J.L. BAINBRIDGE
& COMPANY, INC.

2018 ANNUAL REPORT

INVESTMENT RESULTS

For 2018 J. L. Bainbridge & Company, Inc. achieved a -17.1% 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, 2012, 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 December 31, 2018 value of $840,907.00. This equates to an increase of 236% over the past nineteen years or 6.6% compounded annually. These results assume reinvestment of dividends and are after transaction costs and our management fee. The return over the past nineteen years for the S&P 500 is 147% including reinvested dividends or 4.9% compounded annually.

INVESTMENT REVIEW

The negative 2018 return was not what we expected at the beginning of the year because the large corporate tax cut would dramatically increase earnings per share (EPS) growth to the mid-twenty percent range. And this coupled with the average price to earnings (PE) ratio against projected 2018 EPS was only 13.9. This PE ratio was consistent with the 2017 PE ratio of 13.3 which produced a 2017 return of 27.7%. Thus, we expected a double digit 2018 return at a minimum. What transpired over last year was EPS did indeed increase in the mid-twenties but our stocks declined and ended the year with an average PE ratio of 10.7. This is a valuation we have never seen before by a wide margin and in our view is completely out of line with economic reality. The only explanation that we can find is investors became convinced by the intense media hype that a severe recession is imminent. With none of the indicators that precede a recession present today, namely rising inflation and/or rampant speculation, this is a highly remote scenario. Consequently, today's almost unbelievably low PE ratio is viewed by us as a rare investment opportunity to more than regain last year's loss and achieve strong double digit returns over the next several years. The remainder of this report supports the view that the investment environment over the next three to five years is positive.

INVESTMENT STRATEGY

The constant hype of the media has many investors nervous with a prevailing view that the end of the nine-year bull market is on the horizon, and this has caused many of our investments to decline to unjustifiably low levels with some PE ratios down as low as five. Back in the 1960s and most of the 1970s we successfully followed an investment strategy of finding quality growth companies selling at a PE ratio of twelve and selling usually years later when the PE ratio reached the upper teens. The problem became that from the end of the 1970s through 2015 companies with a PE ratio of twelve were simply unavailable. However, from 2016 through today quality growth companies with low evaluations are again here. The problem is that these companies' stocks have declined to PE Ratios at historical, incredibly low levels. This has had a very negative impact on our results last year. However, we are convinced as the revenue and earnings growth continue this year, their stocks will recover in an impressive manor.

The following are examples of businesses that reported earnings or conducted analyst meetings in December highlighting their potential for continued growth. United Rental's analyst meeting covered the following:

- Customers are optimistic about prospects for 2019 and various trade organizations project positive construction trends as well as state and local governments investing in infrastructure projects.
- Their long-term debt has been restructured to take advantage of low interest rates and no debt due until 2023.
- Used equipment sales finance one-third of capital equipment purchases which enhances the generation of free cashflow which is expected to continue at a rate of $1.5 billion annually.
- Two rental companies purchased for cash over last twelve months will add significantly to 2019 earnings.
- They initiated a $1 billion share repurchase program that will be completed by the end of 2019. This will reduce shares outstanding by more than 10%.
- When current management took control nine years ago the economy was mired in recession and the company was losing money. Today the business has been transformed from serving small contractors to serving predominately major construction and industrial companies with multiple year projects. In addition, 21% of sales are from specialty products that are far less cyclical. Hence, their business is no longer heavily dependent on the economy.
- With the benefit of cash acquisitions and share repurchases, 2019 earnings per share (EPS) are projected to grow 22% to 24% to $19.95. At the current price the PE ratio against 2019 earnings is an incredibly low 5.

Delta also conducted an analyst meeting which highlighted the following business attributes and growth expectations:

- The world's best and most complete network with alliances with Aero Mexico, Air France/KLM, China Eastern, Korean Air, Virgin Atlantic, Virgin Australia and West Jet. These alliances feed a large number of foreign travelers into Delta's domestic flights.
- Delta's fleet transformation program which is aggressively replacing older air craft with larger more fuel-efficient models reduces costs and adds more premium seats which generate much higher revenue per square foot of space. For example, replacing old 76 seat planes with 109 seat planes reduces fuel consumption per seat by 20% and adds 12% more premium seats. Similarly replacing MD88s with 737 Max and A321 Neo highly fuel-efficient models reduces fuel consumption per seat by almost 40% and adds up to 50% more premium seats. In total this program expands system seat capacity by 3% while increasing flight departures by only 1%.
- Delta has the best on time record of 85.4% and the best flight completion record of 99.6% which results in higher fares particularly among business customers.
- By collecting data on every flight and using this massive data base to effectively predict and correct maintenance problems before they affect flights both saves money and improves customer service.
- The co-branded American Express cards are the best in the airline industry with $3.7 billion projected to be paid to Delta by American Express in 2019. Since most of the miles earned will not be redeemed in the first year, a majority of the money received by Delta will drive free cashflow which Delta has committed to pay out 70% to shareholders in the form of dividend increases and share repurchases.
- Delta is the only US airline whose debt is rated investment grade.

Putting this all together, Delta expects to grow EPS by 12% to 15% annually, but at the current price, the PE against 2019 earnings is a mere 7.4.

In December, Winnebago reported a 9.7% increase in revenue and a 23% increase in EPS. This was in sharp contrast to their major competitor whose revenue declined and earnings fell substantially due to lower RV shipments. Despite the industry's reduction in dealer orders as they work off excess RV inventory, WGO's has been able to grow due to superior management and strong brands. Current management has been in place three years and their relentless focus on costs has driven productivity gains that have both offset price increases of raw material such as aluminum and steel and widened profit margins. In addition, their brands, Winnebago and Grand Design, have been strengthened via the introduction of new innovative products enabling WGO to gain market share while avoiding the need to match competitor's discounting. Notwithstanding WGO's ability to prosper in a difficult environment, their stock declined sharply in 2018, and while recovering 21% over the final two weeks of the year after reporting quarterly results, remain at a PE of 6 times 2019 EPS.

Lastly, Oracle reported an EPS increase of 16% on the basis of accelerating customers' transition to their cloud-based software offerings and an aggressive share repurchase program. With management's view that their stock is very much undervalued, they repurchased $10 billion which reduced the share count by 11%, but ended the period with $51 billion in cash on the balance sheet to support future aggressive share repurchases. Their PE on 2019 EPS is a very low 11.6 for a dominant technology company.

These four December events will be followed by earnings reports for the remaining companies in our portfolio in January and early February as well as many presentations to analysts that typically occur early in a new year. The following table presents the projected 2019 EPS growth and the relative PE Ratio for our portfolio:

INVESTMENT	2019 EPS Growth	2019 PE Ratio
AT&T	+7%	7.6
AmerisourceBergen	+11%	9.5
Apple	+11%	10.8
Blackrock	+5%	3.5
Camping World	+18%	4.4
Charles Schwab	+19%	14.4
Delta Airlines	20%	7.4
Disney	+8%	15.2
D. R. Horton	+13%	8.1
Gilead Sciences	+15%	9.0
Google (Alphabet)	+13%	18.2
Microsoft	+19%	21.3
Oracle	+15%	11.6
Spirit AeroSystems	+20%	9.7
United Rentals	+23%	5.1
Winnebago	+17%	6.0
Average	+13%	10.7

CONCLUSION

2018 has been a frustrating time as the companies in our portfolio consistently reported outstanding results that were ignored by investors. However, we remain optimistic based on the numbers presented in the above table. Note, the average 2019 PE Ratio for our portfolio is 10.7 while the average 2019 PE Ratio for the S&P 500 is 15.3. Based on the assumption our portfolio appreciates by the end of 2019 to equal the S&P 500 PE Ratio of 15.3 (Source: WSJ), our portfolio would return 43% plus 13% for the 2019 average earnings growth of our portfolio and therefore has the potential for a total return of 62%.*

Our goal for 2019 is to fully recoup 2018's negative results as well as an additional measurable 2019 return. Accomplishing this goal will require a total return of at least 25% which will be our total focus throughout the year. This goal may seem unobtainable but note the above analysis and the fact our 2017 return of 27.7% was achieved with the year starting with an average PE ratio of 13.3. Thus, a minimal 2019 objective of 25%, while a challenge, we believe is achievable.

*This potential return is based on the company's internal modeling and reflects the company's estimated best case. This information is presented for educational purposes and should not be construed to reflect an actual return.

EPS Growth – Earnings Per Share Growth – A company's profit divided by its number of common outstanding shares.
Source: Nasdaq

It should neither be assumed that future results will be as profitable or that a loss could not be incurred.

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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 $600 million for our clients.

Visit our website: www.jlbainbridge.com

1582 Main Street, Sarasota, FL 34236 | (941) 365-3435 | (800) 899-5171 | www.JLBainbridge.com