s trust. After pursuing out CEO John Stumpf after the string of unethical practices, one would think the Bank’s board would bring new perspective and clean out the C-suite rather 29-year WF veteran Timothy J. Sloan who was promoted from COO to CEO. The future is bright for TWTR, whose monetizable DAUs have grown at ~9% for the last four quarters, an impressive feat for an established player in the social media space.”

NOTE: THE FIELD WAS SEEDED BY MARKET CAPITALIZATIONS AS OF 3/22/18. FOUR TCNJ SCHOOL OF BUSINESS ANALYSTS WERE RANDOMLY ASSIGNED TO EVALUATE EACH RESULTING BRACKET. COMPANIES ADVANCED THROUGH THE TOURNAMENT BASED ON ANALYSTS’ CASES FOR THEM BEING A SUPERIOR INVESTMENT TO THEIR OPPONENT.
WINNERS FROM THE SWEET SIXTEEN:

Amazon
1
MC: $881.34B
E-Retail, Cloud Computing

Domino's
6
MC: $10.03B
Pizza Restaurants

Zoetis
4
MC: $47.35B
Animal Health

Zillow
7
MC: $7.21B
Real Estate Services

Twitter flies to Final Four

Domino's Dominates
(Despite Prevailing Pizza Preferences)

SEE PAGE B2 FOR THE CHAMPIONSHIP ROUND

Jon Sheridan: "What comes to mind when you think of a pizza chain from the Midwest? Being from NJ, I think of a few less-than-pleasant things to say about any U.S. pizza not from NJ/NJ (including cutting pizza into squares and using Ranch as a topping...YUCK!). One thing I know does not come to mind is the word innovation -- but, one could argue that DPZ, the once-small chain of pizza stores from Ann Arbor, Michigan, has paved a path of technological advances that are unmatched by its pizza peers and the greater restaurant industry. The Michigan chain was able to grow its international base in 2018, adding an additional 800 international store fronts -- an impressive feat showing that the company is still in major growth mode.

With strong leadership, brand reputation, first-mover advantage, and fearlessness to innovate in a space that is ripe for increased consumer technological advances, DPZ understands what the customer experience should be and caters to it. While AMZN's business model is much larger and more diverse, driving margins for AMZN in AWS. As AMZN continues to face pressures from cloud startups as well as established players in the space such as Oracle, Salesforce, and Microsoft, AWS could see its market share diminish over time."

Connor Introna: "These are the two retailers of the Dow Jones Industrial Average. On one side, Walgreens is a domestic and international retail pharmacy and pharmaceutical wholesaler with more than 45,000 employees and $131 billion in revenue. In the United States alone, Walgreens has more than 9,500 locations. For Q1 2019, however, Walgreens had a miserable quarterly report. With revenues expected to be flat, competition on the rise, same-store sales declining, and levels of net-income middling, many fear that Walgreens’ terrible 2019 could be the start of something more serious.

On the other side, Walmart is a retail juggernaut and is one of the best hopes against disruptive Amazon. Operating more than 11,600 stores in 28 countries and e-commerce websites in eleven, Walmart is the largest company in the world by revenue. However, Walmart has a few serious challenges: labor costs, contracting margins, and competition. These three challenges have put serious pressure on the company, which has seen its net-income steadily decline over the past five years. Walgreens’ stock has fallen to levels that make it look like an attractive buy. At a P/E well below the market average, a high dividend yield, and with the company still buying back plenty of stock, one might think this would be the clear winner. However, unless Walgreens’ stock can bottom out on a technical basis, more pain might still be ahead. Because Walmart is diversified, has exposure to e-commerce (and pharmacy), has pricing power, and could cut costs with automation, it’s a safer investment in the retail industry."

Dr. Choi: “I chose Twitter as it is the most prominent mass communication digital platform today. With U.S. election season about to ramp, the company will benefit from the heightened visibility and usage of its medium. In 4Q 2018 revenue was up 24% YoY and operating income was up 88% YoY. Advertising revenue by geography was also up by 20% both in international and U.S. markets. Monthly Active Usage was down -9% YoY, but the company’s focus on quality and not quantity will help drive future earnings. I also expect that the continued focus on highlighting important decision makers will help drive future digital engagement.”

Jon Hume: “Zillow is the leading real estate and rental website, providing over 27% of the market’s monthly listings (when including its subsidiary Trulia), its total share stands at 44%. Zillow supplies free online real estate values to property owners, while relying on ad sales to agents for revenue growth. Zillow is now ready to hone its flipping for money growth, a potential couple of interest. As it provides open access access to home values, taking on this new model may influence public valuations. Its fundamentals are not bad. Zillow isn’t currently profitable, so analysts look to EPS for growth -- for Zillow, that’s about 25%.

Zillow’s price is down 35% so far year to date. We are using a fundamental shift in America’s demand for home buying towards a preference for renting. There are several reasons for this. Millennials and Gen Z are more socially conscious, more involved in saving the planet, historically burdened by debt, unwilling to invest in acquiring a home in a post-crisis period in house ownership responsibilities, are faced on the housing bursts of the financial crisis, and have difficulty finding supply as first-time homebuyers due to price appreciation and shrinking of inventories.

Zillow is an animal health fron run off of Pfizer six years ago. Most of its business is animal health, providing medicines and vaccines for livestock and pets along with diagnostic tests. Its stock price is up over 22% YOY compared with almost 12% for the S&P 500 and the industry trend. ZTS host analyst expectations on EPS for the past four quarters with a 6.5% annual earnings surprise. Will this trend continue? Its P/E multiple is two times as rich at 34x as compared with pharma industry of 18.6x. It always have a little more room to move over the next year based in the company fundamentals and its being in a favorable industry where it is not facing potential price restrictions against pharma firms due to price reductions or shrinking of inventories.

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The other side, Wal-mart is a retail juggernaut and is one of the best hopes against disruptive Amazon. Operating more than 11,600 stores in 28 countries and e-commerce websites in eleven, Walmart is the largest company in the world by revenue. However, Walmart has a few serious challenges: labor costs, contracting margins, and competition. These three challenges have put serious pressure on the company, which has seen its net-income steadily decline over the past five years. Walgreens’ stock has fallen to levels that make it look like an attractive buy. At a P/E well below the market average, a high dividend yield, and with the company still buying back plenty of stock, one might think this would be the clear winner. However, unless Walgreens’ stock can bottom out on a technical basis, more pain might still be ahead. Because Walmart is diversified, has exposure to e-commerce (and pharmacy), has pricing power, and could cut costs with automation, it’s a safer investment in the retail industry.'
## The Final Four

### Winners from the Elite Eight:

<table>
<thead>
<tr>
<th>Logo</th>
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### Bracket Headlines

**Animal Logo vs. Animal Health**

**Twitter squares off against Zoetis in the finals**

**Domino’s and Zoetis go down to the wire in the final four**

### 2019 Market Madness Champion

**Connor Introna:** “If only Zoetis could prescribe some vitality into the veins of poor Twitter. This pharmaceutical company does more than just keep pets healthy; it keeps portfolios alive and well, too. With a steady business coasting on the humanization of pets’ secular expansion, Zoetis is a quality company with a healthy balance sheet and many years of consistent returns ahead. Unlike many healthcare companies, Zoetis will likely not be impacted by any market turbulence caused by debate over the U.S. healthcare system in the upcoming election. It’s a solid defensive play in a market overrun by volatility, and it wins this fight.”

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**THE BB&L**

**THE FINAL FOUR**

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**Last Year’s Final Four:**

3. FedEx
5. Lam Research
3. Starbucks
2. American Express

**Domino’s**

6. Domino’s (NYSE: DPZ)
MC: $10.03B
Pizza Restaurants

**Zoetis**

4. Zoetis (NYSE: ZTS)
MC: $47.35B
Animal Health

**Walmart**

1. Walmart (NYSE: WM)
MC: $285.65B
Retail

**Twitter**

7. Twitter (NYSE: TWTR)
MC: $25.35B
Social Media

**Dr. Choi:** “Zoetis and Domino are two very well-run firms in very different industries. Both firms have excellent management teams and have handily beaten the S&P 500 Index over the last five years. Choosing between them was a hard decision. Zoetis has been a world leader in developing medicines, vaccines, and other products and services for veterinarians and livestock producers. It was spun off from Pfizer in 2013 and has continued to expand its product offerings by internal growth as well as by acquisitions. The 2018 acquisition of Abaxis allowed its operation to expand into diagnostic instruments for veterinary care services. Zoetis posted FY 2018, adjusted EPS growth of 30%, predominantly driven by growth in dermatology, vaccines, and parasiticides. With 2019 guidance of earnings growth greater than 15% predominantly driven by organic growth across markets, the stock should continue to do well. A global footprint will allow it to expand in emerging markets with high quality products to address the growing animal health markets. A conservative balance sheet will allow it to continue to invest in R&D, driving future growth.

Domino’s is a fast food chain firm driven by its excellent franchisee model and global reach. As retail growth cools and consumers move away from fast food to healthier choices, driving long-term growth for the firm will remain challenging. Domino’s has successfully overcome challenges from customer complaints over the last decade about pizza quality by overhauling its recipes and adding more choices. Its investment in creating new technology to address sales through digital channels has allowed it to handily beat the S&P 500 over the last decade. But, with comparable store sales up less than 5% in the latest quarter being much lower than 8% growth last year and the stock trading at 30 P/E, Zoetis provides a more compelling story.”

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