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
45.3%	21.3%	24.0%
		*Portfolio inception date May 17, 2011

Inside This Issue

Portfolio Hits a Fresh All-Time High!

By The Valuentum Team

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"The one thing all those winning bettors in the whole history of people who've beaten the pari-mutuel system have is quite simple: they bet very seldom."

Charlie Munger, *Talk Two: A Lesson on Elementary, Worldly Wisdom as It Relates to Investment Management and Business*

Another month has gone by, and Valuentum's Best Ideas Newsletter has hit another all-time high, bringing its performance since inception to 45.3%. The Congressional sequester came and went, but the market kept chugging ahead, and the S&P 500 sits within an earshot of a new all-time high. We didn't make any additions or subtractions to our portfolio this month, and we continue to hold a cash position just under 30%, which has been a drag on our performance. As we put more cash to work, we hope to widen our outperformance gap.

Please see *Portfolio Hits a Fresh All-Time High…*on page 2

Bullish News For The Apple Ecosystem

By RJ Towner

Even though Samsung has stolen the show with the unveiling of its Galaxy S IV, we have encountered a slew of positive data points for Best Ideas Newsletter holding Apple (AAPL) that supports our long thesis.

Apple on the Offensive

Apple marketing chief Phil Schiller provided some interesting thoughts in a Wall Street Journal interview. Since Steve Jobs passed away, we haven't heard any of the top brass at Apple make negative comments about Google's Android (GOOG).

Please see *Bullish News For The Apple Ecosystem…*on page 12

Outperformance Hits Highest Mark Ever…**continued from page 1**

Every time we sat down and contemplated adding a new name to the portfolio this month, we decided instead to sit on our hands instead.

The opening quote comes from a lecture legendary investor Charlie Munger gave to a business class at the University of Southern California on April 14, 1994 (and can be found in a wonderful book, *Poor Charlie's Almanac*). The lesson to take from the quote is simple: bet big, but only when the odds are in your favor. We found several ideas that we liked—Casey's General (CASY) comes to mind—but nothing that met our Valuentum style of investing. As is often the case during bull markets, we've come across fewer bargains than when we started the Best Ideas Newsletter, but we are in a wonderful position to capitalize when the opportunity presents itself.

"Valuentum investing helps minimize downside risk while capitalizing when the market misprices a business."

One of our favorite companies, Apple, looks very cheap, in our view. However, it also looked cheap at $600, $575, $550, $500, and $450. That's where the momentum part of Valuentum investing comes in handy. As value investors, we would have wanted to average down at every one of the previously mentioned price levels, but as Valuentum investors, we're waiting for technical indicators to turn before considering adding more. Valuentum investing helps minimize downside risk while capitalizing when the market misprices a business.

At this time, we remain satisfied with the performances of the individual holdings in our portfolio. Intuitive Surgical's (ISRG) shares have been on a wild ride as of late due to concerns about the cost-effectiveness of robotic procedures and some negative headlines. We think the bear case is somewhat valid, but we like the long-term trend towards robotics in healthcare.

EDAC Tech (EDAC) sits just a shade off its all-time high, and its most recent quarterly results (profiled in the newsletter) were fantastic. The firm remains our largest holding, and shares are up 215% since we opened our position. Buffalo Wild Wings (BWLD) long-term growth outlook looks fantastic, and shares have flirted with a 2013 high in recent weeks. Visa (V) and eBay (EBAY) have flirted with all-time highs, and both businesses have terrific fundamental tailwinds, particularly in the payments space. Shares of Google (GOOG) are now up 19% since we added the name to our portfolio, which has helped offset the weakness from Apple.

As for Apple, we think the fundamental bull-case is firmly intact, but we'd like to see the capital allocation strategy improve. Apple's war chest is unmatched—even in the cash heavy tech world—and we'd like to see the company initiate a large stock buyback program. Regardless, the ecosystem continues to grow stronger, in our view, and we think the notion that the firm can no longer innovate is a myth.

Every day we're looking to find undervalued investment opportunities, and we hope to find new opportunities throughout 2013.

Eddie Lampert's Buying More Sears, Should You?

By RJ Towner

In addition to announcing improved fourth quarter results at Sears (SHLD), it was revealed that Sears' chairman and CEO Eddie Lampert purchased another $55 million worth of Sears for his personal ownership. The big question now is whether Lampert, a savvy hedge fund manager, is sinking his entire career into doubling and tripling and quadrupling down on Sears, or perhaps he is seeing what no one else can, and Sears is the bargain of the lifetime.

We've been fairly critical of his tenure, but it is undeniable that Lampert has done a fantastic job focusing the company on becoming an omni-channel retailer. In his letter to shareholders, Lampert discusses the Shop Your Way rewards program, which now accounts for over 60% of sales, and the endeavor seems to have taken off. Though we feel the company could do a better job advertising its program to new customers, Lampert describes his thoughts on the new social shopping experience, saying:

> *"SHOP YOUR WAY is more than just a typical loyalty program. It is a comprehensive platform that transforms customer transactions into relationships and allows us to know our Members better and to serve them better as well. It includes the rewards program, our shopyourway.com social shopping platform, our SHOP YOUR WAY Max free shipping platform and a variety of other applications and components. Collectively, these elements change the way we do business both inside and outside the company."*

We believe Sears is well aware of how destructive and disruptive Amazon (AMZN) is to its retail experience, and it has subsequently focused on fighting back. In addition to online rewards, the program has partnered with celebrities like Adam Levine and Nicki Minaj, which could be successful in bringing the company's apparel division back to relevancy. We aren't sure exactly how well the Kardashian line has performed, but we believe it could help drive some incremental store traffic.

In addition to highlighting the firm's online strategy, Lampert combated critics (including us) that believe the firm hasn't invested enough in its stores. Sears has allocated significant capital investment toward technology infrastructure, while closing underperforming locations. Lampert argues that investing in these stores would have been a waste of money, and the firm has benefited by closing stores, liquidating inventory, and not receiving penalties for lease obligations from credit rating agencies. He estimates the 300 or so stores Sears has closed since peak-EBITDA in 2006 contributed $100 million to EBITDA out of $3.2 billion total. Since, the firm has extracted $1 billion in value from these stores versus what Sears estimates would have been negative $50 million in EBITDA.

> *"While commentators have suggested that we have underinvested in our stores, the data shows that in most cases, stores that were losing money in 2006 or were marginally profitable did not improve over the past six years. Let's assume we had invested $3 million in each of these 300 stores in an attempt to resuscitate them. Had we done this, and had they not improved, we would have thrown $1 billion of good money after bad. Instead, we were able to receive almost $1 billion in proceeds, which is not a bad result given the circumstances."*

Please see *Eddie Lampert's Buying More Sears…*on next page

*Eddie Lampert's Buying More Sears…*continued from previous page

We have no doubt that Lampert is a skilled financier, so perhaps he's on to something. If the operating performance can improve, investors can look for an actual operating business rather than Bruce Berkowitz's real estate plan.

However, we're not seeing operating performance improve much. Sears Domestic's same-store sales increased only 0.8% year-over-year, even though the residential real estate market improvements have driven strong appliance sales. Same-store sales at Sears Canada fell 3.8% during the quarter, and sales at Kmart sunk 3.7% year-over-year. This occurred in spite of JC Penney (JCP) alienating its core customers and Kohl's (KSS) also lacking.

On the profitability side, gross margins were horrendous, coming in at 25.8% during the quarter and 26.7% for the year. However, these figures were up 130 basis points and 90 basis points year-over-year, respectively, and we believe a mix shift to more appliance sales could be a net benefit for gross margins in 2013. Unfortunately, SG&A expenses remain far too high at the current gross margin run-rate. The firm will need to boost gross margins before it starts generating an operating profit, as there might not be much more to cut from overhead.

Sears doesn't include its statement of cash flows in its initial 8-K filing, so we'll have to wait for the annual report to see how dire the cash burn is; though taking a simple glance at the balance sheet and reported EBITDA figures suggests it wasn't too bad in 2012.

With Lampert purchasing more shares, positive results from store closures, and a margin tailwind from appliance sales, we think Sears could have upside, but shares look fairly valued at this time. Still, we're warming to the Sears turnaround story, and we think Lampert may know more about the potential to monetize the store base than he's leading on. We're keeping a close eye on the company.

Will the FDA Crush Intuitive Surgical?

By Valuentum Analysts

Shares of Intuitive Surgical (ISRG) plunged in trading Thursday afternoon, but recovered much of the loss Friday morning after the FDA announced it was launching an investigation into issues arising from use of the da Vinci systems. The FDA sent surveys to several hospitals, and it is looking to determine whether a rise in incident reporting from robotic surgeries is an issue with the system, the patient, or the surgeon.

From initial reports, it appears that few of the issues have originated from robotic malfunction, but rather from user error. We also think it's important to note that Intuitive Surgical hasn't experienced any increase in the already small death rate. While it appears the firm is being honest in this assertion, the issue with da Vinci brings to light a more philosophical question in the medical devices (and pharmaceutical) space.

The most important part of the Hippocratic Oath that doctors take is "Primum non nocere," a Latin phrase that translates to "do no harm." It is a serious question the medical space has increasingly had to deal with, as healthcare innovations and windfall profits come to the forefront. The da Vinci is generally seen as a non-invasive alternative surgery, but complications arising from the machine could put surgeons at odds with adopting a new system when the traditional form of surgery has worked just fine for a number of years. Not only could this prevent the da Vinci from expanding its procedure base, but it could also create hesitance from potential new customers. The high cost of da Vinci machines becomes harder to justify if the system really isn't an improvement over the existing methods.

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Casey's General Is Almost Cheap

By RJ Towner

Convenience store chain Casey's General (CASY) has seen its share price take a small haircut after reporting third quarter results. Revenue rose 5% year-over-year to $1.7 billion, falling a tad shy of consensus estimates. Earnings fell 7% year-over-year to $0.40 per share, falling well below consensus expectations.

Because of its large amount of retail fuel sales, revenue itself isn't the best metric to measure Casey's performance, but the firm provides plenty of other useful data points. Same-store gasoline volumes rose 0.6% at an average margin 13.8 cents—just short of the firm's targets of 1% and 14 cents, respectively. The margin was slightly ahead of last year's pace. The price of gas went up steadily during the quarter, so we're not surprised to see both consumption and margins go down. We think this trend could easily reverse itself with some pump relief in the coming months. Often times, consumers aren't privy to the absolute price of fuel (which was basically flat at Casey's at $3.15 this year vs. $3.16 last year) as much as the velocity of change—and the ascent was fairly rapid throughout the firm's third quarter. Management reflected this point in the conference call, saying:

> *"Same-store gallons sold through the 9 months were flat compared to the same period a year ago, and total gallons sold for the year, up 3.6% to 1.2 billion. For the 9-month mark, the average retail price was $3.38 per gallon compared to $3.41 last year. Average retail price of gasoline for the quarter was $3.15 a gallon compared to $3.16 1 year ago."*

As is often the case, relative swings (compared to last week) can matter much more to the consumer. February was already a better month, with fuel sales excluding the extra day up 1.3%.

The Grocery and Other Merchandise segment was relatively weak, falling well short of its goals of 6.2% same-store sales growth and 32.7% average margins, posting 3.2% same-store sales growth and 31.7% average margins. The major culprit here was cigarette sales, which continue to be weak and weigh on margins, but management indicated that sales have started to stabilize. We're not too worried about this segment, especially since same-store sales rose 5.3% year-over-year excluding the impact of cigarettes. Unfortunately, with dollar stores getting into the space, we only see cigarettes becoming a more competitive item, and management admitted it doesn't really have an inclination to hold the line or prices or margins, saying:

> *"…we like to be matching our competition on key products within the cigarette category. And so you've got to evaluate what those key products are market by market to make sure that you are priced competitively. Because as I mentioned earlier, I mean, cigarettes arguably is the #2 destination item of most -- any convenience store, gasoline being the first. And so if we understand that, that is the reason that they're coming to our stores, we certainly don't want to give them any reason not to come to our stores."*

We believe this segment remains a strong opportunity for Casey's, as it can introduce more SKUs to boost prices while marginally raising prices on existing goods without hurting demand.

Perhaps the largest opportunity for Casey's, Prepared Food and Fountain Beverages, continued its wonderful performance with total sales growing 15% year-over-year to $137 million. Same-store sales in the segment jumped 11.6%, while the average margin was 60.6%. Pizza is a huge seller, so an increase in cheese prices weighed heavily on margins, which were 80 basis points lower than a year ago. Nevertheless, the segment remains highly profitable and looks like an area that Casey's can continue to grow at a brisk pace going forward.

FAA Clears the Boeing Battery Solution; Supply-Chain Value Still Evident

By RJ Towner

Late yesterday afternoon, airplane manufacturer and designer Boeing (BA) received approval for the company's plan to test and certify batteries for its 787 Dreamliner jet. Boeing's lithium ion battery issues plagued several of its new jets, including many in Japan, which caused substantial weakness in shares even though orders remained strong, and several industry insiders indicated the problem wasn't anything out of the ordinary. On January 17th, we called for the bottom in sentiment regarding the Boeing 787, and shares of the company have rallied 13% since.

Although we did not believe the lithium ion battery would be a long-term headwind for Boeing, several market participants wondered if the company could develop a satisfactory solution, weighing on shares. According to Ray Connor, CEO and President of Boeing Commercial Airplanes, the company and its battery consultants have derived a solution, and Connor provided some greater detail, saying:

> *"Our proposal includes three layers of improvements. First, we've improved design features of the battery to prevent faults from occurring and to isolate any that do. Second, we've enhanced production, operating and testing processes to ensure the highest levels of quality and performance of the battery and its components. Third, in the unlikely event of a battery failure, we've introduced a new enclosure system that will keep any level of battery overheating from affecting the airplane or being noticed by passengers."*

The odds of another battery issue look lower now, in our view, but we will not be changing our fair value estimate for shares of Boeing since we did not revise our estimate downward in response to the battery hiccup. We believe shares of Boeing are fairly valued, and we're much more bullish on the aerospace supply-chain than OEMs. Eliminating the battery risk could be a positive catalyst for the entire supply-chain, especially since it reduces timing issues.

Boeing continues to have a backlog of $390 billion, and we believe suppliers like Astronics (ATRO), Precision Castparts (PCP), and EDAC Technologies (EDAC) have a long runway for revenue and earnings growth because of it.

EDAC reported fantastic results last week, and shares still look inexpensive even after rallying more than 200% since we identified the name as incredibly undervalued for our subscribers. It continues to look like the most undervalued name in the space, but Precision Castparts and Astronics are also members of our Best Ideas Newsletter, so we have tremendous confidence in the sector.

Will The FDA Crush Intuitive Surgical? **continued from page 4**

We certainly have yet to see any ill-effects from Citron's bearish research report on Intuitive Surgical's sales, which advanced 23% in the most recent quarter. We also don't see the FDA inquiry leading to much additional negativity, especially since it's the FDA's job to regulate the safety of medical devices. Possible FDA intervention is a risk, but not a large one, in our view.

At this time, we remain confident in holding shares of Intuitive Surgical in the portfolio of our Best Ideas Newsletter, but we'll be monitoring the situation to see if new system sales growth decelerates meaningfully. We think pushback against the efficacy of da Vinci machines is unlikely, but it could be a devastating headwind if it does surface, hence why the name commands just a small position of our portfolio.

Gross Margins Recovering But Still Down at Urban Outfitters

By RJ Towner

Apparel retailer Urban Outfitters (URBN) reported strong sales for its fiscal year 2013 fourth quarter. Revenue jumped 17% year-over-year to $856 million, exceeding consensus estimates. Earnings per share fell a penny shy of consensus estimates, but were more than twice as high as the year prior at $0.56 per share.

A quick look at metrics might suggest that the business is improving—it is—but the performance is still lagging what Urban achieved in fiscal year 2011. Gross margins improved 650 basis points year-over-year to 36.6% due to lower markdowns and an increase of 18% in regular priced comp sales. Still, the 36.6% gross margin remains 310 basis points lower than the fourth quarter of fiscal year 2011, suggesting the core business still hasn't regained the traction it had a few years ago. Urban may be achieving sales growth, but we think it may be the growth at all costs mentality which can have disastrous effects on retailers.

On the positive side, SG&A fell 10 basis points year-over-year to 21.2%, and the company has steadily leveraged SG&A over the past two years, as it was down 50 basis points from its fiscal year 2011 level. The company has invested heavily in technology, which has resulted in strong sales growth to offset this rise in capital spending. Still, operating margins were down 260 basis points from 2011 at 15.4% of sales, and the company is running a less profitable business than it was just three years ago. For the full-year, operating margins were down 480 basis points compared to 2011 at 13.4% of sales. With SG&A expected to increase mid-teens, we doubt we shall see any operating margin expansion in fiscal year 2014 unless it's driven on the product cost and pricing side.

Most of Urban's growth was driven by strong online sales, as comparable direct-to-consumer revenue jumped 11% year-over-year, while physical same-store sales were flat. On a segment basis, Free People continues to be the standout store in Urban's mix, with sales jumping 37% year-over-year to $97 million. The Free People brand has done an excellent job catching on to fashion trends, and we think the brand has nicely characterized itself as a separate entity from Urban Outfitters, giving consumers a better sense of differentiation. The Urban Outfitters performed well, with sales growing 11% year-over-year to $415 million. We still like the direction of the brand, but it simply isn't the growth engine it was a few years ago. Anthropologie's sales grew just 7% year-over-year to $334 million, but it could get a boost from a stronger housing market in fiscal year 2014.

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.

Relative Valuation	Forward P/E	PEG	Price / FV
Abercrombie & Fitch	16.5	1.5	92.1%
American Eagle	15.0	1.5	88.4%
Limited Brands	16.1	2.1	106.6%
Ross Stores	16.4	1.8	107.8%
Peer Median	16.3	1.7	99.4%
Urban Outfitters	**26.5**	**1.8**	**127.6%**

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

Portfolio Return	Benchmark Return	Outperformance
45.3%	21.3%	24.0%
		*Portfolio inception date May 17, 2011

Our Best Ideas Portfolio

By Valuentum Analysts

Our Best Ideas portfolio had another solid month of performance, though our gap relative to the S&P fell roughly 180 basis points since the previous edition of our Best Ideas Newsletter. The outperformance gap is greater than it has ever been, and our absolute return has hit its highest level. EDAC was our biggest source of alpha during the month, as the aerospace supply-chain name approached new all-time high. We continue to expect valuation upside to $23 per share (based on our fair value estimate), and even more than that based on the high end of our fair value range, which represents a best-case scenario for the firm. Buffalo Wild Wings (BWLD) and Ford (F) also performed well for us during the period.

Below we outline the constituents of our 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 (please see page 16), as well as analysis and trends impacting companies on our Best Ideas List. We currently have about 28% of our portfolio in cash, a level we're looking to bring down even more 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 March 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	443.66	7,098.56	4.9%	36.3%
Altria Group	MO	8	9	28-Jun-11	26.43	252	6,667.36	33.68	8,487.36	5.8%	37.6%
Astronics	ATRO	10	6	6-Jun-11	21.19	162	3,439.86	28.60	4,633.20	3.2%	34.7%
Buffalo Wild Wings	BWLD	7	3	13-Jul-11	65.42	77	5,044.34	84.85	6,533.45	4.5%	29.5%
eBay	EBAY	10	6	3-Oct-11	31.04	200	6,207.00	50.41	10,082.00	6.9%	62.4%
EDAC Tech	EDAC	9	9	6-Jun-11	5.23	673	3,536.79	16.44	11,064.12	7.6%	212.8%
Financial Select SPDR Fund	XLF	NA	6	9-Jan-11	13.46	150	2,026.00	18.47	2,770.50	1.9%	38.9%
Ford Motor	F	7	7	12-Sep-11	10.69	650	6,955.50	13.45	8,742.50	6.0%	26.3%
Google	GOOG	10	6	23-Oct-12	683.49	4	2,740.96	814.30	3,257.20	2.2%	18.8%
Health Care ETF	XLV	9	3	22-May-12	36.60	125	4,582.00	44.73	5,591.25	3.8%	23.7%
Intel	INTC	6	3	12-Sep-11	20.48	150	3,086.50	21.38	3,207.00	2.2%	8.4%
Intuitive Surgical	ISRG	5	3	22-May-12	532.13	5	2,667.65	459.44	2,297.20	1.6%	-13.9%
Precision Castparts	PCP	8	7	6-Jun-11	152.07	40	6,089.80	194.36	7,774.40	5.3%	27.8%
SPDR S&P Bank ETF	KBE	NA	UR	9-Jan-12	21.07	100	2,114.00	27.17	2,717.00	1.9%	30.9%
Republic Services	RSG	8	6	19-May-11	31.42	201	6,329.42	31.97	6,425.97	4.4%	8.4%
Rio Tinto	RIO	9	9	22-May-12	46.40	75	3,487.00	49.98	3,748.50	2.6%	9.1%
Visa	V	7	6	30-Nov-11	107.46	60	6,461.30	158.55	9,513.00	6.5%	47.9%
Cash									41,382.34	28.5%	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		**145,325.55**		**45.3%**
S&P 500 Index (SPY)				17-May-11	132.69	754	100,000.00	155.88	117,476.83	96.8%	
Cash									3,863.14	3.2%	
Benchmark Portfolio Value									**121,339.97**		**21.3%**
Relative Outperformance											**24.0%**

This portfolio is not a real money portfolio. Data as of March 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).

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EDAC Tech Caps off 2012 With Huge Earnings Growth

By Valuentum Analysts

Best Ideas Newsletter holding EDAC Tech (EDAC) announced fantastic fourth quarter results. Revenue rose 25% year-over-year to $28.4 million during the period, leaving the company with full-year revenue of $106.5 million, 23% higher than a year ago. Earnings growth was also strong, growing 24% year-over-year during the fourth quarter to $0.26 per share. For the full year, earnings increased a whopping 53% to $1.06 per share.

We saw a nice improvement in gross margins during the fourth quarter, rising 140 basis points year-over-year to 19.3%. The higher-margin processing business that EDAC acquired when it purchased EBTEC helped boost overall gross margins. On the other side of the cost equation, SG&A rose nearly 43% on an absolute basis, but it increased just 130 basis points as a percentage of sales to 10.2%. Management doesn't play accounting games with adjusted earnings per share or several non-GAAP figures, but the quarter did include a one-time relocation charge of $300,000, which makes the increase in SG&A look much more palpable. The new facility should pay off in the form of better margins and increased productivity in 2013 and beyond.

On a segment basis, the primary revenue driver was the Aerospace segment, which saw revenue advance 36% year-over-year to $20.6 million. A large portion of the increase was attributable to the EBTEC acquisition, but core performance was still solid, and the Pratt & Whitney (click ticker for report: UTX) turbofan engine helped drive sales growth. Management provided some deeper commentary on the quarter, saying:

> *"Our legacy aerospace business grew 17% with sales of military and replacement parts especially strong. As indicated in today's press release, our sales also included stationary inter-components for the GEnx used in a Dreamliner and the G90 used in a 777. We have now reached full ramp up in both programs.*
>
> *They also included rotating parts for industrial gas turbines which are basically ground based aircraft engines. In addition to this legacy and current programs, we had sales for emerging engine programs including the development parts for Pratt & Whitney's geared turbofan engine. We are continuing to ramp-up production of parts for the Rolls-Royce Trent 800 and 900 engines."*

Operating income expansion trailed behind revenue growth, up 15% year-over-year to $1.6 million. Much of the lag can be blamed on the higher SG&A costs, so we fully expect operating leverage to kick in the next few quarters. The Industrial segment saw only 4% growth to $7.8 million, but virtually all of that increase fell to the bottom line, as segment earnings surged 55% year-over-year to $975 thousand.

With respect to the firm's backlog of unfulfilled orders, it fell about $10 million sequentially to $304 million, but was $52 million higher than a year ago. Demand in the coming years looks robust, and management indicated incremental capacity increases could lead to additional growth in 2014 and beyond. Looking ahead, we think the market was a little disappointed in that no huge order was announced and in guidance that called for sales and earnings for the first quarter of 2013 to be equal to what we saw in the fourth quarter of 2012. Still, this translates into both solid revenue and earnings expansion, and management is notoriously conservative.

We continue to have tremendous confidence in the aerospace supply chain, and we believe EDAC Tech has plenty of upside left. The firm remains a key holding in the portfolio of our Best Ideas Newsletter.

House of Cards – A Sign That Netflix Can Become a Content Creator

By RJ Towner

Since activist investor Carl Icahn took a public stake, shares of Netflix (NFLX) have been on a tear. Shares really took off after the firm reported strong earnings for its fourth quarter and a bullish outlook for the first quarter of 2013. Shares have nearly doubled in 2013 alone, and it seems the market is getting even more bullish on Netflix.

In our view, this has less to do with recent earnings trends, but rather, we believe the success of House of Cards has been a positive catalyst for the stock. The show has received fantastic reviews with an aggregate score of 9 on IMDB.com, and it has been mentioned in the same breaths as blockbuster cable shows like Breaking Bad and Mad Men. Although it's just been one season, one could argue House of Cards is one of the most popular TV shows in the US—and it's not even on TV!

Initially, we were a tad skeptical of Netflix's decision to release the shows at once. Some viewers like the anticipation of waiting for a new episode every week, but there is also a growing trend of binge consumption. We actually like the idea of allowing consumers to watch when they see fit, though 13 episodes could be finished in 13 days rather than 13 weeks. Even if the show was a huge hit, would Netflix subscribers stick around? It's still too early to tell, in our view, but we doubt people signing up to see the show will simply cancel. For one, it is always a slight inconvenience to cancel a service, simply because it takes effort. However, we think people new to Netflix might discover the content catalog and become convinced the service is well worth the monthly fee. Netflix's streaming TV content is tremendous in terms of breadth and depth, and we're seeing consumers respond accordingly.

We think the big game changer could be a price increase—but we're not sure Netflix customers would be ready to stomach it. Consumers seem a little hesitant to pay more for the service, in spite of what we think is a pretty good value. Yet, if the company were to find a way to partner with a few TV stations a la carte, say Disney's (DIS) ESPN and AMC (AMCX), then people might be more willing to "clip the cords."

ESPN in particular could be interested in exploring untraditional strategies for content dissemination. For one, we do not believe Disney's other channels would suffer since most of them are already popular on a standalone basis. Further, with the costs of sports rising at a steady rate, we believe the network could need to find more revenue drivers to offset cost increases. Still, going a la carte or partnering with Netflix would be a risky strategy, and we'd likely see some tension with traditional cable providers arise.

Regardless, we're extremely excited about Netflix's ability to make content, and the fact that its first show is a hit gives the company credibility going forward. The fourth season of Arrested Development is the next Netflix produced show that will be released, and we think it will be a smashing success—perhaps bigger than House of Cards—because it already has an enormous built-in fan base. New shows may not receive the same acclaim as House of Cards, but we think Netflix's credibility will help deter consumers from developing prejudice against the firm's internal productions.

Of course, how popular and critically acclaimed the shows are is fairly irrelevant unless the company is able to drive subscription growth to cover the costs. Some say that CEO Reed Hastings paid $100 million for just two seasons of the show, so the strategy wasn't without risk. Given the current cost of Netflix ($7.99/mo), it would take 1,042,970 subscribers to generate $100 million in revenue. Will new shows drive such enormous amounts of subscribers? That remains unclear, but adding some competition to the content space could help content costs from ballooning, which is the biggest threat to the company's business. Still, shares look overpriced.

Pandora's Market Share is Improving…But Profitability Continues to Flounder

By Valuentum Analysts

Internet radio company Pandora (P) announced the results for its fiscal year 2013 fourth quarter late last week. Results were mostly better than expected, with revenue surging 54% year-over-year to $125 million. Earnings were a penny higher than consensus forecasts, as the company lost just $0.04 per share, significantly better than the year prior.

Pandora's service continues to surge in popularity thanks to the convenience of mobile and continued market share gains. Hours listened jumped 53% year-over-year during the quarter to 4.05 billion hours, while hours listened for the year grew 70% year-over-year to 14.01 billion hours. Perhaps even more telling, the company's share of the US radio market in February jumped to a whopping 8.48%, up 274 basis points compared to the year prior.

For much of its early history, Pandora was limited to PCs, but the rise of mobile devices has really helped boost the service's popularity. Mobile listening now accounts for 77% of total listener hours, and we would not be surprised to see that number grow as mobile networks improve. We've previously mentioned why we believe mobile advertising is a very attractive format for Pandora, and it seems advertisers agree, as mobile ad revenue jumped 111% year-over-year to $80.3 million. Revenue per thousand listening hours on mobile devices increased a modest 9% compared to last year, though that metric could now improve that Pandora is once again limiting free listeners at 40 hours of monthly usage.

Although we're seeing nice growth from the subscriptions segment (up 74% Y/Y), we're a bit shocked by this move. With Spotify offering a strong competing product and Apple (AAPL) attempting to get into the streaming internet radio business, we think limiting Pandora user hours could cause listeners to flock to another service…and they may not come back.

The cash flow situation for Pandora remains weak, as the firm generated a slight loss of $250,000 from operating cash flow for fiscal year 2013, leading to full-year free cash flow of negative $7.8 million. Still, the firm has close to $86 million in cash and equivalents, so liquidity will not be an issue going into fiscal year 2014.

Looking ahead, revenue guidance for fiscal year 2014 suggests strong sales growth will continue. The firm is looking for revenue of $600 million to $620 million, a touch above consensus estimates. Earnings per share are also a bit above consensus estimates, with the firm anticipating earnings per share of -$0.05 to $0.05 net of stock-based compensation expenses. However, we aren't anticipating free cash flow to jump materially in fiscal year 2014.

Overall, it's hard not to be attracted to Pandora's huge revenue growth—except for the fact the company makes no money at this time. With the competitive environment intensifying—let's not forget Pandora isn't only competing with Spotify and terrestrial radio for mobile ad dollars, but also Facebook (FB), Google (GOOG), and thousands of other companies—we do not believe Pandora looks attractive at its current valuation. With CEO Joseph Kennedy set to leave the company, the ride ahead could be rather bumpy. We aren't interested in adding it to the portfolio of our Best Ideas Newsletter at this time.

*Bullish News For The Apple Ecosystem…*continued from page 1

The timing migt not be coinicidental, as the interview was released the day before Samsung unveils its Galaxy SIV. Schiller criticized the user experience, saying:

> *"When you take an Android device out of the box, you have to sign up to nine accounts with different vendors to get the experience iOS comes with."*

Schiller also said criticized Android for being a poor replacement for the iPhone, noting:

> *"Android is often given as a free replacement for a feature phone and the experience isn't as good as an iPhone."*

The first point is a valid criticism, in our view, while the second may be a matter of preference. Either way, we're happy to see management showing confidence in its product and not afraid to attack rivals. The first quote addresses a compelling issue; with the US smartphone market nearing saturation, we could see late adopters flock to the iPhone because it is often perceived as the simpler device.

Schiller also mentioned, according to Apple's research, that 4 times as many users leave Android for iOS as users that leave iOS for Android. We think this number is well-reflected in Apple's sky-high retention rates, and it also brings to light the varying opinions regarding Apple's market share. We've heard whispers suggesting Apple is losing ground domestically and abroad—although data suggests otherwise. While we're not as positive about the overseas market share, we've seen Apple post terrific sales numbers at AT&T (T) and Verizon (VZ), where iPhones accounted for 84.3% and 63% of all smartphone activations in the fourth quarter, respectively.

PayPal for iPad

Best Ideas Newsletter holding eBay's (EBAY) PayPal released a POS solution for iPad. Not only is this a positive for PayPal as it works to expand its physical presence, but we think it speaks volumes about the iPad's position in the business market. Tablets aren't the standard; iPads are the standard. This isn't the first company that we've seen focus on completing products for iOS before considering Android, and we've even seen some prominent companies shun creating Android applications. The Nike (NKE) Fuel Band app for iOS is the only of its kind, and Nike has no plans to develop one for Android. For what it's worth, CEO Tim Cook is also on Nike's board of directors. Still, exclusive apps for iOS make the Apple ecosystem more valuable.

Staples Selling Apple Products?

Training documents leaked yesterday suggest office supply giant Staples (SPLS) will begin selling iOS devices in its stores. Although this isn't a huge positive for Apple, in our opinion, it is more evidence that Apple products are becoming increasingly important for the enterprise market. Staples also needs to diversify its revenue streams, and adding Apple products could be a good starting point. Due to the simple integration of iPhones, iPads, and Macs, we think Apple could become an important player in the enterprise market, duking it out with the likes of Microsoft (MSFT) and Dell (DELL)—even though its products cost more.

*Gross Margins Are Recovering…*continued from page 7

Overall, we weren't too surprised by results, but we saw nothing from the quarter that would cause us to materially change our fair value estimate. Co-founder and CEO Richard Hayne suggested some gross margin opportunity existed, but essentially said not to expect it, saying:

> *"When you look at it from a historic perspective, you might assume that there is some gross margin opportunity. And as we've said, we do believe there is gross margin opportunity. But you also have to remember that with some of the special product that we're putting on the web, the IMUs are slightly less, and so that has a tendency to counteract what we see in the rest of the business, which is increased IMUs. And hopefully, we will achieve reduced markdowns."*

Hayne followed up by saying that the firm needs to drive stronger initial mark-ups (IMUs), but raising prices on a young, fickle customer base that continues to find its way in a weak economic landscape doesn't sound like a profitable proposition, in our view. Shipping costs also have lowered the margin profile of the business, and with a younger, more tech savvy consumer base, we think this trend will continue. However, it looks like it will be a secular headwind, so Urban Outfitters in particular isn't at much of a disadvantage to its peers.

Although we were a bit early in our put option position on shares of Urban, we believe the company continues to look a tad rich at current levels, but now it is near the top-end of our fair value range, so we will not look to open a put position in the portfolio of our Best Ideas Newsletter unless we see shares rise to the mid-high $40 range.

McDonald's February Shows Stabilization

By RJ Towner

McDonald's (MCD) announced decent February results. On a reported basis, global same-store sales dropped 1.5% year-over-year, but when adjusted for a calendar shift, February same-store sales actually increased 1.7% globally.

The US continued to be a weak spot, with same-store sales down 3.3% on a reported basis and flat on a comparable basis. This occurred during a month in which the company had several product introductions, but the firm also had to lap an incredibly difficult 11.1% same-store sales growth rate the firm posted in February 2012. We're not incredibly disappointed in the US, and we will see comparisons get much easier toward the back half of the year.

Europe sales were actually quite robust, down 0.5% on a reported basis, but up 2.7% on a comparable basis. We wouldn't go so far as to say it's reflective of improving European economic fundamentals, but it does show just how successful the company is at extending store hours and expanding breakfast offerings. This was one of the huge US drivers over the past few years, and it appears it will help boost the company's fortunes in Europe as well. McDonald's also noted that results in the UK and Russia were strongest.

The Asia-Pacific, Middle East, and Africa segment was a pleasant surprise, with same-store sales declining 1.6% on a comparable basis, but up 1.5% excluding the calendar shift. What we found most shocking was that the company pointed to strength in China—after sales dipped in the wake of the Yum! Brands (click ticker for report: YUM) poultry scandal. Perhaps the nation has moved on from the incident, so KFC could see its sales slide moderate in 2013. The segment also benefited from strong results in Australia, partially offset by a slide in Japan. We were incredibly pleased with the firm's performance in APMEA.

Overall, we thought February results were positive for the company. While we do not believe the firm looks undervalued at current levels, solid same-store sales growth could lead to earnings expansion and subsequently share repurchases and dividend growth.

iWatch? iTV? Apple's Innovation Death a Media Construct

By RJ Towner

Although it remains very much a head-scratcher to us, shares of Apple (AAPL) have continued to fall towards Jeff Gundlach's $425 price target. We've been mostly silent on the company's share slide, because, frankly, we don't think the fundamental story has changed at all. Recent news regarding the potential of the iWatch and the long-awaited iTV has piqued our interest, as we believe both could add upside to earnings.

Apple's design genius John Ive, known by some to be as integral to Apple's design as the late Steve Jobs, has spent years dissecting Nike (NKE) and other watches. We could speculate all day about the possibilities of an iWatch, but we find that this blog provides absolutely fantastic commentary. Likely, it will complement existing Apple devices, particularly the iPhone and iPad, and it could even include wireless charging. Regardless, we think the iWatch (assuming it does exist) could go a long way in tempering the growing feeling that innovation is dead at the company.

But frankly, the "innovation is dead" idea never made much sense to us. If we do a short timeline of Apple's game-changing products, we can see that the iPod was released in 2001. Incremental improvements were made, and products like iTunes, the iPod Nano, and iPod Shuffle were released over that time period, but nothing else surfaced. Apple teamed up with Motorola for an iTunes-compatible phone called the Rokr, which was nothing short of a dud. There was a high-end speaker that was priced too high and never took off.

Then Apple hits it big with the iPhone, which was and still is the most important product in all of Apple's history. Its reputation for quality is unmatched, and we believe it's undeniable that each generation has been an improvement over the last. Apple then launched the iPad in 2010, a product that many thought would be a flop. Instead, it revolutionized computing and has led to the decline of the PC. During this time, the company also had a terrible social networking flop with Ping, and the iPad is now largely considered the "last" innovation of Steve Jobs, though he claimed the company had a robust pipeline prior to his passing.

The market fears another innovation will never come, but truly, the company went nearly 6 years without introducing a new product after the iPod. After the iPhone, Apple went 3 years without a new product, which was the iPad. Three years later, the firm hasn't introduced a new product, but it has revolutionized computing, continues selling millions of iPhones and iPads, and it has sneakily stolen market share and mind share in the PC market.

Essentially, a few years without introducing a revolutionary product aren't really a big deal, in our view. Apple has spent the greater part of a decade building an ecosystem to support its various hardware and software products. We don't claim to know what the next "big" product will be, but we believe it's a very good chance it comes from the minds of Apple (and an even better chance that many people will believe the product is done before using it and becoming infatuated).

The primary concern with Apple has little to do with product lines, the popularity of its products, or really any fundamental business concern. Rather, investors' confidence with CEO Tim Cook and CFO Peter Oppenheimer is understandably shaken as the company has done an absolutely horrendous job managing its capital. With a cash hoard of $137 billion, shareholders would appreciate anything—a higher dividend, a share buyback, or even an acquisition in the supply chain that may uncover significant synergies (bolstering margins). We think the company would be wise to initiate a huge buyback at this time, since its shares look incredibly inexpensive.

Please see *iWatch? iTV?...*on the next page.

*iWatch? iTV?...*continued from previous page.

Unfortunately for shareholders, however, it may take a new product for Apple to regain its beauty-contest status because management has shown little interest in distributing its capital. Frankly, a board shake-up could be the best thing to happen to the company since it seemingly isn't composed of any prudent capital allocators. Cook points to frequent "discussions" about what to do with the cash hoard, but we think buying back shares is such an obvious choice that we can't believe the board's inaction.

Nevertheless, we believe Apple is an absolutely wonderful company with a bright future ahead of it. Some interest on the part of the board and management in allocating capital could relieve much of our primary concerns, but we think it may take a new product to calm those critical of the firm's product pipeline. We think shares look inexpensive at current levels, and we continue to hold them in the portfolio of our Best Ideas Newsletter.

Ulta's Fall Is Justified

By Valuentum Analysts

Cosmetics retailer Ulta Saloons (ULTA) reported better than anticipated fourth quarter results Thursday after the market close that were overshadowed by the company's light guidance. Revenue growth remained stellar, growing 30% year-over-year to $759 million, exceeding consensus estimates. Earnings were also stronger than the consensus anticipated, growing 30% year-over-year to $0.95 per share (excluding the impact of the extra week). Same-store sales jumped 8% during the fourth quarter; on top of a same-store sales gain of 11.5% in 2011, suggesting how strong the momentum in the underlying business is.

After its CEO mysteriously resigned to join Michael's Arts and Crafts in February, the stock has been under pressure, and investors have been looking for any signs of weakness to dump shares. The most recent catalyst was not the strong fourth quarter results, but rather the guidance. The firm anticipates revenue to grow in the low 20% range during the first quarter, with earnings growing 13%-17% to $0.60-$0.63 per share—well below the consensus estimate of $0.72 per share. The company also noted that same-store sales growth will be 4%-6% year-over-year, compared to 8.8% growth for 2012 and 10.9% in 2011. Earnings are also anticipated to grow at the low-end of the firm's long-term EPS growth target of 25%-30%, and capital expenditures will increase 19% year-over-year to $225 million.

In our view, free cash flow could be weak, even though the company believes it will be able to post positive free cash flow in 2013. We're also slightly concerned by the 20.5% increase in average inventory per store, suggesting the company could have a difficult time following through on its sales.

On the cost side, Ulta experienced 10 basis points of gross margin expansion, posting a gross margin of 34.2% during the quarter. For the full-year, gross margins jumped 60 basis points to 35.3%. We aren't anticipating much upside going forward, but we could see room for modest expansion.

SG&A declined 110 basis points for the full-year to 22% of sales as the company leveraged strong same-store sales growth. Although the company will significantly boost capital investment during 2013 in order to add new stores, improve its e-commerce experience, and better manage the supply-chain, we think the company could achieve some fixed cost leveraging if the company's guidance proves to be conservative.

Nevertheless, shares score a 1 on the Valuentum Buying Index, so we're staying away from the company in the portfolio of our Best Ideas Newsletter. We believe shares have room to fall, but the risk/reward on the short side looks less compelling at this time.

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, GOOG), 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

Ideas... continued on next page

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 at the following link:

http://www.valuentum.com/articles/20120111

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

Name	Symbol	Sector	Industry	VBI
Central European Media	CETV	Consumer Discretionary	Media	1
Iron Mountain	IRM	Industrials	Commercial Services	1
Mercury General	MCY	Financials	Insurance - Property & Casualty	1
Rackspace	RAX	Information Technology	Business Services	1
Rollins	ROL	Materials	Chemicals - broad	1
Tanger Factory	SKT	Financials	REIT - Retail	1
Ulta Salon	ULTA	Consumer Discretionary	Personal Services	1
Cheniere Energy	LNG	Energy	Oil & Gas Pipelines	2
Core Labs	CLB	Energy	Energy Equipment	2
Energy Recovery	ERII	Industrials	Pollution Controls	2
Fifth Third	FITB	Financials	Banks & Money Centers	2
Hormel Foods	HRL	Consumer Staples	Food Products	2
Hyatt	H	Consumer Discretionary	Hotels	2
IDEX	IEX	Industrials	Machinery & Tools	2
Infinity	IPCC	Financials	Insurance - Property & Casualty	2
Lincoln Electric	LECO	Industrials	Machinery & Tools	2
Netflix	NFLX	Consumer Discretionary	Specialty Retailers	2
Sun Life	SLF	Financials	Insurance - Life	2

Valuentum's Retail Equity Research | Visit us at www.valuentum.com | (10=best) | Data as of 21-Sep-2012

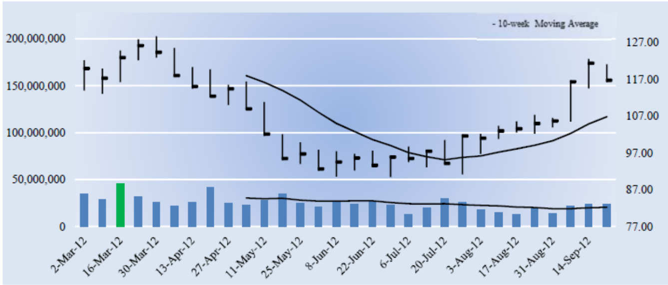
Goldman Sachs GS UNDERVALUED

Valuentum Buying Index™ 9 | Valuentum Value Rating ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$116.72	$148.00	$118.00 - $178.00	LARGE-CAP CORE	Financials	Banks & Money Centers

Goldman Sachs' shares look cheap on the basis of our residual income valuation model, which we use to value banks.

Stock Chart (weekly)



Investment Considerations

Valuation Assessment (Residual Income)	UNDERVALUED
Rel Value Assessment (Price/Tang Book)	ATTRACTIVE
ValueCreation™ (ROTE Rank)	POOR
ValueRisk™	HIGH
ValueTrend™ (ROTE trend)	NEGATIVE
Capital Adequacy (Tier I Capital Ratio)	GOOD
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Resistance, 10-wk MA	107.00

Business Quality

ValueRisk™ \ ValueCreation™	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.

Bank Vitals

Market Cap (USD)	$65,528
Avg Weekly Vol (30 wks)	24,913
30-week Range (USD)	90.43 - 128.72
Valuentum Sector	Financials
Dividends per Share (Yield)	1.84 (1.6%)

Valuentum's Take

Goldman Sachs' shares are on sale. We think the firm should demand a better price-to-tangible book ratio based on future expected performance and think the current measure of 0.89 is a bit too harsh. We're taking a close look at the company's shares, but we prefer more diversified exposure to banks via several low cost ETFs.

Peer Group Rank - Price / Tangible Book

Company Name	Price/Tang Book	Price/Fair Value
Morgan Stanley	0.65	0.85
Citigroup	0.67	1.25
Bank of America	0.76	1.01
Goldman Sachs	**0.89**	**0.79**
KeyCorp	0.99	0.99
TCF Financial	1.13	1.18
Regions Financial	1.20	1.18
SunTrust Bank	1.22	1.25
JP Morgan	1.31	0.91
HSBC	1.32	0.97
PNC Financial	1.42	0.86
Fifth Third	1.48	1.42
Northern Trust	1.75	1.37
BB&T	2.24	1.28
Wells Fargo	2.26	0.90
Bank of NY Mellon	2.92	1.01
US Bancorp	3.31	1.13

We use a residual income model to derive our fair value estimates for banking firms. A bank's current tangible book value is first grossed up or down by the discounted value of its forecasted annual net income less an annual capital charge (10% of tangible book value) during the next two years. We then use normalized earnings less the annual capital charge in our perpetuity function (discounted to present). The firm's fair value is then compared to its stock price. For banks, we use a standard 20% margin of safety to determine both the upper and lower bounds of our fair value range. If a bank is trading below (above) the lower bound of our fair value range, we consider it UNDERVALUED (OVERVALUED). If its stock price falls within our fair value range, we think its shares are FAIRLY VALUED. We use price/tangible book as the primary measure to determine whether one bank is more attractive than another on a relative value basis. For banks in the top tier of our relative-value ranking, they receive a rating of ATTRACTIVE. Banks at the bottom tier receive an UNATTRACTIVE rating. Banks in the mid tier receive a NEUTRAL rating. All banks receive a ValueRisk rating of HIGH due to their inherent dependence on the capital markets.

Peer Group Rank - Return on Tangible Equity

Company Name	ROTE (2011)	ROTE (5yr Avg)
Bank of NY Mellon	26.2%	30.1%
US Bancorp	23.8%	29.2%
Wells Fargo	18.4%	27.1%
JP Morgan	14.4%	13.8%
HSBC	12.8%	12.1%
PNC Financial	12.6%	19.4%
BB&T	12.3%	16.0%
Fifth Third	11.2%	-1.2%
KeyCorp	10.3%	-5.5%
Northern Trust	9.2%	14.0%
Citigroup	7.3%	-28.5%
TCF Financial	6.9%	13.3%
Morgan Stanley	4.9%	6.2%
SunTrust Bank	4.1%	1.6%
Goldman Sachs	**3.5%**	**13.3%**
Bank of America	0.1%	6.0%
Regions Financial	-0.3%	-17.8%

We rank banks by their respective return on tangible common equity (ROTE), which we define as diluted earnings per share divided by tangible book value per share. Firms that score in the top tier of our bank universe on this measure in their most recently-reported fiscal year receive a ValueCreation™ rating of EXCELLENT, while firms that score in the mid tier of our bank universe receive a ValueCreation™ rating of GOOD. Firms that score in the bottom tier but still have a positive ROTE receive a POOR rating, while firms with a negative ROTE receive a VERY POOR ValueCreation™ rating. Our bank ValueTrend™ rating compares the company's 5-year average ROTE with its most recently-reported fiscal year ROTE. If a bank's most recently-reported ROTE is greater than its 5-year average, it receives a ValueTrend™ rating of POSITIVE. If a bank's most recently-reported ROTE is less than its 5-year average, it receives a ValueTrend™ rating of NEGATIVE.

Peer Group Rank - Tier I Capital Ratio

Company Name	Tang Book per Share (2011)	Tier I Capital Adequacy Ratio 2011	2010	2009
Bank of NY Mellon	7.75	15.0%	13.4%	12.1%
Citigroup	48.88	13.6%	12.9%	11.7%
Regions Financial	6.00	13.3%	12.4%	11.5%
KeyCorp	8.87	13.0%	15.2%	12.8%
TCF Financial	10.24	12.7%	10.6%	8.5%
PNC Financial	45.37	12.6%	12.1%	11.4%
BB&T	26.81	12.5%	11.8%	11.5%
Northern Trust	14.82	12.5%	13.6%	13.4%
Bank of America	11.75	12.4%	11.2%	10.4%
JP Morgan	31.06	12.3%	12.1%	11.1%
Fifth Third	10.51	11.9%	13.9%	13.3%
HSBC	35.41	11.5%	12.1%	10.8%
Wells Fargo	15.34	11.3%	11.2%	9.3%
SunTrust Bank	23.15	10.9%	13.7%	13.0%
US Bancorp	10.32	10.8%	10.5%	9.6%

The Tier I capital ratio is a measure of the firm's Tier I capital (consisting largely of shareholders' equity and disclosed reserves) divided by the firm's risk-weighted assets. We rank banking firms based on this measure to show which banks have the greatest capital strength after considering the riskiness of their underlying assets. Banks in the top tier earn a capital strength rating of EXCELLENT, while banks that do not fall in the top tier but still have a Tier I ratio above 10% earn a capital strength rating of GOOD. Banks that have a Tier I ratio lower than 10% earn a rating of POOR on our scale. This is a relative measure with absolute threshold considerations. Data for MS and GS are not readily available; we assign them each a rating of GOOD on this measure.

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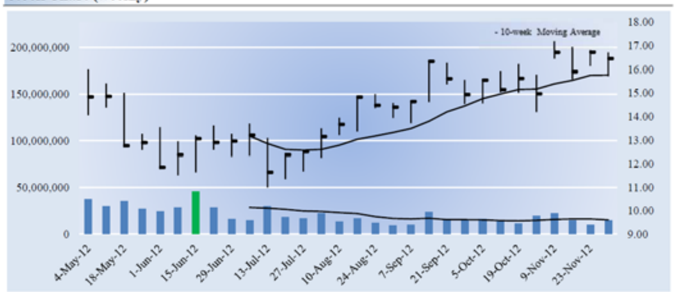
Huntsman HUN UNDERVALUED 3.4%

Buying Index™ 9 | Value Rating ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$16.44	$25.00	$17.00 - $33.00	MID-CAP VALUE	Materials	Chemicals - broad

Huntsman generates most of its revenue and earnings from its polyurethane business, where it continues to focus on cost reductions.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	POOR
ValueRisk™	HIGH
ValueTrend™	POSITIVE
Cash Flow Generation	MEDIUM
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Support, 10-week MA	16.00

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

Business Quality

ValueRisk™ \ ValueCreation™	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)	$3,974
Avg Weekly Vol (30 wks)	20,349
30-week Range (USD)	10.98 - 17.17
Valuentum Sector	Materials
5-week Return	4.6%
13-week Return	13.4%
30-week Return	15.0%
Dividend Yield %	2.4%
Dividends per Share	0.40
Forward Dividend Payout Ratio	17.4%
Est. Normal Diluted EPS	2.00
P/E on Est. Normal Diluted EPS	8.2
Est. Normal EBITDA	1,393
Forward EV/EBITDA	5.1
EV/Est. Normal EBITDA	5.3
Forward Revenue Growth (5-yr)	1.4%
Forward EPS Growth (5-yr)	11.8%

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

Returns Summary (3-year Historical Average)

Return on Equity	6.9%
Return on Assets	1.4%
ROIC, with goodwill	7.7%
ROIC, without goodwill	7.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,946
Net Debt	3,384
Total Debt/EBITDA	3.3
Net Debt/EBITDA	2.8
EBITDA/Interest	4.8
Current Ratio	2.2
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

- Huntsman'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.

- Huntsman'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.

- Huntsman's cash flow generation is about what we'd expect from an average company in our coverage universe. However, the firm's financial leverage is on the high side. If cash flows begin to falter, we'd grow more cautious on the firm's overall financial health.

- Huntsman's relative stock price performance, undervaluation, and dividend yield of 2.4% may make it attractive to a variety of investors. Having more types of investors interested in its shares increases the potential for future stock price appreciation, in our opinion.

- Huntsman makes chemicals for a variety of global industries, including plastics, automotive, aviation, and textiles. The firm generates most of its revenue and earnings from its polyurethane business, where it continues to focus on cost reductions.

Relative Valuation

	Forward P/E	PEG	Price / FV
Airgas	19.3	2.0	101.8%
Dow Chemical	15.7	0.9	91.5%
DuPont	13.0	1.3	75.7%
Sigma-Aldrich	18.6	2.9	118.9%
Peer Median	17.2	1.7	96.6%
Huntsman	**7.1**	**1.4**	**65.8%**

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

Financial Summary

Fiscal Year End:	Dec-10 (Actual)	Dec-11 (Actual)	Dec-12 (Projected)
Revenue	9,250	11,221	11,109
Revenue, YoY%	19.2%	21.3%	-1.0%
Operating Income	449	753	1,010
Operating Margin %	4.9%	6.7%	9.1%
Net Income	-14	244	570
Net Income Margin %	-0.2%	2.2%	5.1%
Diluted EPS	-0.06	1.01	2.30
Diluted EPS, YoY %	-112.1%	-1801.8%	128.1%
Free Cash Flow (CFO-capex)	-336	36	700
Free Cash Flow Margin %	-3.6%	0.3%	6.3%

In Millions of USD (except for per share items)

Structure of the Chemicals Industry POOR

The broad chemicals industry includes firms that make thousands of different chemical substances, ranging from basic raw materials to advanced specialty chemicals. Making chemicals is a cyclical and energy-intensive business, with volatile oil/gas prices influencing feedstock, operation, and transportation costs. Specialty providers can carve out niches, but commodity chemicals producers are largely undifferentiated, making it impossible to gain a sustainable competitive edge. The industry is very capital intensive, and large swings in prices and volume should be expected. We don't like the industry structure.

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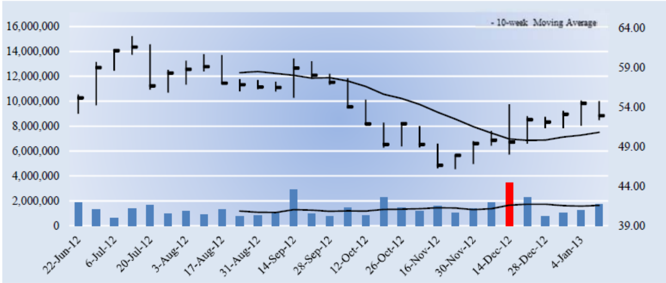
Casey's General CASY FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$52.92	$67.00	$52.00 - $82.00	MID-CAP VALUE	Consumer Staples	Food Retailers

Casey's General's shares look fairly valued based on our discounted cash flow process.

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	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	GOOD
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	MEDIUM
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Support, 10-week MA	51.00

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)	$2,032
Avg Weekly Vol (30 wks)	1,396
30-week Range (USD)	46.15 - 63
Valuentum Sector	Consumer Staples
5-week Return	6.2%
13-week Return	2.0%
30-week Return	-1.3%
Dividend Yield %	1.2%
Dividends per Share	0.66
Forward Dividend Payout Ratio	21.9%
Est. Normal Diluted EPS	4.66
P/E on Est. Normal Diluted EPS	11.4
Est. Normal EBITDA	437
Forward EV/EBITDA	8.3
EV/Est. Normal EBITDA	6.1
Forward Revenue Growth (5-yr)	6.6%
Forward EPS Growth (5-yr)	16.9%

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

Investment Highlights

- Casey's General scores fairly well on our business quality matrix. The firm has put up solid economic returns for shareholders during the past few years with relatively low volatility in its operating results. Return on invested capital (excluding goodwill) has averaged 12.7% during the past three years.

- Casey's General operates over 1,700 convenience stores in 12 Midwestern states. The stores offer self-service gasoline, a wide variety of grocery items, and prepared foods, such as made-from-scratch pizza and donuts, chicken tenders, and sandwiches.

- Casey's General'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 firm's share price performance has been roughly in line with that of the market during the past quarter. We'd expect the firm's stock price to converge to our fair value estimate within the next three years, if our forecasts prove accurate.

- Casey's success depends on improving margins on grocery and prepared food/fountain goods. However, this may be difficult due to competition, and increasing sales of gasoline (and the margin attained on pump sales) is largely out of its control.

Relative Valuation	Forward P/E	PEG	Price / FV
Costco	22.1	2.4	105.6%
Kroger	10.3	1.0	98.8%
Target	13.5	1.9	95.3%
Wal-Mart	13.8	2.2	96.7%
Peer Median	13.7	2.1	97.8%
Casey's General	**17.5**	**0.8**	**79.0%**

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

Returns Summary	3-year Historical Average
Return on Equity	18.7%
Return on Assets	7.3%
ROIC, with goodwill	11.9%
ROIC, without goodwill	12.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary	----- Actual -----		Projected
Fiscal Year End:	Apr-11	Apr-12	Apr-13
Revenue	5,635	6,988	7,477
Revenue, YoY%	21.5%	24.0%	7.0%
Operating Income	191	219	218
Operating Margin %	3.4%	3.1%	2.9%
Net Income	95	117	116
Net Income Margin %	1.7%	1.7%	1.6%
Diluted EPS	2.22	3.04	3.02
Diluted EPS, YoY %	-3.0%	36.9%	-0.7%
Free Cash Flow (CFO-capex)	47	54	17
Free Cash Flow Margin %	0.8%	0.8%	0.2%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity
In Millions of USD

Total Debt	679
Net Debt	623
Total Debt/EBITDA	2.2
Net Debt/EBITDA	2.0
EBITDA/Interest	9.0
Current Ratio	0.9
Quick Ratio	0.3

NMF = Not Meaningful

Structure of the Food Retailers Industry NEUTRAL

Firms in the mature food retailers industry generally have slim profit margins and face significant competition from brick-and-mortar locations (discount, department, drug, dollar, warehouse clubs and supermarkets) as well as Internet-based retailers (including Amazon). Though the industry is not terribly cyclical, economic conditions, disposable income, credit availability, fuel prices, and unemployment levels drive ticket size and traffic trends. Offering consumers a compelling value proposition is a must, even as higher-priced organic food offerings proliferate. We're generally neutral on the group.

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http://www.valuentum.com/downloads/20120612/download

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.

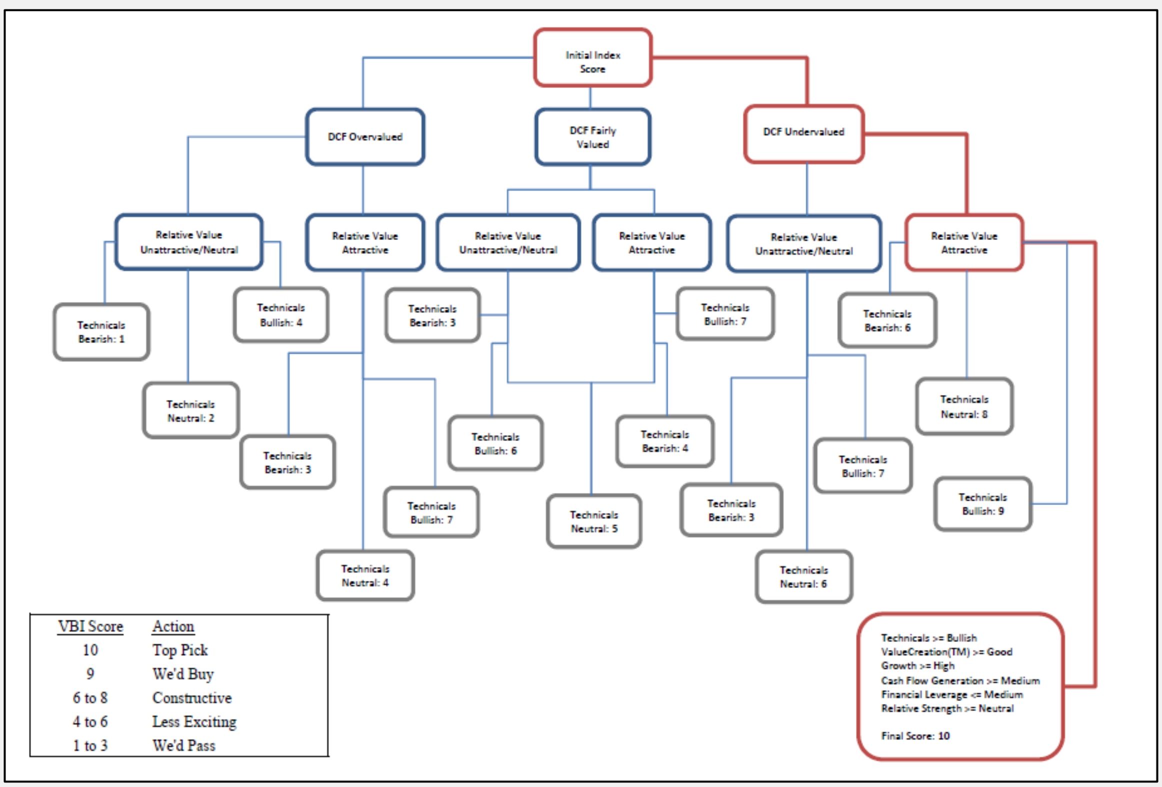
Avoiding Value Traps and Opportunity Cost

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 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.



Valuentum Best Ideas Newsletter: Volume 3, Issue 3

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