OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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Inside This Issue

"Valuentum has hit the ball out of the park during the last month with a few of its picks."

About Our Best Ideas Newsletter

By Brian Nelson, CFA

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First of all, I wanted to extend a thank you for your continued subscription to Valuentum Securities. We are growing rapidly as a firm, and we think our fresh, unique stock-picking methodology will provide members with a leg up on the market. Our mission with our Best Ideas Newsletter is to provide you with a list of our best ideas constructed in a portfolio that we think will not only beat the market in each annual period, but will also deliver positive returns every year. This is certainly a tall order, and one in which other newsletters do not embrace, but we are up to the challenge and remain dedicated to being your equity research provider.

For those that may not be familiar with us, we strive to stand out from the crowd and deliver you the most compelling investment ideas at the best time to buy. Most investment research firms fall into a few camps, whether it be value, growth, income, momentum,

Please see *About Our Best Ideas Newsletter* on page 2

A Strong Start to Outperformance

By Valuentum Analysts

Valuentum hit the ball out of the park during the last month with a few of its picks. We continue to be very bullish on the outlook for commercial aerospace, and the addition of three names in the sector to our Best Ideas List June 6 contributed significantly to outperformance. Astronics (ATRO) has increased nearly 32%, while EDAC Tech (EDAC) and Precision Castparts (PCP) advanced 19% and 6%, respectively. We also saw strong performance from Apple Corp. (AAPL), and one of our more controversial ideas, Ancestry.com (ACOM). Our dividend high-yielders didn't perform that well, but we continue to like trash-taker Republic Services (RSG) and cigarette-maker Altria Group (MO)—the latter boasting nearly a 6% annual yield.

In all, our portfolio returned over 6% versus the S&P's decline of 0.2%, outperformance that we're particularly proud of out of the gates.

Please see *A Strong Start to Outperformance* on page 4

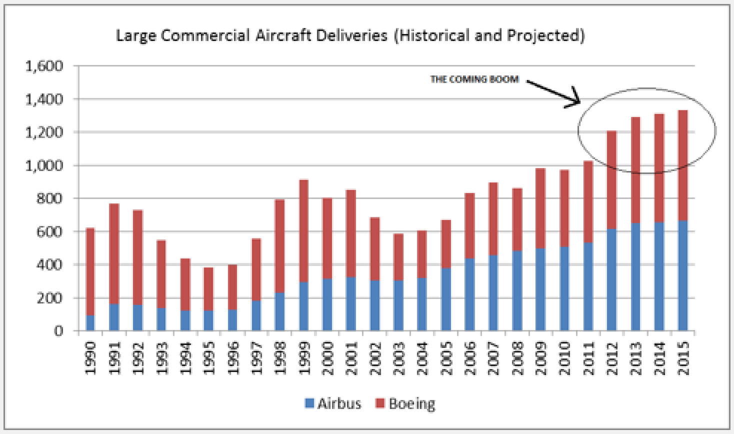
Why We Like Commercial Aerospace

By Brian Nelson, CFA

Expected deliveries of commercial planes are set to advance considerably in coming years. In this article, we dig into the valuation and potential upside of Precision Castparts (PCP), one of the best long-term plays on commercial aerospace demand, in our opinion. We also dive into an interesting small-cap play and a compelling micro-cap opportunity in the aerospace supply chain.

"Expected deliveries of commercial planes are set to advance considerably in coming years."

Let's briefly review the trajectory of large commercial aircraft deliveries during the next several years. Aside from the fundamental drivers (replacement planes, emerging-market growth, etc.), Boeing (BA) and Airbus are rapidly increasingly production of their workhorse narrowbody aircraft (737, A320) due to encroaching rivals, while rolling out (747-8, 787) and ramping up deliveries (A380) of brand new builds. Beyond 2015, look for large commercial aircraft (LCA) deliveries to nudge up slightly as a result of the ramp up of A350 deliveries (followed thereafter by a cyclical downswing).



That said, let's move into a discussion on Precision Castparts. The metal-

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"We're looking for companies that are undervalued…have strong growth potential, have a solid track record of generating economic profits for shareholders with reasonable risk, are strong cash-flow generators, have manageable financial leverage, and are currently showing bullish technical and momentum indicators."

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chartists or some variant of the aforementioned. We think each in its own right holds merit, but we think the combination of these approaches is even more powerful. After all, stock price movements aren't just driven by investors of the value or growth variety, but by all market participants. Therefore, we look at stocks from a variety of investment perspectives in order to understand and capitalize on opportunities. We want to arm you, our subscriber, with relevant, actionable information.

We're looking for companies that are undervalued—both on a DCF basis and versus peers—have strong growth potential, have a solid track record of generating economic profits for shareholders with reasonable risk, are strong cash-flow generators, have management financial leverage, and are currently showing bullish technical and momentum indicators. We want to deliver these names to you in our Best Ideas Newsletter.

Our Thesis on Ancestry.com

By Valuentum Analysts

It's not every day that investors come across a firm with a cash-rich, subscription-based business model with substantial revenue growth prospects and operating-leverage tailwinds. And certainly one wouldn't expect to find it with a name such as Ancestry.com (ACOM). But whether you're a family history buff or not, this name may be a perfect fit for the aggressive growth portion of your equity portfolio.

Here are five reasons to buy this name at these levels:

1) Ancestry.com's long-term market opportunity is phenomenal.

2) The firm's incremental margins on new subscribers are more than triple that of current reported results, offering a long runway for earnings leverage.

3) Ancestry.com's cash-rich, subscription-based business model benefits from one of the strongest competitive advantages out there -- the network effect.

4) The firm's social-networking endeavors and international efforts are only in the early innings.

5) The firm's valuation presents significant upside potential and little downside risk.

Please see *Our Thesis on Ancestry.com* on page 6

"Ancestry.com's cash-rich, subscription-based business model benefits from one of the strongest competitive advantages out there – the network effect."

Sizing Up the Long-term Growth Potential of Buffalo Wild Wings

By Valuentum Analysts

A restaurant focused on the concept of wings, beer, and sports seems like nothing special, but Buffalo Wild Wings (BWLD) certainly has carved out a solid presence in this arena. With each restaurant boasting an extensive multi-media system (projection screens, 50 televisions, etc.), a full bar and open layout, "B-Dubs", as it is commonly known, has become the place of choice for many social chicken-wing lovers. Thanks in part to its widespread appeal, the firm has experienced tremendous growth during the past number of years as revenue has more than doubled since 2006. Management also expects to open more than 100 new restaurants in 2011. But how long can this growth continue?

First of all, management is looking at a saturation point of roughly 1,400 restaurants in the U.S., targeting a mix of 40% company-owned and 60% franchised. At the end of last year, the firm owned or franchised 732 restaurants in 44 states. Given the traction this establishment has gained, it's probably hard to argue that the Buffalo-Wild-Wings concept is not transferable across most of the nation. At least, along a similar scale as it has been thus far in its founding state of Ohio.

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"...it's probably hard to argue that the Buffalo-Wild-Wings concept is not transferable across most of the nation…along a similar scale as it has been thus far in its founding state of Ohio."

A Strong Start to Outperformance from page 1

Below we outline the constituents of our portfolio and their respective weightings and returns thus far. Each subsequent issue will include Valuentum's discussion of the latest changes to the portfolio, a summary of new names on our watch list, as well as analysis and trends impacting companies on our Best Ideas List.

Our investment process will be completely transparent and easy to implement in your own portfolio. The goal of our Best Ideas Newsletter is to outperform the S&P 500 Index and to generate positive returns each year regardless of the market environment. Firms added to our Best Ideas List are the cream up the crop based on our stock picking methodology.

"The goal of our Best Ideas Newsletter is to outperform the S&P 500 Index and to generate positive returns regardless of the broad market environment."

OUR BEST IDEAS -- as of July 13, 2011 — **Best Ideas Portfolio Inception Date: May 17, 2011**

Portfolio Holdings	Symbol	VBI Score*	First Purchase Date	Cost Basis/Share ($)	Total Shares	Total Cost ($)	Current Value/Share ($)	Current Value ($)	Dividends Received	% of Portfolio	% Return
Bullish											
Apple Corp.	AAPL	10	17-Jun-11	328.99	30	9,876.70	358.02	10,740.60	0.00	10.1%	8.7%
Altria Group	MO	8	28-Jun-11	26.43	378	9,997.54	26.86	10,153.08	0.00	9.5%	1.6%
Ancestry.com	ACOM	10	17-May-11	39.00	256	9,991.00	43.70	11,187.20	0.00	10.5%	12.0%
Astronics	ATRO	10	6-Jun-11	24.93	401	10,003.93	32.87	13,180.87	0.00	12.4%	31.8%
Buffalo Wild Wings	BWLD	7	13-Jul-11	65.42	152	9,950.84	67.83	10,310.16	0.00	9.7%	3.6%
Collective Brands	PSS	8	11-Jul-11	15.09	662	9,996.58	14.46	9,572.52	0.00	9.0%	-4.2%
EDAC Tech	EDAC	9	6-Jun-11	4.08	2450	10,003.00	4.85	11,882.50	0.00	11.2%	18.8%
Precision Castparts	PCP	8	6-Jun-11	152.07	65	9,891.55	161.70	10,510.50	0.00	9.9%	6.3%
Republic Services	RSG	8	19-May-11	32.95	303	9,990.85	30.27	9,171.81	60.60	8.6%	-7.6%
Bearish											
AMR Corp.	AMR	1			--- No Short Position ---						
Put Options	Feb-2012 -- $5 strike		13-Jul-11	0.73	10	747.00	0.71	710.00		0.7%	-5.0%
Under Armour	UA	4			--- No Short Position ---						
Put Options	Jan-2012 -- $77.50 strike		13-Jul-11	9.20	1	928.00	8.90	890.00		0.8%	-4.1%
Guggenheim Airline ETF	FAA	n/a			--- No Short Position ---						
Put Options	Dec-2011 -- $35 strike		13-Jul-11	3.70	3	1,120.00	1.95	585.00		0.5%	-47.8%
Cash						7,503.01		7,563.61		7.1%	0.8%
Portfolio Value						100,000.00			106,457.85		**6.5%**
SPY			17-May-11	132.69	754	100,000.00	131.84	99,359.41	473.28	100.00%	
Benchmark Value									99,832.69		**-0.2%**
Under/Outperformance											**6.6%**

Watch List	Symbol	VBI Score*	Notes
Bullish			
Big Five Sporting Goods	BGFV	8	Big Five is significantly undervalued. We'd initiate a position if it became relatively more attractive than our existing longs.
Microsoft	MSFT	8	We think Microsoft is worth $35 per share. We're waiting for a technical breakout to initiate a position.
Reynolds American	RAI	7	We like dividends and view them as an integral part of our strategy. If the new cigarette warning labels pressure Reynolds' stock, we may initiate a position.
Rick's Cabaret	RICK	8	Rick's is significatly undervalued, and we'd initiate a long position if it became relatively more attractive than our existing long ideas.
Bearish			
Churchill Downs	CHDN	4	Churchill Downs is saddled with overpayment/selection risk with its acquisition program. We'd layer on a large put position if its equity reached $50 per share.
LinkedIn	LNKD	4	We think LinkedIn is overvalued and are looking for the opportune time to layer on a put position. We might take a stab if its equity reached $120 per share.

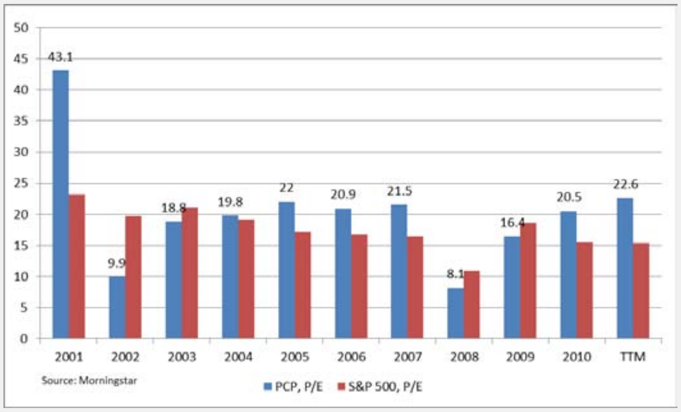
This portfolio is not a real money portfolio. Data as of July 13. Cost basis includes commissions. Results include dividends, but not interest received on cash balance.

* See page 15 regarding the Valuentum Buying Index (VBI)

Why We Like Commercial Aerospace from page 2

bender has an enviable position on all of the jet-engine programs of the major powerplant manufacturers (GE, Rolls Royce, Pratt & Whitney)--spanning such platforms as the A380 double-decker, 787 Dreamliner, and A350. Plus, the firm has been working with these jet makers for decades and has secured increased dollar-content (revenue per engine) on future programs. Aside from this nice tailwind in its investment cast products segment, the firm will also benefit from the future pace of new aircraft deliveries in its forgings and fasteners segments, which round out its aerospace portfolio.

With that backdrop, let's examine Precision Castparts' potential upside. Commercial OEMs and aircraft suppliers often benefit from the market's short-sidedness, which results in the application of a hefty multiple on future earnings, assuming the near-term picture remains bright at that time. As the commercial aircraft delivery upswing ensues--when the major OEMs achieve near-term targets for 737/A320 production and the first customers of the 787 and 747-8 take delivery--look for the market to eventually place an inflated multiple on future earnings of most participants at some point during this upswing. In Precision Castparts' case, we're already there, with this low-cost metal bender garnering an earnings multiple consistent with historical peaks. Therefore, most equity appreciation for the firm will most likely be driven by earnings expansion during the next several years.



After viewing the chart above, Precision often garners a multiple in the high-teens / low 20s on trailing earnings during strong times in the aerospace sector. Interestingly, during the peak of the previous aerospace delivery cycle (in calendar 2007), the firm garnered roughly a 20x multiple on forward earnings for fiscal 2009 (which turned out to about $7.50). So, with this ballpark 20x multiple in mind (on a forward basis), let's examine Precision's earnings trajectory during the next few years.

Assuming metal price pass-throughs do not generate material gyrations in revenue (a base-case forecast), the firm's top-line should expand roughly in step with large commercial deliveries (with some adjustment for lead time) in coming years-- the aerospace end market generates about 60% of the firm's total revenue with power and general industrial accounting for the balance). Also providing additional tailwinds to revenue expansion are share gains via previous acquisitions and higher dollar content per aircraft. Further, the firm's operating margins should expand in coming years thanks to higher throughput (operating leverage) and continued cost-containment.

(in millions of USD)	FY2010A	FY2011A	FY2012E	FY2013E	FY2014P	FY2015P
Total Revenue	5,459	6,220	6,942	8,105	8,711	9,042
YoY % Growth	-19.4%	13.9%	11.6%	16.8%	7.5%	3.8%
LCA Units*	972	1,027	1,206	1,287	1,310	1,334
YoY % Growth	-0.7%	5.7%	17.4%	6.7%	1.8%	1.8%
Operating Income	1,423	1,503	1,735	2,156	2,369	2,387
Operating Margin	26.1%	24.2%	25.0%	26.6%	27.2%	26.4%
YoY % Growth	-10.2%	5.6%	15.5%	24.2%	9.9%	0.7%
Diluted EPS	$6.49	$7.04	$8.12	$10.06	$11.05	$11.13
YoY % Growth	-12.7%	8.6%	15.3%	23.9%	9.8%	0.7%
Consensus EPS**			$8.51	$9.98	n/a	n/a

*Boeing and Aircraft deliveries (historical and projected) -- based on calendar year.
**Source: Yahoo

In fiscal 2013 (ending March 2013), Precision is expected to earn roughly $10 per share, with significant earnings expansion expected in the following year (fiscal 2014). Based on historical market tendencies and the trajectory of the firm's growth, it would not be surprising to see Precision trade up to near $200 per share (20 x 10) within the next couple years.

But how attractive is Precision on a discounted cash-flow basis? Using the same forecasts that resulted in the table above and expanding the horizon to 10 years (an appropriate period given that commercial aerospace cycles last about 7 years from peak to subsequent peak; view the delivery chart above), Precision's shares are

***Why We Like Commercial Aerospace* continued on next page**

worth between $130 to $140 (assuming a discount rate in the high-single-digits), representing little downside risk from today's levels. Importantly, utilizing a discounted cash-flow process is one way to sort out or dismiss claims regarding earnings quality.

In short, Precision's shares have substantial valuation support at the $130 level and could rise to as much as $200 during the coming upswing. Investors should pick an entry point that best suits their given level of risk. We think it belongs on our Best Ideas List at today's levels.

What About Other Commercial Aerospace Suppliers?

The aerospace supply chain is littered with public suppliers, and investors should expect a rising-tide-lifts-all-boats phenomenon in coming years, with perhaps the best performers being the ones that are least-followed on the street.

First, a small-cap name we added to our Best Ideas List is Astronics (ATRO), a maker of lighting systems and electrical power systems for the commercial (nearly 60% of revenue) and military and general aviation markets. The company's electronics products provide in-seat power for passengers and power in-flight entertainment systems (IFE) found on commercial jetliners. Astronics is benefiting from a trend of increasing IFE and in-seat power on new generation aircraft and has a decent position on new builds such as the 787, A380, and A350. Though customer concentration is some risk (Panasonic Avionics Corp. accounts for about 27% of sales), the firm should experience strong growth in the years ahead. Based on consensus estimates for next year, the company is trading at less than 13x earnings on sales growth of about 15% (check out the firm's most recent presentation here). With a market cap of less than $300 million, Astronics is not on many investors' radar screens.

We'll close with the mentioning of one micro-cap play whose respective equity can largely be viewed as a call option on future aerospace growth. This firm needs very little to go its way during the coming upswing to really move the needle with respect to operating and share-price performance. This company is EDAC Technology Corp. (EDAC), a $20 million market cap (yes, that's not a typo: it's tiny) supplier of precision components (jet engine parts, special tooling, etc.) to the aerospace sector. United Technologies (UTX) is its largest customer at about 44% of revenue, and EDAC has secured a position on the firm's geared turbofan engine (high pressure compressor hubs, turbine disks, etc.), which is turning into a favorite powerplant among commercial OEMs in the narrowbody arena.

The firm is also a supplier on Boeing's 787 Dreamliner (fan cowl, fan blisk) and the Joint Strike Fighter (compressor integrated blade rotors, compressor fan case, etc.). In fact, less than five years ago, EDAC was producing parts for only one client and a single engine, but now the firm is on over ten major engine programs across a wider range of customers. Growth in backlog has been stunning, and thanks to a new multi-year $42 million agreement to supply additional engine parts to a leading European engine maker (announced this year), backlog now stands at over $171 million from about $140 million at the end of 2010 and just over $20 million in 2005--that's about 2.3x the firm's annual revenue run-rate and over 8x its market cap, revealing nice visibility.

EDAC is profitable and has negligible exposure to raw material cost fluctuations (it has a dollar-for-dollar passthrough to customers). Plus, the firm's first-quarter performance showed improvement over last year, and management indicated on the call that its order pipeline remains active. With daily dollar volume at just $44,000, institutional investors will not be too active in this firm's stock, and retail investors should view EDAC's equity as an interesting call option on future aerospace demand. EDAC could reach its previous highs of $6 per share during the coming upswing, offering 50% upside from today's levels. The firm has performed nicely since we added it to our Best Ideas List.

Our Thesis on Ancestry.com from page 3

Ancestry.com's long-term market opportunity is phenomenal.

Ancestry.com provides a complete experience for users interested in building out their family trees, learning about their family histories, and uncovering pictures and stories about their family's past. Genealogical research is not new. What is new, however, is how users are performing genealogical research. Many now flock to the convenience of using searchable, digitized databases on the internet to accomplish what was once a snail-mail and painstaking research effort. Perhaps the greatest evidence of the emergence of this structural shift is the growth rates of gross subscriber additions at Ancestry.com during the past few years. Thanks in part to a successful television show, "Who Do You Think You Are?" (WDYTYA), gross subscriber additions have more than doubled to 1.02 million in 2010 from 480k in 2007.

Ancestry.com's subscribers now total 1.6 million at the end of the first quarter of 2011, roughly doubling levels from the end of 2007. Despite this impressive growth during the past few years, the firm's market opportunity remains robust. As Ancestry.com continues to invest in new content on its website, previous users that opted to cancel have started to come back. In fact, according to management on their first-quarter earnings call, about 20% of gross subscriber additions per period are returning customers. As such, the aggregate 2.7 million gross subscriber additions during the past four years is probably the best gauge to use as the current penetration rate of Ancestry.com's addressable market. In other words, it's fair to assume that users that may have stumbled upon the website a number of years ago may now again be interested in the firm's upgraded services.

There are a few ways of sizing up Ancestry.com's potential market opportunity. Management is targeting roughly 16 million subscribers across an estimate of roughly 163 million households. This may be a touch optimistic. According to the US Census Bureau, there are roughly 39.6 million people in the US that are above the 65+ age category, a demographic well-known for pursuing genealogical research. If we restrict Ancestry.com's market opportunity to just the 65+ age bracket, based on the 2.7 million gross subscriber additions during the past 4 years, only 6.8% of this market has recently used Ancestry.com's product offering. Based on Ancestry.com existing subscriber base of 1.6 million, just 4% of this market currently uses its services.

Admittedly, it's unfair to restrict Ancestry.com's market opportunity to just the 65+ age group. The firm's customer base spans all age groups, as we doubt that the 65+ age group is completely responsible for the 1 million downloads of Ancestry.com's mobile app for the iPhone, iPad, and iPod. Nonetheless, such an exercise reveals the firm's vast subscriber growth potential ahead of the company. And with viewership of its television show WDYTYA at many, many times its current subscriber base, a doubling or tripling of subscribers over time should be viewed as a conservative base-case forecast.

The firm's incremental margins on new subscribers are more than triple that of current reported results, offering a long runway for earnings leverage.

Ancestry.com generates over $200 in annual revenue per subscriber on customer acquisition costs of about $80 (these metrics were better in the firm's first-quarter results). Incremental margins on each new subscriber are north of 60% and dwarf the firm's reported operating margins of 20% in 2010 and 15.6% in the first quarter of 2011. With subscriber growth thus far, operating margins have already advanced 12 percentage points from the 8% mark in 2008. With such a vast market opportunity in front of it, operating leverage will be substantial, and long-term operating margins are likely to hit over 50% within the next 5 to 7 years.

At the high end of its guidance range for 2011, management is targeting revenue and total subscribers of $400 million and 1.73 million, respectively. Consensus estimates for 2011 and 2012 appear too low, in our opinion.

***Our Thesis on Ancestry.com* continued on next page**

Ancestry.com's cash-rich, subscription-based business model benefits from one of the strongest competitive advantages out there -- the network effect.

Ancestry.com's business model is a veritable cash cow, as the firm reaps subscription revenue across a plan duration mix of monthly, quarterly, 6-month, and annual subscriptions. The firm also benefits from product sales at about 7% of revenue, but subscription growth should dwarf its contribution over time. At the end of the first quarter of 2011, about 60% of the firm's subscribers are on an annual plan and 33% are on a monthly plan, with the balance choosing quarterly or a half-year service. Although churn rates are much higher for monthly subscribers, which represent about 60% of gross subscriber additions, Ancestry.com charges a higher fee for providing the convenience of allowing monthly subscribers to move in and out of the service over time.

This customer convenience often results in high reported cancellation rates per quarter, but it's important to note that a meaningful portion of the churn represents satisfied subscribers that expect to return at a later date, pending additional content upgrades. Ancestry.com has invested between 14%-17% of revenue per year in technology and development to keep subscribers coming back for more. For users relatively new to genealogical research, a subscription to Ancestry.com could last years, as discovering 128 great-great-great-great-great grandparents, for example, could take some time.

It's difficult not to be fond of Ancestry.com's competitive position. After all, encountering another subscriber on the firm's website with a common ancestor could save years of time and lots of money, a feature that goes unmatched by competitors. And as more subscribers input their family histories and trees on its website, the more valuable Ancestry.com's product offering becomes to the incremental subscriber – a true network effect. Many subscribers also add stories and pictures to their trees as well, offering new users the rare chance to learn more about their family's past and even view the face of a long-lost ancestor.

The firm's social-networking endeavors and international efforts are only in the early innings.

Though a transaction is not to be expected, Ancestry.com's product offering can be viewed as a natural extension or ancillary service to the social-networking behemoth Facebook. Management expects to launch a substantial improvement to its social-networking capabilities within the next quarter or two, and it would not be surprising if Facebook is a large partner in this effort. This is a key positive catalyst for further subscriber acceleration, especially within the younger age demographics.

"Management expects to launch a substantial improvement to its social-networking capabilities within the next quarter or two, and it would not be surprising if Facebook is a large partner in this effort."

International growth presents another opportunity for Ancestry.com. Non-US subscription revenue represented roughly 25% of last year's total subscription revenue, with the UK and 'all other countries' expanding nearly 70% during the period. As Ancestry.com acquires additional foreign content during the

Our Thesis on Ancestry.com **continued on next page**

next few years, non-US growth should be expected to accelerate further.

Ancestry.com also has the opportunity to ramp up sales of advertising on its website, a revenue stream that appears to be minimal at this time. With a subscriber base of 1.6 million that likely invests hours of time on its website, it'd be valuable for Ancestry.com to further develop this profitable revenue stream. Other subscription-based business models with similar customer demographics have been successful, and there doesn't appear to be any reason why Ancestry.com couldn't do the same.

The firm's valuation presents significant upside potential and little downside risk.

Though investors may shy away given the firm's lofty earnings multiple, it's probably best to look at this high-growth firm through a discounted cash-flow model. With our relatively bullish, yet achievable forecasts for the firm's adjusted EBITDA and enterprise free cash flow, we think Ancestry.com is worth $70 per share. This represents over 60% upside from today's price levels.

If we were to perp 2012 enterprise free cash flow at a growing perpetuity of just 3% and add the $100 million in net cash sitting on Ancestry.com's balance sheet at the end of the first quarter, we'd arrive at an equity value of about $40 per share. It seems very likely that Ancestry.com will achieve free cash flow growth well north of a mere 3% for many years to come, revealing little downside risk at today's prices.

Apple is Significantly Undervalued

By Valuentum Analysts

We often use a discounted cash-flow model as a means to back into the current share price of firms in order to ascertain whether the market is unfairly pricing their stock relative to reasonable long-term growth and profitability assumptions. In Apple's case, it appears that the market is certainly concerned about future growth rates, almost to the tune of merely expecting inflation-like expansion beginning toward the middle of this decade.

Although in the land of technology, competition adapts quickly and a few years from now can be viewed as the distant future, Apple represents a compelling risk-reward opportunity at these levels based on our analysis. Often, evaluating a firm via a discounted cash-flow model and re-engineering its stock price can provide a better picture of a company's investment potential on a risk-reward basis than even the most clearly written prose.

Below, we display our valuation-model summary that generates a fair value for Apple in the $320 to $340 range. Apple would need to hit some major speed-bumps in terms of growth beyond year 4 (fiscal 2014) in order to justify that share price level. And while metrics such as the trailing P/E, PEG ratio, and P/S are valuable to some degree, there's probably no better perspective gained in terms of valuation than viewing a company through its future free cash flow stream. In doing so, investors also get a better understanding of the key drivers behind a firm's business (which factors to pay attention to and which ones to de-emphasize).

The summary on the next page assumes that Apple achieves consensus growth rates for revenue during the next two years (perhaps a conservative outcome given the accelerated traction the iPhone has had against Research in Motion's (RIMM) Blackberry, with expansion then slowing to 3% by year 5 (fiscal 2015). Earnings are expected to hit consensus during the next two years and then slow dramatically in the years beyond, largely due to this declining revenue growth. As it's probably worth

Apple is Significantly Undervalued continued on next page

repeating, these are the forecasts that would drive Apple's valuation to roughly equal its current stock price. Though maintaining double-digit growth rates for each of the next five years may be difficult for Apple (given the law of large numbers and the burden of constant innovation), we think the market's current expectation for inflation-like top-line expansion at Apple in year 5 (fiscal 2015) and beyond is too conservative.

The box below reveals what fair value we targeted by adjusting our intermediate-term and long-term forecasts for Apple -- $320 to $340 per share ($335 specifically). As mentioned before, the model assumes Apple achieves consensus estimates for both top-line and bottom-line this year and next.

Apple Inc.	AAPL
Fair Value -- the instrinsic value of the firm	335.00
Upside -- the upside potential based on historical volatility of operating performance	437.00
Downside -- the downside potential based on historical volatility of operating performance	233.00
Phases of the Model	
Phase I Present Value -- the value generated between years 1 through 5	101,740
Phase II Present Value -- the value generated between years 6 through 20	134,000
Phase III Present Value -- the value generated after year 20	48,487
Total Firm/Enterprise Value (present value) -- the sum of Phase I-III present values	284,228
Net Balance Sheet Impact -- cash less debt less other adjustments	25,620
Total Equity Value -- the residual value belonging to shareholders	309,848

Republic Services: A Trash Stock Worth Picking Up

By Valuentum Analysts

As Benjamin Franklin once said, "nothing is certain but death and taxes." If he had lived during our time, Franklin would probably have added a couple other certainties - and garbage would have been among them.

The US non-hazardous solid-waste services industry generates annual revenue in excess of $50 billion, a staggering number just to keep our streets clean. Public companies (like Waste Management (WM), Republic Services (RSG), Waste Connections (WCN), etc.) dominate this market, generating greater than 60% of industry revenues and controlling an equal percentage of valuable disposal capacity. The top line for the group can be expected to expand at a nominal-GDP rate, with pricing growth in the industry adding an additional tailwind thanks to recent consolidation (Republic Services/Allied Waste), a rational focus on return on invested capital, and cost pressures facing independent mom-and-pop trash companies and municipalities.

There are a couple reasons to be fans of the waste-services industry:

1) Operators generate strong and predictable cash flow.

Within the collection line of a waste hauler's business (typically 60-70% of revenue; about 75%-plus in Republic's case), residential services provided to municipalities and individual households are on a service-based model (not-volume based) and can largely be viewed as insulated from economic pressures. Such a constant revenue stream helps to mitigate cyclical pressures in a trash taker's commercial collection and industrial roll-off lines, which also fall into the overall waste-collection category.

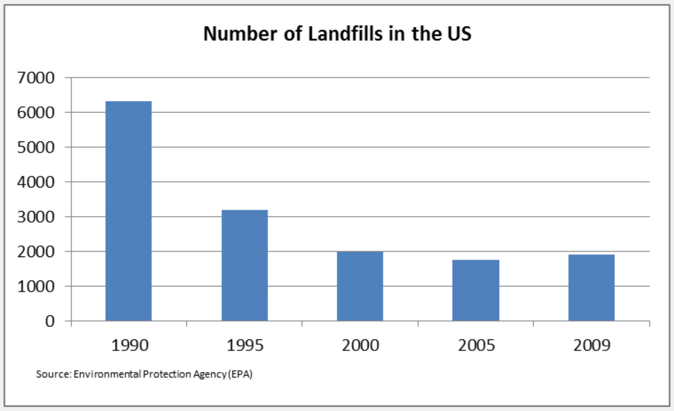
Cell-by-cell landfill build-out provides additional flexibility with respect to capital outlays, as haulers can scale back expenditures during troubled economic times. Waste Management's results speak to the cash-flow stability of this business, and Republic's free cash flow margin will return to double-digit levels this year following its acquisition of Allied Waste a few years ago.

2) There are huge barriers to entry in the landfill business.

Transfer and disposal (typically 20%-30% of revenue; about 18% of revenue in Republic's case) is the most lucrative revenue stream in the waste business. Landfill ownership can largely be viewed as the primary competitive advantage for a solid-waste operator. Though anyone that can finance a truck can bid on collection routes (service is undifferentiated), new entrants are at a significant disadvantage for disposal.

For starters, building a landfill is expensive, time-consuming (permits can take 3-7 years to obtain, sometimes longer), and NIMBY (not-in-my-backyard) opposition has only increased with suburban sprawl. Subtitle D of the Resource Conservation and Recovery Act (1991) significantly increased the cost and complexity of landfill ownership (composite liners, leachate collection systems, zoning, etc.). As a result, many landfills in the US have been closed, and disposal airspace should only become more valuable over time.

Republic Services: A Trash Stock Worth Picking Up **continued on next page**



Since collected waste must go somewhere (direct haul is only practical for 40-50 miles), the company that controls the disposal assets in a given "wasteshed" (locality) often dictates pricing. Owning the only dump in town also limits hefty tipping fees paid to other participants. Waste Management and Republic Services internalize--dispose of into their own company-owned landfills--more than 60% of collected waste, bolstering operating margins relative to privately-held, independent operators. Importantly, landfilling still represents the most prominent form of disposal, declining only 3 percentage points (as a percentage of generation) during the last decade. Materials recovery (including recycling) should continue its march upward, but the pace of this trend is far from tragic for the waste-hauling sector.

Republic's Story

After its acquisition of Allied Waste, Republic now operates roughly 190-plus solid municipal-waste landfills from under 60 pre-acquisition, second only to Waste Management's 271 sites. These disposal assets represent a long-term strategic benefit that will only become more valuable over time due to an increasingly onerous regulatory environment and continued citizens' group opposition to greenfield sites.

Through long-term exclusive franchise contracts with municipalities, Republic operates as a monopoly in nearly 30% of its markets. Plus, Republic arguably has the most attractive franchise deal in the country, an exclusive contract that runs through 2035 with Las Vegas. Its enormous Apex regional landfill in Clark County, Nevada, is the busiest facility in the country and should enjoy years of strong cash flow generation from one of the fastest-growing areas in the country.

Although Republic has largely captured its targeted synergies related to the Allied transaction, continued execution should drive free cash flow margins to levels even higher than peer Waste Management. Specifically, Republic's guidance for $860 million to $885 million for free cash flow in 2011 seems achievable and breaches the double-digit mark as a percentage of revenue (check out Republic's most recent presentation here).

On an enterprise free cash flow basis, we're looking at annual levels comfortably above the $1 billion mark. Assuming a meager 2% long-term growth rate, a high-single-digit cost of capital (perhaps a conservative assumption given yields on its recent new issues), and accounting for the trash taker's elevated net debt load, a fair value for the firm's equity rests in the high $30 per share, roughly 20% upside from current levels--and a fairly large mispricing for a steady-eddy, defensive firm such as Republic. To sweeten the deal for investors, the trash taker also pays a nice annual dividend yield of 2.5%, the payout of which will likely increase later this year.

Altria's Yield is Tempting

By Valuentum Analysts

Some readers may be surprised that (Altria) is a top performer for investors in the face of the onslaught of government restrictions and legal actions that have cost the firm tens of billions of dollars and threaten the cigarette manufacturer with bankruptcy.

But in the capital markets, bad news for the firm often is transformed into good news for investors. Many shun the stock in the company and fear that its legal liability for producing a dangerous product--cigarettes--will eventually crush the firm. This aversion to the firm pushes down the price of (Altria's) shares and raises the return to investors who stick with the stock.

As long as the firm survives and continues to be very profitable, paying out a good fraction of its earnings in the form of dividends, investors will

Altria's Yield is Tempting **continued on next page**

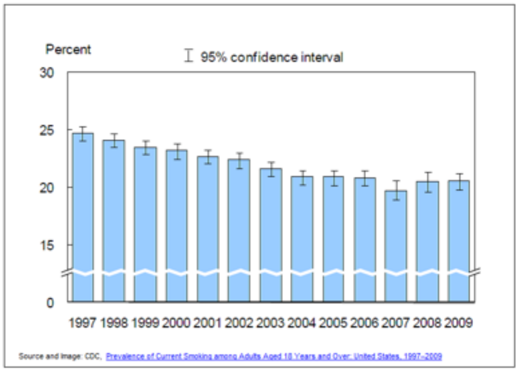
continue to do extraordinarily well.

--- "The Future For Investors," Jeremy J. Siegel explaining why Altria (MO) "has been the golden company that beat the market by 9 percent per year over the last half century and left every other firm far behind in the race to be number one (through 2003)."

In Siegel's now somewhat dated book, readers learned of the magnificent returns one could garner by holding a solid dividend-paying company that is continuously pressured with uncertainty through both the ups and downs of its share price. The reinvested dividends during the troughs of a firm's stock price often find a way of propelling the overall return of that stock to meaningful outperformance when the shares ultimately reach new highs during optimistic times. We tend to agree with Siegel on this point and believe Altria Group to be a core position on our Best Ideas list.

The FDA's recently announced that it will require new, larger warning labels on the packaging and advertising of cigarettes come fall of next year, but we don't expect such new labeling to have a material impact on the domestic cigarette-making industry. For one, cigarette smoking in the US has already been in decline for years (see chart below), and the FDA's projections for the number of those that will likely quit as a result of the new, larger warning labels is but a drop in the bucket compared with the 46 million Americans who currently smoke.

Figure 8.1. Prevalence of current smoking among adults aged 18 years and over: United States, 1997-2009



If Altria's share price begins to face pressure in anticipation of the impact of such new labeling next year, we'd be looking to increase our exposure to the firm. Not only would it then garner a higher yield than today's levels of about 5.7% under that scenario, but any market overreaction would further enhance our total return via reinvested dividends at the bottom should the stock return to new highs. Altria is currently targeting roughly an 80% payout ratio, and with expectations for the firm to earn nearly \$2.20 per share by 2012, we could see as much as 15% dividend growth in two years to an annual payout of over \$1.70 per share, which represents a projected yield of 6.5% based on its current share price. We also think Altria is undervalued on a discounted cash-flow basis.

Given the uncertain economic climate and the defensive characteristics of the tobacco industry, we have also added Reynolds American (RAI) to our watch list. The firm boasts a similar yield (5.7%) and target payout ratio (80% of earnings), and its innovative capsule technology is driving share increases in Camel's menthol category, a trend perhaps overlooked by the investment community. With expectations for the firm to earn about \$2.84 in 2012, the company has a projected yield of just over 6% at current share price levels, slightly below that of Altria. We continue to watch this firm opportunistically.

Sizing Up the Long-term Growth of Buffalo Wild Wings from page 3

In 1982, Buffalo Wild Wings built its first location near the Ohio State University. First-quarter same-store-sales of company-owned stores and franchised stores are now experiencing accelerated growth from last year, with the metrics increasing 3.6% and 1.6%, respectively, providing additional market support for more restaurants down the road.

Buffalo Wild Wings' growth opportunity can be sized up in a number of ways, but a population-per-restaurant-per-state ratio may be the most revealing of this franchise's potential. For example, if "B-Dubs" achieves a similar population-per-restaurant per state ratio as that of Ohio, the saturation point could be north of 2,000 units in the U.S. That's roughly 50% greater than management's forecast. And this doesn't include expected growth in Canada (which could reach 50 units in five years). Even a pretty hefty haircut on the 2,000-plus number, to account for more competitive regions (New York) and areas where demographics may not support such a ratio (Florida), growth well in excess of management's expectations seems achievable in the long haul.

	--- # of Restaurants Open, as of end of 2010 ---					
	Company-owned	Franchised	Total	Pop. (thous) per Rest.*	Saturation (units)**	Current Penetration***
Alabama	1	9	10	478	35	28%
Arizona	4	13	17	376	47	36%
Arkansas	—	5	5	583	21	23%
California	4	18	22	1,693	274	8%
Colorado	14	2	16	314	37	43%
Connecticut	—	5	5	715	26	19%
Delaware	—	5	5	180	7	76%
Florida	2	22	24	783	139	17%
Georgia	9	1	10	969	71	14%
Hawaii	—	1	1	1,360	10	10%
Idaho	—	3	3	523	12	26%
Illinois	12	45	57	225	95	60%
Indiana	3	45	48	135	48	100%
Iowa	13	—	13	234	22	58%
Kansas	9	—	9	317	21	43%
Kentucky	12	5	17	255	32	53%
Louisiana	—	9	9	504	33	27%
Maryland	—	9	9	642	43	21%
Massachusetts	—	1	1	6,548	48	2%
Michigan	—	41	41	241	73	56%
Minnesota	23	4	27	196	39	69%
Mississippi	2	5	7	424	22	32%
Missouri	6	17	23	260	44	52%
Montana	—	3	3	330	7	41%
Nebraska	6	2	8	228	13	59%
Nevada	9	1	10	270	20	50%
New Jersey	—	2	2	4,396	65	3%
New Mexico	—	3	3	686	15	20%
New York	9	10	19	1,020	143	13%
North Carolina	14	4	18	530	70	26%
North Dakota	—	5	5	135	5	101%
Ohio	23	62	85	136	85	100%
Oklahoma	—	13	13	289	28	47%
Oregon	—	5	5	766	28	18%
Pennsylvania	4	1	5	2,540	94	5%
South Carolina	1	7	8	578	34	23%
South Dakota	—	2	2	407	6	33%
Tennessee	17	—	17	373	47	36%
Texas	35	51	86	292	185	46%
Virginia	11	19	30	267	59	51%
Vermont	—	1	1	626	5	22%
Washington	—	1	1	6,725	50	2%
West Virginia	—	8	8	232	14	59%
Wisconsin	16	8	24	237	42	57%
	259	473	732	410	2213	33%

* State population divided by # of restaurants opened in that state (2010)
** Number of restaurants needed in corresponding state to equal Population/Restaurant ratio of Ohio
*** Current number of restaurants divided by Saturation (units)
Source: Buffalo Wild Wings, United States Census Bureau

Sizing Up the Long-term Growth of Buffalo Wild Wings continued on next page

Right now, Buffalo Wild Wings' earnings and stock price are benefiting significantly from a decline in chicken wing prices (about 20%-25% of cost of sales). This is despite traffic concerns regarding the potential for an abbreviated or canceled NFL season.

In the firm's first quarter, "B-Dubs" paid 36% less for chicken wings than it did in the first quarter a year ago ($1.22/lbs vs. $1.91/lbs). Declining costs drove restaurant cost of sales down an impressive 2.7 percentage points on restaurant sales that expanded nearly 20% from the first quarter of last year.

Chicken wing prices are certainly volatile, and investors can probably expect them to bounce back from first-quarter levels through the course of the year due to seasonal trends. However, should Buffalo Wild Wings' stock take a hit from this expected rebound in wing prices or from additional concerns about the temporary impact the NFL lockout may have on traffic and performance this year, long-term investors could be presented with a nice entry point to capitalize on the growth potential of this franchise. Buffalo Wild Wings should be on every small-cap growth investor's watch list.

Update: We subsequently added Buffalo Wild Wings to our Best Ideas portfolio.

Our Methodology – The Valuentum Buying Index

By Valuentum Analysts

But how, you will ask, does one decide what [stocks are] "attractive"? Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth,"...We view that as fuzzy thinking...Growth is always a component of value [and] the very term "value investing" is redundant.

-- Warren Buffett, Berkshire Hathaway annual report, 1993

At Valuentum, we take Buffett's thoughts one step further. We think the best opportunities arise from a complete understanding of all investing disciplines in order to identify the most attractive stocks at any given time. Valuentum therefore analyzes each stock across a wide spectrum of philosophies, from deep value through momentum investing. We think companies that are attractive from a number of investment perspectives--whether it be growth, value, momentum, etc.--have the greatest probability of capital appreciation and relative outperformance. The more investors that are interested in the stock for reasons based on their respective investment mandates, the more likely it will move higher.

As such, the Valuentum Buying Index (VBI) combines rigorous financial and valuation analysis with an evaluation of a firm's technicals and momentum indicators to derive a score between 1 and 10 for each company. The VBI places considerable emphasis on a firm's DCF valuation, its relative valuation versus peers (both forward PE and PEG ratios), as well as its technicals in order to help investors pick the best entry and exit points on the most interesting stocks. We believe our methodology helps identify the most attractive stocks at the best time to buy, helping to avoid value traps and lagging performance due to the opportunity cost of holding a stock with great potential but at an inopportune time.

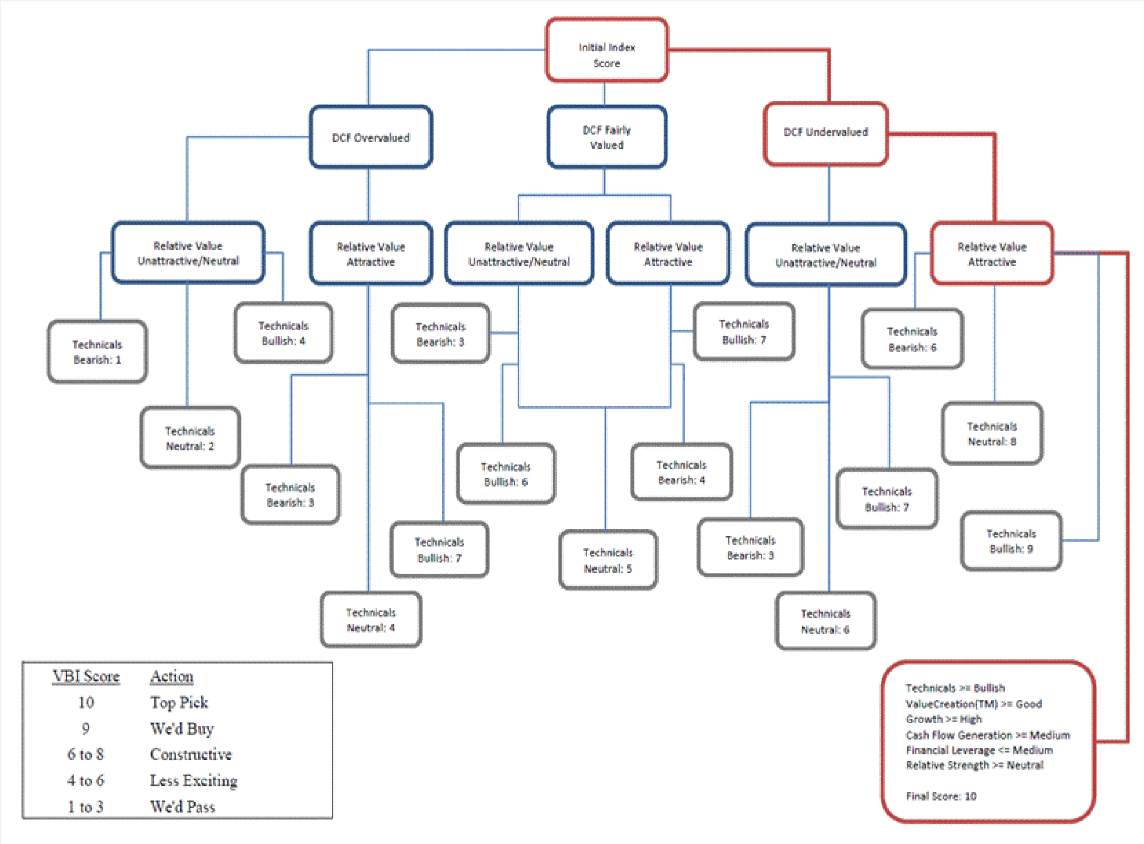
Let's discuss how a firm can score a 10, the best mark on our index (a "Top Pick"). First, the company would need to be 'undervalued' on a DCF basis and 'attractive' on a relative 'value basis. The stock would also have to be exhibiting 'bullish' technicals. The firm would need a ValueCreation rating of 'good' or 'excellent', exhibit 'high' or 'aggressive' growth prospects, and generate at least a 'medium' or 'neutral' assessment for cash flow generation, financial leverage, and relative price strength.

This is a tall order for any company, but we're looking to deliver the very best of ideas to our clients and subscribers. Firms that don't make the cut for a 10 are ranked accordingly, with the least attractive stocks garnering a score of 1 ("We'd sell"). Most of our coverage universe falls between 3 and 7, but at any given time there could be large number of companies garnering either high or low scores, especially at market lows or tops, respectively.

Please view the flow chart on the next page regarding our Valuentum Buying Index.

***Our Methodology – The Valuentum Buying Index* continued on next page**

Our Methodology – The Valuentum Buying Index



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