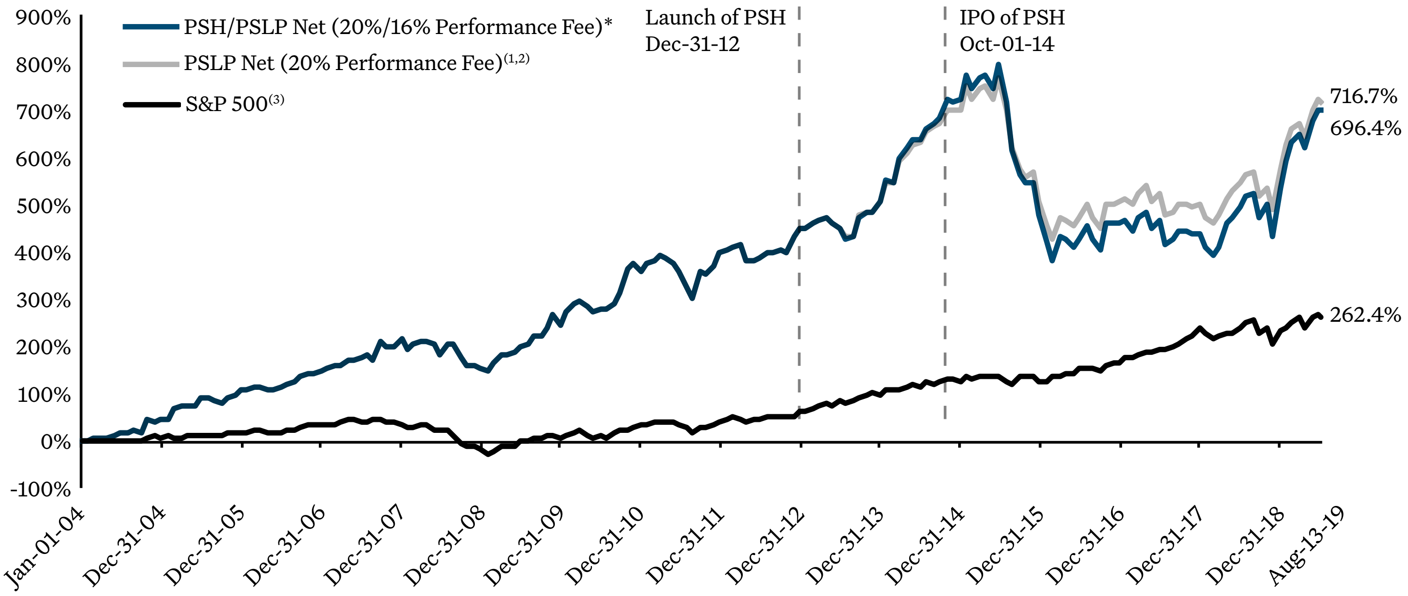
Company Performance

Pershing Square Holdings, Ltd. and Pershing Square, L.P. ("PSLP") Performance vs. the S&P 500



	PSLP/PSH Net Return*		PSLP Net Return[1,2]	S&P 500[3]
2004	42.6 %	Pershing Square, L.P.	42.6 %	10.9 %
2005	39.9 %		39.9 %	4.9 %
2006	22.5 %		22.5 %	15.8 %
2007	22.0 %		22.0 %	5.5 %
2008	(13.0)%		(13.0)%	(37.0)%
2009	40.6 %		40.6 %	26.5 %
2010	29.7 %		29.7 %	15.1 %
2011	(1.1)%		(1.1)%	2.1 %
2012	13.3 %		13.3 %	16.0 %
2013	9.6 %	Pershing Square Holdings, Ltd.	9.7 %	32.4 %
2014	40.4 %		36.9 %	13.7 %
2015	(20.5)%		(16.2)%	1.4 %
2016	(13.5)%		(9.6)%	11.9 %
2017	(4.0)%		(1.6)%	21.8 %
2018	(0.7)%		(1.2)%	(4.4)%
Year-to-date through June 30, 2019	45.3 %		36.5 %	18.5 %
Year-to-date through August 13, 2019	48.9 %		39.3 %	18.2 %

2004–August 13, 2019[1,4]

Cumulative (Since Inception)	696.4 %	716.7 %	262.4 %
Compound Annual Return	14.2 %	14.4 %	8.6 %

*Return an investor would have earned if it invested in PSLP at its January 1, 2004 inception and converted to PSH at its launch on December 31, 2012. Also see endnote 1 on page 42. Past performance is not a guarantee of future results. All investments involve risk, including the loss of principal. Please see accompanying endnotes and important disclaimers on pages 42–44.

Investment Manager's Report

LETTER TO SHAREHOLDERS

To the Shareholders of Pershing Square Holdings, Ltd.:

For the first six months of 2019 and year-to-date, the Company's total return was 45.3% and 48.9%, respectively, compared with the S&P 500's performance of 18.5% and 18.2% respectively.[5] PSH's returns have been driven by gains across our portfolio due to fundamental business performance at our portfolio companies being better than the market expected as well as strong stock market performance. We believe our improved absolute and relative performance for the last two years is a direct result of the organizational changes we have implemented at Pershing Square, and our renewed focus on the core strategy that has driven our performance over the last 15 years.

YTD Stock Price Return as of August 13, 2019[6]

Automatic Data Processing, Inc.*	28.2%
Berkshire Hathaway Inc.**	(2.2)%
Chipotle Mexican Grill, Inc.	89.2%
Federal Home Loan Mortgage Corporation	113.7%
Federal National Mortgage Association	118.9%
Hilton Worldwide Holdings Inc.	33.3%
The Howard Hughes Corporation	33.3%
Lowe's Companies, Inc.	6.2%
Platform Specialty Products Corporation*	14.3%
Restaurant Brands International Inc.	45.2%
Starbucks Corporation	51.7%
United Technologies Corporation*	21.6%

* As of disposition date
** Beginning on date of first acquisition

This year's high returns are not unusual in the context of the historical performance of Pershing Square. During the last 15 years of Pershing Square, our fund with the longest track record, Pershing Square, L.P. has had five years – on average, every third year – with net returns of 36% or more.[7] Three of these high return years were achieved before the formation of PSH and therefore did not benefit from PSH's access to low-cost leverage and more stable capital base, which has allowed PSH to be more fully invested than the Pershing Square private funds.

We believe that our investment strategy continues to offer the potential for high, long-term rates of return because of our ability to: (1) identify and purchase large stakes in underperforming great businesses at prices which do not reflect anticipated changes to the status quo, (2) obtain a position of influence as a major shareholder including potential board representation, and (3) catalyze changes to the governance, management, and strategy of a target company. In sum, our ability to effectuate successful corporate change is a huge competitive advantage over more passive investors.

As a reminder, our approach to corporate change varies depending on the situation. In the more active and visible examples, like Chipotle, we seek and obtain board representation, assist the board in recruiting new leadership, and provide ongoing oversight. We may also take a less public approach, working behind the scenes with existing management to increase a business' probability of success. We believe our reputation as a corporate change agent can help enhance the performance of any company we own even if we do not take a particularly proactive approach, as boards and management teams generally prefer to take credit for accelerating value creation on their own rather than being perceived as having been pushed to do so by a proactive shareholder.

PSH Versus Private Equity

Some have described our strategy as a private equity approach to the public markets, and we think there is merit to this description as our approach to value creation is similar to that of private equity managers. Unlike private equity, however, we do not pay a premium for control in investment banking-led auctions that are designed to maximize value for the seller, nor do we materially leverage the balance sheet of a portfolio company to enhance our returns. Our ability to purchase large influential stakes in portfolio companies at substantial discounts to intrinsic value is an important competitive advantage of our approach when compared to private equity. The universe of businesses in which we can invest is also materially larger and generally of substantially higher business quality as we are not limited to what is offered for sale or the timing a seller would like to achieve.

Our corporate form also provides a number of important competitive advantages and other benefits versus privately placed, private equity funds. These include:

- Investors in PSH do not need to set aside funds that can be drawn on short notice over the usual seven to 10-year commitment period for private equity funds. When you buy a share of PSH, you are immediately invested in our portfolio holdings.
- The overall leverage of PSH—determined by consolidating PSH's leverage with our portfolio companies' leverage—is substantially lower than that of private equity funds, and the debt of PSH and our investee companies is on much more favorable, generally investment grade terms.
- PSH is publicly traded which enables investors to manage the size of their investment on a daily basis.
- PSH's fees are substantially lower than that of private equity.
- The current discount to NAV provides an opportunity for us to enhance returns through the repurchase of our stock at a substantial discount.
- Since there is no limit to the duration of our holdings, we are not forced to sell a business at the end of the life of a fund.
- The returns one generates from an investment in PSH are the actual stock price returns of PSH including dividends from the time of an investor's commitment of capital until the time of exit of one's investment. In private equity, the reported returns are different from an investor's actual returns as they are calculated only from the time that an investor's capital is drawn down until it is returned, and do not include in the calculation the nominal and highly dilutive returns on capital that investors set aside to meet future capital calls during their commitment period to the private equity fund.

The biggest disadvantage of PSH versus private equity is that investors are not guaranteed to exit at the same or lower discount to NAV at which they entered. This is less of an issue when one's purchase price for PSH shares is at a large discount to NAV, but it can still have a significant effect on a shareholder's return when an investor's commitment period is shorter term. As one's investment duration in PSH increases, the entry versus exit discount will have a less material impact on an investor's total return. That said, we view the current extraordinarily wide discount as an important issue that we and the Board are working to address.

Buyback Programs and Reducing the Discount

PSH's year-to-date stock price return of 37.2% has underperformed its per-share NAV performance by 11.7 percentage points as the discount to which the shares trade to NAV has widened since the beginning of the year.[8] While one would typically expect best-in-class investment performance to increase the demand for PSH shares over the long term, the opposite may be the case in the short term. Based on feedback we have received from existing and potential shareholders, it appears likely that PSH's substantial outperformance this year has led some investors to "take some chips off the table," and caused some investors interested in accumulating a new position or adding to existing holdings to "wait for a more opportunistic entry point," both of which have the effect of decreasing demand for PSH shares.

Since the launch of our most recent buyback program in June, PSH has instructed its buyback agent to purchase the maximum number of PSH shares permitted each day under the regulations for open market share repurchase programs because: (1) we are optimistic about the prospects and current valuation of our existing holdings, (2) we believe that the current discount to NAV is an extraordinary buying opportunity, and (3) we have ample free cash. If the current discount persists, we estimate that PSH is on track to repurchase more than 6% of shares outstanding per annum, assuming the buyback program is renewed when the current authorization is fully utilized. While we do not believe that stock buybacks will necessarily have a material impact on the discount to NAV at which the shares trade, we believe that open-market share repurchases are an attractive use of our recently generated free cash at current discount levels, until we can find a more productive use for the capital.

Does the current portfolio continue to offer attractive returns for PSH?

In light of the strong stock price performance of our portfolio holdings year to date, one might ask whether the existing portfolio continues to offer attractive returns. We believe that the answer to this question is definitively yes as the underlying business progress of our holdings has in most cases kept pace, or nearly so, with their stock prices. While most of our holdings are not as undervalued as they were at year end 2018, we believe our current portfolio continues to offer the potential for high, long-term rates of return.

While our investment holding periods tend to be very long term by most investors' standards, we sell our investments when they approach our estimates of intrinsic value. As a result, PSH's portfolio is always "fresh;" that is, we believe it should always offer the potential for high rates of return over the long term.

Recently, we sold two large holdings, United Technologies and ADP, as their respective gaps to intrinsic values narrowed and we believed we could find a better use for the capital. In the case of ADP, the price rose to a level from which we estimated that prospective returns would be below our long-term goals. For UTX, the announcement of a value-destroying stock merger was the catalyst for our exit.

PSH's Approach to Leverage

As a publicly traded company with holdings in high quality, large cap public companies, we have been able to access low-cost, unsecured, leverage without mark-to-market maintenance covenants, which should enhance our long-term returns. On July 25, 2019, we issued $400 million of unsecured bonds at an interest rate of 4.95%. We did so opportunistically as we expect the lower interest rate, substantially lower corporate spread, and more favorable key-man provisions of the bonds will help facilitate a lower-cost refinancing of our existing $1 billion of debt which comes due in July 2022, less than three years from now. The issuance of the debt increased our gross leverage to the higher end of our historic debt to total capital ratio, now 20%, compared with a range of 12% to 22% since the bonds were issued. Our net debt to capital ratio is currently 4% as we have a large amount of cash on hand. We expect to reduce our debt-to-total-capital ratio over time through continued positive NAV performance, and/or the refinancing/repayment of the 2022 bonds.

PSH remains conservatively financed as our highly liquid portfolio is principally comprised of publicly traded, large capitalization, investment-grade U.S. equities, and our net debt is currently covered by our investment assets by 22 times. To address a question raised recently by a few shareholders, the issuance of debt does not increase the management or incentive fees paid to the investment manager as the fees to the manager are determined based on NAV, not the total assets of PSH. We believe that the ability to access a modest amount of low-cost, long-term leverage without margin-leverage-like covenants will enhance PSH's long-term rate of return without meaningfully increasing the risk to shareholders.

Shareholder Communications

We are modifying our communication calendar going forward. Our annual and mid-year letters and financial reports will of course continue as usual, but we are eliminating the second quarter conference call beginning this quarter, which normally takes place mid-August as the timing of the call was not ideal for investors, and the information on the call is already covered in detail in our comprehensive mid-year letter and financial report.

We are also eliminating our first and third quarter letters as investors have found them duplicative in light of the contemporaneous first and third quarter investor calls, which we will continue to hold. All other weekly, monthly and other communications and shareholder meetings will also continue as before, including interim press releases and other updates about material events on an as-needed basis.

We are particularly pleased this year to be able reward your long-term support with strong PSH performance. We remain focused on delivering results that continue to meet your and our high expectations.

Sincerely,

William A. Ackman

PORTFOLIO UPDATE

Performance Attribution

Below are the contributors and detractors to gross performance of the portfolio of the Company for year-to-date June 30, 2019 and year-to-date August 13, 2019.[9]

January 1, 2019 – June 30, 2019

Chipotle Mexican Grill, Inc.	10.9 %
Restaurant Brands International Inc.	6.4 %
Hilton Worldwide Holdings Inc.	5.8 %
Automatic Data Processing, Inc.	5.0 %
Starbucks Corporation	4.7 %
Federal National Mortgage Association	3.7 %
United Technologies Corporation	2.4 %
Federal Home Loan Mortgage Corporation	2.3 %
The Howard Hughes Corporation	2.2 %
Lowe's Companies, Inc.	1.7 %
Platform Specialty Products Corporation	1.0 %
Berkshire Hathaway Inc.	0.7 %
Accretion	0.1 %
All Other Positions and Other Income and Expense	(0.9)%
Net Contributors and Detractors	**46.0 %**

January 1, 2019 – August 13, 2019

Chipotle Mexican Grill, Inc.	14.0 %
Restaurant Brands International Inc.	8.3 %
Starbucks Corporation	7.6 %
Hilton Worldwide Holdings Inc.	5.3 %
Automatic Data Processing, Inc.	4.4 %
The Howard Hughes Corporation	2.7 %
Federal National Mortgage Association	2.7 %
United Technologies Corporation	2.4 %
Federal Home Loan Mortgage Corporation	1.7 %
Platform Specialty Products Corporation	1.0 %
Lowe's Companies, Inc.	0.9 %
Accretion	0.4 %
Berkshire Hathaway Inc.	(0.6)%
All Other Positions and Other Income and Expense	(0.8)%
Net Contributors and Detractors	**50.0 %**

Positions with contributions or detractions to performance of 50 basis points or more are listed above separately, while positions with contributions or detractions to performance of less than 50 basis points are aggregated, except for accretion.

Past performance is not a guarantee of future results. All investments involve risk, including the loss of principal. Please see accompanying endnotes and important disclaimers on pages 42–44.

All year-to-date performance information is as of August 13, 2019.

New Position

Berkshire Hathaway ("BRK.B")

Recently, PSH acquired Berkshire Hathaway common stock representing approximately 11% of NAV. My interest in Berkshire began decades ago when I began following the company in 1988. I have attended the substantial majority of shareholder meetings since the early 1990s and followed the company and Warren Buffett—Berkshire's Chairman, CEO and controlling shareholder—extremely closely since that time. Yet, funds I have managed have owned Berkshire only once for a brief period in late 1999 and 2000.

The catalyst for our current investment in Berkshire is our view that the company is currently trading at one of the widest discounts to its intrinsic value in many years, at a time when we expect the operating performance of its subsidiaries to improve as a result of certain managerial and organizational changes at the company. While Mr. Buffett has long been one of most high-profile and closely followed investors in the world, we believe that Berkshire Hathaway's undervaluation is partially explained by the fact that it is one of the least followed and misunderstood mega-cap companies.

Berkshire is often described in the media as akin to an investment fund, leaving many with the impression that Berkshire's shareholder returns are dependent on Warren Buffett's extraordinary stock-picking ability. While this depiction of Berkshire was a better reflection of its reality in its earlier years, it no longer reflects the company's current reality. Today, Berkshire is a $500 billion market cap holding company with about half of its value residing in its insurance subsidiaries, and the balance in controlling stakes in highly diversified operating companies. Mr. Buffett has clearly designed the company to succeed decades after he is no longer running the company. As a result, we believe that Berkshire should continue to generate high returns for shareholders from the current stock price even if the investment returns from the company's large cash holdings and marketable securities portfolio are similar to that of the broad market indices.

Berkshire's primary asset is the world's largest insurance business, which we estimate represents nearly half of Berkshire's intrinsic value. In its primary insurance segment, Berkshire focuses on the reinsurance and auto insurance segments. In reinsurance, Berkshire's strong competitive advantages are derived from its enormous capital base, efficient underwriting (a quick yes or no), ineffable trustworthiness, and its focus on long-term economics rather than short-term accounting profits, all of which allows the company to often be the only insurer capable of and willing to insure extremely large and/or unusual, bespoke insurance policies.

We believe that Berkshire's reinsurance business, operating primarily through National Indemnity and General Re, is uniquely positioned to serve its clients' needs to protect against the increasing frequency and growing severity of catastrophic losses. In auto insurance, Berkshire subsidiary GEICO operates a low-cost direct sales model which provides car owners with lower prices than competitors that rely on a traditional agent-based sales approach. GEICO's low cost, high quality service model has enabled it to consistently gain market share for decades.

The enduring competitive advantages of Berkshire's insurance businesses have allowed it to consistently grow its float (the net premiums received held on Berkshire's balance sheet that will be used to pay for expected losses in the often distant future) at a higher rate and a lower cost than its peers. While Mr. Buffett is best known as a great investor, he should perhaps also be considered the world's greatest insurance company architect and CEO because the returns Berkshire has achieved on investment would not be nearly as good without the material benefits it has realized by financing these investments with low-cost insurance float.

For more than the last decade, Berkshire has grown its float at an 8% compounded annual growth rate while achieving a negative 2% average cost of float due to its profitable insurance underwriting, while incurring an underwriting loss in only one out of the last 15 years. These are extraordinary results particularly when compared with the substantial majority of insurance companies which lose money in their insurance operations and are only profitable after including investment returns. Furthermore, we believe that Berkshire's cost of float will remain stable or even decline as its fastest growing insurance businesses (GEICO and BH Primary) have a lower cost of float than the company's overall average.

Since the end of 2007, we estimate that Berkshire has averaged a nearly 7% annual rate of return on its insurance investment portfolio while holding an average of 20% of its portfolio in cash. Berkshire has been able to produce investment returns that significantly exceed its insurance company peers as the combination of the company's long-duration float and significant shareholders' equity allow it to invest the substantial majority of its insurance assets in publicly traded equities, while its peers are limited to invest primarily in fixed-income securities. We believe these structural competitive advantages of Berkshire's insurance business are enduring and will likely further expand.

Berkshire also owns a collection of high-quality, non-insurance businesses, which include market-leading industrial businesses, the largest of which are the Burlington Northern Santa Fe railroad and Precision Castparts, an aerospace metal parts manufacturer. While Berkshire's non-insurance portfolio is comprised of highly diversified businesses that have been acquired during the last 50 or so years, we estimate that the portfolio derives more than 50% of its earnings from its largest three businesses: Burlington Northern (>30%), Precision Castparts (~10%), and regulated utilities (~10%).

Burlington Northern is North America's largest railroad which benefits from strong barriers to entry, industry-leading scale, and long-term secular growth due to rail's cost advantages over trucking in moving freight over long distances.

Precision Castparts has a strong competitive position in complex metal parts and components manufacturing due to the stringent regulatory requirements in the aerospace industry, and an excellent future growth outlook due to a nearly decade-long backlog of aircraft deliveries that are required to support the world's growing travel needs.

Berkshire's regulated utilities business primarily consists of a handful of well-managed, highly efficient energy utilities that earn a reasonable return on equity while satisfying their customers' and regulators' desire for low energy prices. Berkshire's regulated utilities business is relatively insulated from economic downturns due to the essential nature of the service it provides, which has allowed it to steadily grow its earnings during all phases of the economic cycle.

While we have utilized a number of different approaches to our valuation of Berkshire, we believe it is perhaps easiest to understand the company's attractive valuation by estimating Berkshire's underlying economic earnings power, and comparing the company's price-earnings multiple to other businesses of similar quality and earnings growth rate. Using this approach, we believe that Berkshire currently trades at only 14 times our estimate of next 12 months' economic earnings per share (excluding the amortization of acquired intangibles), assuming a normalized rate of return of 7% on its insurance investment portfolio. While generating a 7% return on such a large amount of investment assets is not a given—particularly in an extraordinarily low-rate environment—we believe that Berkshire's ability to invest the substantial majority of its insurance assets in equity and equity-like instruments and hold them for the long term makes this a reasonable assumption. Based on these assumptions, we believe that Berkshire's valuation is extremely low compared to businesses of similar quality and growth characteristics.

Berkshire's current earnings are also meaningfully understated in the currently low interest rate environment as the company is earning a minimal return on its approximately $100 billion of excess cash which is invested in short dated, risk free assets.

Net of its excess cash, Berkshire currently trades at less than 12 times our estimate of earnings per share over the next year. Given the company's strong competitive position, solid future growth prospects, large degree of excess cash and superlative track record of value creation, we believe that Berkshire should be valued at a large premium to its current valuation. Moreover, we believe an investor's downside is limited due to the company's fortress balance sheet, highly diversified business portfolio, and significant earnings contribution from recession-resistant businesses such as insurance and regulated utilities.

Furthermore, we expect that certain recent positive developments will highlight and enhance the per-share value of Berkshire's business over the next several years. First, we believe that it is likely that management will intelligently deploy some of its $100 billion of excess cash into value-enhancing large-scale business acquisitions and/or a greater than historical amounts of share repurchases. We believe that this can be achieved because Mr. Buffett has built a deep bench of managerial and investment talent and a durable culture of character and performance.

Second, Berkshire created a new managerial structure in 2018 to elevate two long-time managers, Ajit Jain and Greg Abel who now directly oversee the insurance and non-insurance businesses. Both managers have a track record of improving operations under their purview. We expect this new management structure will empower them to enhance the operational performance of Berkshire's businesses that have underperformed their peers. For example, Burlington Northern's current operating profit margins are nearly 500 basis points below the average of its North American peers, and nearly 800 basis points below that of its best-in-class peer despite BNSF's industry-leading scale. In Berkshire's insurance subsidiaries, GEICO's loss ratio is more than 800 basis points higher, and its underwriting profit margin about 400 basis points lower, than its closest competitor, Progressive Corp., and General Re's expense ratio offers the potential for significant improvement based on our due diligence.

We expect that Berkshire's enviable competitive advantages and the positive underlying growth trends in most of its businesses will allow the company to sustainably grow its earnings at a high-single digit rate without any operational improvement at its larger businesses, and without including the benefit of the productive deployment of excess capital.

If Berkshire can improve its operations and intelligently deploy a substantial portion of its excess capital over time, we estimate that the company's earnings per share should grow at a mid-teens' compounded annual rate over the intermediate term. In light of the company's currently depressed valuation, understated near-term earnings, and the potential for significant future earnings per share growth, we believe that Berkshire's share price is likely to increase substantially over the coming years.

Portfolio Update

Chipotle Mexican Grill ("CMG")

CMG has appreciated 89% this year, making it the top performing stock in the S&P 500 index, more than doubling in value since we made our initial investment three years ago. While year-to-date results have been impressive, management emphasized throughout the second quarter call that the company is in the early stages of many of their key growth initiatives and that this was "just the beginning."

Chipotle reported another outstanding quarter as solid execution on management's strategic growth initiatives continues to drive improved business fundamentals. Same-store sales grew 10% in the second quarter, consistent with first quarter growth despite a more challenging prior year comparison. Transaction growth of nearly 7% was industry-leading by a wide margin, as guests continued to respond to new marketing initiatives and more convenient ways to access the brand, including pickup and delivery of digital orders.

Digital sales doubled once again and now account for 18.2% of sales, up from 15.7% of sales in the first quarter. Management raised full year 2019 same-store sales guidance for the second time this year to high-single-digit growth from mid-to-high single-digit growth. Robust sales growth is translating into improved profitability, with restaurant margins up 120 basis points year-over-year in the second quarter to just under 21%, roughly in-line with the first quarter's levels despite a 150-basis point sequential headwind from higher avocado prices which are expected to abate.

While management's growth strategy is already having an impact, most key initiatives are in their early stages. Digital sales mix exceeds 30% at top performing stores, more than 12 percentage points higher than the system average. Catering remains a relatively small piece of the business and therefore a tremendous growth opportunity as it accounts for a double-digit percentage of sales at other restaurant brands. The Chipotle Rewards loyalty program is only five months old and already has over five million enrolled members. Efforts to use the program's data to incentivize higher guest frequency are still in their infancy.

Menu innovation should ramp up in the coming quarters, as management is preparing for a potential national launch of carne asada, and has received favorable customer feedback from its quesadilla pilot. While operations have improved significantly, including a notable reduction in employee turnover, there is still a significant opportunity to increase speed of service, which remains nearly 30% below historic best-in-class levels. Management's extensive pipeline of growth initiatives combined with Chipotle's highly attractive customer value proposition gives us confidence that the company should continue to generate superior levels of sales and profit growth.

Restaurant Brands International ("QSR")

Restaurant Brands' second quarter results continue to highlight our thesis that its royalty-based franchise model is a uniquely valuable business with significant long-term, global unit-growth opportunities. QSR reported strong overall same-store sales growth led by nearly 4% at Burger King, 3% at Popeyes and almost 1% at Tim Hortons. The strength in same-store sales at Burger King was driven by impressive results in the international business, which will be enhanced by accelerated growth in the U.S. business due to the recent launch of the plant-based Impossible Whopper, and its new partnership with UberEats.

Results at Tim Hortons improved from last quarter, but remain below our long-term expectations. We anticipate that momentum generated by the recently launched loyalty program has provided Tim Hortons with valuable customer insights that will help deliver improved results over time.

QSR grew net units by 5% this quarter, with 6% growth at Burger King and Popeyes, and 2% at Tim Hortons. The company announced a master franchise agreement to open 1,500 new Popeyes restaurants in China over the next decade, new units that would represent 50% of the brand's current store base. As a result of solid same-store sales and continued unit growth, QSR's pre-tax operating income before currency effects grew 6%, led by 10% growth at Burger King and mid-single-digit growth at Tim Hortons and Popeyes.

QSR's shares have appreciated 45% this year, but currently trade at less than 24 times next year's free cash flow, which represents a discount to both intrinsic value and slower-growth franchised peers. As same-store sales momentum continues to improve, we believe that investors are likely to give credit to QSR's long-term international growth opportunities and assign a higher valuation to its shares.

Starbucks ("SBUX")

Starbucks reported a superlative fiscal third quarter driven by a meaningful acceleration in same-store sales and a return to transaction growth in its two key markets, the U.S. and China. Global same-store sales grew 6%, with equal contributions from transactions and ticket. This was the first quarter since early 2016 in which same-store sales grew in excess of 4%, as well as the first quarter since then with positive transaction growth both globally and in the U.S. The store base continued to grow at a 7% rate, generating 11% organic revenue growth.

U.S. same-store sales grew 7%, including transaction growth of 3%, which management called an "inflection point" and a "step change" from the 4% same-store sales growth achieved in the prior three quarters, and the 1% to 2% growth achieved in the previous year. Same-store sales grew across all dayparts, including in the afternoon for the first time in three years. The key drivers of U.S. sales were in-store operational enhancements, cold beverage innovation – including Nitro Cold Brew which is now in two-thirds of stores and will be in all stores by September 30 – and continued digital strength, with the company's seamless rollout of recent loyalty program changes.

China same-store sales grew 6%, including transaction growth of 2%, which is impressive considering the 16% growth in the Starbucks China store base, and in light of rapid expansion by competitors. Mobile order and pay, a capability that we believe is even more critical in China than it is in the U.S., was launched in one-third of stores this quarter and should be an important catalyst for growth going forward.

The market has recognized that Starbucks, in the words of CEO Kevin Johnson, is "firing on all cylinders," with the stock up 52% this year, bringing the total stock price return since we invested last summer to 96% [(10)]. The stock now trades at just over 30 times consensus fiscal 2020 EPS, a premium to its historical average valuation, which we believe appropriately reflects a clear outlook for mid-teens underlying EPS growth over the next several years, near-term momentum in the business which could prove current earnings estimates to be conservative, and a superb management team that is focused on creating value for shareholders.

Hilton Worldwide Holdings ("HLT")

Hilton's most recent quarterly results continue to reinforce our view that the company's robust value proposition and asset-light, fee-based business model should allow the company to compound earnings per share at a mid-to-high teens' growth rate for years to come. This past quarter, Hilton grew units more than 7%, contributing to 8% franchised and management revenue growth, 11% EBITDA growth and 21% earnings per share growth (helped by a lower effective tax rate and fewer shares outstanding). Revenue per available room ("RevPAR") grew 1.4% this quarter, which outperformed the industry, as Hilton continues to gain share in a subdued market environment. Reflecting the asset-light nature of its business model, Hilton modestly increased its 2019 guidance for EBITDA and EPS growth despite lowering the high-end of its RevPAR growth (from +1-3% to +1-2%) due to modestly weakening conditions in the US and China.

We believe that the combination of Hilton's fee-based business model, large unit development pipeline, substantial share buyback program, and superb management team continue to be under-appreciated by the market as Hilton can achieve strong earnings per share growth even in a weaker environment for revenue per available room. While Hilton's shares have appreciated 33% this year, the shares currently trade at 23 times consensus analyst estimates for 2019 earnings, a discount to the historical average, and below our estimate of the company's intrinsic value based upon its high-quality, predictable cash-flow stream and strong future growth potential.

Lowe's Companies ("LOW")

Lowe's first quarter earnings in May demonstrated that the company continues to make meaningful progress on its business transformation. Lowe's reported U.S. same-store sales growth of 4.2% despite the negative impact from adverse weather. Lowe's results exceeded those of Home Depot for only the third time in nine years. We attribute Lowe's strong same-store sales results to a handful of recent initiatives that have improved product selection, customer service and convenience, particularly for the Pro customer, the professional tradesmen that perform repair and maintenance, remodeling and construction services for others, and are Lowe's most frequent and highest value customers.

While Lowe's reported same-store sales growth, this progress was offset by a 165 basis point decline in gross margins, the majority of which was due to the complexity of the company's legacy pricing systems coupled with employee turnover in the merchandising organization, which resulted in a failure to sufficiently raise retail prices to offset the impact of product cost inflation. Since the end of the quarter, the company has begun to remediate the pricing issues, and expects to launch a new price management system later this year. Lowe's anticipates gross margin pressure to abate over the course of the year, ultimately being restored to prior levels.

Lowe's stock has increased 6% year-to-date and currently trades at 17 times analyst estimates of Lowe's next-twelve-month earnings, which do not incorporate the potential for significant future profit improvement. Lowe's EBIT margin guidance for 2019 is for an approximate 9% operating profit margin (inclusive of the recent pricing issues), compared to its medium-term margin target of 12% and Home Depot's current margin of 14.5%. If Lowe's achieves its medium-term margin target, it will generate significant increases in profit, which, when coupled with the company's large share repurchase program, should lead to accelerated future earnings-per-share growth. We believe that Lowe's stock has the potential to appreciate substantially as the company continues to make progress on its business transformation.

The Howard Hughes Corporation ("HHC")

HHC's first half results continue to highlight the strength of its core master planned communities (MPCs) and stabilized income-producing commercial properties. Summerlin and Bridgeland, HHC's two MPCs with the largest value of unsold residential land, continue to perform extremely well. Bridgeland has seen rapid acceleration of land sales, which reflects the steady maturation of the community and its desirability to new homeowners.

In addition to residential land sales, HHC has a significant, under-appreciated profit opportunity in the commercial development of its MPCs. As MPCs reach a tipping point of residential density, demand arises for retail, office, multi-family and hospitality development in HHC-owned MPC town centers. Over time, the stable and recurring real estate cash flows (net operating income or NOI) from these properties will represent a growing percentage of HHC's value. We believe that HHC's current NOI represents only a fraction of the long-term opportunity, and expect the company to continue to capitalize on its decades-long commercial development pipeline.

HHC is also demonstrating significant progress in its Ward Village and Seaport assets. Ward Village's two most recent condo towers developments are experiencing strong pre-sales momentum. The robust pace of sales across the six Ward Village condo towers that are either delivered or under construction reaffirms the strong appetite for HHC's planned future condo projects in the area, which should accelerate over the coming years.

The Seaport is closer to achieving a critical mass of offerings that will enable it to generate sustained NOI performance. Traffic in the Seaport increased about 50% year over year driven by new restaurant and store openings. HHC completed a $250 million five-year term loan secured by a portion of the property. This highly strategic financing provides non-recourse capital to fund remaining development while reducing HHC's equity commitment to the Seaport.

HHC's stock has increased 33% year-to-date. On June 27th, the company announced that the Board of Directors is conducting a broad review of strategic alternatives. A wide range of options is being considered including a sale of the company; a sale, joint venture or spin-off of a portion of the company's assets; a recapitalization of the company; or changes in the corporate structure of the company. The Board has retained Centerview Partners to assist in its strategic review. We continue to believe that HHC trades at a significant discount to its intrinsic value, and look forward to the results of the strategic review.

Federal National Mortgage Association ("FNMA", or "Fannie") and Federal Home Loan Mortgage Corporation ("FMCC", or "Freddie")

In July, FHFA Director Mark Calabria said in a press interview that the Trump administration's housing finance reform plan was "essentially done," and that he expected it to be published by August or September. This represents a delay from prior comments by Dr. Calabria and other officials who indicated that the report would be released as early as June. Press reports have suggested that the delay is at least in part due to other initiatives at Treasury given the number of urgent matters that have been occupying Treasury Secretary Mnuchin's time, most notably, the trade negotiations with China.

While the delay is disappointing, nothing has transpired to indicate that the administration's priorities to end the conservatorships and recapitalize the GSEs have changed. In addition to the report, key milestones that we expect in the coming months include the release of FHFA's final capital rule for Fannie and Freddie, negotiations between Treasury and FHFA to modify the Preferred Stock Purchase Agreements and potentially suspend the net worth sweep, and preparations for a private capital raise.

FNMA and FMCC common shares have increased 119% and 114% respectively, year-to-date. Fannie and Freddie preferred shares have increased 57% and 60% respectively, year-to-date.

Exited Positions

Automatic Data Processing ("ADP")

During the last several weeks, we sold our stake in ADP. Although we expect ADP to continue to do well over time as the company executes on its business transformation, we view the prospective returns from today as more modest because the market is now more accurately pricing in ADP's prospects for success.

We achieved many of the objectives we established when we initiated our position in ADP. This led to a highly successful investment outcome particularly considering the low-risk and unleveraged nature of ADP's business. At the time of our exit, approximately two years from the establishment of our position, ADP's stock price had increased to $167 per share, generating a total shareholder return including dividends of 64%, more than double the S&P's total return of 30% over the same period.[11] Including the benefit of leverage in the form of long-dated, very-deep-in-the-money call options that were used to finance a portion of this investment, PSH realized returns in excess of the stock return, culminating in an attractive 40% annualized rate of return.

Prior to our investment, ADP was not well understood by the investment community, and garnered little critical attention. While the company participates in an excellent industry and had produced good shareholder returns over time, its performance was well below its structural potential.

While our original approach was to work quietly behind the scenes to achieve our investment objectives, we were quickly forced into a proxy contest which led us to publicly air our concerns and the opportunities we had identified. During the contest, we were able to successfully make the case to shareholders that ADP had the potential to materially improve its competitive position, generate higher revenue growth, and achieve substantially greater efficiency and margins while enhancing the customer experience.

Our activism bore significant fruit. ADP's investor base emerged from our engagement better educated about the company's enormous potential. With the support for change from other major shareholders, we were able to catalyze the company to embrace a business transformation. As a direct result of our activism, ADP made commitments to accelerate revenue growth, bolster its competitive position in the Enterprise market, and improve efficiency and margins.

During the past year, management started to execute on these new commitments by accelerating existing efficiency initiatives and embracing new projects to streamline ADP's business. These initiatives have included: (1) accelerating the development of ADP's next-generation platforms, (2) broadening and accelerating the company's Service Alignment Initiative, (3) launching an early retirement program, (4) executing a broad-based workforce optimization effort focused on spans of control and management layers, and (5) launching an accelerated procurement transformation effort aimed at third-party vendors and internal expense management. These projects, along with other smaller initiatives underway, allowed ADP to realize significant margin expansion and earnings growth in the fiscal-year ended June 30, 2019. These initiatives should provide a tailwind for continued operating progress over the coming years. ADP's business transformation has been accomplished as the company continues to post near-record client retention and accelerated bookings and revenue growth, demonstrating that customers are supportive of the changes.

At the time we invested in ADP, the company was forecasting approximately $3.80 of earnings per share in fiscal-year 2018. Recently, ADP has provided earnings guidance of $6.10 to $6.20 for fiscal-year 2020 (ADP's fiscal year ends June 30th), and ~$7 per share of earnings in fiscal year 2021, an ~85% increase in earnings per share in three years if ADP meets its projections which historically have been conservative.

Furthermore, we believe that there continues to be a significant opportunity for ADP to execute its ongoing business transformation in the years ahead, and to expand margins and earnings beyond current targets, but best-in-class execution will be required. If ADP meets its 2021 earnings targets, we estimate the stock will generate a low double-digit return from our exit price. While we believe now was the appropriate time to sell our investment in ADP, we wish the company well as it continues its business transformation.

United Technologies Corporation ("UTX")

We invested in UTX because it owns market-leading businesses with favorable long-term growth trends in an unwieldy conglomerate format which traded at a large discount to the sum of its parts. We believed that a tax-free separation of these three businesses would eliminate the company's significant sum-of-the-parts discount and highlight the value of its crown jewel asset, its aerospace business. We exited our position in UTX this quarter with a modest gain of 3% after the company announced a value-destructive stock merger of its high-quality, high-growth aerospace business with a lower-quality, lower-growth defense contractor, Raytheon, at a valuation that represented a significant discount to the intrinsic value of UTX's aerospace business. [12]

After acquiring a stake in the company last year, we met with management to express our view that a separation would create substantial shareholder value. We were therefore pleased when the company announced a breakup late last year. We were, however, surprised and disappointed to read rumors of an imminent transaction with Raytheon in early June, which was antithetical to the company's articulated rationale for the previously announced breakup. In response, we immediately wrote a letter to the board to express our strong concern and opposition to the potential transaction. After the company proceeded with the transaction over our objections, we decided to sell our position.

Although we could have run a campaign to block the transaction over the next six or more months, our loss of confidence in management would have also required us to engage in a more comprehensive battle to replace the company's leadership, and perhaps a portion of the board, in order to be comfortable with the company's future capital allocation decisions, strategic direction, and oversight. After carefully considering the significant organizational time and effort that would be required to merely restore the value that will be destroyed by the transaction, we decided that it was more productive to sell our stock at a small profit and focus our efforts on finding new opportunities.

Platform Specialty Products

As previously disclosed in the PSH 2018 Annual Report, we exited our investment in Platform Specialty Products Corporation in early 2019.