



12/30/2025

Weekly Webinar

INTRODUCTION – FOCUS ON FUNDAMENTAL ANALYSIS

An analyst for several decades

Senior Analyst - Value Notes

CFO - CPA firm, business consulting

Analyst - Motley Fool and Seeking Alpha

CFO - L Capital, family office, project analysis and capital allocation

At Fountainhead, we believe that investing in businesses, whether it's a massive Google or a startup with \$200Mn in revenues. Every business must be valued based on their fundamentals, irrespective of their daily price movements over which we have little control. But we do have analytical ability to analyze and value businesses and base our decisions on how well they perform. If you've been familiar with my work in the past year and a half, I really like to go for businesses which are market leaders, and have strong, competitive advantages, very strong balance sheets, and great margins which allows them to price their products or services way higher than the competition. To me the biggest incentive to invest in a company is its "moat" or significant competitive advantages. The term "moat" was coined by the great Warren Buffett signifying an unbreachable competitive advantage, like a deep moat surrounding a castle to keep out intruders. The hugely successful Peter Lynch, also placed a tremendous emphasis on investing only in great businesses and not worrying about the market.

Four examples of companies with great moats are Nvidia with its high-powered GPUs, Google with search, Taiwan Semiconductor with its manufacturing operations, and ASML with its EUV lithography machines, without which you cannot create a high-powered GPU.

THE BARN BURNER GDP (GROSS DOMESTIC PRODUCT) REPORT Q3-2025 -1

Q3 – 2025 GDP grew 4.3! This one came in smoking hot: the thrust of the report was a strong economy roaring on consumer spending and business investments.

It was the fastest increase in two years, and it smashed estimates by more than 1%.



THE BARN BURNER GDP (GROSS DOMESTIC PRODUCT) REPORT Q3-2025-2

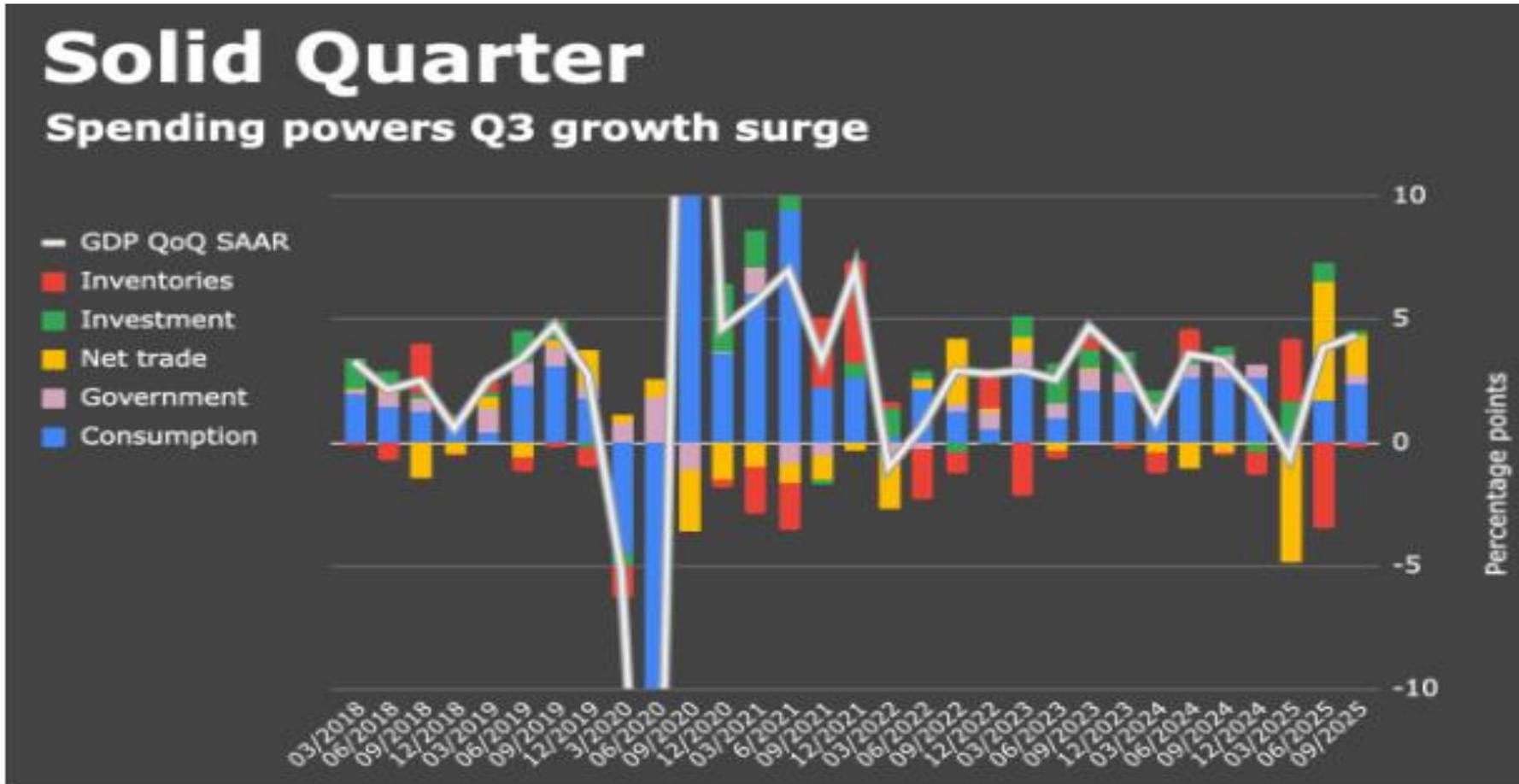
GDP is still getting some noise from the tariff shakeup with net exports accounting for 1.6% of the increase.

Net imports are excluded from GDP, and because imports were front-run in Q4-24, and Q1-25 to avoid high tariffs, GDP numbers were skewed lower and we're seeing a part of this rebound now.

The American economy is hugely reliant on the consumer and personal consumption performed strong, rising 3.5%, the fastest since Q4 of last year.

Spending accounted for 2.4% of overall growth.

THE BARN BURNER GDP (GROSS DOMESTIC PRODUCT) REPORT Q3-2025-3



BUSINESS SPENDING, CAPITAL INVESTMENTS REMAINED STRONG

Business investment rose 2.8% following 7.3% in Q2 and 9.5% in Q1, confirming that the huge data center buildout continued in Q3-2025. **I believe this will continue to remain strong in 2026.**

However, we'll have to be careful of volatility the way we saw with Oracle and other cash strapped players.

The final sales to domestic purchases line was also solid at 2.9%.

The average of GDP and GDI (Gross Domestic Investment) was 3.4%, following up to the 3.2% growth of previous quarter, and the highest since Q4 of 2023.

The PCE - Personal Consumption Index, jumped a lot to 3.8%, but the quarterly core PCE, (which strips out volatile items) print was an in-line at 2.9%. The Federal Reserve pays close attention to the core PCE, and I suspect a strong number like this will ensure that there is no rate cut in January. At present the odds of a January rate cut are just 18%.

We'll see if the December payrolls number changes that. The consensus estimate is for a 120,000 jobs gain but I would be very surprised if we get that number.

THE DICHOTOMY BETWEEN STRONG GDP AND WEAK PAYROLLS

A key dichotomy of 2025 and likely to remain so for the next couple of years would be to reconcile solid GDP numbers with poor labor market growth.

This dichotomy is real and likely to persist, because:

A) GDP growth has been fueled by robust business AI investment, as we saw in the last three quarters.

B) Consumer spending has been fueled by higher income cohorts - to whom stubborn inflation and the fear of losing jobs hasn't stopped from spending stock market gains.

In other words, a K shaped economy.

The unemployment rate is now 4.6% we're back at a level last seen in 2021.

The Wall Street Journal, and others indicate that the job market could remain weak because of a continuing lack of hiring for the near future.

INVESTMENT STRATEGY 2026

The divergence between stronger business and higher cohort spending and rising unemployment is going to influence my investing strategy for the 2026-2027.

I believe the unemployment rate will drift to 5% from the current 4.6% now, and inflation will also stay stubborn around 2.6% to 3% through 2026.

It would make sense to start getting more defensive as we see consistent degradation each month.

The goal will be capital conservation

Any return in the portfolio above 12% would be a bonus - after three years of over 20% returns fueled by the AI boom, we should be very happy with that number, simply I don't want to take more risk than this.

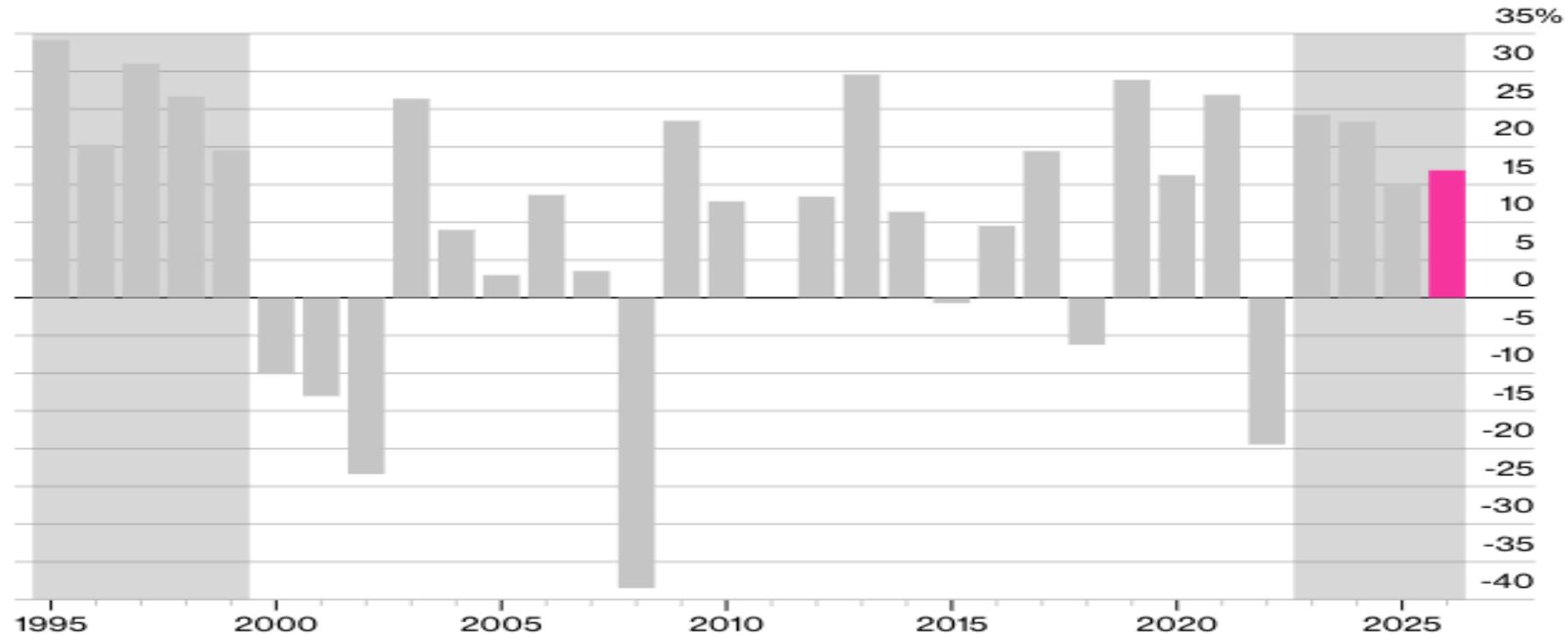
It's more important to not look for home runs this year.

INVESTMENT STRATEGY 2026 – TOO MANY BULLISH ANALYST CALLS

Highest Target Sees 4th Straight Year of Double-Digit Gains

That would be the S&P 500's best winning streak since 1999

■ S&P 500 annual performance ■ Strategists' highest estimate

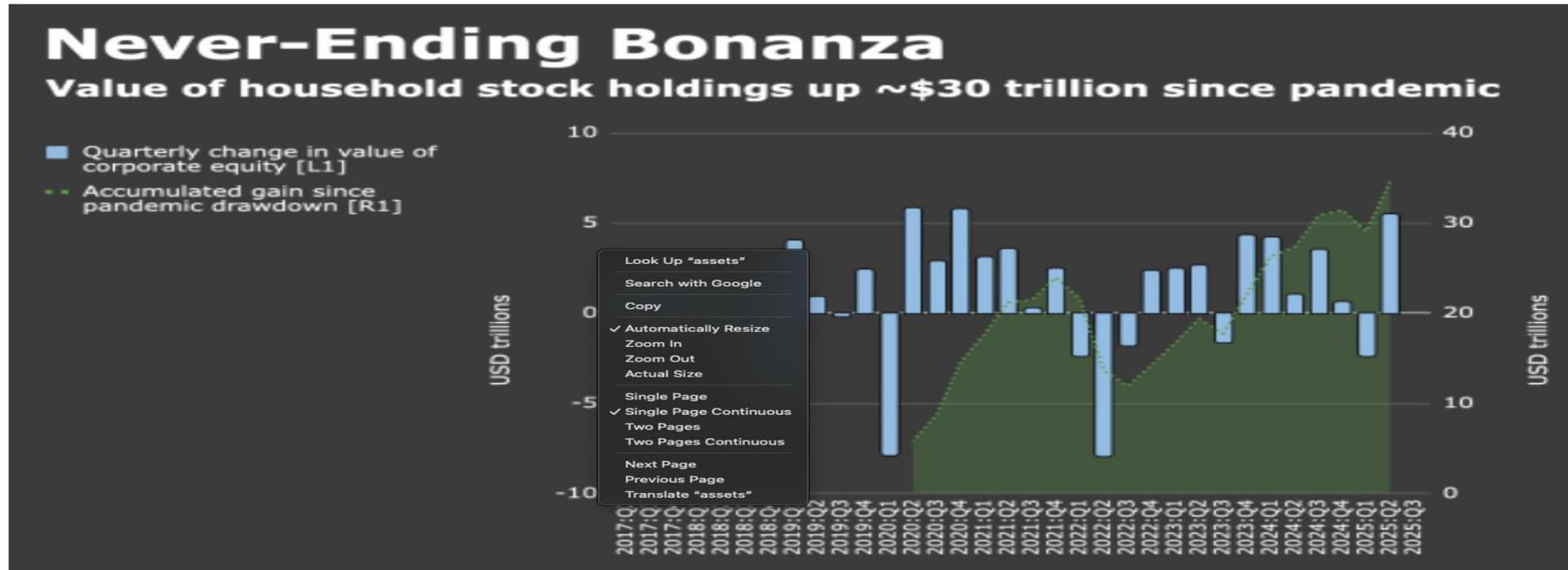


Source: Bloomberg

Note: The 2026 forecast is based on the S&P 500's close on Dec. 26

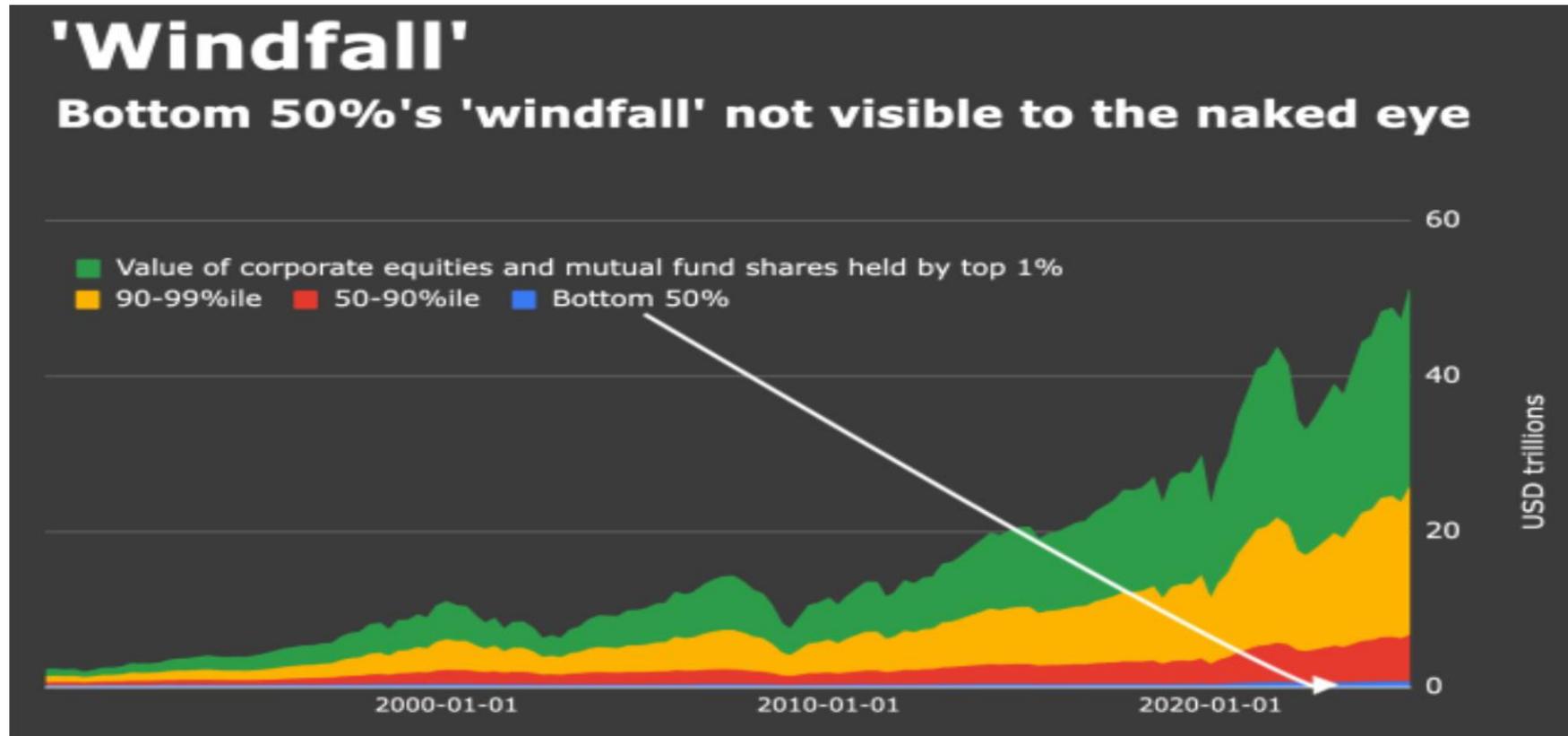
INVESTMENT STRATEGY 2026 - TOO MUCH RIDING ON HOUSEHOLD WEALTH

From Q2 of 2020 through Q2 of this year, that windfall exceeded \$30 trillion.



INVESTMENT STRATEGY 2026 – THE BOTTOM 50% DOESN'T HAVE THOSE GAINS

The bottom 50% is not a participant in robust consumer spending.



INVESTMENT STRATEGY 2026 – PRICED TO PERFECTION

Analysts see a 9% advance for the S&P. If that pans out, it'd mark the first instance of four straight annual gains since the dot-com frenzy, which is to say since the last tech bubble.

It's important for the economy that stocks keep going up for the well-to-do to spend more.

It's not one-to-one, of course, particularly not on the way up (you're not going to buy a new car for every \$50,000 in paper wealth your VOO mints), **but there's a correlation and it's much stronger on the way down.** In other words: If stocks were to suffer a meaningful and sustainable decline, spending among the "merely rich" would absolutely falter and with it, the broader economy. If anything goes materially wrong with consensus forward earnings expectations, it will hurt disproportionately.

If the market gets a whiff of trouble, stocks will de-rate preemptively to account for a possible disappointment. We have seen that will several companies and industries.

The fact that not a single professional top-down forecaster -- not only the biggest banks, but also boutique firms — is out on a limb is a huge contrarian indicator and we have to worry about the markets being priced to perfection.

AI – THE NVIDIA - GROQ PURCHASE

\$20Bn reportedly for \$500Mn in sales, but Groq's LPUs likely to grow to \$4Bn.

Prevented Groq from developing a CUDA like operating system, which is really Nvidia's biggest moat.

With over 100,000 LPUs by early 2026, the largest AI inference cluster outside of the major hyper scalers (Google, Amazon, Microsoft).

Groq uses SRAM, (Static Random Access Memory) which is more expensive than HBM, but is much faster for specific workloads and customers have been paying for that speed.

Nvidia unveils the Rubin next year as a successor to Blackwell, and this is where Groq fits in.

Essentially, for the larger AI story to succeed, and for smaller enterprise software, Agentic AI, physical AI, or other service providers to penetrate/democratize the AI market, it has to be done at scale and much, much more economically. That means that TPUs, (Tensor Processing Units - like Google's Ironwood), LPUs - essentially all inference, and ASICs including Nvidia's own inference chips will occupy significant market share in the next decade.

STOCKS – DELL

The company, which largely suffered from cyclicalities (revenue decreases every 4 years or so) is now getting a better valuation because AI datacenter servers are generating a higher percentage of total revenues.

PCs, Servers, Infrastructure peripherals were commodities, and Dell's operating margins were stuck around 6%.

These margins are improving to 7-8% and could get to about 9-10% in the next two years.

Dell (DELL) stands out as a relative value in the AI-driven data center capex cycle - it is up only 11% this year.

Dell's growth is underpinned by surging demand for AI-optimized servers and a robust backlog.

Sustainability of double-digit data center capex growth is the key risk, of course, but near-term 2-3 years of demand from hyper scalers and enterprises remains strong.

Dell is undervalued at just 11x earnings growing at over 14% and just 0.7 times sales growing at 7-8%.

Dell sells for about \$128 - I would buy the stock below \$120 or accumulate on declines.

STOCKS – BOSTON SCIENTIFIC

I think Boston Scientific (BSX) \$96 has the best chance of outperforming the medical devices group from both a valuation perspective and from a product/competitive positioning leader.

Given our strategy to look for more steady, defensive plays with limited downsides, I like the recurring and sustainable nature of these businesses.

Boston Scientific continues to deliver robust growth, but valuation limits upside despite strong execution and leading positions in key medical device markets.

BSX's growth drivers—Farapulse (PFA), Watchman (LAAC), interventional therapies, and neuromodulation—remain solid, with multiple pipeline catalysts and expansion opportunities through 2028.

Key risk - Management targets 10%+ annual revenue growth and margin leverage, but anything below 11%-12% guidance may disappoint investors.

Valuation remains stretched (but that's throughout the sector) even with double-digit revenue growth and margin expansion, it's difficult to argue for meaningful undervaluation. I suspect the stock could remain rangebound.

Management laid out a case at its recent investor day for multiple years of 10%+ revenue growth coupled with margin leverage (averaging around 50bp/year for adjusted operating margin).

MEDICAL DEVICES OVERVIEW

Name	Symbol	EPS 2025	EPS 2028	Growth	P/E	PEG	Sales 2025	Sales 2028	Growth	P/S	P/S G	Dividend Yield
Boston Scientific	BSX	3.0	4.4	13.6%	28	2.1	20.0	27.0	10.5%	6.0	0.6	0.00%
Abbot Labs	ABT	5.2	6.8	9.3%	22	2.4	44.7	55.6	7.6%	4.5	0.6	2.00%
Intuitive Surgical	ISRG	8.6	12.9	14.2%	59	4.2	9.9	14.4	13.3%	17.9	1.3	0.00%
Stryker Corp	SYK	13.6	18.5	10.8%	24	2.2	25.0	31.8	8.4%	5.0	0.6	1.00%
Medtronic	MDT	5.7	6.9	7.1%	17	2.4	36.1	42.0	5.2%	3.2	0.6	3.00%

STOCKS – MOLINA HEALTHCARE – HEALTHCARE TURNAROUND

Down 40% for the year, at \$174 Molina could be a huge turnaround story for 2026-2027.

Has one of the best Return on Invested Capital among healthcare insurers.

It is an extremely diligent insurer with an expense ratio amongst the lowest in the health insurance industries.

I believe that with Medicaid and the health insurance industry going through extreme problems currently, there will be a lot of smaller insurers ripe for acquisitions and Molina's reputation for successful acquisitions is stellar and also a big competitive advantage.

Molina has one of the best loss and expense ratios, a high win rate, and one of the most conservative reserve loss accounting amongst insurers.

Molina is looking to make money (albeit less money) in Medicaid in 2026 while most of its competition loses money and seems best-positioned to emerge stronger as the cycle turns.

I believe this is cyclical, as medical care for the most-needy in America is fated to be a growing industry over the long run.

STOCKS – MOLINA HEALTHCARE – LOW DOWNSIDE RISK

Molina at the end of 3Q 2025 has 5.6 million members across all programs, and this is roughly stable over the last year.

Being of a larger size and diversified across 19 states minimizes risk accumulation and provides a wide network of providers to members.

As Molina resumes growth organically and by acquisition, both of these factors will accrue value to the company and its shareholders.

Molina will become ever more advantaged against competition such as the regional Medicaid MCOs that make 40% of Medicaid contracts.

This will feed Molina's acquisition strategy in that space. In this manner Molina's growth feeds a flywheel.

We have to remember this is a company that is on a growth path, with an acquisition model that has been working, a greenfield of struggling regional MCOs potentially looking for a savior at 1x book value, and continued investment in existing businesses as well as stock buybacks.

A downturn in the industry is a potential opportunity for a business such as this.

STOCKS – MOLINA HEALTHCARE – VALUATION IS TOUGH TO IGNORE

Molina today is a better business proposition in many ways too – the burden of health care on the poor will continue to grow, costs will continue to inflate, and by the federal law of actuarial soundness, rates will follow. Molina has less competitive pressure and near-guaranteed margin recovery without advertising.

At \$165, we are paying about 12x trough earnings, 6x normalized earnings in my estimation.

I estimate that with share repurchases, Molina will be over \$30/share EPS in 2028. The share price will recover, or a lot more shares will be bought, and eventually EPS will be higher.

Whenever one can buy a durable double-digit ROIC at a single digit normalized owners' earnings multiple, one should do so, in my opinion.

The key risk is political and can drag the stock lower if there are further cuts to government insurance programs.

STOCKS – CELESTICA

I'm upgrading my earlier rating on Celestica (CLS) \$306 – the 225% jump in the past year made me hesitate but with this company will keep increasing estimates and guidance in 2026, because of continued growth in data centers.

The strong growth of 28% and 34% forecasted for the next three years will likely increase.

It has multi-year volume commitments from customers like Dell Technologies (DELL), Hewlett-Packard Enterprise (HPE), and IBM (IBM)

Its CCS - Cloud and Connectivity Solutions segment is growing faster and now contributes 74% of revenue with better margins than ATS Advanced Technologies Solutions, which offers more defensive and steady business in defense and industrial solutions.

Negatives - Low margin business of 8-10% unlike its competitors, such as Arista indicates that CLS is a high-volume play without significant pricing power. But this is changing and Celestica could increase margins 200 basis points.

Celestica is closer to an ODM/white-box platform provider whose switches can underlie similar AI/ethernet topologies, but it typically sits behind OEMs/cloud providers or NOS vendors, rather than competing head-on with Arista's branded solutions in the same way.

This segment is much more price sensitive and competes with big guns Foxconn, Jabil and so on.

STOCKS – IBM-1

(IBM) \$301 - An excellent GARP worth buying with considerably less risk and downside. IBM, the steady Eddie, older legacy tech survivor, did well, up 36% in the past year, and 144% in the past 5.

That is commendable during a transformation, which saw it shedding most of its legacy hardware businesses to focus on the SaaS/Consulting/Red Hat business model leveraging its massive client base.

2020 was the last year of declining sales to \$54Bn, from where it has rebounded quite well to an estimated \$67Bn in sales in 2025. It has acquired Confluent (CFLT) tacking on a small \$1.2Bn but critical streaming business, which it can grow and sustain mid-teens growth for the next decade and expand Free Cash Flow margins into the 20 – 30% range.

The biggest synergy that I see is IBM's distribution network and Confluent's Cloud managed service used to stream, process, and connect real-time data between applications and systems at scale. The main upside from a development perspective is that Confluent runs the clusters (provisioning, scaling, upgrades), so dev teams focus on building apps. **Here's the synergy:** On top of that, IBM Consulting sells large modernization programs. If IBM is able to make Confluent the default streaming layer, the company can upsell subscriptions to customers who care about real-time data.

STOCKS – IBM-2

Therefore, the top-line growth rates 16-17%, that the Street is projecting for Confluent could increase considerably due to these synergies.

Tried and tested: Further cementing the synergy thesis, IBM has done an excellent job with Red Hat, which it acquired in 2019 - that was an extremely intelligent play, and here are the comparables.

While directly Red Hat is about 12% of IBM's revenue it does a lot more.

The 1-to-3 Multiplier: IBM often tells investors that for every \$1 of Red Hat software sold, IBM Consulting earns an additional \$3 to \$5 in services revenue.

If you include the consulting work triggered by Red Hat, the "Red Hat Ecosystem" likely influences 30% to 40% of IBM's total business.

The Hybrid Cloud Revenue segment, which includes Red Hat, is often >\$25Bn annually, which is roughly 38% of total revenue.

IBM sells for 24x earnings growing at 10%, that's a PEG of 2.4, a little expensive but it generates far more operating cash at 19% of sales and has good operating margins of 17.5%. I think it's worth buying for a 10-12% return, the downside risk is low, and there's a small dividend yield of 2.3% as well.

STOCKS – FERRARI-1

Ferrari (RACE) \$375

I had first posted on Ferrari in Feb 2025, calling it excellent but overpriced at \$464.

The stock has fallen 28% from its 52-week high of \$519 and bounced off its 52-week low of \$356.

It has all of the positives of a moat of an iconic brand with strong pricing power, operating leverage, and high margins.

What has changed and is it worth buying now?

The multiples have shrunk, and the stock looks very attractive.

At \$375, Ferrari now sells for 33x forward earnings growing at 11% - that is a far cry from the over 40x multiple it used to sport.

A PEG (Price Earning To Growth ratio) of 3 is also low compared to the previous years.

Similarly, it is selling for just 7x sales with a three-year projected sales growth of 7%.

STOCKS – FERRARI

Ferrari (RACE) \$375

Operating leverage is good with earnings growing faster at 11% compared to 7% sales growth and operating margins and cash flow margins have remained high at 27% and 29%, respectively in the last 3 quarters.

While investors were disappointed with the October 2025 investor day guidance of just 5% sales growth, which led to the big fall, the long-term story is intact and then some.

The company's order book is completely filled till 2027, indicating that its overall story of around 2-year waiting times and scarcity remains fully intact.

Another interesting positive is that Ferrari usually sells around 81% of its new cars to existing customers, creating demand from scarcity for the 2,800 customers who are accepted as new ones.

This is an incredible bottleneck to be accepted in the Ferrari ecosystem. 40% of new clients are under 40 years old, which means they'll be around for a while.

The personalization program is also working well accounting for 20% of total revenues.

I believe these are good enough reasons to buy at this price of \$375.
