J.L. BAINBRIDGE
& COMPANY, INC.

2018 MID-YEAR REPORT

INVESTMENT RESULTS

For the first half of 2018 J. L. Bainbridge & Company, Inc. achieved a -3.3% rate of return on all monies managed in its equity investment program. In conjunction with returns in its equity program for 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 1012, 2013, 2014, 2015, 2016 and 2017 returns of +16.9%, -3.3%, -8.8%, +12.9%, +14.3%, +4.7%, +12.8%, +3.3%, -37%, +34.2%, +18.3, +3.6%, +15.6%, +41.8%, +12%, -2.7%, 5.8% and +27.7% respectively, a January 1, 2000 investment of $250,000 has grown to a June 30, 2018 value of $980,814. This equates to an increase of 292% over the past eighteen and one-half years or 7.8% compounded annually. These results assume reinvestment of dividends and are after transaction costs and our management fee. The return over the past eighteen and one-half years for the S&P 500 is 165% including reinvested dividends or 5.6% compounded annually. **Source S & P Global**

INVESTMENT REVIEW

Following the strong 2017 performance, the first half of 2018 has been a roller-coaster. In mid-February our return reached +6.8%, by the end of April our return fell to -7.1%, rebounded to break-even in mid-June and declined again to close the first half -3.3%. During this period, the market was buffeted initially by fear of rising interest rates, followed by a sharp rise in the price of oil and more recently, the fear of a trade war with the European Union and China. Also impacting our portfolio was a shift of investor sentiment to favor more speculative companies. For example, Amazon, Twitter and Netflix appreciated +45%, 82% and 104% respectively in the first half of 2018. These companies were valued with PE ratios on June 30th of 134, 125 and 135 respectively vs. consensus current year earnings projections. **Source NASDQ** With these lofty valuations, the risk of decline is high, and we would never expose our clients to this risk regardless of the fact investors in these stocks fared well so far this year. Our portfolio of lower risk quality companies with moderate valuations, excellent finances and healthy free cash flow have been the foundation of our investment program for thirty-eight years. This approach has delivered noteworthy long-term returns, but there have been many short-term periods of negative results. When these periods occur, we have always ignored them and stayed the course confident they will run their course and our returns will turn positive and reflect the earnings and dividend growth of the companies in our portfolio. This is exactly our recommendation to clients and prospective clients today; stay the course.

INVESTMENT STRATEGY

In 1987 we issued a brochure covering our money management principles and our investment philosophy. This has been the heart of our investment program since 1981 and remains so today. Adherence to this approach over thirty-eight years is the key to long-term success. These principles are presented below and are totally relevant to today's investment environment.

When you think about long-term investing, consider the parallels between purchasing a home and selecting high-quality investments. For the vast majority of Americans, their most profitable asset will continue to be their home. We believe the reason for this success is twofold:

1. Considerable care is taken in the selection of the particular property to be purchased. This thorough evaluation includes close inspection of the physical condition, floor plan and quality of construction as well as such attributes as the community, school system, recreational facilities, shopping, etc.

2. Equally important is that the purchase of one's home is viewed as a long-term investment. Therefore, the indiscriminate sale of the property does not occur based on the dire prediction of some "expert" that interest rates will rise, another recession is on the horizon or even a world economic collapse is imminent.

Ironically, most people view an investment in a corporation differently. The best illustration of this completely opposite attitude is expressed by the terms "stocks" and "the stock market." People typically remark that they bought stocks and/or invested in the stock market, but you never hear people state that they bought a deed. Instead, the new owner says, they bought a home or a house. In reality, both a stock certificate and a deed are nothing more than legal papers that represent ownership. Just like you own your home, an investor owns part of a corporation selected for investment.

This may seem like a minor point, but it is this attitude that causes most people to treat investing in a corporation more like a trip to Las Vegas than a commitment to their financial future. How often have you seen someone "buy stocks" based on a single phone call from a stockbroker or a tip from an acquaintance?

To meet these qualifications, the challenge is identifying companies that offer excellent growth and provide a high degree of safety. While very basic, this is the essence of professional money management. There are a large number of speculative investments available that offer the chance of substantial gain, but unfortunately, these also carry a high risk of substantial loss. Examples of these higher-risk investments are small companies, highly cyclical companies, turnaround situations, take-over candidates, etc. Due to the risk of catastrophic losses, none of these fit our objective to provide a high degree of safety. On the other hand, growth in one's personal wealth over a period of many years is the fundamental reason for investing. To gain a perspective of what long-term appreciation means to one's financial success, consider at an average 10% compounded return over thirty years a $100,000 investment grows to $1,744,940 and annual $5,000 contributions to an IRA grows to $909,717.

Our investment criteria and selection for achieving this twofold objective is as follows:

We use stringent criteria when evaluating a corporation for investment to ensure the company is a high-quality selection that will pay off in the long term. In very basic terms: Lower risk equates to quality and growth equates to a long-term trend. In order to reduce risk, we only invest in high-quality, major American companies. We believe these companies are exceptionally strong financially with manageable levels of debt and strong cash flow that comfortably exceeds capital expenditures. Additionally, we look for the following long-term trends:

- Consistent growth in earnings per share with an average growth of at least 10% compounded annually.

- Consistent growth in dividends.

- Limited debt and cash flow exceeding capital expenditures and dividend payments.

- Strong products with dominant market positions.

- Direct participation in a national and/or world situation that creates a continuous, long-term growth trend independent of the economy.

An example of a long-term trend is the impact of the baby boom generation retiring and the positive impact on the recreational vehicle (RV) industry. In addition, this industry is also benefitting from the active lifestyle of the millennial generation and their demand for entry-level towable RVs. Considering 10,000 baby boomers retire each day and the fact the millennial generation is larger than the baby boom generation, the demand for RVs will grow for many years to come. In order to take advantage of this trend, we invested in Winnebago (WGO) last year and recently Camping World (CWH). WGO has the iconic brand in the RV world and with the acquisition of Grand Design which produces towable RVs, is gaining market share and thus growing faster than the industry. Another positive is new management's focus on controlling costs which is expanding profit margins. Growth faster than the industry, higher profit margins and lower corporate taxes, propel fast earnings growth and increase the potential for stock appreciation.

CWH is the largest RV retailer and is also growing rapidly. Their strategy is to take advantage of the fragmented RV retail environment and purchase independently owned dealerships on attractive terms. The average acquisition is accretive to earnings in two months. In a larger deal, CWH purchased from bankruptcy Gander Mountain, a chain of outdoor stores, which are now being reopened as Gander Outdoor and being equipped to sell RVs. The cost of adding RVs to these locations is half as much as acquiring an existing dealer with even lower cost versus opening a new CWD RV location. CWH recently projected the combination Gander Outdoor conversions, acquisitions and new locations will increase the number of company locations by 30% or from 142 today to over 184 by the end of 2019.

But the best aspect of their strategy for growth is their development of recurring revenue by adding a wide array of services and products to the sales of an RV. These include extended warranties, roadside assistance, repair, replacement parts, camping supplies, insurance, financing, trip planning and Good Sam Club membership. Consequently, 55% of operating profit is from these recurring services and product sales. In summary, both CWH's and WGO's stock is selling at a PE ratio less than ten, are growing rapidly and we believe have the potential to appreciate more than 50% over the next twelve months.

Part of our strategy for 2018 is the potential to take advantage of our large positions in HPT and SIR, which have dividend yields of 7% and 9% respectively, Due to their high dividends, they should hold their value in the event our total portfolio declines. This would provide an opportunity to sell these and reinvest in some of our holdings that suffered a temporary decline. This is exactly what has transpired, and we have sold HPT and used the proceeds to add CWH to the portfolio and expand positions in D R Horton and AT&T. Again, we believe these stocks all have the potential to appreciate more than 50% over the next twelve months.

CONCLUSION

Last year's Annual Report presented the case that a major stock market decline is highly unlikely but that a short-term minor decline can occur at any time (see the 2017 Annual Report on our website or contact us for a copy). The last six month's ups and downs certainly bore this out. However as unpleasant the current small decline in our portfolio is, we remain confident the second half of the year will be markedly better with good potential to end the year with a double-digit return. The reasons for our confidence are twofold: First, our portfolio is markedly undervalued with an average forward PE ratio of 13.2 versus the S&P 500's PE ratio of 16.6. Secondly, our calculations indicate the J.L. Bainbridge portfolio on average has a normal long-term earnings growth rate of 12.1%, but due to the reduction in the USA corporate tax rate from 35% to 21%, 2018's earnings growth rate jumps to 25.3%. Based on the under-evaluation of the stocks in our portfolio and the huge increase in 2018 earnings, the average potential 2018 return for the stocks in our portfolio is 43% (based on full valuation according to the J.L. Bainbridge earnings estimate model). This situation is ideal from an investor's point of view and we cannot wait until the companies report their latest earnings later in July and early August.

Note: Please be sure to contact your advisor should your financial circumstances change. Also, keep in mind you should be receiving at the very least, quarterly statements from your custodian. Please contact your custodian or let us know if you are not. In accordance with SEC regulations, a current copy of our SEC Registration form ADV Part 2 is available upon request.

Enhancing Clients' Lives

At J.L. Bainbridge & Company, Inc. our business is dedicated to "enhancing clients' lives" by providing long term professional money management service totally focused on helping clients finance their children's education, build and preserve the resources for an enhanced retirement and achieve a meaningful higher standard of living.

The foundation of J.L. Bainbridge & Company, Inc.'s business philosophy is based on the full understanding that our future and success is completely dependent on client satisfaction and delivering to clients a consistent long term investment service of the highest level of quality, competence and integrity.

Our commitment to "enhancing clients' lives" is a guiding light that governs our professional daily activities and demands every decision and action be assessed as to exposure to investment risk as well as the long term benefit to our clients.

Managing more than $650 million for our clients worldwide.

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