OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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Portfolio Return	Benchmark Return	Outperformance
44.3%	18.5%	25.8%

Portfolio Inception Date: May 17, 2011

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***Goals of our Best Ideas Newsletter**: At Valuentum, we task ourselves with a tall order. While most investment newsletters compare themselves to a market benchmark, we go one step further. We want to deliver positive returns to you, our subscriber, year after year, in addition to outperforming the market benchmark. Our best ideas portfolio is generally found on page 8 of each edition.*

New Heights Reached Yet Again!

By Brian Nelson, CFA

We simply couldn't wait to share all the good news with you in our weekly recap email (click here) today, so our intro article has been shortened. Our Best Ideas portfolio (see page 8) continues to reach new heights, but we think it is prudent to point out the size of our cash balance (nearly 30% of the portfolio). The Dow Jones is now roughly 200 points from its all-time high, and we're expecting a near-term market pullback in the coming weeks. The threats of automatic government spending cuts (sequester) set to begin March 1 (and Congressional bickering), the ongoing convergence of S&P 500 firms' current forward P/E ratio (13.4) to their 10-year average (14.2), and the significant recent stock-market price advance suggest that a breather may be in order. We're not sweating it though. We'll be looking to add to the existing positions in our portfolio and scoop up a number of gems that may get unfairly beaten down. The steady advance of the markets has been all too calm as of late, and investors should anticipate volatility to resume. Stay tuned and expect a number of email transaction alerts from us in the coming weeks!

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= All Time High!

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Company Spotlight: Regal Entertainment

By RJ Towner

Movie theater owner/operator Regal (RGC) announced strong fourth quarter results. Revenue jumped 18% year-over-year to $723 million, easily exceeding consensus estimates. Earnings were also stronger than consensus expectations, more than doubling compared to the year ago period to $0.28 per share (adjusted for certain items).

The firm's fourth quarter greatly benefitted from a favorable release slate, which tends to be one of the primary drivers of performance. In addition to more high-grossing films, management noted that the breadth of films also helped drive ticket sales during the quarter. Attendance grew 15% year-over-year, but average ticket prices were 2% higher and average concessions per patron jumped 3%. Regal's price increases and large jumps in attendance

Please see *Company Spotlight: Regal Entertainment...*on page 4

Best Ideas Newsletter Portfolio Holding Google Rebounds with a Strong Fourth Quarter

By RJ Towner

Search giant and Best Ideas Newsletter portfolio holding Google (GOOG) reported better than expected fourth quarter results. Revenue, excluding traffic acquisition costs (TAC), grew 39% year-over-year to $11.3 billion, a tad short of expectations. Earnings, adjusted for extraordinary items, were up 12% year-over-year to $10.65 per share, exceeding consensus estimates. We still like the company's current valuation.

Google's core business continued its strong performance during the fourth quarter. Total revenue at the core business soared 22% year-over-year to $12.9 billion. Google-owned sites and Google network sites experienced strong growth of 18% and 19%, respectively. Traffic acquisition costs grew a little faster than revenue, up 25% year-over-year, a trend we will continue to monitor closely, but this could simply be a result of the shift to mobile. Paid clicks surged 24% year-over-year, mitigating the impact of cost-per-clicks declining 6% compared to the same period a year ago. Lower cost-per-clicks were the concern brought about by the third quarter, but we're encouraged by the sequential pricing improvement, and we believe improved ROIs on mobile advertising will help prevent substantial erosion. Facebook's (FB) mobile ads business might be slightly better, but we think this is a classic situation where the business has such strong secular tailwinds that both companies can experience fantastic growth.

In Google's core businesses, we're excited about the incredible growth at YouTube. After stealing the company for $1 billion a few years ago, Google has successfully worked to monetize the site's huge user base and surging popularity. Chief Business Officer Nikesh Arora provided this interesting insight:

> *"YouTube creators continue to vow and attract audiences. Outside estimate(s) say that video on which I am sure all of you have seen of PSY, his hit song, Gangnam Style, now the most watched YouTube video for all times, it generated over $8 million in all-in advertising deal. YouTube Partner revenue has doubled for the fourth consecutive year and* ***thousands of channels are now making six figures annually****."*

The last part of this quote (bolded) explains just why YouTube can continue to be successful: content creators can make a profitable living. So long as this is the case, we think YouTube will be able to maintain quality content that also happens to be timed properly for shrinking attention spans.

Revenue growth at the firm's 'other' segment particularly stood out, more than doubling year-over-year to $829 million. These revenues, which include Google Play and hardware sales, could become a more important part of the overall revenue mix going forward. Though we think Google's core advertising business is fantastic and has a profitable long-term future, we believe the firm's 'other' segment is what could really propel Google to a transformative company. CEO Sergey Brin briefly touched on the potential of self-driving cars, and we think that technology, combined with pet projects like Google Goggles and Google Fiber could materially push the needle—though we aren't sure when.

Motorola Mobility has struggled lately, weighing on Google's overall profitability. While some speculated that Motorola was simply acquired for patent protection, the company remains committed to building its product portfolio. We think its recent decision to relocate the company from the Chicago suburbs to downtown Chicago indicates that management is honest. Let's not forget that Motorola essentially invented the mobile phone industry in the 1980's, and while it hasn't had a blockbuster phone since the Razr, the odds of reinvention under the supervision and influence of Google are good, in our view.

Overall, we thought Google's fourth-quarter results were fantastic, and the company continues to be a cash cow, generating $3.67 billion in free cash flow during the fourth quarter. The firm's high-margin businesses will give it plenty of money to reinvest in various projects. Shares currently trade near the low end of our fair value range, and we think there is further upside to come. We'll continue to hold shares in the portfolio of our Best Ideas Newsletter.

Best Ideas Newsletter Portfolio Holding eBay Flashed a VBI of 10 and Has Never Looked Back

By RJ Towner

Valuentum members have been blessed by the good fortunes of eBay (EBAY). The firm has been one of the best performers in the entire market after it registered the very top rating of 10 on the Valuentum Buying Index (VBI) in September 2011. Very few firms ever score a 10 on the VBI, so when a company does, members take close note. Google (GOOG) was the most recent firm to do so, and it has since rocketed to new all-time highs.

In most cases, we add firms to our Best Ideas portfolio when they register a 9 or 10 and remove them when they register a 1 or 2 on the VBI. We may tactically trade around a position in our Best Ideas portfolio once it's been added on the basis of diversification, macroeconomic, or technical considerations. eBay has never registered a 1 or 2 on our VBI, so the company remains one of our top holdings in our Best Ideas portfolio.

Below is an excerpt of page 16 of eBay's stock report, where we disclose the ratings history of the company. Transparency is vital to earning our members' trust, and we disclose the rating history of every company in our coverage universe on page 16 of their respective reports.

EBAY Rating History	Price	Fair Value	VBI
7-Dec-12	$51.74	$64.00	6
17-Aug-12	$46.87	$62.00	7
25-May-12	$40.35	$55.00	10
23-Dec-11	$30.83	$46.00	6
2011 Sept 23	$32.08	$47.00	10

Through the course of much of 2011, we were pounding the table on eBay, saying it had roughly 50% upside potential and that its score of 10 indicated the highest likelihood of price-to-fair value convergence. The VBI is a forward-looking indicator that considers both the fundamentals and the timeliness of a particular investment opportunity.

And the news kept getting better for eBay. Not only did the company get a glowing and favorable write-up from Fortune, but comScore also reported that full year 2012 US retail e-commerce spending advanced 15% from a year ago. According to the digital measurement firm, this represented the fastest pace of growth since before the recession. Further, comScore noted that the fourth quarter of 2012 was the first quarter ever that breached the $50 billion mark (sales came in at $56.8 billion!). And we agree with comScore chairman Gian Fulgoni that "2013 will build on the momentum of the past year," benefiting both eBay as well as online juggernaut Amazon (AMZN).

All things considered, Valuentum members have been incredibly pleased with the performance of eBay since we added it to our Best Ideas portfolio. Recent data points indicate a continuation of fundamental strength at the company, and our $64 per share fair value estimate of the company suggests further upside. We continue to hold shares of the firm in the portfolio of our Best Ideas Newsletter.

*Company Spotlight: Regal Entertainment…*continued from page 1

have led to solid earnings gains. We're always happy to see price increases stick, and the firm's ability to hike prices and still see concession dollars increase may suggest the economy is improving. Free cash flow for the year surged 31% to $144 million, allowing the company to pay its generous quarterly dividend of $0.21 per share, which equates to a yield of 5.4% at current levels. We note, however, that due to Regal's large debt load, its Valuentum Dividend Cushion score is not great (the measure resides well below 1).

Regal has been using cash in a few different ways, including adding new screens via strategic acquisitions. Management noted that expansion opportunities may face regulatory scrutiny in existing markets, but the firm could look to add more screens in new areas. The firm acquired Great Escape theaters in November, and mentioned it was already yielding benefits, noting:

> *"…we were extremely pleased to complete the acquisition of Great Escape theaters for $91 million in cash in late November. The acquired portfolio includes 301 high-quality, well-maintained screens located primarily in small and midsize markets in Kentucky, Indiana, Pennsylvania and surrounding states. 93% of the screens feature stadium seating and 77% came already equipped with digital projectors, the integration of the Great Escape screens into our management and procurement program is complete and we have already begun realizing the operating synergies associated with the transaction."*

Open Road Films, Regal's joint-venture with AMC Theaters, posted a solid year, with its six films collectively grossing $150 million. This continues to be a huge opportunity for the company, as creating films gives the theater cost-savings via vertical integration. Of course, creating films increases the company's risk profile—imagine if the firm was strapped with a John Carter—but the potential upside is phenomenal. Management remains optimistic that the studio will be able to push out more films, and we think Open Road will focus on filling the demographic holes that the traditional studios are leaving open.

Still, Regal remains largely dependent on Hollywood to drive sales and earnings, so the popularity of 2013 film releases will be the number one determinant of how they year goes for Regal. Disney (DIS) anticipates a strong showing from its 2013 release slate, which includes Iron Man 3, the second installment of the Thor franchise, and Monsters University, and we see some potential blockbusters ahead like The Great Gatsby, Man of Steel, World War Z, the new Carrie, Lion Gate's (LGF) The Hunger Games: Catching Fire, and the long-awaited Anchorman sequel. Is the lineup as good as it was in 2012? Box office sales were up 6.5% compared to 2011, and we think it will be tough to make up for lost sales in a year without The Avengers and a Batman film. Still, 2013 should be a good year.

Nevertheless, we believe shares of Regal look compelling (from a valuation standpoint) at current levels. Not only do we think threats of small screen competition are overblown, but we think the increasing costs of production for studios is forcing them to produce movies that people will want to go see on the screen. However, let's not forget that the studios are far from perfect, and there are only so many films an A-list actor can do in a single year.

Ultimately, we think box office sales are poised to continue growing, albeit in a lumpy fashion. Though Regal has considerable financial leverage, we think its business model is quite stable, especially since the company had no problems issuing a special $1 dividend in 2012. Consumers have enjoyed the silver-screen for nearly a century, and we think consolidation among theaters will ultimately keep prices rising steadily. Even during the depths of the Great Recession, Regal's operating cash flow remained steady.

Importantly, however, shares score just a 3 on the Valuentum Buying Index (our stock-selection methodology), so we continue to wait for improved technicals to consider the name for the portfolio of our Best Ideas Newsletter.

Nothing Can Stop Best Ideas Newsletter Portfolio Holding Altria

By RJ Towner

Best Ideas Newsletter portfolio holding and Dividend Growth Newsletter portfolio holding Altria (MO) announced strong fourth quarter results, reflecting the firm's resiliency in the face of a secular decline in its core product. Revenue increased 1.8% year-over-year to $6.2 billion, slightly above consensus estimates. Earnings were superb, growing 10% year-over-year to $0.55, excluding certain items (Image Source: Altria).

Table 6 - Smokeable Products: Retail Share (percent)

	Fourth Quarter			Full Year		
	2012	2011	Percentage point change	2012	2011	Percentage point change
Cigarettes:						
Marlboro	42.6%	41.6%	1.0	42.6%	42.0%	0.6
Other premium	3.3	3.6	(0.3)	3.4	3.7	(0.3)
Discount	3.9	3.6	0.3	3.8	3.3	0.5
Total cigarettes	49.8%	48.8%	1.0	49.8%	49.0%	0.8
Cigars:						
Black & Mild	29.3%	30.7%	(1.4)	30.0%	29.5%	0.5
Other	0.3	0.3	—	0.2	0.2	—
Total cigars	29.6%	31.0%	(1.4)	30.2%	29.7%	0.5

Altria's share gains at Marlboro drove smokeable products revenue higher during the fourth quarter. The firm's market share increased one percentage point versus a year ago and was 0.6 percentage points higher at the end of 2012 versus the end of 2011. Such brand strength resulted in revenue expansion (net of excise taxes) of 3.6% to $3.8 billion (up 2.4% to $5.6 billion including excise taxes). Even though total smokeable products volumes advanced 0.4%, the company was able to selectively raise prices, which resulted in adjusted operating income (OCI) margins of 39.9% (which were an impressive 90 basis points higher than the previous year). Adjusted OCI for the smokeable segment increased 6% year-over-year during the quarter and advanced 4.2% for the full year. We think the firm's Marlboro brand will remain resilient, and the company's solid market share continues to hold up in the face of competitive challenges (Image Source: Altria).

Table 8 - Smokeless Products: Shipment Volume (cans and packs in millions)

	Fourth Quarter			Full Year		
	2012	2011	Change	2012	2011	Change
Copenhagen	107.6	95.7	12.4%	392.5	354.2	10.8%
Skoal	78.4	71.9	9.0%	288.4	286.8	0.6%
Copenhagen and Skoal	186.0	167.6	11.0%	680.9	641.0	6.2%
Other	21.4	21.7	(1.4)%	82.4	93.6	(12.0)%
Total smokeless products	207.4	189.3	9.6%	763.3	734.6	3.9%

Smokeless products, though a considerably smaller segment, experienced revenue growth of 7%, which boosted adjusted OCI 9.5% higher year-over-year to $254 million. On a comparable basis, smokeless tobacco is even more profitable than the smokeable variety, and we saw tremendous growth in shipments of both Copenhagen and Skoal during the fourth quarter.

Please see *Nothing Can Stop Best Ideas Portfolio Holding Altria...*on page 6

***Nothing Can Stop Best Ideas Portfolio Holding Altria...*continued from previous page**

Although smoking among young adults seems to have bottomed, smokeless tobacco has become more prevalent in the wake of the campaign against cigarettes. This form of consumption is often perceived as "safer", carries less of a social stigma, and tends to be less expensive. Though smokeless tobacco products harm a user's health in a number of ways, it has become particularly popular among younger athletes (given that it does not target the lungs as cigarettes do). Though we're not thrilled about the health hazards of the product, we're fairly optimistic about the segment's growth rate—at least until it becomes the target of public health like cigarettes have been during the previous twenty years.

Looking ahead, Altria believes it will earn $2.35-$2.41 per share on an adjusted basis, which represents solid growth of 6%-9%. We're also looking forward to the company raising its dividend modestly as earnings expand. Still, we're not ignoring the regulatory risks. Plenty of states are strapped for cash to the point where states such as Illinois are even pondering a gym shoe tax, for example. Given the strong, inelastic demand for cigarettes, we would not be shocked to see governments continue to increase excise taxes on tobacco. Nevertheless, such risks are not new, and we continue to hold shares of Altria in our actively managed portfolios. We especially like the company as a relatively stable income play.

Boeing's Fourth Quarter Supports Our Thesis on Aerospace

By Brian Nelson, CFA

Aerospace giant Boeing (BA) reported strong fourth-quarter results. We're holding steady with our fair value estimate, despite the constant flow of negative news about the 787 Dreamliner.

Boeing's total revenue advanced 14% in the period, though modest operating margin contraction led to a slightly lower pace of core operating earnings growth, which came in at 9% (on a non-GAAP basis). Operating cash flow surged 42% as the company continues to better handle inventories related to the 787 Dreamliner. However, the firm's revolutionary plane currently remains grounded due to a series of battery problems, and its decision not to slow production could begin to pressure cash flow again to a degree. Still, we remain confident that Boeing will work successfully with the FAA to resolve the outstanding issues. And while such re-work may be costly for the aerospace giant, Boeing's problems usually translate into mere timing issues for key suppliers in the supply chain (and are far from tragic). We continue to hold aerospace suppliers Precision Castparts (PCP), Astronics (ATRO), and EDAC Tech (EDAC) in the portfolio of our Best Ideas Newsletter.

By far, the most important metric to our thesis on the aerospace supply chain is the backlog of unfulfilled orders at the airframe makers, which for Boeing reached $390 billion at the end of the year (after a flurry of $114 billion in orders during 2012). In the fourth quarter, the company booked 394 net orders alone, driving the tally of airplanes in backlog to nearly 4,400. For an insightful comparison, Boeing expects to deliver as many as 645 planes for all of 2013 (including 60 787 deliveries), so the size of its backlog (roughly 7 times annual expected deliveries) not only provides excellent visibility but also offers a substantial cushion in the face of any global economic event. We think this provides considerable support for the commercial aerospace supply chain, which is why we continue to be overweight the industry in our Best Ideas portfolio.

All things considered, the long-term demand for commercial aerospace deliveries is robust, and while ongoing hiccups with respect to Boeing's 787 Dreamliner should be expected, we remain confident in our industry thesis.

January Auto Sales Roundup

By RJ Towner

Auto sales were off to a brisk start in 2013, posting a SAAR for the month of 15.3 million units—maintaining the strong pace we saw near the end of 2012 and up 14% year-over-year. Let's take a look at how the major US auto OEMs performed.

Ford

Best Ideas Newsletter holding and standout performer Ford (F) announced fantastic sales figures for January. Total unit sales jumped 22% year-over-year to 166,501 vehicles, and retail sales jumped 24% year-over-year. Brand strength was pretty broad based, with unit sales of the F-series up 22%, the Fusion up 65%, and the Explorer up 45%. Company-wide car sales jumped 34%, outpacing utility vehicles and trucks, which increased 23% and 11%, respectively.

Unfortunately, the Lincoln brand continued to struggle, with unit sales down 18% due to weak performance from the MKZ. However, we did see some solid performance from the MKX, as well as the MKT, which helped total Lincoln utility vehicle sales jump 10% compared to the prior year. Regardless, aggregate company sales continue to outpace broader industry growth, and Ford remains a key holding in the portfolio of our Best Ideas Newsletter.

General Motors

General Motors (GM) also posted a very nice January, with unit sales increasing 16% year-over-year to 194,699 vehicles. We saw performance diverge slightly across different brands, with unit sales at Chevrolet jumping 11% year-over-year and sales advancing 23% at GMC, 32% at Buick, and a whopping 47% at Cadillac. However, car sales at GM continued to lag the growth rate we've seen at Ford, increasing just 12% year-over-year. We simply do not think the firm has a product lineup to match competitors at this time, with Ford, Toyota (TM), and Honda (HMC) captivating buyers.

Crossover and truck sales were pretty strong, growing units 27% and 13%, respectively. The Buick Enclave sold incredibly well, with unit sales up 57% compared to a year ago. The extensive marketing and re-imaging of Buick and Cadillac over the last decade gives us hope that Ford's Lincoln will also be able to re-invent itself.

GM also mentioned that full-size pick-up sales were up 32%, but the company provided some troubling news with regards to inventory, as shown in the image below (Image Source: GM).

Inventory	Units @ Jan. 31, 2013	Days Supply (selling day adjusted)	Units @ Dec. 31, 2012	Days Supply (selling day adjusted)
All Vehicles	737,885	95	717,025	76
Full-size Pickups	234,342	117	221,649	80

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Our Best Ideas Portfolio

By Valuentum Analysts

Portfolio Return	Benchmark Return	Outperformance
44.3%	18.5%	25.8%

Portfolio Inception Date: May 17, 2011

Below we outline the constituents of our Best Ideas portfolio and their respective weightings and returns thus far. Each subsequent issue discusses Valuentum's 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. We currently have about 30% of our portfolio in cash, a level we're looking to bring down in coming months. Typically, we like to have the most cash when the market is making new highs and fully invested when the market is putting in short-term lows.

Our investment process is 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 portfolio are the cream of the crop based on our stock-selection methodology.

OUR BEST IDEAS -- as of February 15, 2013 — **Best Ideas Portfolio Inception Date: May 17, 2011**

Portfolio Holdings	Symbol	Initial VBI*	Current VBI**	First Purchase	Cost Basis ($)	Total Shares	Total Cost ($)	Price/Share ($)	Current Value ($)	% of Portfolio	% Return (dividends included)
Bullish											
Apple Corp.	AAPL	10	3	17-Jun-11	328.99	16	5,270.84	460.16	7,362.56	5.1%	41.3%
Altria Group	MO	8	9	28-Jun-11	26.43	252	6,667.36	34.38	8,663.76	6.0%	40.2%
Astronics	ATRO	10	6	6-Jun-11	21.19	162	3,439.86	27.46	4,448.52	3.1%	29.3%
Buffalo Wild Wings	BWLD	7	3	13-Jul-11	65.42	77	5,044.34	78.29	6,028.33	4.2%	19.5%
eBay	EBAY	10	6	3-Oct-11	31.04	200	6,207.00	56.70	11,340.00	7.9%	82.7%
EDAC Tech	EDAC	9	9	6-Jun-11	5.23	673	3,536.79	13.76	9,260.48	6.4%	161.8%
Financial Select SPDR Fund	XLF	NA	6	9-Jan-11	13.46	150	2,026.00	17.76	2,664.00	1.8%	33.6%
Ford Motor	F	7	7	12-Sep-11	10.69	650	6,955.50	13.02	8,463.00	5.9%	22.3%
Google	GOOG	10	6	23-Oct-12	683.49	4	2,740.96	792.89	3,171.56	2.2%	15.7%
Health Care ETF	XLV	9	3	22-May-12	36.60	125	4,582.00	43.41	5,426.25	3.8%	20.1%
Intel	INTC	6	3	12-Sep-11	20.48	150	3,086.50	21.12	3,168.00	2.2%	7.2%
Intuitive Surgical	ISRG	5	3	22-May-12	532.13	5	2,667.65	569.21	2,846.05	2.0%	6.7%
Precision Castparts	PCP	8	7	6-Jun-11	152.07	40	6,089.80	185.47	7,418.80	5.1%	21.9%
SPDR S&P Bank ETF	KBE	NA	UR	9-Jan-12	21.07	100	2,114.00	26.22	2,622.00	1.8%	26.4%
Republic Services	RSG	8	6	19-May-11	31.42	201	6,329.42	31.31	6,293.31	4.4%	6.3%
Rio Tinto	RIO	9	9	22-May-12	46.40	75	3,487.00	57.77	4,332.75	3.0%	25.8%
Visa	V	7	6	30-Nov-11	107.46	60	6,461.30	157.99	9,479.40	6.6%	47.4%
Cash									41,297.54	28.6%	0.0%
Bearish											
Please see companies with low VBI ratings (1 or 2) on our watch list for ideas.											
Best Ideas Portfolio Value							100,000.00		**144,286.31**		**44.3%**
S&P 500 Index (SPY)				17-May-11	132.69	754	100,000.00	152.11	114,635.62	96.7%	
Cash									3,863.14	3.3%	
Benchmark Portfolio Value									**118,498.76**		**18.5%**
Relative Outperformance											**25.8%**

This portfolio is not a real money portfolio. Data as of February 15, 2013. Cost basis includes commissions. Results include dividends, but not interest received on cash balance.

* VBI score at the time we added the firm to the portfolio.

** See our methodology regarding the Valuentum Buying Index (VBI).

Standard Disclaimer: Our Best Ideas List is for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of our Best Ideas List and accepts no liability for how readers may choose to utilize the content.

= All Time High!

*January Auto Sales Roundup ...*continued from page 7

GM's full-size vehicle inventory is surging, and we think the company is having a difficult time competing with the F-series. We fear the firm may be stuffing dealers with inventory that will require heavy incentive spending to be moved. This could hurt profits from a truck that should be one of the company's core earnings drivers. We continue to believe shares of GM are fairly priced.

Toyota

Toyota posted a fabulous January in the US, with volume jumping 27% year-over-year to 157,725 units and the firm's daily sales rate increasing 22% year-over-year. Such performance reinforces why the firm is among our favorites in the auto space. Total Toyota brand car unit sales increased 24% year-over-year, with fantastic performance from the Prius (up 37%), Corolla (up 32%), and the Avalon (up 50%). Toyota's brand is known so much for its fuel efficiency and quality that recent recalls haven't hurt the brand's reputation. SUV sales at the Toyota division soared 29% with broad-based strength across its entire lineup. Pickup sales were also solid, with unit sales up 29% year-over-year. We're very optimistic about this segment as the US housing recovery continues to gain traction.

On the luxury side, sales at Lexus soared 32% year-over-year to 16,211 units. We like the recent models the company has revealed, and we believe the firm has a fantastic product that keeps buyers returning in droves. Although competition from Mercedes and Audi is strong, we think the Lexus buyer focuses more on reliability than trendiness, making the cash flow stream a little more reliable.

The company reported third quarter results earlier today, and although profit missed consensus estimates, the firm boosted its full-year earnings outlook to $9.3 billion. The firm also anticipates 6% unit sales growth in the US (2.2 million units in calendar 2013), so we think fiscal year 2013 will be a solid year, with fiscal year 2014 looking even brighter. Shares have some valuation upside from current levels, but we'd like to see the price retreat a bit before considering the name for the portfolio of our Best Ideas Newsletter.

Honda

Honda's January sales fell short of the 21% consensus growth estimate, advancing 13% year-over-year to 93,626 units. Civic sales were slightly disappointing, remaining flat year-over-year, while sales of the Accord jumped 75%, driving total car sales growth of 21%. Trucks were the large disappointment during the period, with sales increasing just 0.3% at Honda (and only 3.7% when including Acura). Pickup sales at the company continue to lag the other OEMs, and the Ridgeline appears to be losing share against competitors. Overall, we need to see the Civic and Ridgeline sell better before getting too excited about the company's fundamentals.

Chrysler, Volkswagen, BMW, and Mercedes

Chrysler, which we think will be fully owned by Fiat in the coming years, saw sales jump 16% during the first month of the year. Volkswagen was a tad weaker than what we saw through 2012, with sales increasing just 7% during the month, even though sales of Passat advanced 40%. Jetta sales, the firm's flagship US model, slipped 4% year-over-year, driving most of the weakness. Its luxury brand, Audi, experienced solid 7.5% sales growth during the period as it remains one of the faster-growing names in the luxury space.

Mercedes posted solid growth, with units increasing 11% year-over-year thanks to strong C-Class sales. Low-end "starter" cars continue to be a key growth driver as well, with the C-Class selling 7,214 units—nearly one third of Mercedes' US total. BMW was a bit weaker, with sales just 0.7% higher.

Ultimately, we think the stronger performance from lower-end brands shows how the US recovery is finally starting to hit the middle class. Given the years of lackluster sales, we think the auto recovery will remain a key economic growth driver in 2013.

Higher Wing Prices Hurt Earnings Expansion at Buffalo Wild Wings

By Valuentum Analysts

Buffalo Wild Wings (BWLD) announced solid fourth quarter results. Revenue surged 38% year-over-year to $304 million, easily exceeding consensus estimates. Earnings, on the other hand, grew 22% year-over-year to $0.89 per share, falling short of consensus estimates by several cents.

Revenue growth at company-owned restaurants totaled 39% year-over-year to $283 million, though same-store sales performance was somewhat modest (up 5.8% compared to the year-ago period). This compared unfavorably to franchise-owned stores, where same-store sales advanced 7.4% versus the fourth quarter of 2011. We think the divergence was a result of franchise-owned restaurants being comparatively younger stores than the more mature company-owned restaurants (we believe performance will eventually converge, however).

We are a bit worried that the firm's expansion was mostly driven by a 6% price increase. This could mean that higher prices are impacting demand for the restaurant's food, and it may also suggest that the firm is losing a bit of its momentum. This view is supported by the firm's same-store sales growth rates during the first six weeks of the first quarter, which were only up 2.8% at company-owned restaurants and up 1.6% at franchised locations. When accounting for NCAA and NFL football shifts, results look even worse. CEO Sally Smith explained on the conference call:

> *"To help quantify the effect of the calendar shift, we calculated our first six weeks of same-store sales as if the NFL and college seasons were aligned, using the first six weeks of 2013 compared to the second through seventh weeks of 2012. When we do, our same-store sales show an increase of 2.6% at company-owned and 1.6% at franchised restaurants."*

We'll be monitoring same-store sales trends very closely going forward, and we expect them to improve as the year progresses.

On the cost side of the equation, profit expansion was constrained by higher input prices. Cost of sales jumped 260 basis points year-over-year to 32% of revenue. The company dealt with significantly higher wing prices (up 46% on a per pound basis). Though prices have recently begun to moderate, they will likely still negatively impact comparisons. Draft beer prices were also higher during the period, but we're confident the higher wing prices were the primary culprit of margin compression. Labor costs increased 30 basis points year-over-year to 30.2% of sales, but we're not too concerned. Restaurant operating expenses and occupancy costs both declined during the quarter, which helped offset the expense pressure.

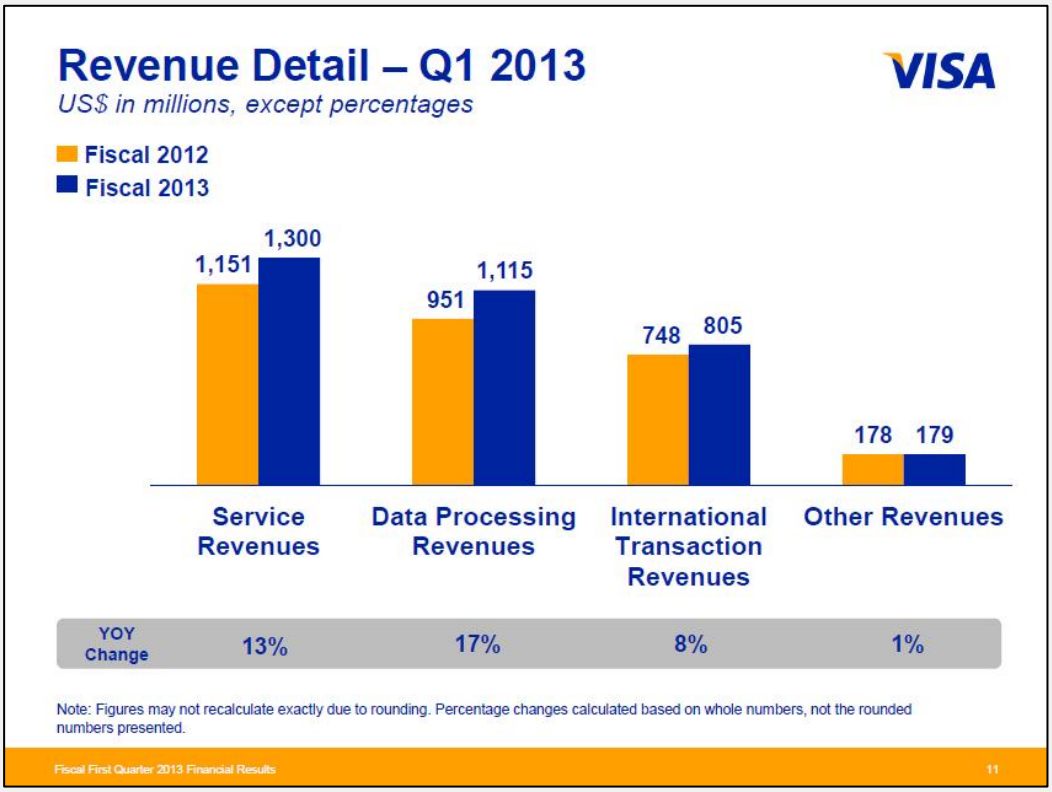
Looking ahead, Buffalo Wild Wings still has plenty of room to grow its restaurant base, though its established restaurants appear to be maturing. After opening its 900th restaurant, the firm believes it can achieve 1,700 locations in the US, and we completely agree. Smith kicked around the idea of adding additional concepts, which could be another potential source of upside. Wing prices remain a near-term headwind, but we do not expect them to remain elevated over the long haul. The firm intends to open 60 company-owned and 45 franchised-owned restaurants during the year, helping propel earnings growth of 17% (25% on a comparable 52-week basis). Although shares are experiencing some weakness, we remain huge fans of the company, and we intend on holding steady with respect to our position in the portfolio of our Best Ideas Newsletter.

Best Ideas Portfolio Holding Visa Is Off to a Fantastic Start in 2013

By Valuentum Analysts

Best Ideas Newsletter portfolio holding Visa (V) announced stellar results for its fiscal year 2013 first quarter Wednesday afternoon. Revenue jumped 12% year-over-year to $2.8 billion, in line with consensus estimates. Earnings per share, net of a one-time tax benefit of $0.11, increased 22% year-over-year to $1.82 per share, a few cents higher than the consensus expected.

Other than a litigation charge of $4.4 billion that the firm had to pay out during the first quarter, new CEO Charlie Scharf's first quarter on the job went off without a hitch. Payments volume increased across all geographies, growing 3% year-over-year in the US to $544 billion, 13% (excluding currency) in Asia-Pacific to $313 billion, and 37% (excluding currency) in Central and Eastern Europe, Middle East, and Africa to $52 billion. The trend away from cash remains strong, and while some less developed countries have a few minor structural impediments, we believe this trend looks as pronounced as ever (Image Source: V Earnings Presentation).



Growth was also strong across all categories, with data processing revenue jumping 17% year-over-year to $1.1 billion. Data processing more specifically addresses the authorization of card usage, clearing, settlement, CyberSource, and other transaction support. We think it could continue to outpace service revenue growth, as we see debit card caps in the US weigh on Visa's services revenue expansion. Needless to say, additional regulatory measures could also impede sales growth to a degree, as Visa and its payments counterpart MasterCard (MA) are favorites of regulatory and congressional scrutiny.

Please see *Best Ideas Portfolio Holding Visa...*on next page

***Best Ideas Portfolio Holding Visa ...*continued from page 11**

Still, the power of Visa's network is very apparent, and Scharf provided some interesting commentary that makes us believe its competitive advantage is sustainable, saying:

> *"The networks been built over decades. We all know that it provides great global acceptance, clearing, authorization and settlement, but it's proven to be safe and secure. It's battletested through the years as though I think about it and we continue to invest aggressively because the world of cyber criminals is growing not shrinking, and I'd rather have our network than anyone else's at this point as we continue to build on that security. And this becomes a competitive advantage over time."*

The firm's operating margin declined to 63% from 64% in the same period last year as expenses grew faster than revenue expanded. Personnel expense jumped 17% year-over-year to $454 million, primarily driven by investments made to drive future growth. Still, other than personnel investments, Visa did a fantastic job controlling costs, with marketing up just 2% year-over-year and general and administrative expenses only 4% higher.

Going forward, the company reiterated its previous fiscal year 2013 guidance of double-digit revenue growth, high-teens earnings per share expansion, and an annual operating margin of 60%. However, the firm did raise its free cash flow guidance to $6 billion and authorized an additional $1.75 billion in share repurchases. Since it went public, Visa has done a tremendous job returning cash to shareholders, and we would not be surprised to see another dividend increase this year—though the current dividend yield remains less than 1%.

With over $6 billion of cash in its coffers, as well as a lot more coming during fiscal year 2013, we think Visa has the financial capacity to make a major acquisition relatively easily (whether it is an online payments processor, or a mobile payments processor like Square). A blockbuster acquisition like PayPal (EBAY) is unlikely due to the fact that eBay wouldn't want to sell its most valuable asset. Also, it would almost certainly be scrutinized by regulatory approval (and probably blocked). For now, the firm will have to push V.me, but smaller technology acquisitions could be on the company's radar.

Overall, we were incredibly pleased with the quarter, and we remain big fans of the company's business model. Still, shares continue to converge to our fair value estimate, so we may look to trim the position in the portfolio of our Best Ideas Newsletter in the coming weeks.

Could the FCC Hurt Carriers' Profits?

By Valuentum Analysts

Reports have surfaced that the FCC wishes to create a free, nation-wide WiFi network in order to facilitate web and cellular traffic. Though plans are only in the initial stages (and we are not jumping to any conclusions), the government could provide the US with a high-speed network at no cost, helping to put the nation on par with the Internet service achieved in several other countries. The news does not alter our fair value estimates for companies in our coverage universe, pending new details regarding probability and timing of implementation.

Understandably, the companies that currently own spectrum and experience fantastic returns on networks are a bit upset about the possibility. The high margins achieved by wireless operators Verizon (VZ), AT&T (T), and to a lesser extent, Sprint (S) could face pressure, though in the event the FCC does roll out free nation-wide WiFi, these firms could still win over subscribers that fear network congestion (or those that desire even faster data speed).

On one hand, the subsidization of Internet could provide consumers and businesses with considerably lower data expenses, boosting hiring and consumer spending in other areas. However, this plan could alter the entire mobile landscape. In the event free, nation-wide WiFi is implemented, we wouldn't be surprised to see carriers completely phase out subsidies, which could hurt higher-end phones like the iPhone (AAPL) and Samsung Galaxy. However, if consumers do not need to sign up for relatively expensive data plans that can cost $1,000+ per year, perhaps stomaching a $700 iPhone won't seem like such a terrible trade off. If Apple rolled out 12 or 24 month payment plans, the amount becomes even more manageable ($58/mo or $29/mo). Still, tablet sales could surge as connectivity becomes less of an issue, boosting the fortunes of the iPad and the Galaxy tablet.

Telecom equipment providers also seem to be negative on the plan, saying the FCC should instead sell spectrum to private enterprise. Telecom equipment providers benefit from continued network-efficiency investment, so changing the industry structure will certainly impact constituents (though exactly how remains unclear). The government might work with private enterprises to complete the network, boosting the fortunes of some firms at the expense of others, or it might not. Intel (INTC), Qualcomm (QCOM), Aruba Networks (ARUN), and Cisco (CSCO) also joined the telecom providers in opposing the idea.

The auto industry also seems in opposition, believing the plan could interfere with the development of car-to-car communication that's paving the way for self-driving vehicles. However, we don't see the proposal impacting any automotive OEM at this time.

Several large technology firms, including Google (GOOG) and Microsoft (MSFT) support the initiative and view it as a way to drive innovation. Google has already begun experimenting with providing free WiFi as its Google Fiber network launched in Kansas City last year, and a free, nation-wide WiFi network would certainly boost the value and use of software and search.

There are plenty of other companies that may also benefit. Both Twitter and Facebook (FB) could see higher usage rates, and online ordering from companies such as Amazon (AMZN) and eBay (EBAY) could become even easier. With some extra money in their pockets each month, consumers could feel better about making discretionary purchases, boosting overall retail spending. Increased connectivity could also increase price transparency, further decreasing the gap between retail and online price discrepancies.

Please see *Could the FCC Hurt Carriers' Profits?...*on next page

*Could the FCC Hurt Carriers' Profits?...*continued from previous page

Of course, we think there's also a large possibility that this may be a bluff on the government's part to lower industry-wide economic profits (without enacting direct legislation). The threat of a large, subsidized, public competitor could spur the nation's telecom giants to invest in network improvements or possibly provide lower rates (we think Verizon and AT&T would be much happier selling lower-priced $60 data plans rather than selling no data plans at all). However, the telecoms and telecom equipment providers seem to be taking this idea very seriously, so industry insiders must believe this network is a real possibility that could take years (not decades) to come to fruition.

Ultimately, the news does not alter the fair value estimates for any companies in our coverage universe. The plan is still in its very early stages, and we'd need significantly more details before accurately assessing its impact on the future cash flow streams of the various companies it could impact. Still, the proposition adds tail risk to all companies it could impact, and we'll be closely monitoring the situation as it could have a transformative impact on the industry landscape from smartphones to chipmakers to the auto makers.

We Like Astronics' Commercial Aerospace Exposure

By Valuentum Analysts

Aerospace supplier Astronics (ATRO) reported mixed fourth quarter results. Revenue grew 10% year-over-year to $67 million, falling about $3 million short of consensus expectations. Earnings were also on the light side, growing 9% year-over-year to $0.37, which was disappointing, in our view.

Much like in the third quarter, Astronics was harmed by increased warranty and inventory reserves, as well as higher engineering and development (E&D) costs. Altogether, gross margins slipped 240 basis points year-over-year to 26%. However, CEO Peter Gundermann noted on the firm's conference call that a few million dollars of sales were pushed into the first quarter of 2013, so we think both margins and revenue growth could improve going forward.

SG&A expenses during the quarter were also not great, growing 230 basis points year-over-year to 14.3% of sales. The firm settled a lawsuit for $1 million, elevating legal expenses, and the small acquisitions the firm made during 2011 also boosted total costs. Legal costs are likely a one-time event, so we aren't too worried about the firm's cost containment abilities at this time.

On a segment basis, the firm's Aerospace division easily outpaced its Test Systems segment, growing 11% year-over-year to $65 million, though costs associated with E&D weighed on operating margins. Management noted a strong USB product that won acceptance for some narrowbody aircraft that could hit the income statement soon, and the firm seems optimistic about the product's potential for installation with other airlines. The firm's extremely small Test Systems segment continues to lose money as sales drop, but the operating loss posted during the fourth quarter was halved ($1.46 million). Still, the segment remains almost entirely dependent on government spending, which we aren't counting on as a big driver for any industry in 2013. Therefore, Astronics remains dependent on aircraft retrofits and Boeing's 787 Dreamliner (BA) for delivering revenue growth in 2013, which we like a lot. Management didn't really address the Dreamliner battery issue, but they did note that its 787 sales haven't ramped yet.

Going forward, Astronics provided a revenue outlook of $275-$310 million, or between 3%-16% revenue growth. The firm's backlog currently stands at $114.5 million, which is down sequentially, but higher than a year ago. Overall, 2012 was a rather disappointing year for the company, as we thought the firm's strong sales growth would translate to the bottom line, which it did not. However, earnings should improve regardless of how strong revenue growth is, so we remain confident that 2013 could be a more fruitful year for shareholders.

Other Ideas for Your Radar

By Valuentum Analysts

Our Valuentum Buying Index (VBI), which places a considerable emphasis on a firm's valuation, is the primary driver behind names included in our best ideas portfolio. However, the size of our coverage universe lends itself to a plethora of new ideas beyond the ones we seek to capitalize on. Below, we provide a unique screen that sorts companies we feel are undervalued on both a DCF and relative value basis (the first two pillars of our VBI; the third is a technical assessment). We update this screen monthly and deliver it to you in our newsletter (for your added convenience, we also post it on our site). You'll see we hold a number of these firms in our portfolio (EDAC, RIO, MO), and we continue to monitor the remainder for the most opportune time to add them. The names on this list are the cream of the crop for the value investor and can supplement your "shopping list" of new ideas.

Name	Symbol	DCF Valuation	Relative Valuation	P/FV
Sappi Ltd	SPP	UNDERVALUED	ATTRACTIVE	0.47
EDAC Tech	EDAC	UNDERVALUED	ATTRACTIVE	0.57
Microsoft	MSFT	UNDERVALUED	ATTRACTIVE	0.57
Jabil Circuit	JBL	UNDERVALUED	ATTRACTIVE	0.59
Newmont Mining	NEM	UNDERVALUED	ATTRACTIVE	0.63
Endo Pharma	ENDP	UNDERVALUED	ATTRACTIVE	0.63
Cisco	CSCO	UNDERVALUED	ATTRACTIVE	0.64
Mylan	MYL	UNDERVALUED	ATTRACTIVE	0.66
Rio Tinto	RIO	UNDERVALUED	ATTRACTIVE	0.66
Huntsman	HUN	UNDERVALUED	ATTRACTIVE	0.66
Revlon	REV	UNDERVALUED	ATTRACTIVE	0.66
AAR Corp	AIR	UNDERVALUED	ATTRACTIVE	0.67
Open Text	OTEX	UNDERVALUED	ATTRACTIVE	0.68
Tesoro	TSO	UNDERVALUED	ATTRACTIVE	0.69
Teva Pharma	TEVA	UNDERVALUED	ATTRACTIVE	0.69
Broadcom	BRCM	UNDERVALUED	ATTRACTIVE	0.69
Chicago Bridge & Iron	CBI	UNDERVALUED	ATTRACTIVE	0.69
Korn/Ferry	KFY	UNDERVALUED	ATTRACTIVE	0.69
Skyworks	SWKS	UNDERVALUED	ATTRACTIVE	0.70
Tempur Pedic	TPX	UNDERVALUED	ATTRACTIVE	0.71
Helen of Troy	HELE	UNDERVALUED	ATTRACTIVE	0.72
Omega Healthcare	OHI	UNDERVALUED	ATTRACTIVE	0.72
Verint	VRNT	UNDERVALUED	ATTRACTIVE	0.73
ValueClick	VCLK	UNDERVALUED	ATTRACTIVE	0.73
St. Jude	STJ	UNDERVALUED	ATTRACTIVE	0.74
Altria Group	MO	UNDERVALUED	ATTRACTIVE	0.77
Arctic Cat	ACAT	UNDERVALUED	ATTRACTIVE	0.78

Other Ideas... continued on next page

Other Ideas… continued from previous page

The initial table below showcases firms that fit the bill of the Valuentum investor, with each posting a 9 or a 10 on our index. These are names that we may swap into our portfolio on the long side (if not already held) should their upside potential become greater than our current holdings.

We also show firms that register a 1 or 2 on our VBI. These names represent put-option candidates. We provide the respective lists below, and each firm's report can be found on our website.

Name	Symbol	Industry	VBI
Altria Group	MO	Tobacco	9
Broadcom	BRCM	Integrated Circuits	9
EDAC Tech	EDAC	A&D Suppliers	9
Goldman Sachs	GS	Banks & Money Centers	9
Huntsman	HUN	Chemicals - broad	9
Korn/Ferry	KFY	Staffing Services	9
Open Text	OTEX	Software	9
Revlon	REV	Luxury Goods	9
Rio Tinto	RIO	Mining - diversified	9
Sappi Ltd	SPP	Paper Products	9
Tesoro	TSO	Refiners	9
Teva Pharma	TEVA	Pharmaceuticals	9

Name	Symbol	Industry	VBI
Central European Media	CETV	Media	1
Hyatt	H	Hotels	1
Iron Mountain	IRM	Commercial Services	1
Rollins	ROL	Chemicals - broad	1
Tanger Factory	SKT	REIT - Retail	1
Teradata	TDC	Computer Hardware	1
Ulta Salon	ULTA	Personal Services	1
Ametek	AME	Electrical Equipment - industrial	2
Cheniere Energy	LNG	Oil & Gas Pipelines	2
Core Labs	CLB	Energy Equipment	2
Energy Recovery	ERII	Pollution Controls	2
Fifth Third	FITB	Banks & Money Centers	2
IDEX	IEX	Machinery & Tools	2
Lincoln Electric	LECO	Machinery & Tools	2
Netflix	NFLX	Specialty Retailers	2
Rackspace	RAX	Business Services	2

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 27-Jan-2013 | Data as of 18-Jan-2013

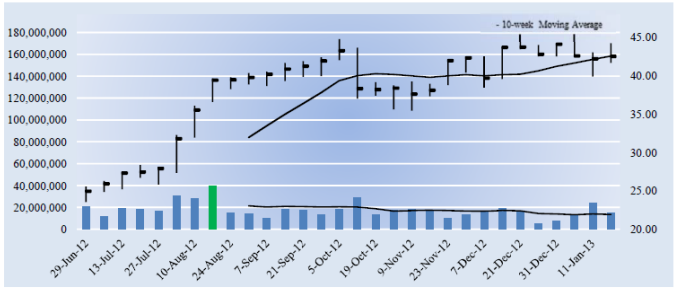
Tesoro TSO UNDERVALUED 8.3%

Buying Index™ 9 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$42.49	$62.00	$46.00 - $78.00	MID-CAP VALUE	Energy	Refiners

Tesoro appears undervalued on the basis of both our DCF process and relative value assessment versus peers.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy selling, or distribution (red bar).

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	POOR
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	MEDIUM
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	#DIV/0!
Near-term Technical Resistance, 10-wk MA	43.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low				
Medium		■		
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Company Vitals

Market Cap (USD)	$6,089
Avg Weekly Vol (30 wks)	17,416
30-week Range (USD)	23.54 - 45.44
Valuentum Sector	Energy
5-week Return	-2.2%
13-week Return	11.4%
30-week Return	77.9%
Dividend Yield %	1.4%
Dividends per Share	0.60
Forward Dividend Payout Ratio	8.9%
Est. Normal Diluted EPS	5.71
P/E on Est. Normal Diluted EPS	7.4
Est. Normal EBITDA	2,012
Forward EV/EBITDA	3.1
EV/Est. Normal EBITDA	3.4
Forward Revenue Growth (5-yr)	1.6%
Forward EPS Growth (5-yr)	5.7%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Investment Highlights

• Tesoro's average return on invested capital has trailed its cost of capital during the past few years, indicating weakness in business fundamentals and an inability to earn economic profits through the course of the economic cycle. We think there are better quality firms out there.

• Tesoro's valuation is compelling at this time. The firm is trading at a nice discount to our estimate of its fair value, even after considering an appropriate margin of safety. The firm's forward earnings multiple and PEG ratio also look attractive versus peers.

• Tesoro's cash flow generation and financial leverage are at decent levels, in our opinion. The firm's free cash flow margin and debt-to-EBITDA metrics are about what we'd expect from an average firm in our coverage universe.

• The company's stock price has outperformed the benchmark during the last quarter, and its valuation still looks interesting at these levels. Investors could be accumulating shares, as the stock continues to trade at bargain-basement levels.

• Tesoro is a refiner and marketer of petroleum products. The company operates refineries in the western US with a combined daily capacity of about 665,000 barrels. Tesoro's retail-marketing system includes nearly 1,200 retail stations.

Relative Valuation

	Forward P/E	PEG	Price / FV
Hess	9.7	2.5	97.7%
Murphy Oil	11.0	1.9	120.3%
Phillips 66	6.8	NMF	82.2%
Valero Energy	7.5	3.5	96.7%
Peer Median	8.6	2.5	97.2%
Tesoro	**6.3**	**2.0**	**68.5%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Returns Summary

	3-year Historical Average
Return on Equity	3.7%
Return on Assets	1.3%
ROIC, with goodwill	4.9%
ROIC, without goodwill	4.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,701
Net Debt	801
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.5
EBITDA/Interest	8.9
Current Ratio	1.3
Quick Ratio	0.7

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	20,583	30,303	31,515
Revenue, YoY%	22.0%	47.2%	4.0%
Operating Income	194	1,147	1,776
Operating Margin %	0.9%	3.8%	5.6%
Net Income	-29	546	979
Net Income Margin %	-0.1%	1.8%	3.1%
Diluted EPS	-0.21	3.81	6.77
Diluted EPS, YoY %	-79.6%	-1947.3%	77.6%
Free Cash Flow (CFO-capex)	88	391	1,118
Free Cash Flow Margin %	0.4%	1.3%	3.5%

In Millions of USD (except for per share items)

Structure of the Refining Industry — POOR

Results of firms in the refining industry are primarily affected by the relationship, or margin, between refined product prices and the prices for crude oil and other feedstocks. The cost to acquire feedstocks and the price at which refiners can sell refined products depends upon several factors beyond their control, including the supply/demand of crude oil and other refined products—which in turn depends on the availability of imports, production, inventories, political affairs and economic considerations. Refining margins are difficult to predict, and we expect them to continue to be volatile in the future.

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http://www.valuentum.com/categories/20110609

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 17-Jan-2013 | Data as of 11-Jan-2013

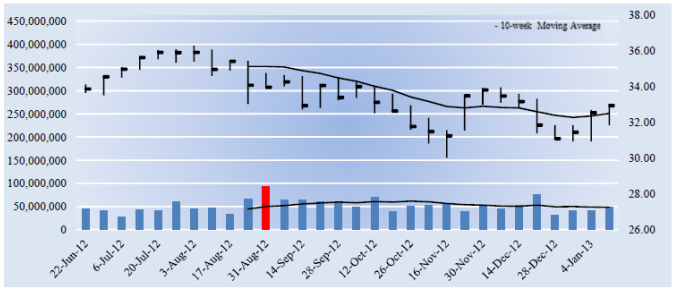
Altria Group MO UNDERVALUED 3.2%

Buying Index™ 9 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$32.93	$43.00	$34.00 - $52.00	LARGE-CAP VALUE	Consumer Staples	Tobacco

Altria has roughly a 27% economic and voting interest in SABMiller. We don't think the market is giving it full credit for this position.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy selling, or distribution (red bar).

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	VERY BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Support, 10-week MA	33.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low				■
Medium				
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Company Vitals

Market Cap (USD)	$67,968
Avg Weekly Vol (30 wks)	51,063
30-week Range (USD)	30.01 - 36.29
Valuentum Sector	Consumer Staples
5-week Return	-1.0%
13-week Return	-0.5%
30-week Return	-2.4%
Dividend Yield %	5.3%
Dividends per Share	1.76
Forward Dividend Payout Ratio	78.8%
Est. Normal Diluted EPS	2.51
P/E on Est. Normal Diluted EPS	13.1
Est. Normal EBITDA	10,162
Forward EV/EBITDA	8.4
EV/Est. Normal EBITDA	7.7
Forward Revenue Growth (5-yr)	2.8%
Forward EPS Growth (5-yr)	11.0%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Investment Highlights

• Altria Group's business quality (an evaluation of our ValueCreation™ and ValueRisk™ ratings) ranks among the best of the firms in our coverage universe. The firm has been generating economic value for shareholders with relatively stable operating results for the past few years, a combination we view very positively.

• Altria Group's valuation is compelling at this time. The firm is trading at a nice discount to our estimate of its fair value, even after considering an appropriate margin of safety. The firm's forward earnings multiple and PEG ratio also look attractive versus peers.

• Altria Group has a good combination of strong free cash flow generation and manageable financial leverage. We expect the firm's free cash flow margin to average about 37.6% in coming years. Total debt-to-EBITDA was 2.1 last year, while debt-to-book capitalization stood at 78.8%.

• The firm posts a VBI score of 9. We like the firm's prospects as an investment candidate on this basis. In fact, very few firms score above an 8 on our scale.

• Altria's wholly-owned subsidiaries are engaged in the manufacture and sale of cigarettes and certain smokeless products in the US. The firm also has roughly a 27% economic and voting interest in SABMiller.

Relative Valuation

	Forward P/E	PEG	Price / FV
Lorillard	13.8	NMF	105.4%
Philip Morris	17.0	1.9	123.9%
Reynolds American	14.3	2.4	104.0%
Vector Group	37.6	0.6	101.4%
Peer Median	15.6	1.9	104.7%
Altria Group	**14.8**	**1.8**	**76.6%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Returns Summary

	3-year Historical Average
Return on Equity	84.6%
Return on Assets	9.9%
ROIC, with goodwill	28.8%
ROIC, without goodwill	41.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	13,689
Net Debt	10,419
Total Debt/EBITDA	2.1
Net Debt/EBITDA	1.6
EBITDA/Interest	5.4
Current Ratio	0.9
Quick Ratio	0.5

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	16,892	16,619	17,450
Revenue, YoY%	0.4%	-1.6%	5.0%
Operating Income	6,264	6,276	9,030
Operating Margin %	37.1%	37.8%	51.7%
Net Income	3,905	3,390	4,598
Net Income Margin %	23.1%	20.4%	26.3%
Diluted EPS	1.88	1.64	2.23
Diluted EPS, YoY %	21.3%	-12.6%	35.9%
Free Cash Flow (CFO-capex)	2,599	3,508	6,199
Free Cash Flow Margin %	15.4%	21.1%	35.5%

In Millions of USD (except for per share items)

Structure of the Tobacco Industry — GOOD

The oligopolistic tobacco industry is attractive in a number of ways. Firms sell an "addictive" product (cigarettes and/or smokeless tobacco), have significant pricing power, generate high margins, and strong returns on invested capital. Still, declining trends in smoking in the US, threats of tobacco-related litigation, new tobacco regulation (labeling) that discourages tobacco use, and excise tax price shocks that may impact demand will always be concerns. Still, we tend to like the structural characteristics of the tobacco industry and the shareholder-friendly policies of constituents.

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Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 18-Dec-2012 | Data as of 14-Dec-2012

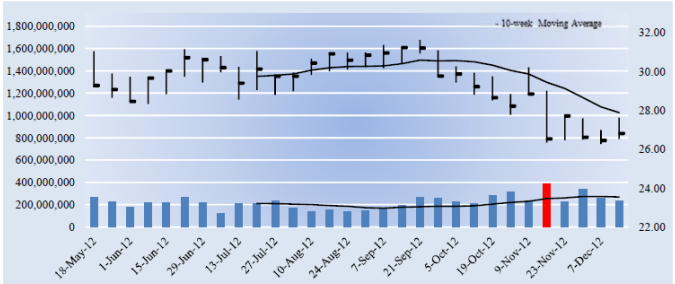
Microsoft MSFT UNDERVALUED 41.7%

Buying Index™ 6 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$26.81	$47.00	$38.00 - $56.00	MEGA-CAP VALUE	Information Technology	Software

Microsoft is one of the biggest bargains on the market today.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy selling, or distribution (red bar).

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	28.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low				■
Medium				
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Company Vitals

Market Cap (USD)	$228,046
Avg Weekly Vol (30 wks)	223,347
30-week Range (USD)	26.26 - 31.61
Valuentum Sector	Information Technology
5-week Return	-7.4%
13-week Return	-13.0%
30-week Return	-13.0%
Dividend Yield %	3.4%
Dividends per Share	0.92
Forward Dividend Payout Ratio	31.4%
Est. Normal Diluted EPS	3.51
P/E on Est. Normal Diluted EPS	7.6
Est. Normal EBITDA	39,349
Forward EV/EBITDA	5.2
EV/Est. Normal EBITDA	4.5
Forward Revenue Growth (5-yr)	6.8%
Forward EPS Growth (5-yr)	14.9%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Investment Highlights

• Microsoft's business quality (an evaluation of our ValueCreation™ and ValueRisk™ ratings) ranks among the best of the firms in our coverage universe. The firm has been generating economic value for shareholders with relatively stable operating results for the past few years, a combination we view very positively.

• Microsoft's valuation is compelling at this time. The firm is trading at a nice discount to our estimate of its fair value, even after considering an appropriate margin of safety. The firm's forward earnings multiple and PEG ratio also look attractive versus peers.

• Microsoft has an excellent combination of strong free cash flow generation and low financial leverage. We expect the firm's free cash flow margin to average about 30.9% in coming years. Total debt-to-EBITDA was 0.4 last year, while debt-to-book capitalization stood at 15.3%.

• Investors continue to focus on Microsoft's Windows business because it's been the bread-and-butter of the company for such a long time, but we think the company's other segments continue to be underappreciated. Shares look incredibly cheap at current levels, while providing investors with a fantastic dividend growth opportunity.

• The firm sports a very nice dividend yield of 3.4%. We expect the firm to pay out about 31% of next year's earnings to shareholders as dividends.

Relative Valuation

	Forward P/E	PEG	Price / FV
Adobe Systems	14.0	1.8	98.9%
F5 Networks	17.2	1.3	78.8%
Oracle	11.2	1.5	73.2%
Salesforce.com	95.9	NMF	106.9%
Peer Median	15.6	1.5	88.9%
Microsoft	**9.2**	**0.9**	**57.0%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Returns Summary

	3-year Historical Average
Return on Equity	38.7%
Return on Assets	20.5%
ROIC, with goodwill	76.7%
ROIC, without goodwill	121.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-11	Jun-12	Jun-13
Revenue	69,943	73,723	81,095
Revenue, YoY%	11.9%	5.4%	10.0%
Operating Income	27,161	27,956	30,920
Operating Margin %	38.8%	37.9%	38.1%
Net Income	23,150	16,978	24,416
Net Income Margin %	33.1%	23.0%	30.1%
Diluted EPS	2.69	2.00	2.93
Diluted EPS, YoY %	28.2%	-25.9%	46.7%
Free Cash Flow (CFO-capex)	24,639	29,321	25,053
Free Cash Flow Margin %	35.2%	39.8%	30.9%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	11,944
Net Debt	-51,096
Total Debt/EBITDA	0.4
Net Debt/EBITDA	NMF
EBITDA/Interest	81.4
Current Ratio	2.6
Quick Ratio	2.4

NMF = Not Meaningful

Structure of the Software Industry — VERY GOOD

Firms that serve the mature software markets—or those consisting of basic business applications—have powerful distribution channels, large installed bases, and fortress balance sheets. These entrenched competitors benefit from significant customer switching costs, which make it nearly impossible for new entrants to gain a foothold. Participants generally benefit from high-margin license revenue and generate significant returns on investment. Still, the shift to cloud computing has created both opportunities and challenges, and the enterprise software landscape continues to evolve. We like the group.

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Our Methodology – The Valuentum Buying Index (VBI)

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, income, 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 (10=best). 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.

A Rigorous, Discounted Cash Flow Valuation Assessment

Our methodology starts with in-depth financial statement analysis, where we derive our ValueCreation, ValueRisk, and ValueTrend ratings, which together provide a quantitative assessment of the strength of a firm's competitive advantages. After evaluating historical trends, we then make full annual forecasts for each item on a company's income statement and balance sheet to arrive at a firm's future free cash flows. We derive a company-specific cost of equity (using a fundamental beta based on the expected uncertainty of key valuation drivers) and a cost of debt (considering the firm's capital structure and synthetic credit spread over the risk-free rate), culminating in our estimate of a company's weighted average cost of capital (WACC). We don't use a market price-derived beta, as we embrace market volatility, which provides investors with opportunities to buy attractive stocks at bargain-basement levels.

We assess each company within our complete three-stage free cash flow to the firm (enterprise cash flow) valuation model, which generates an estimate of a company's equity value per share based on its discounted future free cash flows and the company's net balance sheet impact, including other adjustments to equity value (namely pension and OPEB adjustments). Our ValueRisk rating, which considers the underlying uncertainty of the capacity of the firm to continue to generate value for shareholders, sets the margin of safety bands around this fair value estimate. For firms that are trading below the lower bound of our margin of safety band, we consider these companies undervalued based on our DCF process. For firms that are trading above the higher bound of our margin of safety band, we consider these companies overvalued based on our DCF process.

A Forward-Looking Relative Value Assessment

Our discounted cash-flow process allows us to arrive at an absolute view of the firm's intrinsic value. However, we also understand the critical importance of assessing firms on a relative value basis,

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

Our Methodology – The Valuentum Buying Index continued from previous page

versus both their industry and peers. Many institutional money-managers--those that drive stock prices—pay attention to a company's price-to-earnings (PE) ratio and price-earning-to-growth (PEG) ratio in determining whether entities are undervalued. With this in mind, we have included a forward-looking relative value assessment in our process to further augment our rigorous discounted cash-flow process. If a company is undervalued on both a price-to-earnings ratio and a price-earnings-to-growth (PEG) ratio versus industry peers, we would consider the firm to be attractive from a relative value standpoint.

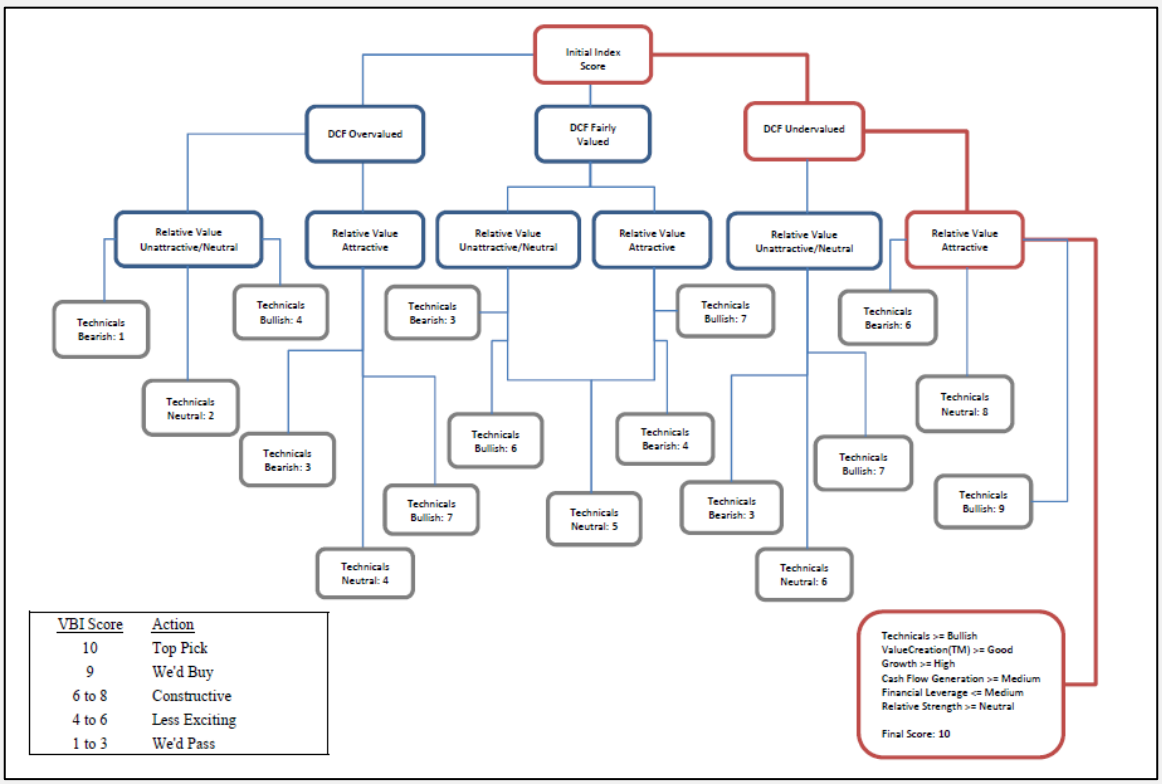
Avoiding Value Traps and Opportunity Cost

Once we have estimated a firm's intrinsic value on the basis of our discounted cash-flow process, determined if it is undervalued according to its firm-specific margin of safety bands, and assessed its relative value versus industry peers, we then evaluate the company's technical and momentum indicators to pin-point the best entry and exit points on the stock. An evaluation of its moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we look at with respect to our technical and momentum assessment of a company's stock.

Putting It All Together - the Valuentum Buying Index

Let's follow the red line on the flow chart below to see 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 Pass"). 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.



VBI Score	Action
10	Top Pick
9	We'd Buy
6 to 8	Constructive
4 to 6	Less Exciting
1 to 3	We'd Pass

Valuentum Best Ideas Newsletter: Volume 3, Issue 2

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