Volume 3, Issue 4
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Published Quarterly

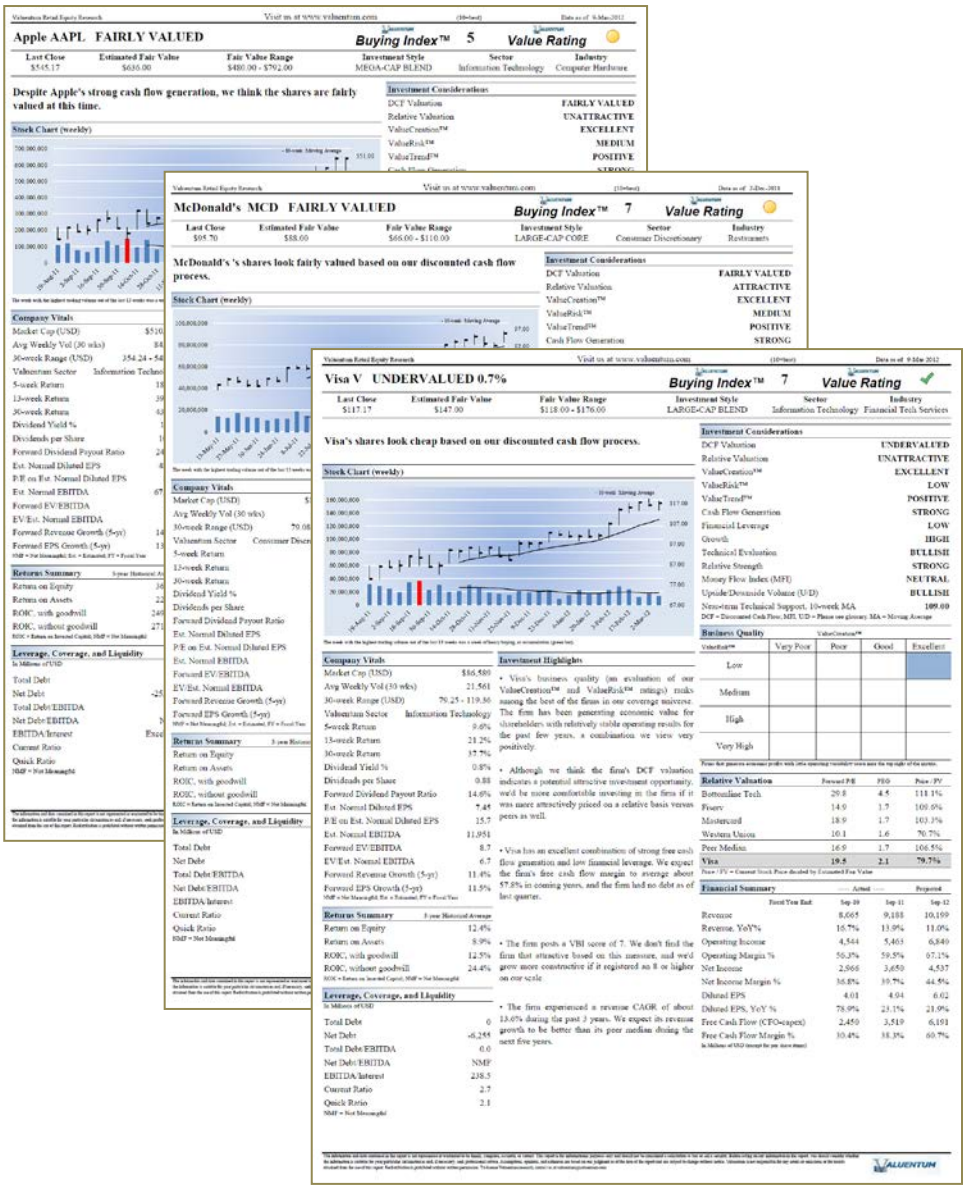
Announcing a New Tool for the Intelligent Investor!

- An Invaluable Resource for Today's Financial Advisor and Portfolio Manager
- Forward-Looking, Easy-to-Compare Stock Reports on 100 of the Highest-Quality Firms
- Rankings Based on Competitive Advantages and Risk Profiles
- Valuentum Buying Index™ Ratings to Identify the Best Stocks To Consider Buying Now
- Independent Guidance from the Valuentum Analyst Team
- Updated Quarterly

This publication can help you:

- Build a new diversified portfolio of high-quality stocks from a variety of sectors
- Add solid companies to fortify your existing portfolio
- Identify investment gems

Valuentum *Ideas100™*



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How to Best Use the Valuentum *Ideas100* Publication

Financial advisors and investors literally have thousands of stocks—large and small, domestic and foreign--to choose from. So what are they to do, and where can they go to find the most trusted opinions on the highest-quality companies on the market today?

That's the question we seek to answer with our Valuentum *Ideas100* publication. In this document, we showcase the highest-quality firms from each sector (100 in total) on the basis of our assessment of their competitive advantages (ROIC less WACC spread) and risk profiles (our ValueRisk™ rating). We believe the strength and sustainability of a firm's return on invested capital (ROIC) is the best quantitative way to assess a company's competitive advantages, and we believe a deep dive into the expected volatility of key valuation drivers (like revenue, earnings, etc.) is the best way to arrive at an appropriate risk assessment for each firm. Companies that make this publication are best-in-class within their respective sectors when it comes to their economic return and financial risk profiles.

Whether you're looking to build a diversified portfolio of the highest-quality firms on the market today or simply seeking to augment it with a few solid holdings, the Valuentum *Ideas100* is an essential resource for any investor. We outline some of the key components of our *Ideas100* publication below, and explain how you can get the most from each of one.

Our Stock-Selection Methodology – the Valuentum Buying Index™

Only at Valuentum can you get a systematic and rigorous discounted cash-flow (DCF) and relative-valuation process that combines the intricacies of technical and momentum analysis to offer a complete picture of a company's investment merits. In our Valuentum *Ideas100,* we showcase the highest quality firms and their scores on our Valuentum Buying Index™ to help you identify the best stocks at the best time to consider buying. Please view "Our Stock-Selection Methodology, the Valuentum Buying Index™" (included in this publication).

To learn more about Valuentum and its equity research services, please visit us at www.valuentum.com or contact a sales representative at info@valuentum.com.

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Company Index, ROIC Rank, VBI Scores, and Price/Fair Values

Before you dive into the latter pages of this expansive document, it may be useful to first start with the company index, ROIC rankings, Valuentum Buying Index™ (VBI) rankings, and Price/Fair Value ratios at the front of this publication. The company index showcases some of the most important information about the firm: its industry, investment style, etc. And the ROIC rankings showcase the firms with the greatest value-creation potential, helping you quickly identify the highest-quality firms in our coverage universe. Firms that top our Valuentum Buying Index™ scale are the most timely investment opportunities to consider, in our opinion. Our Price/Fair Value ratios also help sort out the most undervalued firms that meet our stringent criteria to make the cut for this publication.

Forward-Looking Stock Reports

In the heart of the *Ideas100*, we provide the front page of our forward-looking reports on the top 100 highest-quality firms within our coverage universe. In our equity reports, we offer a fair value estimate for each company, assess the attractiveness of a stock based on a firm-specific margin of safety, and provide a relative valuation comparison in the context of the company's industry and peers. A cross section of our ValueCreation™ and ValueRisk™ ratings provides a financial assessment of a company's business quality (competitive position), while our ValueTrend™ rating offers insight into the trajectory of a firm's economic profit creation (ROIC versus WACC).

Included in each report is a firm's score on our Valuentum Buying Index™ (VBI), which 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). 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. No other equity research provider puts your interests first, and we take pride in meeting all of your stock analysis needs.

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If at any time, you need further explanation about a data point in our reports, please refer to the Glossary at the end of the publication for more information.

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How Members Use Valuentum's Investment Services

Many members have asked about the best way to use our services. Let's walk through the topic.

First, please allow me clarify a few things. We serve a wide variety of investors, including dividend growth investors, value investors, and pure Valuentum investors, among others. Many different types of investors and professionals use our research in a whole host of applications from individual stock-selection to the evaluation of closed-end funds to an overlay in a money-management setting and beyond. We think it's important that, if you're a strict dividend growth investor, for example, that you're not "thrown off" if you read something on the website about the Valuentum process. And likewise, if you're a strict practitioner of the Valuentum system, you should be aware that we also serve dividend growth investors, and our research evaluates the health and long-term growth potential of a company's dividend. Many different strategies have significant benefits for many different types of investors.

With that out of the way, let's get started. At Valuentum, we are bound by an internal code of ethics that prevents us from making any specific and personal recommendations. We don't think this is unique to Valuentum. To our knowledge, other investment research publishing companies are bound by these rules, too. We offer our opinion of an investment via its attractiveness on the basis of the Valuentum Buying Index and the attractiveness of the company's valuation via our estimate of its fair value range. The Valuentum Buying Index is based on volumes of research and the experiences of many of the most influential investors, from Benjamin Graham and Warren Buffett to Peter Lynch and T. Rowe Price, Jr. On our website, we don't have buy, hold, or sell recommendations that you might find at brokerage firms, for example (we're not a broker).

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On our website and in any correspondence, we can only tell you the goals of our process and newsletter portfolios and/or our opinion of the company's valuation and business fundamentals. We can't tell you what actions you should take because we're not aware of your risk tolerances, personal financial situation, and goals. We can only tell you what we are doing. *We can never tell you to buy XYZ company right now*, even though this may be what many members want. That being said, it's perfectly reasonable to assess what we're trying to do and see if that's a fit for you. Do the goals of the newsletter portfolios fit well with what you're looking for? Are you looking for the next *incremental* idea via our transaction alert emails? Does an in-depth valuation process that covers both discounted cash-flow valuation analysis and relative valuation analysis meet your objectives? Do you want to utilize timeliness indicators in a value-based setting? Does the Valuentum Dividend Cushion ratio help you understand the strength and safety of dividend holdings in your income portfolio? Do you require underpriced ideas with strong dividend growth prospects? You choose your own path, and you decide what is best for you.

That said, our favorite investment ideas at any given time are always included in the actively-managed portfolios—the Best Ideas portfolio and Dividend Growth portfolio—and the goals of the respective portfolios are as follows:

> The Best Ideas portfolio seeks to find firms that have good value and good momentum characteristics and typically holds each idea from a Valuentum Buying Index rating of a 9 or 10 (consider buying) to a rating of a 1 or 2 (consider selling). Just like a value manager may not include every single undervalued company in the market in his/her portfolio, not all highly-rated companies on the Valuentum Buying Index are included in the portfolio. We may tactically add to or trim existing positions in the portfolio on the basis of sector or broader market considerations, but we seek to capture a stock's entire pricing cycle (from being underpriced with strong momentum to being overpriced with poor momentum). The goal of the Best Ideas portfolio is to generate a positive return each year and to exceed the performance of a broad market benchmark.

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The Dividend Growth portfolio seeks to find underpriced dividend growth gems that generate phenomenal levels of cash flow and have pristine, fortress balance sheets, translating into excellent Valuentum Dividend Cushion ratios. Firms in the portfolio may have lengthy dividend growth track records, but we focus most of our efforts on assessing the *future* safety and dividend growth potential of holdings. The goal of the Dividend Growth portfolio is to generate a mid-to-high single digit annual return over rolling three-to-five year periods. We have yet to have a Dividend Growth portfolio holding cut its dividend, and we credit this to the Valuentum Dividend Cushion methodology.

If one of the portfolio's goals matches up to what you're looking for, that portfolio or the ideas within it may be of interest to you. Some investors phase into the positions of the portfolios over time and replicate the portfolios in their entirety, while others like to cherry-pick their favorite ideas out of them. Others may wait for the next transaction alert email (long idea) to catch our thoughts on where incremental alpha can be generated in a *portfolio* setting. And others like to monitor the Valuentum Buying Index rankings list and 'undervalued' list for even more ideas. The screens are always available on the left column of our website. And still others like to overlay the Valuentum Buying Index ratings and Valuentum Dividend Cushion ratios with their own process to arrive at a combined strategy. The uses of Valuentum's services are many and varied.

You may have noticed that we also offer a full suite of products to financial advisors that range from an Excel-based screening tool to 'Ideas' and 'Dividend' publications that are released on a quarterly basis. Since advisors have a wide variety of clients with different needs and goals, we offer them a wide variety of detailed information. Our research product includes thousands of reports, fair values, fair value ranges, associated commentary, and hundreds of dividend reports with Valuentum Dividend Cushion ratios and expected dividend growth rates. We also have an Excel-based three-stage discounted free cash flow valuation model backing every fair value range in our coverage universe. Some members subscribe to our service *only* to gain access to the detailed valuation infrastructure behind our fair value estimates.

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During the past few years, we've received quite a few questions on which membership plan may be most appropriate. The $149.99/year premium plan is among the most popular among individual investors. It offers complete access to the website, monthly newsletters, newsletter portfolios, and transaction alert emails. Investors of all types can benefit from the advisor plan at $499.99/year, which includes access to the quarterly publications and discounted cash-flow valuation infrastructure. Many individual investors have upgraded their subscription over the years.

We are honored to be working with you, and we hope this helps answer your questions. At any time, please don't hesitate to reach out to us.

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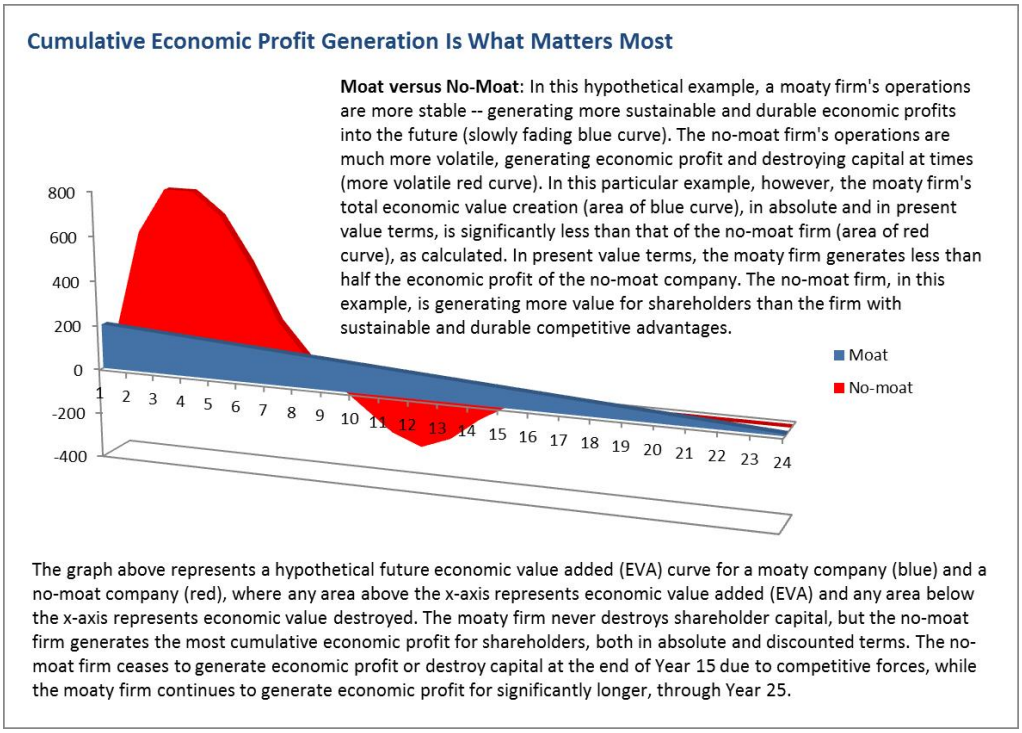
Valuentum Economic Castle Rating Update

The Economic Castle Focuses on the Magnitude of Economic Value Creation

The Valuentum Economic Castle™ rating is an enhancement of the competitive advantage framework (commonly known as economic moat analysis) that has become widespread and ubiquitous within the investing world. Whereas an economic moat framework evaluates a firm on the basis of the sustainability and durability of its competitive advantages, Valuentum's Economic Castle™ rating evaluates a firm on the basis of the firm's future economic profit spread (return on invested capital less its weighted average cost of capital).



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The companies with the strongest Valuentum Economic Castle™ ratings are poised to generate the most economic value for shareholders in the future, regardless of their competitive positions, the nature and specificity of the trajectory of their future economic value streams, or their price-to-fair value ratios. The image below walks through the foundation behind the Economic Castle™ rating, a breakthrough in assessing a company's business quality and its ability to deliver economic value to shareholders.

The core problem with economic moat analysis is that the sustainability and duration of a firm's economic value creation – or its competitive advantage period – tells us little about the amount of value a company is expected to deliver to shareholders, or a company's economic castle. Though a focus on economic moats is important to Warren Buffett's process, identifying economic castles, or those that will deliver the most value to shareholders may be equally, if not more, important to an investor's process. Valuentum's Economic Castle rating evaluates a firm on the magnitude of economic profit that it will deliver to shareholders. Firms with the strongest Economic Castle™ ratings are poised to generate the most economic value for shareholders, regardless of their competitive positions.

Valuentum's Economic Castle™ Rating is Based on Two Considerations

1) the framework behind Valuentum's proprietary ValueCreation™ rating:

ValueCreation indicates the firm's historical track record in creating economic value for shareholders, taking the average difference between ROIC (without goodwill) and the firm's estimated WACC during the past three years. The firm's performance is measured along the scale of EXCELLENT, GOOD, POOR, and VERY POOR. Those firms with EXCELLENT ratings have a demonstrated track record of creating economic value, while those that register a VERY POOR mark have been destroying economic value. The ValueCreation rating can be found on the second page of each company's 16-page report.

2) a forward-looking assessment of a firm's expected economic returns over the immediate five-year period.

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Our view is that the most economic value for the largest value-contributors will be generated over the immediate forward five-year period. These returns are not weighed down by the compounding dynamics of a discount rate and are not nearly as exposed to the forecasting error that occurs in later stages within any modeling framework. A firm that is generating an economic profit spread of 100 or so percentage points may generate more value for shareholders over a shorter time period than one that generates 1 or 2 percentage points each year for decades into the future. The average 5-year forward ROIC-less-WACC spread can be found on the second page of each company's 16-page report, as shown later in this article.

Highly-rated Economic Castles™ can be underpriced, fairly-priced, or overpriced. Though the economic value framework and the discounted cash-flow framework are interdependent and correlated, the Valuentum Economic Castle™ rating is independent of a firm's price-to-fair value assessment. The rating only considers the economic value that a firm generates for shareholders, in the same light that the concept of an economic moat considers only the sustainability and durability of a firm's competitive advantages.

The Categories of Economic Castle™ Ratings

Though the ValueCreation™ rating, which considers the value-generating capacity of a firm during the past few years, is used by our analyst team to make qualitative adjustments, the average 5-year *forward* ROIC-less-WACC spread is the primary yardstick used to assign Economic Castle™ ratings to companies in our coverage universe:

HIGHEST RATED

Average 5-year Forward ROIC-less-WACC spread > 150%

VERY ATTRACTIVE

Average 5-year Forward ROIC-less-WACC spread between 50% and 149.9%

ATTRACTIVE

Average 5-year Forward ROIC-less-WACC spread between 3.1% and 49.9%

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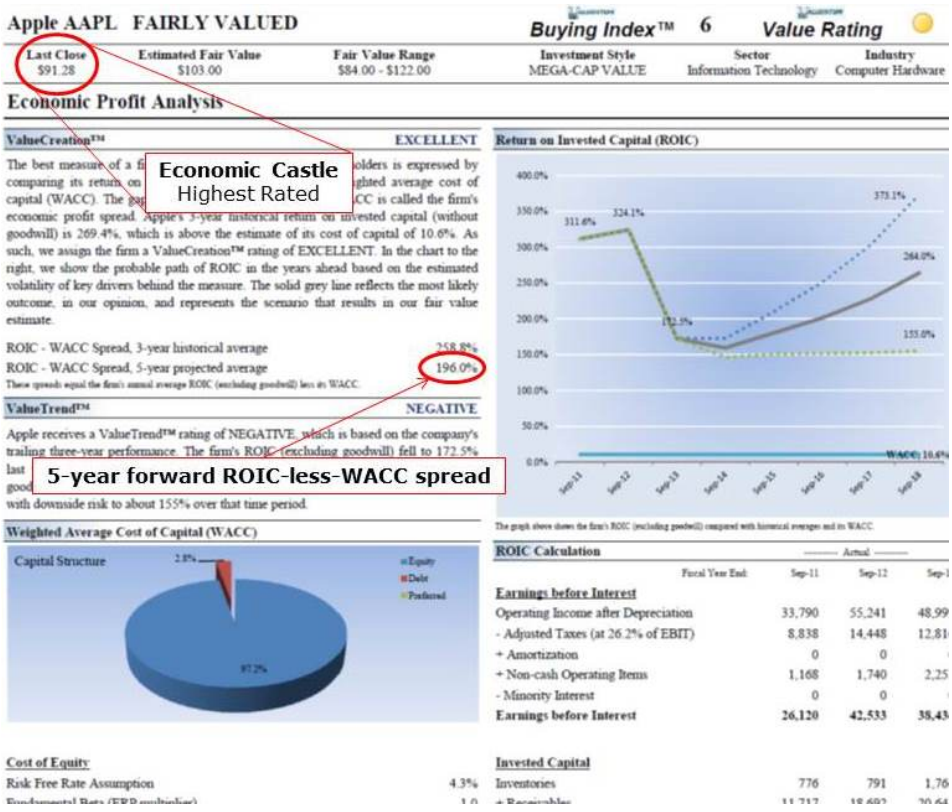
UNATTRACTIVE

Average 5-year Forward ROIC-less-WACC spread less than 0%-3%.

Note: Firms with marginal 5-year average economic profit spreads of 0%-3% can either be assigned 'Attractive' or 'Unattractive' Economic Castle™ ratings on the basis of their ValueCreation™ rating and the judgment of the Valuentum analyst team.

Members of Valuentum should expect the Economic Castle™ rating to replace the 'Last Close' data that is currently found on the top of each page of the 16-page reports. For real-time pricing data and volume information, we encourage members to use the TradingView charts that can be found on each firm's landing page. The average 5-year forward ROIC-less-WACC percentage can be found on page 2 of each firm's 16-page report. Both of these items—the location of the Economic Castle™ rating and the location of the average 5-year forward ROIC-less-WACC percentage—are highlighted in the page-2 example below.



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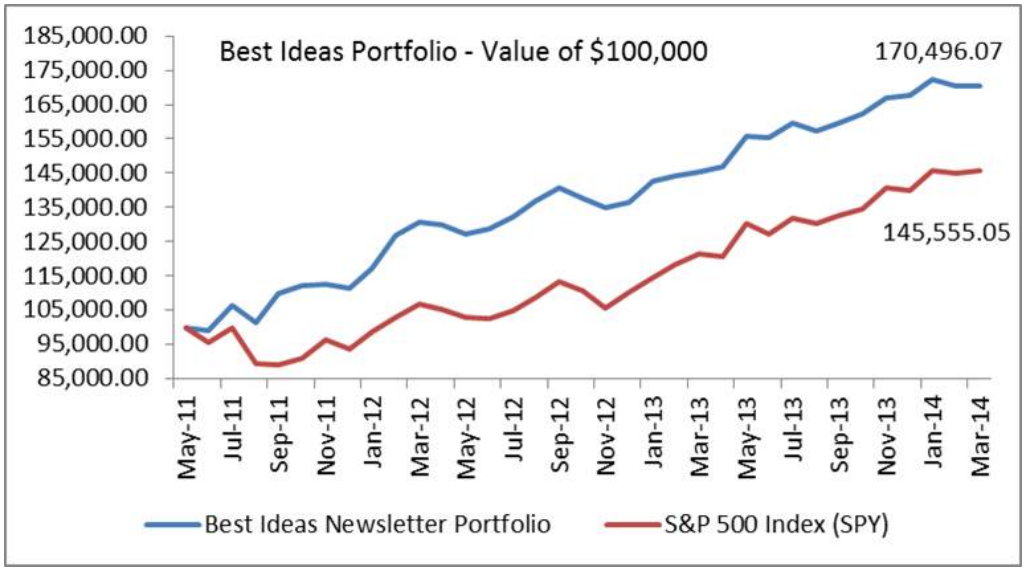
Our Stock-Selection Methodology, the Valuentum Buying Index

Our Methodology for Selecting Stocks -- the Valuentum Buying Index

At Valuentum, 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 deep-pocketed institutional investors that are interested in the stock for reasons based on their respective investment mandates, the more likely it will be bought and the more likely the price will move higher to converge to its true intrinsic value (buying a stock pushes its price higher). On the other hand, we think the worst stocks will be shunned by most investment disciplines and display expensive valuations, poor technicals and deteriorating momentum indicators.



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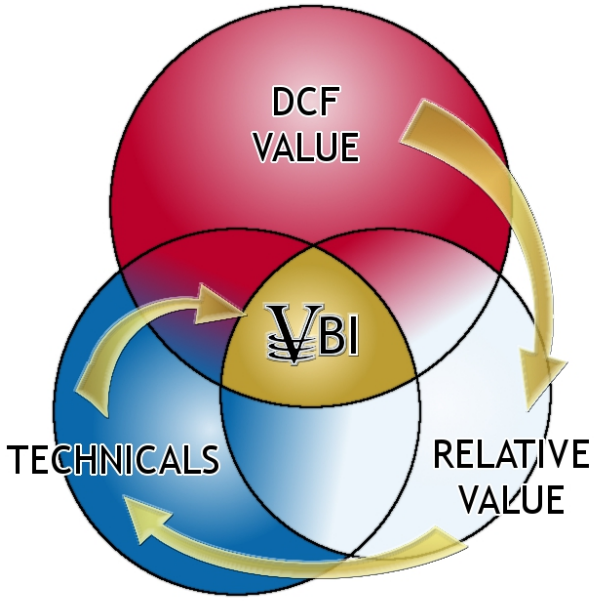
Stocks that meet our demanding criteria fall in the center of the Venn diagram below, displaying attractive characteristics from a discounted cash-flow basis, a relative value basis, and with respect to a technical and momentum assessment. The size of the circles reveals the relative emphasis we place on each investment consideration, while the arrows display the order of our process -- value first then technicals and momentum last. We may like firms that are undervalued both on a DCF basis and relative value basis, but we won't like firms just because they're currently exhibiting attractive technical or momentum indicators. We're not traders or speculators. We're long-term investors and want to have complete confirmation and conviction in the best ideas we deliver to our subscribers.



The center of the Venn diagram above, 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). Because our process factors in a technical and momentum assessment after we evaluate a firm's investment merits via our rigorous DCF and relative-value process, we're better able to pinpoint the best entry and exit points on the most undervalued stocks.

VBI Score	Potential Action
10	Top Pick
9	We'd Consider Buying
6 to 8	Constructive (tactical add / trim)
3 to 6	Less Exciting (tactical add / trim)
1 to 2	We'd Consider Selling

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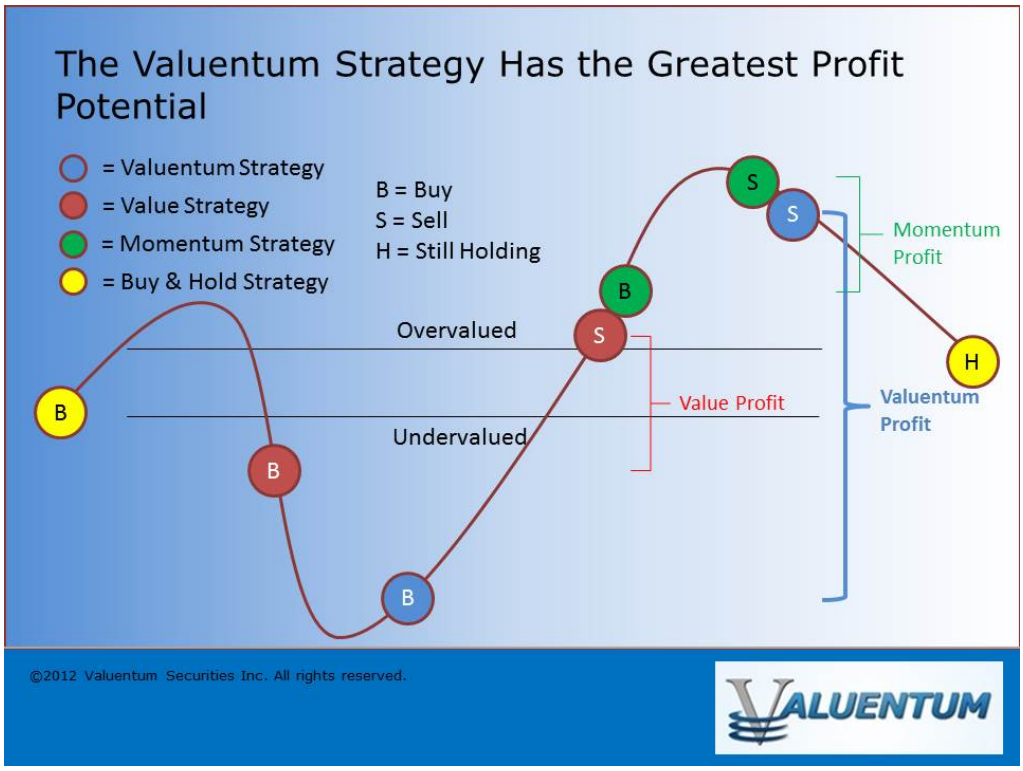
Research firms that just focus on valuation may encourage investors to buy a stock all the way down (a falling knife), while those that just use technical and momentum indicators may expose portfolios to significantly overpriced stocks at their peaks. Only when both sides of the investment spectrum are combined can investors get the best stocks on the market today at the best prices, in our view.

Let's examine the chart below, which showcases how the Valuentum process has the greatest profit potential of any investing strategy. The Valuentum process targets adding stocks to actively-managed portfolios when both value and momentum characteristics are "good" and removing them when both value and momentum characteristics are "bad" (blue circles: Buy --> Sell). The Valuentum strategy captures the entire equity pricing cycle, while the value and momentum strategies individually truncate profits.



Furthermore, Valuentum subscribers are less likely to be involved in value traps because we demand material revenue and earnings growth for firms to earn a 10 on our Valuentum Buying Index. Value traps often occur as a result of secular declines in a firm's products or services, resulting in deteriorating revenue and earnings trends (and a falling stock price). Valuentum

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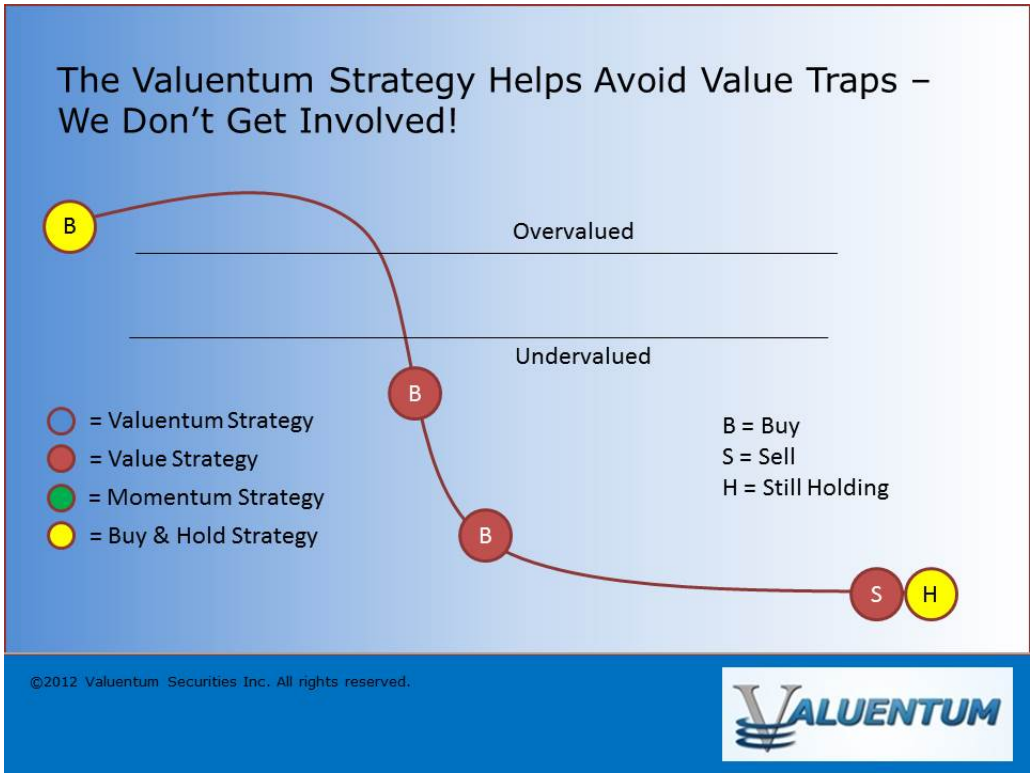
subscribers are less likely to be exposed to these "falling knives" since our process requires firms to not only be undervalued but also be exhibiting bullish technical and momentum indicators before we would consider adding them to our actively-managed portfolios.

Since the stock market is a forward-looking mechanism, price usually leads fundamentals. Without a turnaround in price, the risk that the fundamentals of an undervalued stock have not turned for the positive is higher. Where value strategies may encourage the buying of a stock all the way down regardless of whether fundamentals ever turn (red circles: Buy --> Sell), the Valuentum strategy simply steers clear of these situations. We wait for technical improvement in the equity, which often precedes fundamental changes at the company.



Let's walk through the three investment pillars of our stock-selection methodology.

I. We Use a Rigorous Discounted Cash Flow Valuation Process

Our methodology starts with in-depth financial statement analysis, where we derive our ValueCreation, ValueRisk, and ValueTrend ratings, which together

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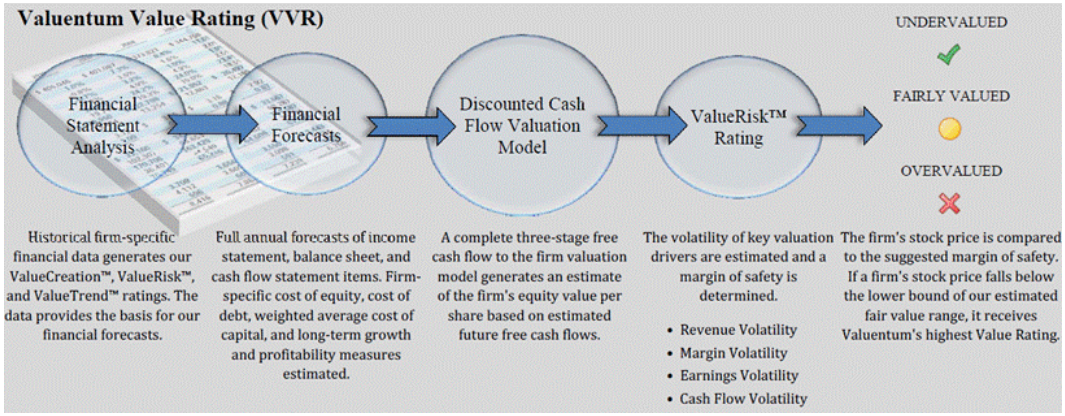
provide a quantitative assessment of the strength of a firm's competitive advantages. We compare a company's return on invested capital (ROIC) to our estimate of its weighted average cost of capital (WACC) to assess whether it is creating economic profit for shareholders (ROIC less WACC equals economic profit). Firms that have improving economic profit spreads over their respective cost of capital score high on our ValueCreation and ValueTrend measures, while firms that have relatively stable returns score well with respect to our ValueRisk evaluation, which impacts our margin-of-safety assessment.



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 then 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

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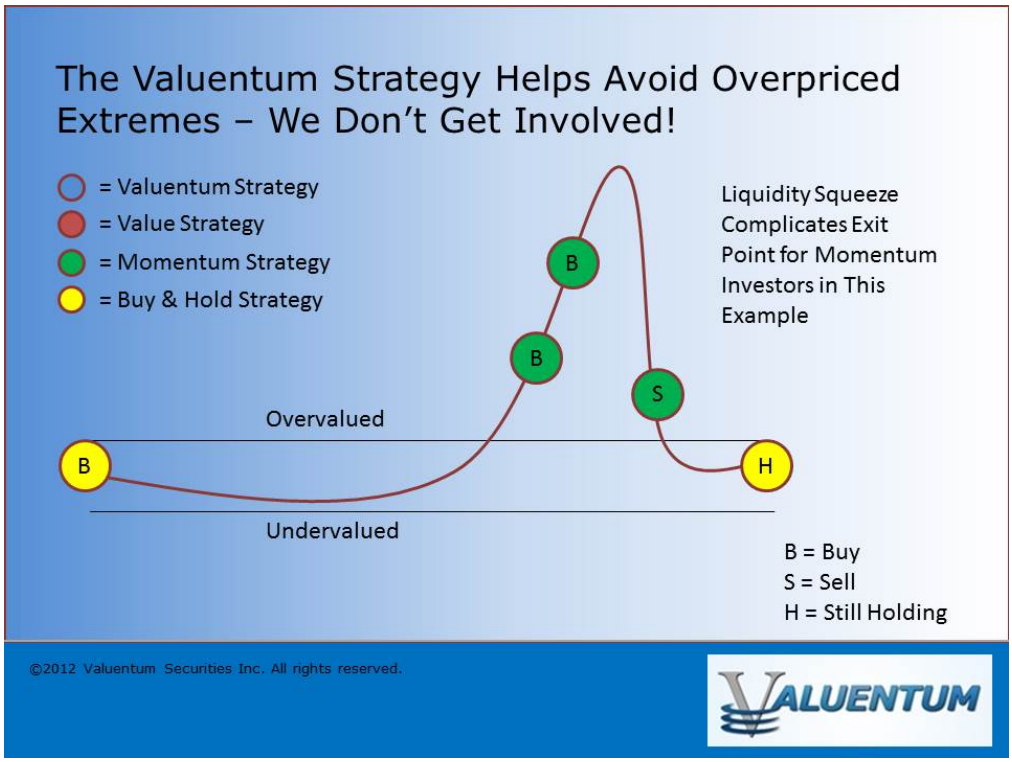
safety bands around this fair value estimate. For firms that are trading below the lower bound of our margin of safety band, we consider these companies undervalued based on our DCF process. For firms that are trading above the higher bound of our margin of safety band, we consider these companies overvalued based on our DCF process.

We think a focus on discounted cash-flow valuation prevents investors from exposing their portfolios to significantly overpriced stocks at their peaks. The chart below reveals how pure momentum investors may expose their portfolios to pricing extremes and dramatic falls (green circles: Buy --> Sell). We stay away from these situations.



II. We Perform 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, 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 making buy/sell decisions. With this in mind, we have included a forward-looking relative value assessment in our process to further

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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.

III. We Seek to Avoid Value Traps, Falling Knives 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 whether it has 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 (but only after it meets our stringent valuation criteria). Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster returns. An evaluation of a stock's 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.

We embrace the idea that the future is inherently unpredictable and that not all fundamental factors can be included in a valuation model. By extension, we use technical and momentum analysis to help safeguard us against value traps, falling knives, and the opportunity cost of holding an undervalued equity for years before it converges to fair value. Other research firms do not consider opportunity cost as a legitimate expense for investors.

Putting It All Together - the Valuentum Buying Index

Though the time frame varies depending on each idea, we expect our best ideas to work out over a 12-24 month time horizon (on average) -- any shorter than that is mostly luck, in our view. We tend to add firms to our Best Ideas portfolio when they register a 9 or 10 on our Valuentum Buying Index (VBI) and tend to remove firms from our Best Ideas portfolio when they register a 1 or 2 on our VBI.

We like to maximize profits on every idea, with the understanding that momentum does exist and that prices over and under shoot intrinsic value all

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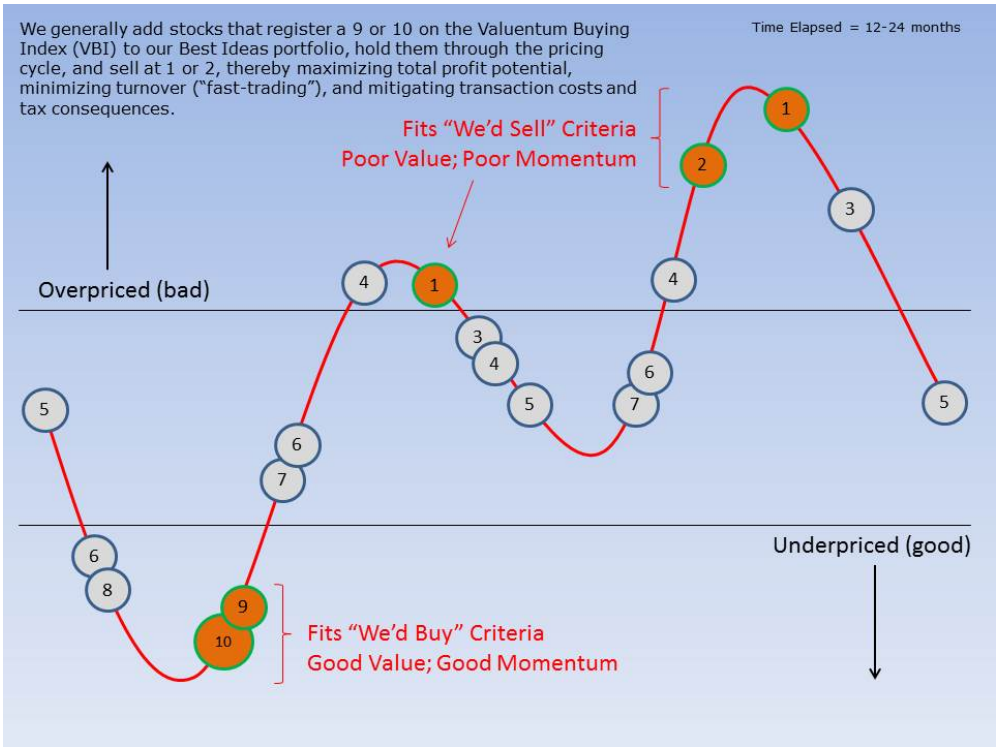
of the time. A value strategy (10 --> 5) truncates potential profits, while a momentum strategy (4 --> 1) ignores profits generated via value assessments. We're after the entire profit potential, as shown below.



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.

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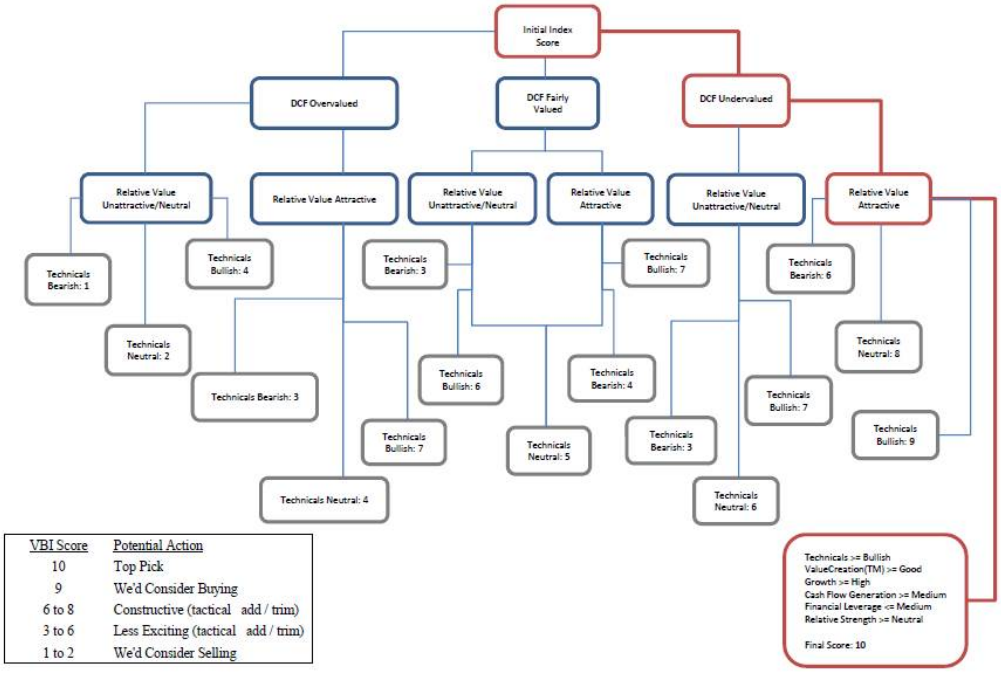

VBI Score	Potential Action
10	Top Pick
9	We'd Consider Buying
6 to 8	Constructive (tactical add / trim)
3 to 6	Less Exciting (tactical add / trim)
1 to 2	We'd Consider Selling

How We Use the Valuentum Buying Index in the Best Ideas Newsletter Portfolio

First and foremost, firms in our Best Ideas portfolio should be considered our best ideas at any point in time. The Best Ideas portfolio can always be found on page 8 of our monthly Best Ideas Newsletter. Firms in our Dividend Growth portfolio should be considered our best dividend growth ideas at any point in time. The Dividend Growth portfolio can always be found on page 5 of our monthly Dividend Growth Newsletter.

Let's talk about how the Valuentum Buying Index (VBI) informs which ideas we include in our actively-managed portfolios. We've noticed via our statistical backtesting that the momentum factor behind our process tends to be much more pronounced (powerful) over longer periods of time. This was one of the interesting findings of our academic white paper study. We try to replicate this dynamic with the update cycle of our reports (and the time horizon for our ideas to work out). That's why our reports are updated regularly (at least quarterly) or after material events and not daily or weekly. We don't want to whipsaw our membership, nor do we think churn is the way to generate outperformance.

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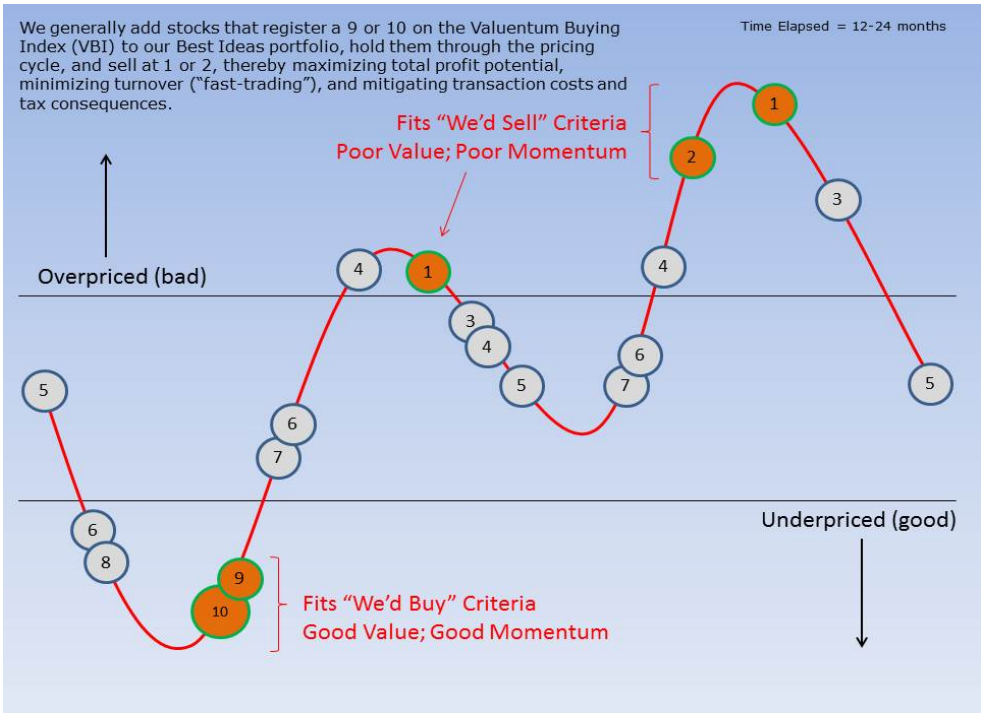
Though the time frame varies depending on each idea, we expect our best ideas to work out over a 12-24 month time horizon (on average) -- any shorter than that is mostly luck, in our view. We tend to add firms to our Best Ideas portfolio when they register a 9 or 10 on our Valuentum Buying Index (VBI) and tend to remove firms from our Best Ideas portfolio when they register a 1 or 2 on our VBI. You'll notice that we have a qualitative overlay in the portfolio, which is necessary and similar in thinking as if you were to imagine a value investor not adding every undervalued stock to his/her portfolio. There are always tactical and sector weighting considerations in any portfolio construction.

As for the time horizon for ideas, we like to maximize profits on every idea, with the understanding that momentum does exist and that prices over and under shoot intrinsic value all of the time. A value strategy (10 --> 5) truncates potential profits, while a momentum strategy (4 --> 1) ignores profits generated via value assessments. We're after the entire profit potential. So, for example, if a firm is added to the Best Ideas portfolio as a 10 and is removed as a 5, we would have tuncated profit potential. Most of our highly-rated Valuentum Buying Index rated stocks have generated the vast outperformance of the Best Ideas portfolio. Please view the pricing cycle below.



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Importantly, regarding our process, we don't blindly and immediately add firms to our portfolio once they score a 9 or 10 (and we do not add all firms that score a 9 or 10 to our portfolio). For example, Google (GOOG), a current Best Ideas portfolio holding, registered a 10 on our scale, but we remained patient and didn't add the company to our portfolio until after it reported earnings in late 2012, which provided us with an even better entry point (as new information came to light). We engage in a qualitative portfolio management overlay to maximize returns and minimize risk. The number informs our process, but the team makes the allocation decisions of the portfolio.

After adding firms to our Best Ideas portfolio, we may tactically trade around these positions when they have VBI ratings between 3 and 8 depending on the size of their weighting in our portfolio or their attractiveness relative to other opportunities (a score of 3 through 8 is typically equivalent to a 'we'd hold'). We tend to remove firms from our Best Ideas portfolio when they register a 1 or 2 on our process. Importantly, however, firms in our Best Ideas portfolio, which have generally registered a 9 or 10 on our scale when we added them, should be considered our best ideas at any point in time.

Take eBay (EBAY) as another example of our process in action. The firm initially flashed a rating of 10 in late September 2011 (at $32 per share), and we added it to our Best Ideas portfolio. The VBI rating changed to a 6 in December 2011 and then back to a 10 in May 2012. Because the rating never breached a 1 or 2, we did not remove the position from our portfolio. In fact, we tactically added to it. eBay is probably one of the better examples to use for illustrating the prolonged outperformance driven by undervalued stocks that are beginning to generate good momentum. We like to capture the entire pricing cycle and not truncate it as most value investors do.

Though eBay may register a lower VBI rating in a subsequent update, we would still view it as one of our best ideas, as it is a holding in our Best Ideas portfolio (it has never flashed a 'We'd Sell' signal, 1 or 2). Obviously, there have been more straight-forward opportunities in our Best Ideas portfolio, especially in the case of EDAC Tech (EDAC), which had tripled since we added it to the portfolio (never registering below a 9 along the way). The VBI ratings

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on our most recent 16-page reports, downloadable directly from our website, reflect our current opinion on the company.

The Valuentum Buying Index, like all methodologies, informs the investment decision process, but in constructing a portfolio, a qualitative overlay is not only necessary but has been shown to optimize performance in the white paper study.

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Company Index - Sorted By Company Name

Name	Symbol	Sector	Industry	VBI	ROIC	DCF Valuation	Relative Valuation	ValueCreation	ValueRisk	P/FV
3M	MMM	Industrials	Conglomerates	6	31.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Adobe Systems	ADBE	Information Technology	Software	3	201.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Altria Group	MO	Consumer Staples	Tobacco	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.97
Amgen	AMGN	Health Care	Pharmaceuticals - Big	6	50.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.11
Apple	AAPL	Information Technology	Computer Hardware	6	269.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.88
ADP	ADP	Financials	Staffing Services	3	70.0%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	LOW	0.80
AutoZone	AZO	Consumer Discretionary	Specialty Retail - auto	6	44.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Baidu	BIDU	Information Technology	Internet Software & Svcs	7	171.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Baxter Intl	BAX	Health Care	Medical Instruments	3	31.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Becton, Dickinson	BDX	Health Care	Medical Instruments	3	19.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
BHP Billiton	BHP	Materials	Mining - diversified	3	41.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.97
Biogen	BIIB	Health Care	Biotechnology	7	29.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.07
Buffalo Wild Wings	BWLD	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	3	27.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.92
Campbell Soup	CPB	Consumer Staples	Food Products - Large	4	37.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.02
Caterpillar	CAT	Industrials	Machinery - agriculture	5	30.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.10
CBOE	CBOE	Financials	Exchanges	3	140.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Celgene	CELG	Health Care	Biotechnology	7	49.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.00
CH Robinson	CHRW	Industrials	Air Freight & Logistics	5	63.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.10
Chevron	CVX	Energy	Major Oil & Gas	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.01
Chipotle	CMG	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	4	40.7%	OVERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.46
Cisco	CSCO	Information Technology	Networking Equipment	7	72.4%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.80
Clorox	CLX	Consumer Staples	Household Products	6	35.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.09
CME Group	CME	Financials	Exchanges	6	98.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.10
Coca-Cola	KO	Consumer Staples	Beverages - nonalcoholic	6	23.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Colgate-Palmolive	CL	Consumer Staples	Household Products	3	47.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.17
Compass Minerals	CMP	Materials	Chemicals - agriculture	3	17.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Core Labs	CLB	Energy	Energy Equipment	3	91.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.95
Costco	COST	Consumer Staples	Food Retailers	6	21.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.05
Cypress Semi	CY	Information Technology	Broad Line Semiconductors	3	49.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.98
Danaher	DHR	Industrials	Conglomerates	3	23.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Deere	DE	Industrials	Machinery - agriculture	6	33.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Disney	DIS	Consumer Discretionary	Media - entertainment	6	22.7%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.15
Dollar General	DG	Consumer Discretionary	Multiline Retail - discount	6	26.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Domino's Pizza	DPZ	Consumer Discretionary	Restaurants - Fast Food & Coffee	6	273.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
DuPont	DD	Materials	Chemicals - broad	4	19.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.95
Eastman Chemical	EMN	Materials	Chemicals - broad	3	21.8%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.75
eBay	EBAY	Consumer Discretionary	Internet & Catalog Retail	6	97.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.69
Eli Lilly	LLY	Health Care	Pharmaceuticals - Big	6	38.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.09
Emerson Electric	EMR	Industrials	Electrical Equipment	4	44.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.99
Expeditors Intl	EXPD	Industrials	Air Freight & Logistics	6	60.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.08
Exxon Mobil	XOM	Energy	Major Oil & Gas	3	14.1%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.03
Facebook	FB	Information Technology	Internet Software & Svcs	7	43.3%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.68
FedEx	FDX	Industrials	Air Freight & Logistics	7	14.0%	FAIRLY VALUED	ATTRACTIVE	GOOD	LOW	1.01
Fiserv	FISV	Financials	Financial Tech Services	7	35.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.16
General Dynamics	GD	Industrials	A&D Prime	6	53.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.18
General Electric	GE	Industrials	Conglomerates	6	52.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.81
General Mills	GIS	Consumer Staples	Food Products - Large	3	19.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
Google	GOOG	Information Technology	Internet Software & Svcs	7	88.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.87
Halliburton	HAL	Energy	Energy Equipment - Large	4	26.9%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Hasbro	HAS	Consumer Discretionary	Leisure	6	39.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.87
Honeywell	HON	Industrials	Conglomerates	3	31.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
IBM	IBM	Information Technology	Computer Hardware	7	66.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Illinois Tool Works	ITW	Industrials	Machinery & Tools	4	19.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Intel	INTC	Information Technology	Broad Line Semiconductors	6	41.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Johnson & Johnson	JNJ	Consumer Staples	Household Products	6	33.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Johnson Controls	JCI	Consumer Discretionary	Auto Parts Suppliers	3	10.0%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	0.93
Kellogg	K	Consumer Staples	Food Products - Large	4	20.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.05
Kimberly-Clark	KMB	Consumer Staples	Household Products	4	20.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
Mastercard	MA	Financials	Financial Tech Services	3	100.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.93
Mattel	MAT	Consumer Discretionary	Leisure	4	46.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.95
McCormick	MKC	Consumer Staples	Food Products	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.13
Mead Johnson	MJN	Consumer Staples	Food Products - Large	6	112.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.16
Medtronic	MDT	Health Care	Medical Devices	7	61.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Microsoft	MSFT	Information Technology	Software	7	108.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Monsanto	MON	Materials	Chemicals - agriculture	3	27.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.15
National Oilwell Varco	NOV	Energy	Energy Equipment - Large	6	19.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Nike	NKE	Consumer Discretionary	Luxury - Established Brands	6	34.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.02
Northrop Grumman	NOC	Industrials	A&D Prime	6	79.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.92
Oracle	ORCL	Information Technology	Software	6	167.7%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.75
Parker-Hannifin	PH	Industrials	Electrical Equipment	3	22.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.97
Paychex	PAYX	Financials	Staffing Services	6	71.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.06
PepsiCo	PEP	Consumer Staples	Beverages - nonalcoholic	5	20.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.11
Pfizer	PFE	Health Care	Pharmaceuticals - Big	3	15.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
PPL	PPL	Energy	Utilities - Large	3	9.9%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.03
Praxair	PX	Materials	Chemicals - broad	3	14.7%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.16
Precision Castparts	PCP	Industrials	A&D Suppliers	3	24.7%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.78
Procter & Gamble	PG	Consumer Staples	Household Products	7	22.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.01
QUALCOMM	QCOM	Information Technology	Communications Equipment	3	100.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.76
Raytheon	RTN	Industrials	A&D Prime	7	104.8%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.06
Republic Services	RSG	Industrials	Environmental Services	7	20.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.94
Rio Tinto	RIO	Materials	Mining - diversified	6	29.8%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.72
Roper Industries	ROP	Industrials	Electrical Equipment	6	30.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.19
Royal Dutch Shell	RDS	Energy	Major Oil & Gas	5	18.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.96
Schlumberger	SLB	Energy	Energy Equipment - Large	3	25.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Scotts Miracle-Gro	SMG	Materials	Chemicals - agriculture	4	16.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.96
St. Jude	STJ	Health Care	Medical Devices	4	39.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.89
Starbucks	SBUX	Consumer Discretionary	Restaurants - Fast Food & Coffee	4	103.1%	OVERVALUED	UNATTRACTIVE	EXCELLENT	LOW	1.26
Stryker	SYK	Health Care	Medical Instruments	6	46.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Synaptics	SYNA	Information Technology	Computers & Peripherals	3	93.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Sysco	SYY	Consumer Staples	Food Retailers	6	19.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Tencent	TCEHY	Information Technology	Internet Software & Svcs	6	152.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.89
Texas Instruments	TXN	Information Technology	Broad Line Semiconductors	3	36.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.14
United Parcel Service	UPS	Industrials	Air Freight & Logistics	6	35.1%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.06
United Technologies	UTX	Industrials	Conglomerates	4	24.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.96
Visa	V	Financials	Financial Tech Services	6	61.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.86
Walgreen	WAG	Consumer Staples	Food Retailers	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.08
Wal-Mart	WMT	Consumer Staples	Food Retailers	6	16.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.02
Waste Management	WM	Industrials	Environmental Services	6	13.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Waters	WAT	Health Care	Medical Devices	3	64.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.03
Zimmer	ZMH	Health Care	Medical Devices	7	31.5%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04

Company Index - Sorted By Ticker Symbol

Name	Symbol	Sector	Industry	VBI	ROIC	DCF Valuation	Relative Valuation	ValueCreation	ValueRisk	P/FV
Apple	AAPL	Information Technology	Computer Hardware	6	269.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.88
Adobe Systems	ADBE	Information Technology	Software	3	201.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
ADP	ADP	Financials	Staffing Services	3	70.0%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	LOW	0.80
Amgen	AMGN	Health Care	Pharmaceuticals - Big	6	50.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.11
AutoZone	AZO	Consumer Discretionary	Specialty Retail - auto	6	44.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Baxter Intl	BAX	Health Care	Medical Instruments	3	31.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Becton, Dickinson	BDX	Health Care	Medical Instruments	3	19.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
BHP Billiton	BHP	Materials	Mining - diversified	3	41.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.97
Baidu	BIDU	Information Technology	Internet Software & Svcs	7	171.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Biogen	BIIB	Health Care	Biotechnology	7	29.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.07
Buffalo Wild Wings	BWLD	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	3	27.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.92
Caterpillar	CAT	Industrials	Machinery - agriculture	5	30.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.10
CBOE	CBOE	Financials	Exchanges	3	140.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Celgene	CELG	Health Care	Biotechnology	7	49.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.00
CH Robinson	CHRW	Industrials	Air Freight & Logistics	5	63.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.10
Colgate-Palmolive	CL	Consumer Staples	Household Products	3	47.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.17
Core Labs	CLB	Energy	Energy Equipment	3	91.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.95
Clorox	CLX	Consumer Staples	Household Products	6	35.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.09
CME Group	CME	Financials	Exchanges	6	98.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.10
Chipotle	CMG	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	4	40.7%	OVERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.46
Compass Minerals	CMP	Materials	Chemicals - agriculture	3	17.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Costco	COST	Consumer Staples	Food Retailers	6	21.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.05
Campbell Soup	CPB	Consumer Staples	Food Products - Large	4	37.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.02
Cisco	CSCO	Information Technology	Networking Equipment	7	72.4%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.80
Chevron	CVX	Energy	Major Oil & Gas	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.01
Cypress Semi	CY	Information Technology	Broad Line Semiconductors	3	49.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.98
DuPont	DD	Materials	Chemicals - broad	4	19.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.95
Deere	DE	Industrials	Machinery - agriculture	6	33.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Dollar General	DG	Consumer Discretionary	Multiline Retail - discount	6	26.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Danaher	DHR	Industrials	Conglomerates	3	23.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Disney	DIS	Consumer Discretionary	Media - entertainment	6	22.7%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.15
Domino's Pizza	DPZ	Consumer Discretionary	Restaurants - Fast Food & Coffee	6	273.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
eBay	EBAY	Consumer Discretionary	Internet & Catalog Retail	6	97.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.69
Eastman Chemical	EMN	Materials	Chemicals - broad	3	21.8%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.75
Emerson Electric	EMR	Industrials	Electrical Equipment	4	44.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.99
Expeditors Intl	EXPD	Industrials	Air Freight & Logistics	6	60.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.08
Facebook	FB	Information Technology	Internet Software & Svcs	7	43.3%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.68
FedEx	FDX	Industrials	Air Freight & Logistics	7	14.0%	FAIRLY VALUED	ATTRACTIVE	GOOD	LOW	1.01
Fiserv	FISV	Financials	Financial Tech Services	7	35.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.16
General Dynamics	GD	Industrials	A&D Prime	6	53.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.18
General Electric	GE	Industrials	Conglomerates	6	52.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.81
General Mills	GIS	Consumer Staples	Food Products - Large	3	19.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
Google	GOOG	Information Technology	Internet Software & Svcs	7	88.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.87
Halliburton	HAL	Energy	Energy Equipment - Large	4	26.9%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Hasbro	HAS	Consumer Discretionary	Leisure	6	39.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.87
Honeywell	HON	Industrials	Conglomerates	3	31.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
IBM	IBM	Information Technology	Computer Hardware	7	66.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Intel	INTC	Information Technology	Broad Line Semiconductors	6	41.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Illinois Tool Works	ITW	Industrials	Machinery & Tools	4	19.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Johnson Controls	JCI	Consumer Discretionary	Auto Parts Suppliers	3	10.0%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	0.93
Johnson & Johnson	JNJ	Consumer Staples	Household Products	6	33.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Kellogg	K	Consumer Staples	Food Products - Large	4	20.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.05
Kimberly-Clark	KMB	Consumer Staples	Household Products	4	20.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
Coca-Cola	KO	Consumer Staples	Beverages - nonalcoholic	6	23.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Eli Lilly	LLY	Health Care	Pharmaceuticals - Big	6	38.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.09
Mastercard	MA	Financials	Financial Tech Services	3	100.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.93
Mattel	MAT	Consumer Discretionary	Leisure	4	46.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.95
Medtronic	MDT	Health Care	Medical Devices	7	61.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Mead Johnson	MJN	Consumer Staples	Food Products - Large	6	112.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.16
McCormick	MKC	Consumer Staples	Food Products	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.13
3M	MMM	Industrials	Conglomerates	6	31.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Altria Group	MO	Consumer Staples	Tobacco	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.97
Monsanto	MON	Materials	Chemicals - agriculture	3	27.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.15
Microsoft	MSFT	Information Technology	Software	7	108.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Nike	NKE	Consumer Discretionary	Luxury - Established Brands	6	34.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.02
Northrop Grumman	NOC	Industrials	A&D Prime	6	79.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.92
National Oilwell Varco	NOV	Energy	Energy Equipment - Large	6	19.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Oracle	ORCL	Information Technology	Software	6	167.7%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.75
Paychex	PAYX	Financials	Staffing Services	6	71.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.06
Precision Castparts	PCP	Industrials	A&D Suppliers	3	24.7%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.78
PepsiCo	PEP	Consumer Staples	Beverages - nonalcoholic	5	20.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.11
Pfizer	PFE	Health Care	Pharmaceuticals - Big	3	15.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Procter & Gamble	PG	Consumer Staples	Household Products	7	22.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.01
Parker-Hannifin	PH	Industrials	Electrical Equipment	3	22.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.97
PPL	PPL	Energy	Utilities - Large	3	9.9%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.03
Praxair	PX	Materials	Chemicals - broad	3	14.7%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.16
QUALCOMM	QCOM	Information Technology	Communications Equipment	3	100.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.76
Royal Dutch Shell	RDS	Energy	Major Oil & Gas	5	18.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.96
Rio Tinto	RIO	Materials	Mining - diversified	6	29.8%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.72
Roper Industries	ROP	Industrials	Electrical Equipment	6	30.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.19
Republic Services	RSG	Industrials	Environmental Services	7	20.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.94
Raytheon	RTN	Industrials	A&D Prime	7	104.8%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.06
Starbucks	SBUX	Consumer Discretionary	Restaurants - Fast Food & Coffee	4	103.1%	OVERVALUED	UNATTRACTIVE	EXCELLENT	LOW	1.26
Schlumberger	SLB	Energy	Energy Equipment - Large	3	25.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Scotts Miracle-Gro	SMG	Materials	Chemicals - agriculture	4	16.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.96
St. Jude	STJ	Health Care	Medical Devices	4	39.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.89
Stryker	SYK	Health Care	Medical Instruments	6	46.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Synaptics	SYNA	Information Technology	Computers & Peripherals	3	93.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Sysco	SYY	Consumer Staples	Food Retailers	6	19.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Tencent	TCEHY	Information Technology	Internet Software & Svcs	6	152.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.89
Texas Instruments	TXN	Information Technology	Broad Line Semiconductors	3	36.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.14
United Parcel Service	UPS	Industrials	Air Freight & Logistics	6	35.1%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.06
United Technologies	UTX	Industrials	Conglomerates	4	24.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.96
Visa	V	Financials	Financial Tech Services	6	61.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.86
Walgreen	WAG	Consumer Staples	Food Retailers	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.08
Waters	WAT	Health Care	Medical Devices	3	64.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.03
Waste Management	WM	Industrials	Environmental Services	6	13.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Wal-Mart	WMT	Consumer Staples	Food Retailers	6	16.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.02
Exxon Mobil	XOM	Energy	Major Oil & Gas	3	14.1%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.03
Zimmer	ZMH	Health Care	Medical Devices	7	31.5%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04

Company Index - Sorted By Sector

Name	Symbol	Sector	Industry	VBI	ROIC	DCF Valuation	Relative Valuation	ValueCreation	ValueRisk	P/FV
AutoZone	AZO	Consumer Discretionary	Specialty Retail - auto	6	44.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Buffalo Wild Wings	BWLD	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	3	27.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.92
Chipotle	CMG	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	4	40.7%	OVERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.46
Dollar General	DG	Consumer Discretionary	Multiline Retail - discount	6	26.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Disney	DIS	Consumer Discretionary	Media - entertainment	6	22.7%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.15
Domino's Pizza	DPZ	Consumer Discretionary	Restaurants - Fast Food & Coffee	6	273.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
eBay	EBAY	Consumer Discretionary	Internet & Catalog Retail	6	97.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.69
Hasbro	HAS	Consumer Discretionary	Leisure	6	39.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.87
Johnson Controls	JCI	Consumer Discretionary	Auto Parts Suppliers	3	10.0%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	0.93
Mattel	MAT	Consumer Discretionary	Leisure	4	46.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.95
Nike	NKE	Consumer Discretionary	Luxury - Established Brands	6	34.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.02
Starbucks	SBUX	Consumer Discretionary	Restaurants - Fast Food & Coffee	4	103.1%	OVERVALUED	UNATTRACTIVE	EXCELLENT	LOW	1.26
Colgate-Palmolive	CL	Consumer Staples	Household Products	3	47.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.17
Clorox	CLX	Consumer Staples	Household Products	6	35.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.09
Costco	COST	Consumer Staples	Food Retailers	6	21.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.05
Campbell Soup	CPB	Consumer Staples	Food Products - Large	4	37.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.02
General Mills	GIS	Consumer Staples	Food Products - Large	3	19.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
Johnson & Johnson	JNJ	Consumer Staples	Household Products	6	33.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Kellogg	K	Consumer Staples	Food Products - Large	4	20.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.05
Kimberly-Clark	KMB	Consumer Staples	Household Products	4	20.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
Coca-Cola	KO	Consumer Staples	Beverages - nonalcoholic	6	23.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Mead Johnson	MJN	Consumer Staples	Food Products - Large	6	112.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.16
McCormick	MKC	Consumer Staples	Food Products	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.13
Altria Group	MO	Consumer Staples	Tobacco	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.97
PepsiCo	PEP	Consumer Staples	Beverages - nonalcoholic	5	20.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.11
Procter & Gamble	PG	Consumer Staples	Household Products	7	22.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.01
Sysco	SYY	Consumer Staples	Food Retailers	6	19.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Walgreen	WAG	Consumer Staples	Food Retailers	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.08
Wal-Mart	WMT	Consumer Staples	Food Retailers	6	16.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.02
Core Labs	CLB	Energy	Energy Equipment	3	91.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.95
Chevron	CVX	Energy	Major Oil & Gas	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.01
Halliburton	HAL	Energy	Energy Equipment - Large	4	26.9%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
National Oilwell Varco	NOV	Energy	Energy Equipment - Large	6	19.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
PPL	PPL	Energy	Utilities - Large	3	9.9%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.03
Royal Dutch Shell	RDS	Energy	Major Oil & Gas	5	18.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.96
Schlumberger	SLB	Energy	Energy Equipment - Large	3	25.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Exxon Mobil	XOM	Energy	Major Oil & Gas	3	14.1%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.03
ADP	ADP	Financials	Staffing Services	3	70.0%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	LOW	0.80
CBOE	CBOE	Financials	Exchanges	3	140.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
CME Group	CME	Financials	Exchanges	6	98.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.10
Fiserv	FISV	Financials	Financial Tech Services	7	35.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.16
Mastercard	MA	Financials	Financial Tech Services	3	100.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.93
Paychex	PAYX	Financials	Staffing Services	6	71.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.06
Visa	V	Financials	Financial Tech Services	6	61.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.86
Amgen	AMGN	Health Care	Pharmaceuticals - Big	6	50.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.11
Baxter Intl	BAX	Health Care	Medical Instruments	3	31.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Becton, Dickinson	BDX	Health Care	Medical Instruments	3	19.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Biogen	BIIB	Health Care	Biotechnology	7	29.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.07
Celgene	CELG	Health Care	Biotechnology	7	49.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.00
Eli Lilly	LLY	Health Care	Pharmaceuticals - Big	6	38.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.09
Medtronic	MDT	Health Care	Medical Devices	7	61.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Pfizer	PFE	Health Care	Pharmaceuticals - Big	3	15.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
St. Jude	STJ	Health Care	Medical Devices	4	39.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.89
Stryker	SYK	Health Care	Medical Instruments	6	46.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Waters	WAT	Health Care	Medical Devices	3	64.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.03
Zimmer	ZMH	Health Care	Medical Devices	7	31.5%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
Caterpillar	CAT	Industrials	Machinery - agriculture	5	30.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.10
CH Robinson	CHRW	Industrials	Air Freight & Logistics	5	63.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.10
Deere	DE	Industrials	Machinery - agriculture	6	33.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Danaher	DHR	Industrials	Conglomerates	3	23.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Emerson Electric	EMR	Industrials	Electrical Equipment	4	44.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.99
Expeditors Intl	EXPD	Industrials	Air Freight & Logistics	6	60.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.08
FedEx	FDX	Industrials	Air Freight & Logistics	7	14.0%	FAIRLY VALUED	ATTRACTIVE	GOOD	LOW	1.01
General Dynamics	GD	Industrials	A&D Prime	6	53.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.18
General Electric	GE	Industrials	Conglomerates	6	52.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.81
Honeywell	HON	Industrials	Conglomerates	3	31.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Illinois Tool Works	ITW	Industrials	Machinery & Tools	4	19.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
3M	MMM	Industrials	Conglomerates	6	31.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Northrop Grumman	NOC	Industrials	A&D Prime	6	79.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.92
Precision Castparts	PCP	Industrials	A&D Suppliers	3	24.7%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.78
Parker-Hannifin	PH	Industrials	Electrical Equipment	3	22.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.97
Roper Industries	ROP	Industrials	Electrical Equipment	6	30.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.19
Republic Services	RSG	Industrials	Environmental Services	7	20.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.94
Raytheon	RTN	Industrials	A&D Prime	7	104.8%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.06
United Parcel Service	UPS	Industrials	Air Freight & Logistics	6	35.1%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.06
United Technologies	UTX	Industrials	Conglomerates	4	24.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.96
Waste Management	WM	Industrials	Environmental Services	6	13.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Apple	AAPL	Information Technology	Computer Hardware	6	269.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.88
Adobe Systems	ADBE	Information Technology	Software	3	201.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Baidu	BIDU	Information Technology	Internet Software & Svcs	7	171.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Cisco	CSCO	Information Technology	Networking Equipment	7	72.4%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.80
Cypress Semi	CY	Information Technology	Broad Line Semiconductors	3	49.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.98
Facebook	FB	Information Technology	Internet Software & Svcs	7	43.3%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.68
Google	GOOG	Information Technology	Internet Software & Svcs	7	88.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.87
IBM	IBM	Information Technology	Computer Hardware	7	66.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Intel	INTC	Information Technology	Broad Line Semiconductors	6	41.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Microsoft	MSFT	Information Technology	Software	7	108.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Oracle	ORCL	Information Technology	Software	6	167.7%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.75
QUALCOMM	QCOM	Information Technology	Communications Equipment	3	100.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.76
Synaptics	SYNA	Information Technology	Computers & Peripherals	3	93.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Tencent	TCEHY	Information Technology	Internet Software & Svcs	6	152.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.89
Texas Instruments	TXN	Information Technology	Broad Line Semiconductors	3	36.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.14
BHP Billiton	BHP	Materials	Mining - diversified	3	41.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.97
Compass Minerals	CMP	Materials	Chemicals - agriculture	3	17.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
DuPont	DD	Materials	Chemicals - broad	4	19.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.95
Eastman Chemical	EMN	Materials	Chemicals - broad	3	21.8%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.75
Monsanto	MON	Materials	Chemicals - agriculture	3	27.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.15
Praxair	PX	Materials	Chemicals - broad	3	14.7%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.16
Rio Tinto	RIO	Materials	Mining - diversified	6	29.8%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.72
Scotts Miracle-Gro	SMG	Materials	Chemicals - agriculture	4	16.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.96

Company Index - Sorted By Valuentum Buying Index (VBI)

Name	Symbol	Sector	Industry	VBI	ROIC	DCF Valuation	Relative Valuation	ValueCreation	ValueRisk	P/FV
Baidu	BIDU	Information Technology	Internet Software & Svcs	7	171.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Biogen	BIIB	Health Care	Biotechnology	7	29.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.07
Celgene	CELG	Health Care	Biotechnology	7	49.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.00
Cisco	CSCO	Information Technology	Networking Equipment	7	72.4%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.80
Facebook	FB	Information Technology	Internet Software & Svcs	7	43.3%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.68
FedEx	FDX	Industrials	Air Freight & Logistics	7	14.0%	FAIRLY VALUED	ATTRACTIVE	GOOD	LOW	1.01
Fiserv	FISV	Financials	Financial Tech Services	7	35.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.16
Google	GOOG	Information Technology	Internet Software & Svcs	7	88.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.87
IBM	IBM	Information Technology	Computer Hardware	7	66.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Medtronic	MDT	Health Care	Medical Devices	7	61.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Microsoft	MSFT	Information Technology	Software	7	108.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Procter & Gamble	PG	Consumer Staples	Household Products	7	22.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.01
Raytheon	RTN	Industrials	A&D Prime	7	104.8%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.06
Republic Services	RSG	Industrials	Environmental Services	7	20.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.94
Zimmer	ZMH	Health Care	Medical Devices	7	31.5%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
3M	MMM	Industrials	Conglomerates	6	31.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Altria Group	MO	Consumer Staples	Tobacco	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.97
Amgen	AMGN	Health Care	Pharmaceuticals - Big	6	50.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.11
Apple	AAPL	Information Technology	Computer Hardware	6	269.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.88
AutoZone	AZO	Consumer Discretionary	Specialty Retail - auto	6	44.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Clorox	CLX	Consumer Staples	Household Products	6	35.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.09
CME Group	CME	Financials	Exchanges	6	98.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.10
Coca-Cola	KO	Consumer Staples	Beverages - nonalcoholic	6	23.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Costco	COST	Consumer Staples	Food Retailers	6	21.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.05
Deere	DE	Industrials	Machinery - agriculture	6	33.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Disney	DIS	Consumer Discretionary	Media - entertainment	6	22.7%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.15
Dollar General	DG	Consumer Discretionary	Multiline Retail - discount	6	26.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Domino's Pizza	DPZ	Consumer Discretionary	Restaurants - Fast Food & Coffee	6	273.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
eBay	EBAY	Consumer Discretionary	Internet & Catalog Retail	6	97.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.69
Eli Lilly	LLY	Health Care	Pharmaceuticals - Big	6	38.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.09
Expeditors Intl	EXPD	Industrials	Air Freight & Logistics	6	60.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.08
General Dynamics	GD	Industrials	A&D Prime	6	53.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.18
General Electric	GE	Industrials	Conglomerates	6	52.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.81
Hasbro	HAS	Consumer Discretionary	Leisure	6	39.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.87
Intel	INTC	Information Technology	Broad Line Semiconductors	6	41.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Johnson & Johnson	JNJ	Consumer Staples	Household Products	6	33.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
McCormick	MKC	Consumer Staples	Food Products	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.13
Mead Johnson	MJN	Consumer Staples	Food Products - Large	6	112.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.16
National Oilwell Varco	NOV	Energy	Energy Equipment - Large	6	19.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Nike	NKE	Consumer Discretionary	Luxury - Established Brands	6	34.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.02
Northrop Grumman	NOC	Industrials	A&D Prime	6	79.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.92
Oracle	ORCL	Information Technology	Software	6	167.7%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.75
Paychex	PAYX	Financials	Staffing Services	6	71.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.06
Rio Tinto	RIO	Materials	Mining - diversified	6	29.8%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.72
Roper Industries	ROP	Industrials	Electrical Equipment	6	30.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.19
Stryker	SYK	Health Care	Medical Instruments	6	46.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Sysco	SYY	Consumer Staples	Food Retailers	6	19.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Tencent	TCEHY	Information Technology	Internet Software & Svcs	6	152.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.89
United Parcel Service	UPS	Industrials	Air Freight & Logistics	6	35.1%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.06
Visa	V	Financials	Financial Tech Services	6	61.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.86
Wal-Mart	WMT	Consumer Staples	Food Retailers	6	16.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.02
Waste Management	WM	Industrials	Environmental Services	6	13.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Caterpillar	CAT	Industrials	Machinery - agriculture	5	30.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.10
CH Robinson	CHRW	Industrials	Air Freight & Logistics	5	63.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.10
PepsiCo	PEP	Consumer Staples	Beverages - nonalcoholic	5	20.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.11
Royal Dutch Shell	RDS	Energy	Major Oil & Gas	5	18.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.96
Campbell Soup	CPB	Consumer Staples	Food Products - Large	4	37.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.02
Chipotle	CMG	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	4	40.7%	OVERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.46
DuPont	DD	Materials	Chemicals - broad	4	19.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.95
Emerson Electric	EMR	Industrials	Electrical Equipment	4	44.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.99
Halliburton	HAL	Energy	Energy Equipment - Large	4	26.9%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Illinois Tool Works	ITW	Industrials	Machinery & Tools	4	19.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Kellogg	K	Consumer Staples	Food Products - Large	4	20.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.05
Kimberly-Clark	KMB	Consumer Staples	Household Products	4	20.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
Mattel	MAT	Consumer Discretionary	Leisure	4	46.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.95
Scotts Miracle-Gro	SMG	Materials	Chemicals - agriculture	4	16.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.96
St. Jude	STJ	Health Care	Medical Devices	4	39.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.89
Starbucks	SBUX	Consumer Discretionary	Restaurants - Fast Food & Coffee	4	103.1%	OVERVALUED	UNATTRACTIVE	EXCELLENT	LOW	1.26
United Technologies	UTX	Industrials	Conglomerates	4	24.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.96
Adobe Systems	ADBE	Information Technology	Software	3	201.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
ADP	ADP	Financials	Staffing Services	3	70.0%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	LOW	0.80
Baxter Intl	BAX	Health Care	Medical Instruments	3	31.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Becton, Dickinson	BDX	Health Care	Medical Instruments	3	19.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
BHP Billiton	BHP	Materials	Mining - diversified	3	41.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.97
Buffalo Wild Wings	BWLD	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	3	27.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.92
CBOE	CBOE	Financials	Exchanges	3	140.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Chevron	CVX	Energy	Major Oil & Gas	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.01
Colgate-Palmolive	CL	Consumer Staples	Household Products	3	47.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.17
Compass Minerals	CMP	Materials	Chemicals - agriculture	3	17.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Core Labs	CLB	Energy	Energy Equipment	3	91.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.95
Cypress Semi	CY	Information Technology	Broad Line Semiconductors	3	49.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.98
Danaher	DHR	Industrials	Conglomerates	3	23.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Eastman Chemical	EMN	Materials	Chemicals - broad	3	21.8%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.75
Exxon Mobil	XOM	Energy	Major Oil & Gas	3	14.1%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.03
General Mills	GIS	Consumer Staples	Food Products - Large	3	19.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
Honeywell	HON	Industrials	Conglomerates	3	31.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Johnson Controls	JCI	Consumer Discretionary	Auto Parts Suppliers	3	10.0%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	0.93
Mastercard	MA	Financials	Financial Tech Services	3	100.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.93
Monsanto	MON	Materials	Chemicals - agriculture	3	27.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.15
Parker-Hannifin	PH	Industrials	Electrical Equipment	3	22.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.97
Pfizer	PFE	Health Care	Pharmaceuticals - Big	3	15.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
PPL	PPL	Energy	Utilities - Large	3	9.9%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.03
Praxair	PX	Materials	Chemicals - broad	3	14.7%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.16
Precision Castparts	PCP	Industrials	A&D Suppliers	3	24.7%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.78
QUALCOMM	QCOM	Information Technology	Communications Equipment	3	100.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.76
Schlumberger	SLB	Energy	Energy Equipment - Large	3	25.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Synaptics	SYNA	Information Technology	Computers & Peripherals	3	93.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Texas Instruments	TXN	Information Technology	Broad Line Semiconductors	3	36.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.14
Walgreen	WAG	Consumer Staples	Food Retailers	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.08
Waters	WAT	Health Care	Medical Devices	3	64.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.03

Company Index - Sorted By Return on Invested Capital

Name	Symbol	Sector	Industry	VBI	ROIC	DCF Valuation	Relative Valuation	ValueCreation	ValueRisk	P/FV
Domino's Pizza	DPZ	Consumer Discretionary	Restaurants - Fast Food & Coffee	6	273.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
Apple	AAPL	Information Technology	Computer Hardware	6	269.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.88
Adobe Systems	ADBE	Information Technology	Software	3	201.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Baidu	BIDU	Information Technology	Internet Software & Svcs	7	171.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Oracle	ORCL	Information Technology	Software	6	167.7%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.75
Tencent	TCEHY	Information Technology	Internet Software & Svcs	6	152.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.89
CBOE	CBOE	Financials	Exchanges	3	140.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Mead Johnson	MJN	Consumer Staples	Food Products - Large	6	112.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.16
Microsoft	MSFT	Information Technology	Software	7	108.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Raytheon	RTN	Industrials	A&D Prime	7	104.8%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.06
Starbucks	SBUX	Consumer Discretionary	Restaurants - Fast Food & Coffee	4	103.1%	OVERVALUED	UNATTRACTIVE	EXCELLENT	LOW	1.26
Mastercard	MA	Financials	Financial Tech Services	3	100.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.93
QUALCOMM	QCOM	Information Technology	Communications Equipment	3	100.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.76
CME Group	CME	Financials	Exchanges	6	98.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.10
eBay	EBAY	Consumer Discretionary	Internet & Catalog Retail	6	97.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.69
Synaptics	SYNA	Information Technology	Computers & Peripherals	3	93.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Core Labs	CLB	Energy	Energy Equipment	3	91.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.95
Google	GOOG	Information Technology	Internet Software & Svcs	7	88.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.87
Northrop Grumman	NOC	Industrials	A&D Prime	6	79.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.92
Cisco	CSCO	Information Technology	Networking Equipment	7	72.4%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.80
Paychex	PAYX	Financials	Staffing Services	6	71.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.06
ADP	ADP	Financials	Staffing Services	3	70.0%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	LOW	0.80
IBM	IBM	Information Technology	Computer Hardware	7	66.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Waters	WAT	Health Care	Medical Devices	3	64.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.03
CH Robinson	CHRW	Industrials	Air Freight & Logistics	5	63.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.10
Medtronic	MDT	Health Care	Medical Devices	7	61.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Visa	V	Financials	Financial Tech Services	6	61.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.86
Expeditors Intl	EXPD	Industrials	Air Freight & Logistics	6	60.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.08
General Dynamics	GD	Industrials	A&D Prime	6	53.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.18
General Electric	GE	Industrials	Conglomerates	6	52.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.81
Amgen	AMGN	Health Care	Pharmaceuticals - Big	6	50.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.11
Celgene	CELG	Health Care	Biotechnology	7	49.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.00
Cypress Semi	CY	Information Technology	Broad Line Semiconductors	3	49.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.98
Colgate-Palmolive	CL	Consumer Staples	Household Products	3	47.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.17
Stryker	SYK	Health Care	Medical Instruments	6	46.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Altria Group	MO	Consumer Staples	Tobacco	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.97
McCormick	MKC	Consumer Staples	Food Products	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.13
Mattel	MAT	Consumer Discretionary	Leisure	4	46.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.95
AutoZone	AZO	Consumer Discretionary	Specialty Retail - auto	6	44.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Emerson Electric	EMR	Industrials	Electrical Equipment	4	44.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.99
Facebook	FB	Information Technology	Internet Software & Svcs	7	43.3%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.68
Intel	INTC	Information Technology	Broad Line Semiconductors	6	41.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
BHP Billiton	BHP	Materials	Mining - diversified	3	41.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.97
Chipotle	CMG	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	4	40.7%	OVERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.46
Hasbro	HAS	Consumer Discretionary	Leisure	6	39.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.87
St. Jude	STJ	Health Care	Medical Devices	4	39.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.89
Eli Lilly	LLY	Health Care	Pharmaceuticals - Big	6	38.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.09
Campbell Soup	CPB	Consumer Staples	Food Products - Large	4	37.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.02
Texas Instruments	TXN	Information Technology	Broad Line Semiconductors	3	36.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.14
Fiserv	FISV	Financials	Financial Tech Services	7	35.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.16
Clorox	CLX	Consumer Staples	Household Products	6	35.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.09
United Parcel Service	UPS	Industrials	Air Freight & Logistics	6	35.1%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.06
Nike	NKE	Consumer Discretionary	Luxury - Established Brands	6	34.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.02
Deere	DE	Industrials	Machinery - agriculture	6	33.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Johnson & Johnson	JNJ	Consumer Staples	Household Products	6	33.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Honeywell	HON	Industrials	Conglomerates	3	31.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
3M	MMM	Industrials	Conglomerates	6	31.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Zimmer	ZMH	Health Care	Medical Devices	7	31.5%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
Baxter Intl	BAX	Health Care	Medical Instruments	3	31.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Roper Industries	ROP	Industrials	Electrical Equipment	6	30.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.19
Caterpillar	CAT	Industrials	Machinery - agriculture	5	30.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.10
Rio Tinto	RIO	Materials	Mining - diversified	6	29.8%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.72
Biogen	BIIB	Health Care	Biotechnology	7	29.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.07
Monsanto	MON	Materials	Chemicals - agriculture	3	27.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.15
Buffalo Wild Wings	BWLD	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	3	27.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.92
Halliburton	HAL	Energy	Energy Equipment - Large	4	26.9%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Dollar General	DG	Consumer Discretionary	Multiline Retail - discount	6	26.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Schlumberger	SLB	Energy	Energy Equipment - Large	3	25.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Precision Castparts	PCP	Industrials	A&D Suppliers	3	24.7%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.78
United Technologies	UTX	Industrials	Conglomerates	4	24.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.96
Coca-Cola	KO	Consumer Staples	Beverages - nonalcoholic	6	23.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Danaher	DHR	Industrials	Conglomerates	3	23.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Parker-Hannifin	PH	Industrials	Electrical Equipment	3	22.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.97
Disney	DIS	Consumer Discretionary	Media - entertainment	6	22.7%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.15
Procter & Gamble	PG	Consumer Staples	Household Products	7	22.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.01
Eastman Chemical	EMN	Materials	Chemicals - broad	3	21.8%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.75
Costco	COST	Consumer Staples	Food Retailers	6	21.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.05
Republic Services	RSG	Industrials	Environmental Services	7	20.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.94
Kellogg	K	Consumer Staples	Food Products - Large	4	20.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.05
PepsiCo	PEP	Consumer Staples	Beverages - nonalcoholic	5	20.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.11
Kimberly-Clark	KMB	Consumer Staples	Household Products	4	20.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
General Mills	GIS	Consumer Staples	Food Products - Large	3	19.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
Illinois Tool Works	ITW	Industrials	Machinery & Tools	4	19.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
National Oilwell Varco	NOV	Energy	Energy Equipment - Large	6	19.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
DuPont	DD	Materials	Chemicals - broad	4	19.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.95
Becton, Dickinson	BDX	Health Care	Medical Instruments	3	19.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Sysco	SYY	Consumer Staples	Food Retailers	6	19.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Royal Dutch Shell	RDS	Energy	Major Oil & Gas	5	18.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.96
Compass Minerals	CMP	Materials	Chemicals - agriculture	3	17.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Wal-Mart	WMT	Consumer Staples	Food Retailers	6	16.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.02
Scotts Miracle-Gro	SMG	Materials	Chemicals - agriculture	4	16.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.96
Pfizer	PFE	Health Care	Pharmaceuticals - Big	3	15.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Praxair	PX	Materials	Chemicals - broad	3	14.7%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.16
Walgreen	WAG	Consumer Staples	Food Retailers	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.08
Chevron	CVX	Energy	Major Oil & Gas	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.01
Exxon Mobil	XOM	Energy	Major Oil & Gas	3	14.1%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.03
FedEx	FDX	Industrials	Air Freight & Logistics	7	14.0%	FAIRLY VALUED	ATTRACTIVE	GOOD	LOW	1.01
Waste Management	WM	Industrials	Environmental Services	6	13.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Johnson Controls	JCI	Consumer Discretionary	Auto Parts Suppliers	3	10.0%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	0.93
PPL	PPL	Energy	Utilities - Large	3	9.9%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.03

Company Index - Sorted By Price / Fair Value

Name	Symbol	Sector	Industry	VBI	ROIC	DCF Valuation	Relative Valuation	ValueCreation	ValueRisk	P/FV
Facebook	FB	Information Technology	Internet Software & Svcs	7	43.3%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.68
eBay	EBAY	Consumer Discretionary	Internet & Catalog Retail	6	97.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.69
Rio Tinto	RIO	Materials	Mining - diversified	6	29.8%	UNDERVALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.72
Oracle	ORCL	Information Technology	Software	6	167.7%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.75
Eastman Chemical	EMN	Materials	Chemicals - broad	3	21.8%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.75
QUALCOMM	QCOM	Information Technology	Communications Equipment	3	100.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.76
Precision Castparts	PCP	Industrials	A&D Suppliers	3	24.7%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.78
ADP	ADP	Financials	Staffing Services	3	70.0%	UNDERVALUED	UNATTRACTIVE	EXCELLENT	LOW	0.80
Cisco	CSCO	Information Technology	Networking Equipment	7	72.4%	UNDERVALUED	NEUTRAL	EXCELLENT	LOW	0.80
General Electric	GE	Industrials	Conglomerates	6	52.4%	UNDERVALUED	ATTRACTIVE	EXCELLENT	LOW	0.81
Baidu	BIDU	Information Technology	Internet Software & Svcs	7	171.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Microsoft	MSFT	Information Technology	Software	7	108.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.82
Visa	V	Financials	Financial Tech Services	6	61.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.86
Hasbro	HAS	Consumer Discretionary	Leisure	6	39.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.87
Google	GOOG	Information Technology	Internet Software & Svcs	7	88.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.87
Apple	AAPL	Information Technology	Computer Hardware	6	269.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.88
St. Jude	STJ	Health Care	Medical Devices	4	39.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.89
Tencent	TCEHY	Information Technology	Internet Software & Svcs	6	152.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.89
Pfizer	PFE	Health Care	Pharmaceuticals - Big	3	15.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Synaptics	SYNA	Information Technology	Computers & Peripherals	3	93.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.90
Buffalo Wild Wings	BWLD	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	3	27.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.92
Medtronic	MDT	Health Care	Medical Devices	7	61.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Northrop Grumman	NOC	Industrials	A&D Prime	6	79.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.92
Halliburton	HAL	Energy	Energy Equipment - Large	4	26.9%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.92
Sysco	SYY	Consumer Staples	Food Retailers	6	19.0%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Mastercard	MA	Financials	Financial Tech Services	3	100.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.93
Johnson Controls	JCI	Consumer Discretionary	Auto Parts Suppliers	3	10.0%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	0.93
National Oilwell Varco	NOV	Energy	Energy Equipment - Large	6	19.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.93
Republic Services	RSG	Industrials	Environmental Services	7	20.7%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.94
Core Labs	CLB	Energy	Energy Equipment	3	91.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.95
Mattel	MAT	Consumer Discretionary	Leisure	4	46.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.95
DuPont	DD	Materials	Chemicals - broad	4	19.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.95
Royal Dutch Shell	RDS	Energy	Major Oil & Gas	5	18.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.96
United Technologies	UTX	Industrials	Conglomerates	4	24.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.96
Scotts Miracle-Gro	SMG	Materials	Chemicals - agriculture	4	16.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	0.96
BHP Billiton	BHP	Materials	Mining - diversified	3	41.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	0.97
Parker-Hannifin	PH	Industrials	Electrical Equipment	3	22.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.97
Altria Group	MO	Consumer Staples	Tobacco	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	0.97
Cypress Semi	CY	Information Technology	Broad Line Semiconductors	3	49.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	MEDIUM	0.98
Johnson & Johnson	JNJ	Consumer Staples	Household Products	6	33.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Dollar General	DG	Consumer Discretionary	Multiline Retail - discount	6	26.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	0.98
Emerson Electric	EMR	Industrials	Electrical Equipment	4	44.4%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	0.99
Illinois Tool Works	ITW	Industrials	Machinery & Tools	4	19.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Celgene	CELG	Health Care	Biotechnology	7	49.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.00
IBM	IBM	Information Technology	Computer Hardware	7	66.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.00
Procter & Gamble	PG	Consumer Staples	Household Products	7	22.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.01
FedEx	FDX	Industrials	Air Freight & Logistics	7	14.0%	FAIRLY VALUED	ATTRACTIVE	GOOD	LOW	1.01
Chevron	CVX	Energy	Major Oil & Gas	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.01
Campbell Soup	CPB	Consumer Staples	Food Products - Large	4	37.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.02
Nike	NKE	Consumer Discretionary	Luxury - Established Brands	6	34.5%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.02
Wal-Mart	WMT	Consumer Staples	Food Retailers	6	16.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.02
PPL	PPL	Energy	Utilities - Large	3	9.9%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.03
Waters	WAT	Health Care	Medical Devices	3	64.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.03
Baxter Intl	BAX	Health Care	Medical Instruments	3	31.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Honeywell	HON	Industrials	Conglomerates	3	31.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Adobe Systems	ADBE	Information Technology	Software	3	201.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Intel	INTC	Information Technology	Broad Line Semiconductors	6	41.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Stryker	SYK	Health Care	Medical Instruments	6	46.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.03
Exxon Mobil	XOM	Energy	Major Oil & Gas	3	14.1%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.03
Deere	DE	Industrials	Machinery - agriculture	6	33.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.03
Kimberly-Clark	KMB	Consumer Staples	Household Products	4	20.1%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
Danaher	DHR	Industrials	Conglomerates	3	23.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Zimmer	ZMH	Health Care	Medical Devices	7	31.5%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.04
CBOE	CBOE	Financials	Exchanges	3	140.0%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Schlumberger	SLB	Energy	Energy Equipment - Large	3	25.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.04
Costco	COST	Consumer Staples	Food Retailers	6	21.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.05
AutoZone	AZO	Consumer Discretionary	Specialty Retail - auto	6	44.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Compass Minerals	CMP	Materials	Chemicals - agriculture	3	17.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.05
Kellogg	K	Consumer Staples	Food Products - Large	4	20.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.05
Paychex	PAYX	Financials	Staffing Services	6	71.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.06
United Parcel Service	UPS	Industrials	Air Freight & Logistics	6	35.1%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.06
Raytheon	RTN	Industrials	A&D Prime	7	104.8%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.06
Biogen	BIIB	Health Care	Biotechnology	7	29.0%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	MEDIUM	1.07
Becton, Dickinson	BDX	Health Care	Medical Instruments	3	19.4%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Waste Management	WM	Industrials	Environmental Services	6	13.9%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.07
Expeditors Intl	EXPD	Industrials	Air Freight & Logistics	6	60.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.08
Walgreen	WAG	Consumer Staples	Food Retailers	3	14.3%	FAIRLY VALUED	NEUTRAL	GOOD	LOW	1.08
Clorox	CLX	Consumer Staples	Household Products	6	35.2%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.09
Eli Lilly	LLY	Health Care	Pharmaceuticals - Big	6	38.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.09
CH Robinson	CHRW	Industrials	Air Freight & Logistics	5	63.2%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.10
CME Group	CME	Financials	Exchanges	6	98.1%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.10
Caterpillar	CAT	Industrials	Machinery - agriculture	5	30.3%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.10
Amgen	AMGN	Health Care	Pharmaceuticals - Big	6	50.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.11
PepsiCo	PEP	Consumer Staples	Beverages - nonalcoholic	5	20.4%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.11
McCormick	MKC	Consumer Staples	Food Products	6	46.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.13
Texas Instruments	TXN	Information Technology	Broad Line Semiconductors	3	36.5%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.14
Disney	DIS	Consumer Discretionary	Media - entertainment	6	22.7%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.15
Monsanto	MON	Materials	Chemicals - agriculture	3	27.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.15
Praxair	PX	Materials	Chemicals - broad	3	14.7%	FAIRLY VALUED	UNATTRACTIVE	GOOD	LOW	1.16
Mead Johnson	MJN	Consumer Staples	Food Products - Large	6	112.8%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.16
Fiserv	FISV	Financials	Financial Tech Services	7	35.6%	FAIRLY VALUED	ATTRACTIVE	EXCELLENT	LOW	1.16
Colgate-Palmolive	CL	Consumer Staples	Household Products	3	47.6%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.17
3M	MMM	Industrials	Conglomerates	6	31.7%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Coca-Cola	KO	Consumer Staples	Beverages - nonalcoholic	6	23.9%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.17
Domino's Pizza	DPZ	Consumer Discretionary	Restaurants - Fast Food & Coffee	6	273.2%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
General Mills	GIS	Consumer Staples	Food Products - Large	3	19.8%	FAIRLY VALUED	NEUTRAL	EXCELLENT	LOW	1.18
General Dynamics	GD	Industrials	A&D Prime	6	53.6%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.18
Roper Industries	ROP	Industrials	Electrical Equipment	6	30.3%	FAIRLY VALUED	UNATTRACTIVE	EXCELLENT	LOW	1.19
Starbucks	SBUX	Consumer Discretionary	Restaurants - Fast Food & Coffee	4	103.1%	OVERVALUED	UNATTRACTIVE	EXCELLENT	LOW	1.26
Chipotle	CMG	Consumer Discretionary	Restaurants - Fast Cas & Full Svc	4	40.7%	OVERVALUED	UNATTRACTIVE	EXCELLENT	MEDIUM	1.46

Consumer Discretionary

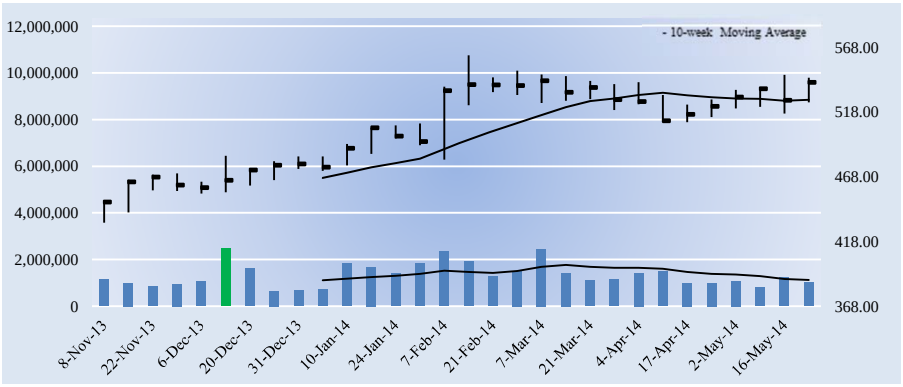
AutoZone AZO FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$540.90	$517.00	$414.00 - $620.00	LARGE-CAP CORE	Consumer Discretionary	Specialty Retail - auto

AutoZone has grown revenue roughly 10-fold since 1990, as it continues to grab a larger share of the $45 billion per year 'Do-It-Yourself' auto aftermarket industry.

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).

Company Vitals

Market Cap (USD)	$19,787
Avg Weekly Vol (30 wks)	1,335
30-week Range (USD)	432.55 - 561.62
Valuentum Sector	Consumer Discretionary
5-week Return	5.1%
13-week Return	-0.7%
30-week Return	24.4%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	38.64
P/E on Est. Normal Diluted EPS	14.0
Est. Normal EBITDA	2,661
Forward EV/EBITDA	10.6
EV/Est. Normal EBITDA	9.0
Forward Revenue Growth (5-yr)	4.5%
Forward EPS Growth (5-yr)	10.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	-71.5%
Return on Assets	15.2%
ROIC, with goodwill	39.4%
ROIC, without goodwill	44.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,219
Net Debt	4,077
Total Debt/EBITDA	2.1
Net Debt/EBITDA	2.0
EBITDA/Interest	10.7
Current Ratio	0.8
Quick Ratio	0.1

NMF = Not Meaningful

Investment Highlights

• AutoZone'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.

• AutoZone is a leading retailer and distributor of auto replacement parts in the US. Though the firm tries to differentiate itself with customer service, we don't think this is a sustainable competitive advantage versus large peers such as Advance Auto and Pep Boys. Its US retail business is its #1 priority.

• AutoZone 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 13.2% in coming years. Total debt-to-EBITDA was 2.1 last year, while debt-to-book capitalization stood at 166.6%.

• AutoZone is a fantastic growth story. The firm has grown revenue roughly 10-fold since 1990, as it continues to grab a larger share of the $45 billion per year 'Do-It-Yourself' auto aftermarket industry. Its expansion is not over yet either. AutoZone's US retail business can be expected to grow 3% annually, while its commercial business offers solid growth potential.

• The company has been aggressively investing in the highly-fragmented commercial segment of its industry in order to drive share gains. The efforts have resulted in a doubling of sales to this industry segment since 2010.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**527.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
AutoNation	16.5	1.6	92.4%
CarMax	18.1	1.6	86.0%
O'Reilly Automotive	20.8	1.5	109.3%
Penske	14.5	0.9	99.0%
Peer Median	17.3	1.6	95.7%
AutoZone	**17.0**	**1.9**	**104.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-12	Aug-13	Aug-14
Revenue	8,604	9,148	9,504
Revenue, YoY%	6.6%	6.3%	3.9%
Operating Income	1,629	1,773	2,006
Operating Margin %	18.9%	19.4%	21.1%
Net Income	930	1,016	1,166
Net Income Margin %	10.8%	11.1%	12.3%
Diluted EPS	23.48	27.79	31.88
Diluted EPS, YoY %	20.6%	18.3%	14.7%
Free Cash Flow (CFO-capex)	846	1,001	1,067
Free Cash Flow Margin %	9.8%	10.9%	11.2%

In Millions of USD (except for per share items)

Structure of the Retail Auto Parts Industry — GOOD

The retail auto parts industry is characterized by stiff competition in many areas, including brand recognition, customer service, and price. The industry is impacted by both the age and number of vehicles in service, especially those that are no longer under manufacturer's warranties (typically seven years old and older). Demand for retail auto parts can best be described as counter-cyclical: as consumers' cash flows decrease, drivers tend to keep their vehicles longer, leading to more retail auto parts sales. Though competition among constituents is intense, we like the industry's defensive characteristics.

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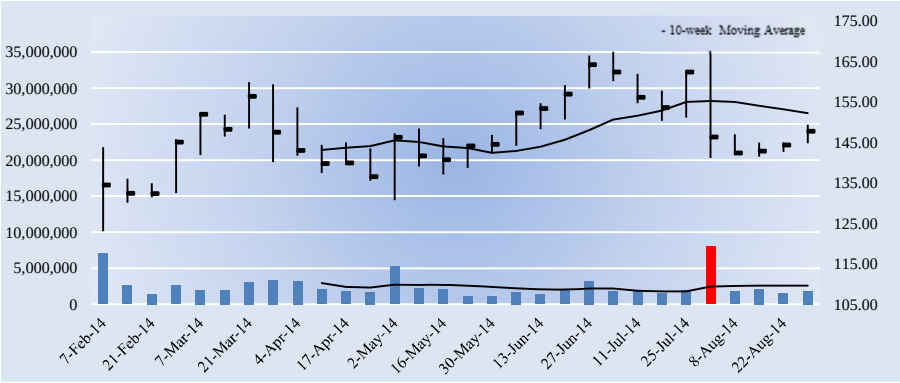
Buffalo Wild Wings BWLD FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$161.00	$129.00 - $193.00	MID-CAP BLEND	Consumer Discretionary	Restaurants - Fast Cas & Full Svc

A restaurant focused on the concept of wings, beer, and sports seems like nothing special, but Buffalo Wild Wings certainly has carved out a solid presence in this arena.

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).

Company Vitals

Market Cap (USD)	$2,788
Avg Weekly Vol (30 wks)	2,513
30-week Range (USD)	123.05 - 167.64
Valuentum Sector	Consumer Discretionary
5-week Return	-9.5%
13-week Return	2.2%
30-week Return	3.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	7.27
P/E on Est. Normal Diluted EPS	20.3
Est. Normal EBITDA	335
Forward EV/EBITDA	11.1
EV/Est. Normal EBITDA	7.9
Forward Revenue Growth (5-yr)	15.3%
Forward EPS Growth (5-yr)	20.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.9%
Return on Assets	11.0%
ROIC, with goodwill	24.9%
ROIC, without goodwill	27.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-133
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	1.1
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• A restaurant focused on the concept of wings, beer, and sports seems like nothing special, but Buffalo Wild Wings certainly has carved out a solid presence in this arena. With each restaurant boasting an extensive multi-media system, a full bar and open layout, 'B-Dubs' has become the place of choice for many social chicken-wing lovers.

• Buffalo Wild Wings has plenty of room to grow its restaurant base. After opening its 900th restaurant, the firm believes it can achieve 1,700 locations in the US, and we completely agree. We're equally excited about its new PizzaRev concept, which could do to pizza what Chipotle has done to burritos.

• Buffalo Wild Wings' 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.

• 'B-Dubs' has partnered with craft brewer Redhook to create a new premium beer called Game Changer, designed to complement the taste of wings. We like this move, and we think it could add another gross margin driver to the company's product mix.

• Buffalo Wild Wings continues to invest in technology to improve the guest experience and attract new demographics. Tablet ordering/payment, music and premium arcade, and B-Dubs TV are but a few initiatives.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**AGGRESSIVE**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**152.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Brinker	15.7	1.3	101.9%
Chipotle	49.2	2.9	145.6%
Darden Restaurants	21.0	1.5	112.7%
Panera Bread	22.2	1.5	95.5%
Peer Median	21.6	1.5	107.3%
Buffalo Wild Wings	**29.0**	**1.9**	**91.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	1,041	1,267	1,504
Revenue, YoY%	32.6%	21.7%	18.7%
Operating Income	86	104	138
Operating Margin %	8.3%	8.2%	9.2%
Net Income	57	72	97
Net Income Margin %	5.5%	5.6%	6.5%
Diluted EPS	3.06	3.79	5.10
Diluted EPS, YoY %	12.2%	23.8%	34.5%
Free Cash Flow (CFO-capex)	15	41	68
Free Cash Flow Margin %	1.4%	3.2%	4.5%

In Millions of USD (except for per share items)

Structure of the Restaurants Industry - Fast Casual & Full Service — NEUTRAL

The restaurant industry has benefited from a long-term trend toward eating out, but the space has become increasingly more competitive as new concepts are introduced and successful chains expand. Not only are there pricing pressures and trade-down threats, but rising costs for commodities and labor have pressured profits. Barriers to entry are low, and many constituents have a difficult time differentiating themselves. We tend to like larger chains that benefit from scale advantages and international expansion opportunities, though niche franchises can be appealing. We're neutral on the structure of the group.

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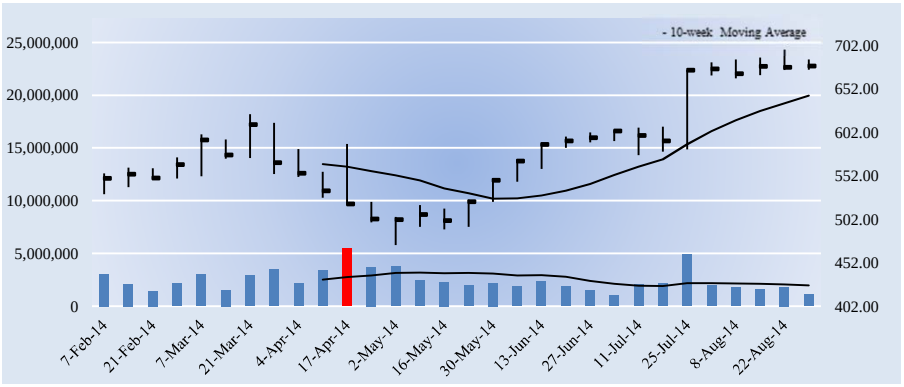
Chipotle CMG OVERVALUED 10.7%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$466.00	$326.00 - $606.00	LARGE-CAP GROWTH	Consumer Discretionary	Restaurants - Fast Cas & Full Svc

Chipotle continues to defy gravity. We may be too conservative, but its share price is far ahead of its valuation at the moment.

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).

Company Vitals

Market Cap (USD)	$21,229
Avg Weekly Vol (30 wks)	2,435
30-week Range (USD)	472.41 - 697.93
Valuentum Sector	Consumer Discretionary
5-week Return	0.5%
13-week Return	23.8%
30-week Return	23.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	20.98
P/E on Est. Normal Diluted EPS	32.3
Est. Normal EBITDA	1,221
Forward EV/EBITDA	25.2
EV/Est. Normal EBITDA	16.9
Forward Revenue Growth (5-yr)	18.1%
Forward EPS Growth (5-yr)	22.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.7%
Return on Assets	17.6%
ROIC, with goodwill	39.5%
ROIC, without goodwill	40.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-578
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	3.3
Quick Ratio	3.0

NMF = Not Meaningful

Investment Highlights

• Chipotle earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. We expect the firm's return on invested capital (excluding goodwill) to expand to 56.9% from 45.2% during the next two years.

• Chipotle serves a focused menu of burritos, tacos, burrito bowls (a burrito without the tortilla) and salads, made using fresh ingredients. It prides itself on trying to find the highest-quality ingredients ('Food With Integrity') and providing an exceptional restaurant experience.

• Chipotle 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 10.1% in coming years, and the firm had no debt as of last quarter. The company expects to add 180-195 new restaurants during 2014. Guest traffic remains strong and price increases are sticking.

• Chipotle has been on a rollercoaster ride during the past few years. The restaurant is facing strengthening competition from Yum! Brands' Taco Bell and even Jack's Qdoba, but recent same-store sales performance has been astounding. For example, comparable store sales for the second quarter of 2014 advanced an incredible 17%+.

• Chipotle is a fantastic company and a great concept with tons of growth ahead of it. However, its shares are far from cheap at present, even after factoring in sustainable expansion. We may be too conservative in our view, however.

Investment Considerations

DCF Valuation	**OVERVALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**AGGRESSIVE**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**644.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Brinker	15.7	1.3	101.9%
Cracker Barrel	17.8	1.6	86.6%
Darden Restaurants	21.0	1.5	112.7%
Panera Bread	22.2	1.5	95.5%
Peer Median	19.4	1.5	98.7%
Chipotle	**49.2**	**2.9**	**145.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	2,731	3,215	4,066
Revenue, YoY%	20.3%	17.7%	26.5%
Operating Income	461	539	699
Operating Margin %	16.9%	16.8%	17.2%
Net Income	278	327	430
Net Income Margin %	10.2%	10.2%	10.6%
Diluted EPS	8.75	10.47	13.80
Diluted EPS, YoY %	29.3%	19.7%	31.8%
Free Cash Flow (CFO-capex)	223	329	366
Free Cash Flow Margin %	8.2%	10.2%	9.0%

In Millions of USD (except for per share items)

Structure of the Restaurants Industry - Fast Casual & Full Service — NEUTRAL

The restaurant industry has benefited from a long-term trend toward eating out, but the space has become increasingly more competitive as new concepts are introduced and successful chains expand. Not only are there pricing pressures and trade-down threats, but rising costs for commodities and labor have pressured profits. Barriers to entry are low, and many constituents have a difficult time differentiating themselves. We tend to like larger chains that benefit from scale advantages and international expansion opportunities, though niche franchises can be appealing. We're neutral on the structure of the group.

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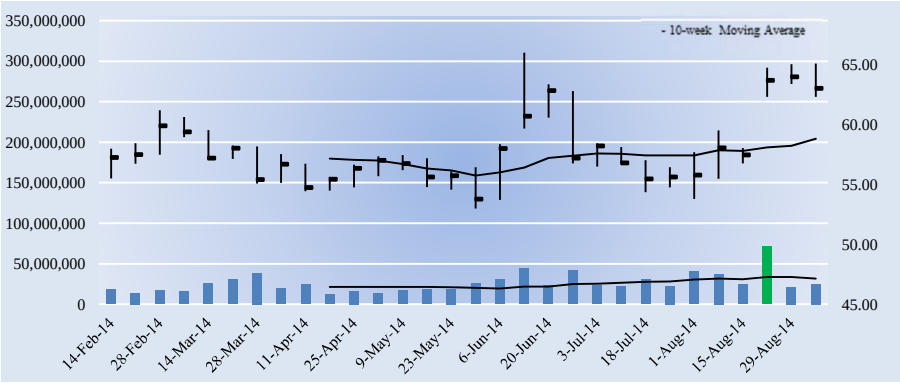
Dollar General DG FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$64.00	$51.00 - $77.00	LARGE-CAP VALUE	Consumer Discretionary	Multiline Retail - discount

Dollar General has announced that it plans to purchase Family Dollar.

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).

Company Vitals

Market Cap (USD)	$20,406
Avg Weekly Vol (30 wks)	26,027
30-week Range (USD)	53 - 65.99
Valuentum Sector	Consumer Discretionary
5-week Return	13.0%
13-week Return	-0.7%
30-week Return	10.2%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	4.43
P/E on Est. Normal Diluted EPS	14.2
Est. Normal EBITDA	2,865
Forward EV/EBITDA	9.9
EV/Est. Normal EBITDA	7.9
Forward Revenue Growth (5-yr)	7.7%
Forward EPS Growth (5-yr)	10.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.0%
Return on Assets	9.0%
ROIC, with goodwill	12.3%
ROIC, without goodwill	26.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,819
Net Debt	2,313
Total Debt/EBITDA	1.4
Net Debt/EBITDA	1.1
EBITDA/Interest	23.3
Current Ratio	1.8
Quick Ratio	0.3

NMF = Not Meaningful

Investment Highlights

• Dollar General'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.

• Dollar General is the largest discount retailer in the US by number of stores with over 10,700 neighborhood stores in 40 states. It provides products that are frequently used and replenished such as food, snacks, and health and beauty aids.

• Dollar General's cash flow generation and financial leverage aren't much to speak of. The firm's free cash flow margin has averaged about 3.4% during the past three years, lower than the mid-single-digit range we'd expect for cash cows. However, the firm's cash flow should be sufficient to handle its low financial leverage.

• Dollar General has put up more than 20 consecutive years of same-store sales growth. The firm continues to add new stores to its portfolio and has expansion opportunities in the Pacific Northwest. Dollar General is expected to scoop up Family Dollar in a $9+ billion transaction.

• Wal-Mart is opening up more Neighborhood Markets and Express stores (these stores are a fraction of the size of its Supercenters), creating additional competition. This could pressure long-term store growth potential at Dollar General.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	MEDIUM
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	59.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Big Lots	18.5	1.3	98.8%
Dollar Tree	19.5	1.6	104.9%
Family Dollar	23.0	1.0	100.1%
Fred's Inc	-730.7	NMF	92.3%
Peer Median	19.0	1.3	99.5%
Dollar General	**17.8**	**1.9**	**98.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jan-13	Jan-14	Jan-15
Revenue	16,022	17,504	19,132
Revenue, YoY%	8.2%	9.2%	9.3%
Operating Income	1,655	1,736	1,923
Operating Margin %	10.3%	9.9%	10.1%
Net Income	953	1,025	1,156
Net Income Margin %	5.9%	5.9%	6.0%
Diluted EPS	2.85	3.17	3.54
Diluted EPS, YoY %	28.2%	11.1%	11.7%
Free Cash Flow (CFO-capex)	522	656	914
Free Cash Flow Margin %	3.3%	3.7%	4.8%

In Millions of USD (except for per share items)

Structure of the Multiline Retail (discount) Industry — GOOD

The retail discount store industry provides consumable basic needs to customers primarily in the low- and middle-income brackets. More than one third of the industry's customers live in households that earn less than $20,000 per year, making the group's results counter-cyclical--as more households generate lower income due to poor economic conditions, store growth and same-store-sales opportunities increase. Still, competition is fierce among constituents and with many other retailers, including grocery stores. But given the niche low-price strategy of participants and their counter-cyclical nature, we like the group.

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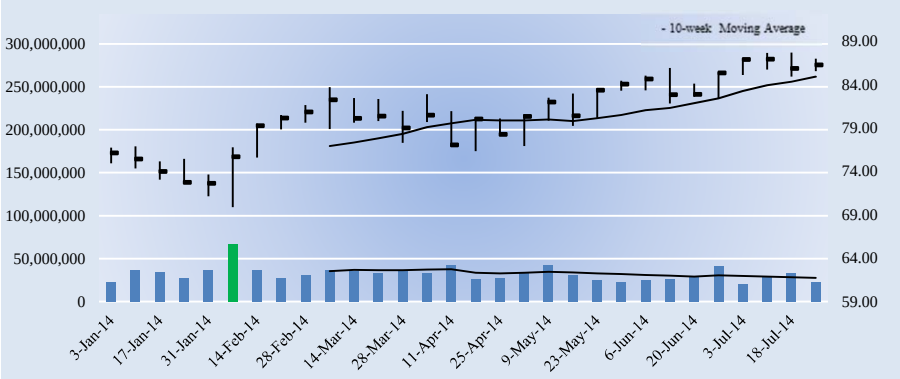
Disney DIS FAIRLY VALUED

Buying Index™ 6 | Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$75.00	$60.00 - $90.00	LARGE-CAP CORE	Consumer Discretionary	Media - entertainment

Disney boasts one of the most-recognized brand names.

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).

Company Vitals

Market Cap (USD)	$156,335
Avg Weekly Vol (30 wks)	32,336
30-week Range (USD)	69.85 - 87.63
Valuentum Sector	Consumer Discretionary
5-week Return	4.1%
13-week Return	9.5%
30-week Return	15.0%
Dividend Yield %	1.0%
Dividends per Share	0.86
Forward Dividend Payout Ratio	20.3%
Est. Normal Diluted EPS	5.28
P/E on Est. Normal Diluted EPS	16.3
Est. Normal EBITDA	15,916
Forward EV/EBITDA	12.3
EV/Est. Normal EBITDA	10.5
Forward Revenue Growth (5-yr)	5.9%
Forward EPS Growth (5-yr)	13.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	15.2%
Return on Assets	8.1%
ROIC, with goodwill	11.8%
ROIC, without goodwill	22.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	14,562
Net Debt	10,631
Total Debt/EBITDA	1.3
Net Debt/EBITDA	0.9
EBITDA/Interest	33.4
Current Ratio	1.2
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Disney'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.

• Disney is a diversified entertainment company with operations in five segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products, and Interactive. 'Media Networks' and 'Parks and Resorts' account for more than 70% of revenue. The firm boasts one of the most-recognized brand

• Disney 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 18% in coming years. Total debt-to-EBITDA was 1.3 last year, while debt-to-book capitalization stood at 24.3%.

• Earnings at Disney continue to be resilient thanks to the strength of its brands and the value of its high-quality creative content. The firm's 'Media Networks' and 'Parks and Resorts' segments continue to lead the charge. ESPN continues to be a solid anchor to 'Cable Networks' revenue--a division included in 'Media Networks.'

• Disney has an innate ability to leverage creative success across its entire company. Its 'Studio Entertainment' division, for example, is growing at a nice double-digit clip thanks to strong home entertainment revenue (the movie Frozen, for example).

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	85.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
IMAX Corp	33.6	1.8	101.8%
Live Nation	741.3	NMF	102.1%
Madison Square Garden	36.2	1.3	131.0%
News Corp	37.4	NMF	106.7%
Peer Median	36.8	1.5	104.4%
Disney	**20.4**	**1.9**	**115.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-12	Sep-13	Sep-14
Revenue	42,278	45,041	48,464
Revenue, YoY%	3.4%	6.5%	7.6%
Operating Income	8,863	9,450	11,172
Operating Margin %	21.0%	21.0%	23.1%
Net Income	5,682	6,136	7,519
Net Income Margin %	13.4%	13.6%	15.5%
Diluted EPS	3.13	3.38	4.23
Diluted EPS, YoY %	24.1%	8.3%	25.0%
Free Cash Flow (CFO-capex)	4,182	6,656	7,958
Free Cash Flow Margin %	9.9%	14.8%	16.4%

In Millions of USD (except for per share items)

Structure of the Media (entertainment) Industry — NEUTRAL

The media (entertainment) industry spans firms with diversified worldwide entertainment operations to those that specialize primarily in motion picture technologies. Firms with media network businesses compete for viewers with other networks, while companies with studio entertainment businesses compete with all forms of entertainment. A significant number of companies produce theatrical/television films, and success depends on unpredictable public preferences. The strongest participants will consistently create filmed entertainment and/or cable programming that consumers want. We're neutral on the group.

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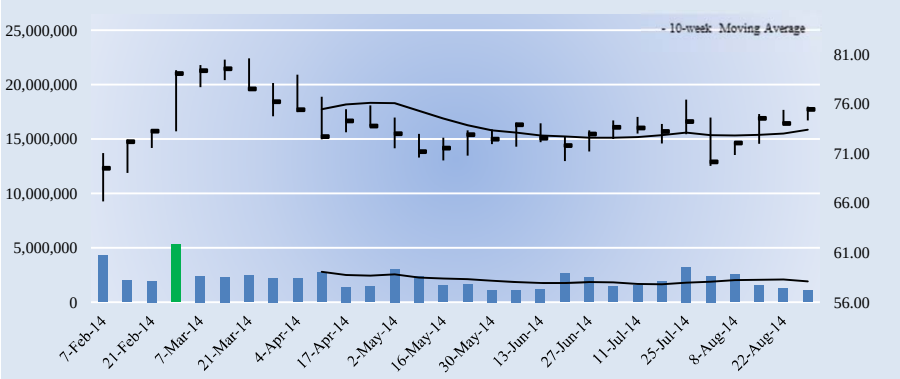
Domino's Pizza DPZ FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$64.00	$51.00 - $77.00	MID-CAP CORE	Consumer Discretionary	Restaurants - Fast Food & Coffee

Domino's Pizza is the number one pizza delivery company in the US.

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).

Company Vitals

Market Cap (USD)	$4,355
Avg Weekly Vol (30 wks)	2,155
30-week Range (USD)	66.18 - 80.61
Valuentum Sector	Consumer Discretionary
5-week Return	1.4%
13-week Return	3.9%
30-week Return	6.7%
Dividend Yield %	1.3%
Dividends per Share	1.00
Forward Dividend Payout Ratio	34.5%
Est. Normal Diluted EPS	4.08
P/E on Est. Normal Diluted EPS	18.5
Est. Normal EBITDA	486
Forward EV/EBITDA	15.0
EV/Est. Normal EBITDA	11.8
Forward Revenue Growth (5-yr)	6.2%
Forward EPS Growth (5-yr)	17.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	-9.5%
Return on Assets	24.8%
ROIC, with goodwill	217.5%
ROIC, without goodwill	273.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,536
Net Debt	1,397
Total Debt/EBITDA	4.4
Net Debt/EBITDA	4.0
EBITDA/Interest	3.9
Current Ratio	1.4
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• Domino's Pizza is the number one pizza delivery company in the US, based on reported consumer spending. The firm also has a leading international presence and ranks as the second-largest pizza company in the world, based on number of units and sales. It has an enterprise of more than 11,000 units with ~55% outside of the US market.

• All investors should become familiar with the success of Domino's. Profits are driven primarily by franchise royalties, which account for more than 90% of international operating income. Its store count is growing faster internationally than both Pizza Hut and Papa John's.

• Domino's is an impressive company. Its US annual same-store sales growth has averaged +2.6% since 1994, with particular strength coming during the past few years (+9.9% in 2010 and +5.4% in 2013). The firm's average annual international same-store sales expansion has been even more impressive over this time horizon (+5.6% average).

• The firm's franchise model continues to generate sustainable returns for franchisees ($75k+ in annual EBITDA), revealing healthy internals. Domino's is targeting a long range outlook of 4%-6% net unit growth, domestic same store sales growth of 2%-4%, international same store sales growth of 3%-6%, and global retail sales growth of 6%-10%.

• The company's return on invested capital is simply a sight to see. If the firm is not the greatest value-generator in our coverage universe, it certainly is within the restaurant space. Domino's has a fantastic business model.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	73.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
McDonald's	16.7	2.8	100.8%
Starbucks	28.7	30.1	125.5%
Wendy's Co	23.1	2.1	101.9%
Yum! Brands	21.1	1.5	103.5%
Peer Median	22.1	2.5	102.7%
Domino's Pizza	**26.0**	**1.8**	**117.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	1,678	1,802	1,945
Revenue, YoY%	1.6%	7.4%	7.9%
Operating Income	282	314	349
Operating Margin %	16.8%	17.4%	18.0%
Net Income	112	143	166
Net Income Margin %	6.7%	7.9%	8.5%
Diluted EPS	1.90	2.48	2.90
Diluted EPS, YoY %	11.5%	30.1%	17.0%
Free Cash Flow (CFO-capex)	147	154	163
Free Cash Flow Margin %	8.8%	8.5%	8.4%

In Millions of USD (except for per share items)

Structure of the Restaurants Industry - Fast Food & Coffee — NEUTRAL

The restaurant industry has benefited from a long-term trend toward eating out, but the space has become increasingly more competitive as new concepts are introduced and successful chains expand. Not only are there pricing pressures and trade-down threats, but rising costs for commodities and labor have pressured profits. Barriers to entry are low, and many constituents have a difficult time differentiating themselves. We tend to like larger chains that benefit from scale advantages and international expansion opportunities, though niche franchises can be appealing. We're neutral on the structure of the group.

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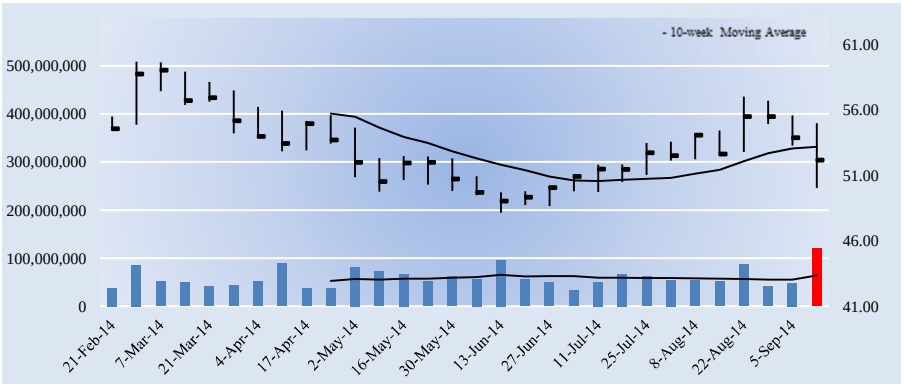
eBay EBAY UNDERVALUED 9.2%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$76.00	$57.00 - $95.00	LARGE-CAP BLEND	Consumer Discretionary	Internet & Catalog Retail

Our updated fair value estimate considers increased competition from Apple with respect to eBay's PayPal operations.

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).

Company Vitals

Market Cap (USD)	$68,525
Avg Weekly Vol (30 wks)	59,524
30-week Range (USD)	48.14 - 59.7
Valuentum Sector	Consumer Discretionary
5-week Return	-3.8%
13-week Return	6.7%
30-week Return	-4.8%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	3.97
P/E on Est. Normal Diluted EPS	13.2
Est. Normal EBITDA	8,357
Forward EV/EBITDA	10.0
EV/Est. Normal EBITDA	7.6
Forward Revenue Growth (5-yr)	13.4%
Forward EPS Growth (5-yr)	18.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	15.2%
Return on Assets	9.5%
ROIC, with goodwill	32.1%
ROIC, without goodwill	97.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,123
Net Debt	-4,902
Total Debt/EBITDA	0.9
Net Debt/EBITDA	NMF
EBITDA/Interest	47.7
Current Ratio	1.8
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• eBay earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 97.4% during the past three years.

• eBay is a global commerce and payments company that uniquely benefits from a network effect in its auction business and a secular trend toward consumer online consumption in its payments business, PayPal. We think the firm may economically-split eBay and PayPal in a value-creating IPO in coming years.

• eBay 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 21.7% in coming years. Total debt-to-EBITDA was 0.9 last year, while debt-to-book capitalization stood at 14.8%.

• The firm's Marketplaces business continues its resurgence, with active user growth reaching levels not seen since 2007. Targeting convenience and customer service via a site redesign and a relationship with Geek Squad has resonated with users. Mobile performance has also been fantastic.

• PayPal continues to grow at a robust pace, as it increases its focus on simplifying and improving the customer experience. Increased merchant coverage, higher consumer share of checkout, and an expanded addressable market are nice tailwinds for PayPal.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**53.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Amazon.com	NMF	NMF	105.8%
Expedia	21.6	1.7	95.1%
Liberty Interactive	26.0	1.3	103.3%
Priceline.com	22.0	1.4	84.9%
Peer Median	22.0	1.4	99.2%
eBay	**17.4**	**1.3**	**68.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	14,072	16,047	18,486
Revenue, YoY%	20.8%	14.0%	15.2%
Operating Income	2,888	3,371	4,752
Operating Margin %	20.5%	21.0%	25.7%
Net Income	2,609	2,856	3,924
Net Income Margin %	18.5%	17.8%	21.2%
Diluted EPS	1.99	2.18	3.00
Diluted EPS, YoY %	-19.2%	9.5%	37.9%
Free Cash Flow (CFO-capex)	2,581	3,745	4,104
Free Cash Flow Margin %	18.3%	23.3%	22.2%

In Millions of USD (except for per share items)

Structure of the Internet & Catalog Retail Industry — GOOD

The Internet and catalog retail industry benefits as a whole from the secular trend toward consumer digital (online) consumption. The industry consists of a number of exclusive online retailers led by Amazon and businesses that offer Internet travel services such as Priceline. Online auctions are dominated by eBay, and the firm benefits from both a buyer-seller driven network effect and secular online consumption growth (via PayPal). The industry generates high returns on investment due to minimal capital costs, but the landscape will be vastly different in the decades ahead. Still, we like the group.

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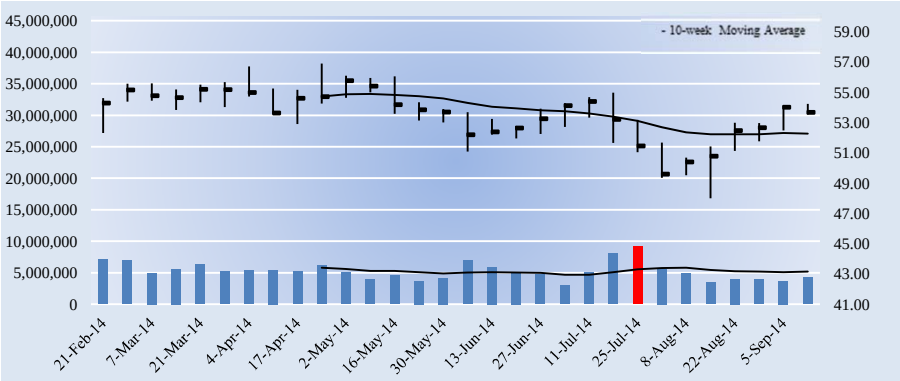
Hasbro HAS FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$62.00	$50.00 - $74.00	MID-CAP VALUE	Consumer Discretionary	Leisure

Hasbro is focused on re-igniting its world-class portfolio of brands.

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).

Company Vitals

Market Cap (USD)	$7,073
Avg Weekly Vol (30 wks)	5,229
30-week Range (USD)	48.01 - 56.91
Valuentum Sector	Consumer Discretionary
5-week Return	6.3%
13-week Return	2.9%
30-week Return	1.6%
Dividend Yield %	3.2%
Dividends per Share	1.72
Forward Dividend Payout Ratio	52.6%
Est. Normal Diluted EPS	4.01
P/E on Est. Normal Diluted EPS	13.4
Est. Normal EBITDA	1,004
Forward EV/EBITDA	8.8
EV/Est. Normal EBITDA	7.8
Forward Revenue Growth (5-yr)	4.0%
Forward EPS Growth (5-yr)	17.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.1%
Return on Assets	7.9%
ROIC, with goodwill	31.5%
ROIC, without goodwill	39.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,397
Net Debt	714
Total Debt/EBITDA	2.0
Net Debt/EBITDA	1.0
EBITDA/Interest	6.7
Current Ratio	1.8
Quick Ratio	1.3

NMF = Not Meaningful

Investment Highlights

• Hasbro'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.

• Hasbro's products include toys/games, television programming, motion pictures and digital gaming. The firm owns well-known brands such as Transformers, Nerf, Playskool, My Little Pony, G.I. Joe, Magic: The Gathering, and Monopoly.

• Hasbro 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 11.9% in coming years. Total debt-to-EBITDA was 2 last year, while debt-to-book capitalization stood at 45.4%.

• Hasbro is focused on re-igniting its world-class portfolio of brands. The company is targeting long-term revenue CAGR of 5%, operating profit to exceed revenue expansion, and operating cash flow to average roughly $500 million annually.

• We're big fans of Hasbro's dividend growth potential. Plus, the company has been paying dividends since 1977, so its track record is fantastic.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	52.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Carnival Corp	22.2	1.3	111.9%
Intl Game Technology	16.2	6.2	99.4%
Mattel	15.7	1.2	95.4%
Royal Caribbean	19.1	1.3	103.4%
Peer Median	17.7	1.3	101.4%
Hasbro	**16.4**	**1.4**	**86.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	4,089	4,082	4,352
Revenue, YoY%	-4.6%	-0.2%	6.6%
Operating Income	552	467	632
Operating Margin %	13.5%	11.4%	14.5%
Net Income	336	286	427
Net Income Margin %	8.2%	7.0%	9.8%
Diluted EPS	2.55	2.17	3.27
Diluted EPS, YoY %	-9.7%	-14.7%	50.7%
Free Cash Flow (CFO-capex)	465	529	493
Free Cash Flow Margin %	11.4%	13.0%	11.3%

In Millions of USD (except for per share items)

Structure of the Leisure Industry — NEUTRAL

The leisure industry is composed of firms that span the cruise line business to those that make toys and children's products. The cruise business has grown significantly in recent years, but still remains relatively small compared to the overall vacation industry (including land-based destinations). Competition among toy companies is intensifying due to recent trends toward shorter toy life cycles, the increasing use of technology in toys, and the proliferation of electronic consumer products and video games. All industry participants compete for consumer discretionary income. We're neutral on the structure of the group.

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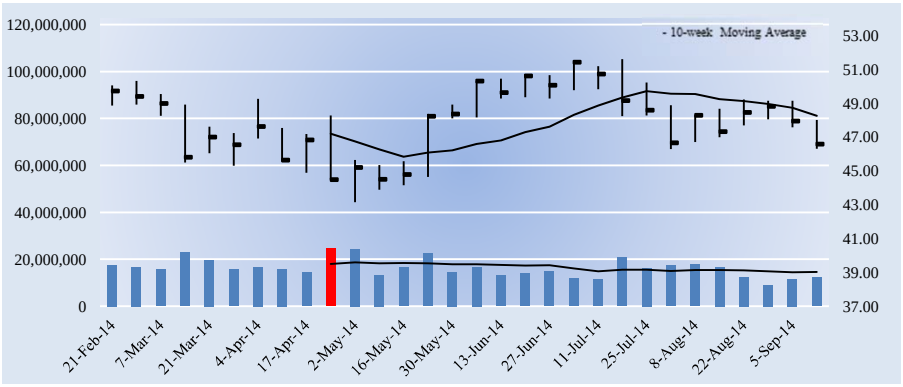
Johnson Controls JCI FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$50.00	$40.00 - $60.00	LARGE-CAP VALUE	Consumer Discretionary	Auto Parts Suppliers

Though Johnson Controls boasts some world-class businesses, the company faces substantial competition in all of its business segments.

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).

Company Vitals

Market Cap (USD)	$32,103
Avg Weekly Vol (30 wks)	16,212
30-week Range (USD)	43.16 - 51.6
Valuentum Sector	Consumer Discretionary
5-week Return	-3.9%
13-week Return	-6.0%
30-week Return	-5.4%
Dividend Yield %	1.9%
Dividends per Share	0.88
Forward Dividend Payout Ratio	27.5%
Est. Normal Diluted EPS	3.94
P/E on Est. Normal Diluted EPS	11.8
Est. Normal EBITDA	6,416
Forward EV/EBITDA	7.0
EV/Est. Normal EBITDA	5.7
Forward Revenue Growth (5-yr)	3.4%
Forward EPS Growth (5-yr)	21.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	13.1%
Return on Assets	5.0%
ROIC, with goodwill	5.4%
ROIC, without goodwill	10.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,498
Net Debt	4,443
Total Debt/EBITDA	1.5
Net Debt/EBITDA	1.2
EBITDA/Interest	14.7
Current Ratio	1.1
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• Johnson Controls' 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 10% during the past three years.

• Johnson Controls is a major player in building efficiency solutions, automotive batteries, and interior auto systems. Though it boasts some world-class businesses, the company faces substantial competition in all of its business segments.

• Johnson Controls' cash flow generation is below what we'd expect from an average company in our coverage universe, and the firm's financial leverage is somewhat elevated. If cash flows continue to be weak, we'd grow more cautious on the firm's overall financial health.

• Though pricing pressure from its automotive customers remains ongoing, the firm's combined automotive backlog is nearly $4 billion from 2013 through 2015. This number includes lost business due to a higher hurdle rate discipline as well as lower volume assumptions from European weakness.

• Johnson Controls' building efficiency solutions segment should benefit from a focus on reducing energy consumption and from replacing aged building infrastructure in developed economies.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**WEAK**
Financial Leverage	**MEDIUM**
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	**48.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
BorgWarner	17.7	1.3	92.6%
Cooper Tire & Rubber	11.2	1.2	89.0%
Magna Intl	12.7	1.5	103.4%
Tenneco	13.2	1.2	86.8%
Peer Median	12.9	1.3	90.8%
Johnson Controls	**14.5**	**1.3**	**93.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-12	Sep-13	Sep-14
Revenue	41,955	42,730	43,157
Revenue, YoY%	2.7%	1.8%	1.0%
Operating Income	1,780	2,813	4,297
Operating Margin %	4.2%	6.6%	10.0%
Net Income	1,226	1,178	2,229
Net Income Margin %	2.9%	2.8%	5.2%
Diluted EPS	1.78	1.71	3.20
Diluted EPS, YoY %	-24.4%	-4.0%	87.3%
Free Cash Flow (CFO-capex)	-272	1,305	1,950
Free Cash Flow Margin %	-0.6%	3.1%	4.5%

In Millions of USD (except for per share items)

Structure of the Auto Parts Supplier Industry — POOR

The highly-cyclical auto supplier industry depends on economic conditions and consumer confidence. Volatile gas prices impact a supplier's input costs and the types of vehicles demanded by consumers. OEMs have considerable bargaining power over suppliers in negotiating terms on largely-commoditized parts. The industry is regulated by environmental and safety laws, providing both challenges and opportunities. Suppliers have considerable operating leverage and remain extremely competitive, which prevents outsize economic returns over the long haul. In general, we don't like the group.

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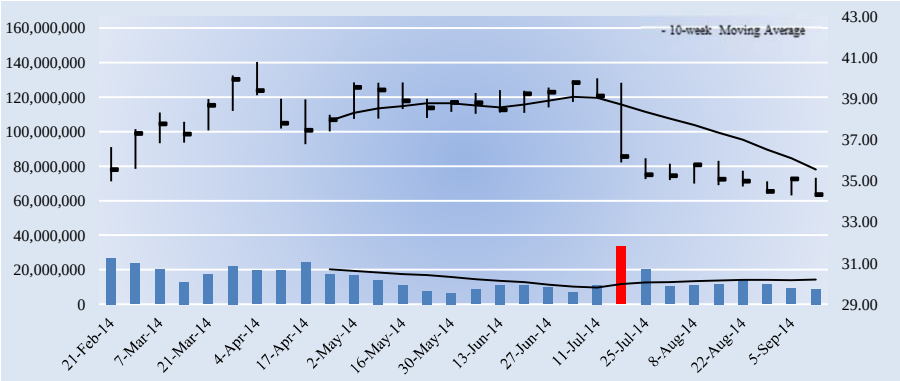
Mattel MAT FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$36.00	$27.00 - $45.00	LARGE-CAP VALUE	Consumer Discretionary	Leisure

Mattel makes some of the best-selling toy brands.

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).

Company Vitals

Market Cap (USD)	$11,932
Avg Weekly Vol (30 wks)	14,927
30-week Range (USD)	34.25 - 40.79
Valuentum Sector	Consumer Discretionary
5-week Return	-4.3%
13-week Return	-10.5%
30-week Return	-6.3%
Dividend Yield %	4.4%
Dividends per Share	1.52
Forward Dividend Payout Ratio	69.4%
Est. Normal Diluted EPS	2.80
P/E on Est. Normal Diluted EPS	12.3
Est. Normal EBITDA	1,430
Forward EV/EBITDA	10.5
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	2.7%
Forward EPS Growth (5-yr)	5.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	28.4%
Return on Assets	13.5%
ROIC, with goodwill	31.2%
ROIC, without goodwill	46.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,604
Net Debt	565
Total Debt/EBITDA	1.2
Net Debt/EBITDA	0.4
EBITDA/Interest	17.4
Current Ratio	3.2
Quick Ratio	2.2

NMF = Not Meaningful

Investment Highlights

• Mattel earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 46% during the past three years.

• Mattel makes toys and family products, including brands such as Barbie, Hot Wheels, Matchbox, American Girl, Radica, Tyco R/C, Fisher-Price, Thomas & Friends, Little People, and Power Wheels. Its brand portfolio is top notch.

• Mattel 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 13.1% in coming years. Total debt-to-EBITDA was 1.2 last year, while debt-to-book capitalization stood at 33%.

• Mattel's stated objectives are to grow market share, sustain gross margins of about 50%, and leverage its scale to deliver cost savings by reducing overhead expenses. Though competition remains tough, we think such goals are achievable.

• The firm sports a very nice dividend yield of 4.4%. We expect the firm to pay out about 69% of next year's earnings to shareholders as dividends.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
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	**36.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Carnival Corp	22.2	1.3	111.9%
Hasbro	16.4	1.4	86.6%
Intl Game Technology	16.2	6.2	99.4%
Royal Caribbean	19.1	1.3	103.4%
Peer Median	17.7	1.4	101.4%
Mattel	**15.7**	**1.2**	**95.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	6,421	6,485	6,439
Revenue, YoY%	2.5%	1.0%	-0.7%
Operating Income	1,021	1,168	990
Operating Margin %	15.9%	18.0%	15.4%
Net Income	776	904	754
Net Income Margin %	12.1%	13.9%	11.7%
Diluted EPS	2.24	2.60	2.19
Diluted EPS, YoY %	1.7%	16.0%	-15.8%
Free Cash Flow (CFO-capex)	1,057	446	730
Free Cash Flow Margin %	16.5%	6.9%	11.3%

In Millions of USD (except for per share items)

Structure of the Leisure Industry — NEUTRAL

The leisure industry is composed of firms that span the cruise line business to those that make toys and children's products. The cruise business has grown significantly in recent years, but still remains relatively small compared to the overall vacation industry (including land-based destinations). Competition among toy companies is intensifying due to recent trends toward shorter toy life cycles, the increasing use of technology in toys, and the proliferation of electronic consumer products and video games. All industry participants compete for consumer discretionary income. We're neutral on the structure of the group.

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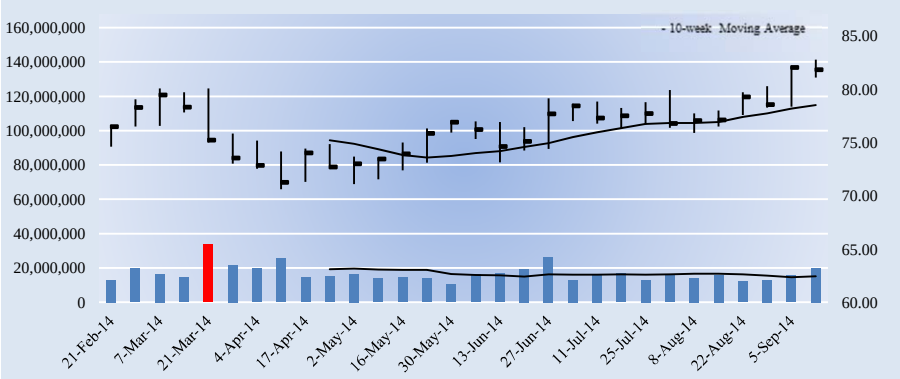
Nike NKE FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$80.00	$64.00 - $96.00	LARGE-CAP CORE	Consumer Discretionary	Luxury - Established Brands

We like Nike's brand and its focus on bringing innovative products to market that consumers want.

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).

Company Vitals

Market Cap (USD)	$74,131
Avg Weekly Vol (30 wks)	16,825
30-week Range (USD)	70.6 - 82.79
Valuentum Sector	Consumer Discretionary
5-week Return	5.6%
13-week Return	9.4%
30-week Return	8.9%
Dividend Yield %	1.2%
Dividends per Share	0.96
Forward Dividend Payout Ratio	28.0%
Est. Normal Diluted EPS	4.54
P/E on Est. Normal Diluted EPS	18.0
Est. Normal EBITDA	6,303
Forward EV/EBITDA	14.5
EV/Est. Normal EBITDA	11.2
Forward Revenue Growth (5-yr)	7.8%
Forward EPS Growth (5-yr)	13.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.1%
Return on Assets	14.8%
ROIC, with goodwill	33.8%
ROIC, without goodwill	34.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,373
Net Debt	-3,769
Total Debt/EBITDA	0.3
Net Debt/EBITDA	NMF
EBITDA/Interest	130.7
Current Ratio	2.7
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• Nike'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.

• Nike focuses its 'Nike Brand' and 'Brand Jordan' product offerings in seven key categories: Running, Basketball, Football (Soccer), Men's Training, Women's Training, Nike Sportswear (sports-inspired lifestyle products), and Action Sports.

• Nike 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 10.7% in coming years. Total debt-to-EBITDA was 0.3 last year, while debt-to-book capitalization stood at 11.3%. Readers should be cognizant that we are generous with respect to Nike's discount rate in the model.

• Nike expects to deliver revenues of $30 billion by fiscal year 2015 and offered a fiscal year 2017 revenue target of $36 billion. The company's internal long-term financial model indicates high single-digit revenue growth, mid-teens earnings per share growth and expanding returns on capital. This performance is achievable, in our view.

• The firm might not have the potential explosive upside of Lululemon or Under Armour, but we think Nike has the best business model and the most valuable brand name among the three. This will pay dividends over the long haul.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**79.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Estee Lauder	24.4	1.9	114.6%
Philips	21.5	1.1	94.3%
Sony	-10.9	NMF	104.3%
VF Corp	21.0	1.9	109.8%
Peer Median	21.3	1.9	107.0%
Nike	**23.8**	**2.0**	**102.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-13	May-14	May-15
Revenue	25,313	27,799	30,384
Revenue, YoY%	4.9%	9.8%	9.3%
Operating Income	3,254	3,680	4,165
Operating Margin %	12.9%	13.2%	13.7%
Net Income	2,464	2,693	3,111
Net Income Margin %	9.7%	9.7%	10.2%
Diluted EPS	2.69	2.97	3.43
Diluted EPS, YoY %	13.6%	10.6%	15.5%
Free Cash Flow (CFO-capex)	2,494	2,123	2,724
Free Cash Flow Margin %	9.9%	7.6%	9.0%

In Millions of USD (except for per share items)

Structure of the Luxury Goods Industry — GOOD

Luxury goods firms differentiate themselves based on brand name, perception, and quality in order to generate excess returns on invested capital through the economic cycle. Building a large, successful luxury brand is difficult, leaving those that possess them with intangible competitive advantages that are not easily overcome by new entrants. Growth in emerging middle classes and China will be the key demand drivers going forward, though the strongest brands will also grow successfully via market share gains. Though changes in consumer preferences should be watched closely, we like the structure of the group.

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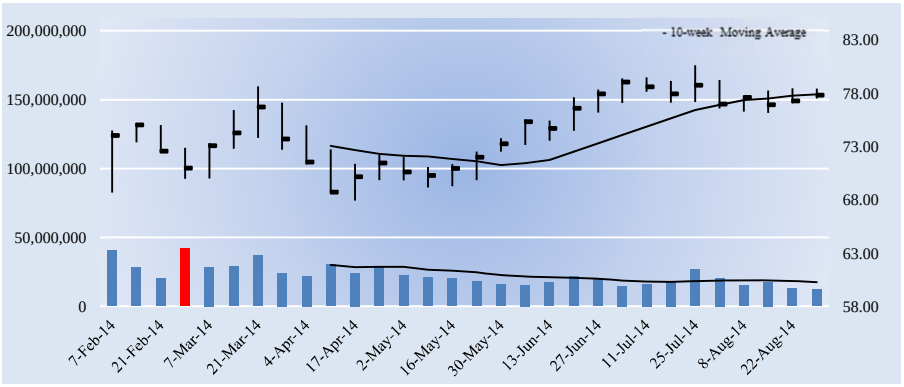
Starbucks SBUX OVERVALUED 4.9%

Buying Index™ 4 **Value Rating** ✗

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$62.00	$50.00 - $74.00	LARGE-CAP GROWTH	Consumer Discretionary	Restaurants - Fast Food & Coffee

Starbucks has one of the strongest and most-recognized brands in the world.

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).

Company Vitals

Market Cap (USD)	$59,315
Avg Weekly Vol (30 wks)	22,606
30-week Range (USD)	67.93 - 80.64
Valuentum Sector	Consumer Discretionary
5-week Return	-1.3%
13-week Return	6.3%
30-week Return	9.6%
Dividend Yield %	1.3%
Dividends per Share	1.04
Forward Dividend Payout Ratio	38.4%
Est. Normal Diluted EPS	3.71
P/E on Est. Normal Diluted EPS	21.0
Est. Normal EBITDA	5,057
Forward EV/EBITDA	15.2
EV/Est. Normal EBITDA	11.3
Forward Revenue Growth (5-yr)	9.7%
Forward EPS Growth (5-yr)	237.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.1%
Return on Assets	12.0%
ROIC, with goodwill	82.7%
ROIC, without goodwill	103.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,299
Net Debt	-1,934
Total Debt/EBITDA	0.5
Net Debt/EBITDA	NMF
EBITDA/Interest	101.9
Current Ratio	1.0
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• Starbucks' 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.

• Starbucks purchases and roasts high-quality coffees that it sells, along with handcrafted coffee, tea and other beverages and a variety of fresh food items, through its company-operated stores. Global comparable sales growth has averaged about 7%-8% per annum during the past few years.

• Starbucks 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 12.9% in coming years. Total debt-to-EBITDA was 0.5 last year, while debt-to-book capitalization stood at 22.5%.

• Starbucks has one of the strongest and most-recognized brands in the world. We think its brand name is largely responsible for it being able to charge lofty prices, despite significant competition in each of its markets. We also like its unparalleled beverage innovation, recent step-change in food quality, and renewed focus on tea.

• Investors should be cognizant that coffee costs can be volatile though. For example, the Arabica 'C' price/lb hit a peak of $2.82 (in April 2011), leading to a large hit to Starbucks' operating income shortly thereafter. Ongoing volatility should be expected.

Investment Considerations

DCF Valuation	**OVERVALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**VERY BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**78.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Burger King	30.2	2.2	123.2%
McDonald's	16.7	2.8	100.8%
Wendy's Co	23.1	2.1	101.9%
Yum! Brands	21.1	1.5	103.5%
Peer Median	22.1	2.2	102.7%
Starbucks	**28.7**	**30.1**	**125.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-12	Sep-13	Sep-14
Revenue	13,300	14,892	16,501
Revenue, YoY%	13.7%	12.0%	10.8%
Operating Income	1,787	2,207	3,061
Operating Margin %	13.4%	14.8%	18.5%
Net Income	1,384	8	2,062
Net Income Margin %	10.4%	0.1%	12.5%
Diluted EPS	1.79	0.01	2.71
Diluted EPS, YoY %	10.6%	NMF	NMF
Free Cash Flow (CFO-capex)	894	1,757	1,753
Free Cash Flow Margin %	6.7%	11.8%	10.6%

In Millions of USD (except for per share items)

Structure of the Restaurants Industry - Fast Food & Coffee — NEUTRAL

The restaurant industry has benefited from a long-term trend toward eating out, but the space has become increasingly more competitive as new concepts are introduced and successful chains expand. Not only are there pricing pressures and trade-down threats, but rising costs for commodities and labor have pressured profits. Barriers to entry are low, and many constituents have a difficult time differentiating themselves. We tend to like larger chains that benefit from scale advantages and international expansion opportunities, though niche franchises can be appealing. We're neutral on the structure of the group.

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Consumer Staples

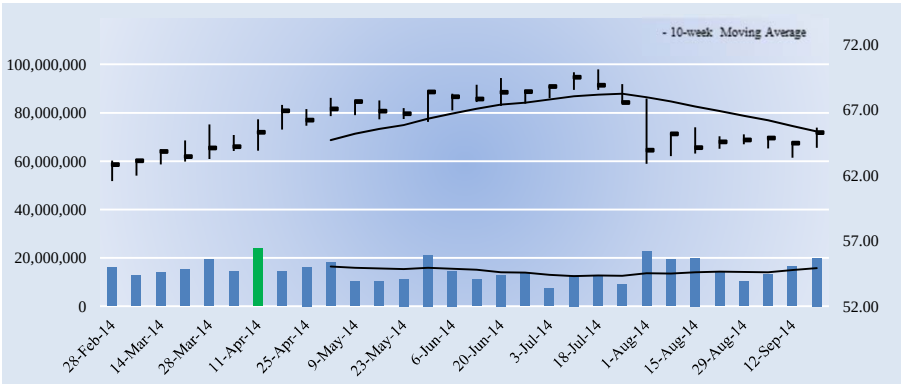
Colgate-Palmolive CL FAIRLY VALUED

Valuentum Buying Index™ 3 **Valuentum Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$56.00	$45.00 - $67.00	LARGE-CAP CORE	Consumer Staples	Household Products

Colgate is a leader in oral care and personal care and boasts an enviable track record of consecutive dividend increases.

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).

Company Vitals

Market Cap (USD)	$61,357
Avg Weekly Vol (30 wks)	14,882
30-week Range (USD)	61.58 - 70.11
Valuentum Sector	Consumer Staples
5-week Return	1.4%
13-week Return	-4.5%
30-week Return	5.6%
Dividend Yield %	2.2%
Dividends per Share	1.44
Forward Dividend Payout Ratio	48.0%
Est. Normal Diluted EPS	3.68
P/E on Est. Normal Diluted EPS	17.7
Est. Normal EBITDA	5,705
Forward EV/EBITDA	13.7
EV/Est. Normal EBITDA	11.6
Forward Revenue Growth (5-yr)	4.1%
Forward EPS Growth (5-yr)	13.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	107.9%
Return on Assets	19.7%
ROIC, with goodwill	32.5%
ROIC, without goodwill	47.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,657
Net Debt	4,695
Total Debt/EBITDA	1.3
Net Debt/EBITDA	1.1
EBITDA/Interest	34.3
Current Ratio	1.1
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• Colgate-Palmolive'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.

• Colgate is a leader in oral/personal care with the top toothpaste, manual toothbrush, and liquid hand soap brands across the world. Its portfolio includes Colgate Total, Colgate Plax, and Palmolive. Worldwide, the firm has ~45% of toothpaste share and ~33% manual toothbrush share.

• Colgate-Palmolive 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 18.5% in coming years. Total debt-to-EBITDA was 1.3 last year, while debt-to-book capitalization stood at 71%.

• Colgate's growth metrics have been impressive. Net sales have advanced at a CAGR of ~5% since 1991, the firm's gross margin has increased from 37.9% in 1984 to the high-50% today, and operating profit has increased at a 9%+ CAGR since the early 1990s. We expect this solid performance to continue thanks in part to robust emerging market growth.

• The firm sports a very nice dividend yield of 2.2%. We expect the firm to pay out about 48% of next year's earnings to shareholders as dividends. Colgate has raised its dividend for more than 49 consecutive years, a remarkable track record.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
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)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**65.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clorox	20.3	2.4	109.1%
Johnson & Johnson	18.0	2.5	98.2%
Kimberly-Clark	17.4	2.1	103.8%
Procter & Gamble	18.8	1.8	100.6%
Peer Median	18.4	2.3	102.2%
Colgate-Palmolive	**21.8**	**2.1**	**116.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	17,085	17,420	17,612
Revenue, YoY%	2.1%	2.0%	1.1%
Operating Income	3,971	3,946	4,388
Operating Margin %	23.2%	22.7%	24.9%
Net Income	2,472	2,241	2,791
Net Income Margin %	14.5%	12.9%	15.8%
Diluted EPS	2.57	2.38	3.00
Diluted EPS, YoY %	4.2%	-7.4%	25.8%
Free Cash Flow (CFO-capex)	2,631	2,534	2,939
Free Cash Flow Margin %	15.4%	14.5%	16.7%

In Millions of USD (except for per share items)

Structure of the Household Products Industry — GOOD

Firms in the household products industry sell some of the most recognized branded consumer packaged goods in the world and often hold a significant market share position in a variety of product categories. Though the industry is characterized by stiff competition from retailers' private-label brands, constituents tend to boast meaningful competitive advantages due to their brand strength/reputation and generate high returns on invested capital. Household products companies remain tied to the vicissitudes of consumer spending, but we tend to like the structure of the group.

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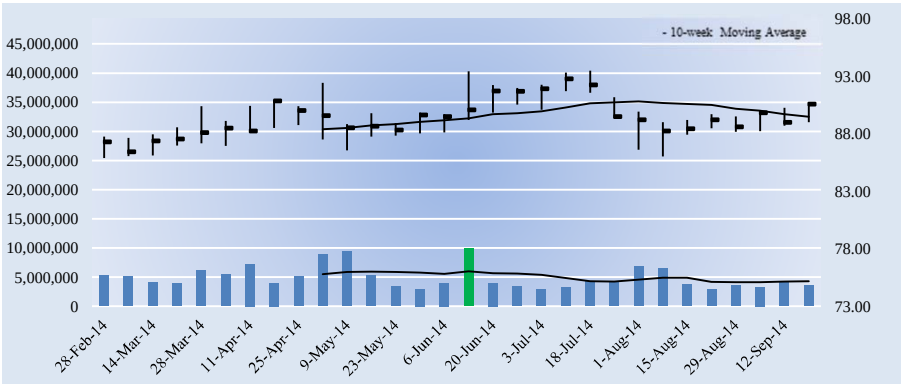
Clorox CLX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$83.00	$66.00 - $100.00	LARGE-CAP CORE	Consumer Staples	Household Products

Nearly 90% of Clorox's brands hold the #1 or #2 market share positions in their categories.

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).

Company Vitals

Market Cap (USD)	$11,932
Avg Weekly Vol (30 wks)	4,866
30-week Range (USD)	85.89 - 93.48
Valuentum Sector	Consumer Staples
5-week Return	2.4%
13-week Return	-1.4%
30-week Return	4.3%
Dividend Yield %	3.3%
Dividends per Share	2.96
Forward Dividend Payout Ratio	66.3%
Est. Normal Diluted EPS	5.37
P/E on Est. Normal Diluted EPS	16.9
Est. Normal EBITDA	1,332
Forward EV/EBITDA	12.0
EV/Est. Normal EBITDA	10.4
Forward Revenue Growth (5-yr)	3.3%
Forward EPS Growth (5-yr)	8.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	3439.9%
Return on Assets	13.0%
ROIC, with goodwill	22.0%
ROIC, without goodwill	35.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,313
Net Debt	1,984
Total Debt/EBITDA	2.0
Net Debt/EBITDA	1.7
EBITDA/Interest	11.1
Current Ratio	0.9
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• Clorox'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.

• Clorox markets some blockbuster brand names, including its namesake bleach/cleaning products, Pine-Sol cleaners, Fresh Step cat litter, Glad bags, Kingsford charcoal, and KC Masterpiece sauces. Nearly 90% of the company's brands hold the #1 or #2 market share positions in their categories.

• Clorox 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 12.2% in coming years. Total debt-to-EBITDA was 2 last year, while debt-to-book capitalization stood at 93.8%. Clorox has repurchased nearly 40% of shares outstanding during this past decade.

• The firm has some noteworthy long-term annual financial goals: organic sales growth of 3%-5%, EBIT margin improvement of 25-50 basis points, and free cash flow of 10%-12% of sales. Most of this ongoing improvement will have to come from US retail, which represents 75% of revenue. Clorox has a robust innovation pipeline.

• The company is targeting $300 million in sales in healthcare by fiscal 2017, up from $120 million in fiscal 2013. It plans to grow its base in surface and skin disinfection and exand organically through product and channel adjacencies. We like this area of growth.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
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)	**BULLISH**
Near-term Technical Support, 10-week MA	**89.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Colgate-Palmolive	21.8	2.1	116.6%
Johnson & Johnson	18.0	2.5	98.2%
Kimberly-Clark	17.4	2.1	103.8%
Procter & Gamble	18.8	1.8	100.6%
Peer Median	18.4	2.1	102.2%
Clorox	**20.3**	**2.4**	**109.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	5,623	5,591	5,641
Revenue, YoY%	2.8%	-0.6%	0.9%
Operating Income	975	966	979
Operating Margin %	17.3%	17.3%	17.4%
Net Income	574	562	582
Net Income Margin %	10.2%	10.1%	10.3%
Diluted EPS	4.32	4.27	4.46
Diluted EPS, YoY %	5.2%	-1.2%	4.6%
Free Cash Flow (CFO-capex)	583	633	662
Free Cash Flow Margin %	10.4%	11.3%	11.7%

In Millions of USD (except for per share items)

Structure of the Household Products Industry — GOOD

Firms in the household products industry sell some of the most recognized branded consumer packaged goods in the world and often hold a significant market share position in a variety of product categories. Though the industry is characterized by stiff competition from retailers' private-label brands, constituents tend to boast meaningful competitive advantages due to their brand strength/reputation and generate high returns on invested capital. Household products companies remain tied to the vicissitudes of consumer spending, but we tend to like the structure of the group.

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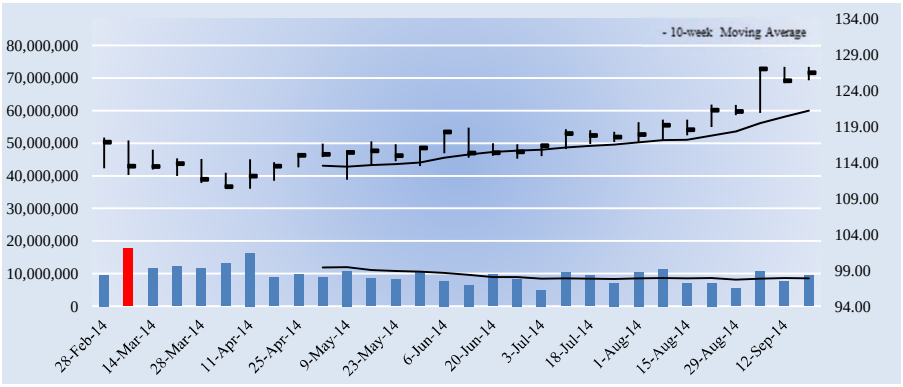
Costco COST FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$121.00	$97.00 - $145.00	LARGE-CAP CORE	Consumer Staples	Food Retailers

Costco targets merchandise that produces high sales volumes and rapid inventory turnover.

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).

Company Vitals

Market Cap (USD)	$55,725
Avg Weekly Vol (30 wks)	9,686
30-week Range (USD)	110.36 - 127.32
Valuentum Sector	Consumer Staples
5-week Return	6.3%
13-week Return	9.8%
30-week Return	11.5%
Dividend Yield %	1.1%
Dividends per Share	1.42
Forward Dividend Payout Ratio	30.6%
Est. Normal Diluted EPS	6.16
P/E on Est. Normal Diluted EPS	20.5
Est. Normal EBITDA	5,306
Forward EV/EBITDA	13.2
EV/Est. Normal EBITDA	10.3
Forward Revenue Growth (5-yr)	7.6%
Forward EPS Growth (5-yr)	11.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	15.3%
Return on Assets	6.6%
ROIC, with goodwill	21.4%
ROIC, without goodwill	21.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,998
Net Debt	-1,126
Total Debt/EBITDA	1.2
Net Debt/EBITDA	NMF
EBITDA/Interest	40.4
Current Ratio	1.2
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• Costco'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.

• Costco operates an international chain of warehouses, mainly under the 'Costco Wholesale' name. Costco is open only to members and offers three types of membership: Business, Gold Star (individual) and the Executive membership. It has over 70 million loyal cardholders.

• Costco's cash flow generation and financial leverage aren't much to speak of. The firm's free cash flow margin has averaged about 1.7% during the past three years, lower than the mid-single-digit range we'd expect for cash cows. However, the firm's cash flow should be sufficient to handle its low financial leverage.

• Costco targets merchandise that produces high sales volumes and rapid inventory turnover. This turnover, when combined with efficiencies achieved by volume purchasing, efficient distribution and reduced handling of merchandise in no-frills, self-service warehouses, enables Costco to operate profitably at significantly lower gross margins than peers.

• Costco has a number of strengths: strong member renewals, fantastic employees, great merchandise, and a treasure-hunt atmosphere that consumers love. Its image speaks of quality.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**121.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Kroger	15.7	1.5	100.3%
Target	19.8	1.6	98.2%
Walgreen	18.9	1.9	108.4%
Wal-Mart	15.1	2.4	102.5%
Peer Median	17.3	1.7	101.4%
Costco	**27.2**	**2.4**	**104.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-12	Aug-13	Aug-14
Revenue	99,137	105,156	113,463
Revenue, YoY%	11.5%	6.1%	7.9%
Operating Income	2,759	3,053	3,125
Operating Margin %	2.8%	2.9%	2.8%
Net Income	1,709	2,039	2,052
Net Income Margin %	1.7%	1.9%	1.8%
Diluted EPS	3.89	4.63	4.65
Diluted EPS, YoY %	17.9%	19.0%	0.4%
Free Cash Flow (CFO-capex)	1,577	1,354	1,404
Free Cash Flow Margin %	1.6%	1.3%	1.2%

In Millions of USD (except for per share items)

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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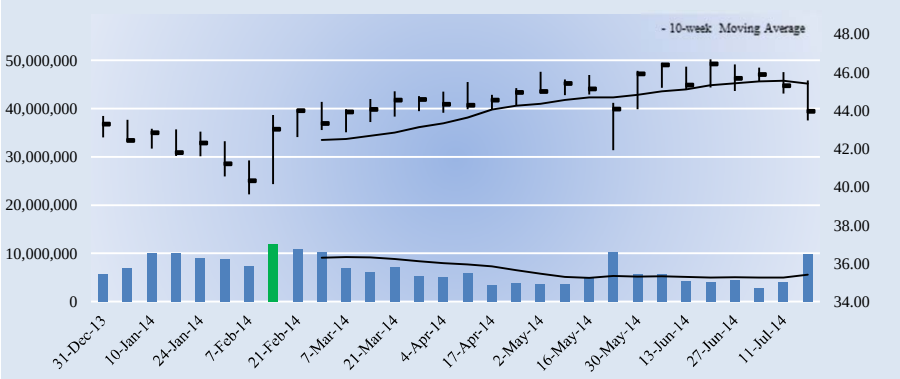
Campbell Soup CPB FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$43.00	$34.00 - $52.00	LARGE-CAP CORE	Consumer Staples	Food Products - Large

Campbell Soup is focused on permanently returning the company to growth.

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).

Company Vitals

Market Cap (USD)	$13,932
Avg Weekly Vol (30 wks)	6,619
30-week Range (USD)	39.6 - 46.67
Valuentum Sector	Consumer Staples
5-week Return	-2.9%
13-week Return	-1.2%
30-week Return	2.6%
Dividend Yield %	2.8%
Dividends per Share	1.25
Forward Dividend Payout Ratio	48.7%
Est. Normal Diluted EPS	2.91
P/E on Est. Normal Diluted EPS	15.1
Est. Normal EBITDA	1,789
Forward EV/EBITDA	11.0
EV/Est. Normal EBITDA	10.1
Forward Revenue Growth (5-yr)	0.8%
Forward EPS Growth (5-yr)	9.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	73.6%
Return on Assets	10.9%
ROIC, with goodwill	22.1%
ROIC, without goodwill	37.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,453
Net Debt	4,120
Total Debt/EBITDA	2.9
Net Debt/EBITDA	2.7
EBITDA/Interest	11.4
Current Ratio	0.7
Quick Ratio	0.3

NMF = Not Meaningful

Investment Highlights

• Campbell Soup'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.

• Campbell Soup reports in the following segments: US Simple Meals; Global Baking and Snacking; International Simple Meals and Beverages; US Beverages; and Bolthouse and Foodservice. Its products include Campbell's Chunky soup, Goldfish crackers, V8 juice, and Pepperidge Farm cookies,

• Campbell Soup is responding to dramatic shifts impacting the food industry from changing consumer behavior and demographics to the shift to digital. The firm is focused on permanently returning the company to growth by strengthening its soups business in North America and re-accelerating the pace of innovation across all product lines. It plans to launch more than 200 new products in fiscal 2015.

• Campbell Soup 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 12.3% in coming years. Total debt-to-EBITDA was 2.9 last year, while debt-to-book capitalization stood at 78.5%.

• The firm is targeting long-term net sales growth in the low-single-digits and earnings-per-share expansion in the mid-single-digits. Pricing competition and input cost swings will certainly pose a challenge to meeting such goals. We think they're achievable, however.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**45.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
General Mills	17.5	2.7	117.9%
Kellogg	16.5	1.4	105.0%
Kraft Foods	18.6	NMF	110.7%
Mondelez Intl	22.2	2.0	106.9%
Peer Median	18.0	2.0	108.8%
Campbell Soup	**17.1**	**2.1**	**102.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jul-12	Jul-13	Jul-14
Revenue	7,707	8,052	7,778
Revenue, YoY%	-0.2%	4.5%	-3.4%
Operating Income	1,236	1,131	1,247
Operating Margin %	16.0%	14.0%	16.0%
Net Income	774	689	808
Net Income Margin %	10.0%	8.6%	10.4%
Diluted EPS	2.43	2.17	2.57
Diluted EPS, YoY %	-0.8%	-10.4%	18.0%
Free Cash Flow (CFO-capex)	797	914	926
Free Cash Flow Margin %	10.3%	11.4%	11.9%

In Millions of USD (except for per share items)

Structure of the Food Products Industry — NEUTRAL

The food products industry is composed of a number of firms with strong brand names. However, market supply/demand dynamics and intense competition still impact product prices, while fluctuations in commodity costs can make earnings quite volatile. Private-label competition, competitors' promotional spending, and changing consumer preferences often drive demand trends. The group's customers—such as supermarkets, warehouses, and food distributors—continue to consolidate, increasing buying power over constituents and hurting margins. Still, we're generally neutral on the group.

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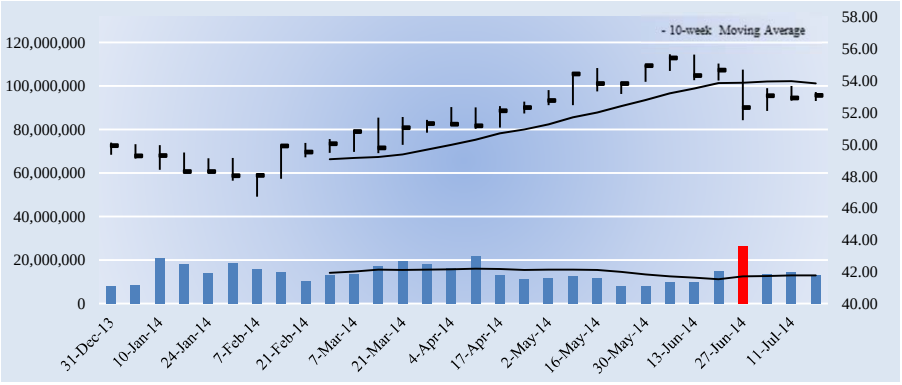
General Mills GIS FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$45.00	$36.00 - $54.00	LARGE-CAP CORE	Consumer Staples	Food Products - Large

General Mills dominates the US cereal market.

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).

Company Vitals

Market Cap (USD)	$35,317
Avg Weekly Vol (30 wks)	14,277
30-week Range (USD)	46.7 - 55.64
Valuentum Sector	Consumer Staples
5-week Return	-2.3%
13-week Return	1.9%
30-week Return	7.3%
Dividend Yield %	3.1%
Dividends per Share	1.64
Forward Dividend Payout Ratio	53.9%
Est. Normal Diluted EPS	3.45
P/E on Est. Normal Diluted EPS	15.4
Est. Normal EBITDA	4,378
Forward EV/EBITDA	11.0
EV/Est. Normal EBITDA	9.9
Forward Revenue Growth (5-yr)	2.6%
Forward EPS Growth (5-yr)	7.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	27.3%
Return on Assets	8.3%
ROIC, with goodwill	10.4%
ROIC, without goodwill	19.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,786
Net Debt	7,919
Total Debt/EBITDA	2.5
Net Debt/EBITDA	2.3
EBITDA/Interest	10.9
Current Ratio	0.8
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• General Mills' 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.

• General Mills has a distinguished portfolio of leading brands, including Cheerios, Betty Crocker, Pillsbury, Green Giant, Yoplait, Nature Valley, Old El Paso and Häagen-Dazs, and holds the #1 or #2 share position in growing food categories worldwide. More than 60% of sales come from the US.

• General Mills 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 11.7% in coming years. Total debt-to-EBITDA was 2.5 last year, while debt-to-book capitalization stood at 57.3%. Emerging markets represent the firm's best growth opportunities, in our view, though multi-culturals are growing.

• General Mills dominates the US cereal market with brands such as Cheerios, Lucky Charms, and Cinnamon Toast Crunch. The firm has increased its domestic cereal market share to ~32% from 29.7% in 2008, and the market continues to grow. Ready-to-eat cereal accounts for ~20% of its total revenue.

• The firm’s share of the grains snack market has advanced to nearly 35% from 24.4% in 2007. Nature Valley and Fiber One continue to be strong brands in the eyes of the consumer. Snacks account for ~16% of its business.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**54.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Campbell Soup	17.1	2.1	102.2%
Kellogg	16.5	1.4	105.0%
Kraft Foods	18.6	NMF	110.7%
Mondelez Intl	22.2	2.0	106.9%
Peer Median	17.8	2.0	106.0%
General Mills	**17.5**	**2.7**	**117.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-13	May-14	May-15
Revenue	17,774	17,910	18,536
Revenue, YoY%	6.7%	0.8%	3.5%
Operating Income	2,872	2,896	3,341
Operating Margin %	16.2%	16.2%	18.0%
Net Income	1,855	1,824	2,023
Net Income Margin %	10.4%	10.2%	10.9%
Diluted EPS	2.79	2.74	3.04
Diluted EPS, YoY %	18.6%	-1.7%	10.9%
Free Cash Flow (CFO-capex)	2,312	1,878	1,974
Free Cash Flow Margin %	13.0%	10.5%	10.7%

In Millions of USD (except for per share items)

Structure of the Food Products Industry — NEUTRAL

The food products industry is composed of a number of firms with strong brand names. However, market supply/demand dynamics and intense competition still impact product prices, while fluctuations in commodity costs can make earnings quite volatile. Private-label competition, competitors' promotional spending, and changing consumer preferences often drive demand trends. The group's customers—such as supermarkets, warehouses, and food distributors—continue to consolidate, increasing buying power over constituents and hurting margins. Still, we’re generally neutral on the group.

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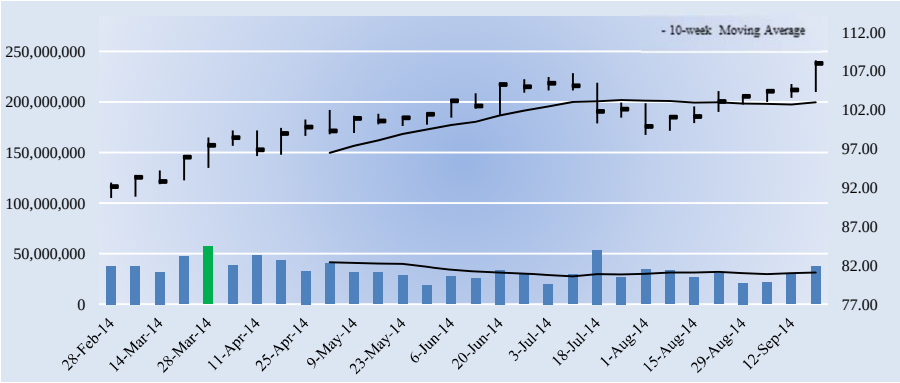
Johnson & Johnson JNJ FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$110.00	$88.00 - $132.00	MEGA-CAP VALUE	Consumer Staples	Household Products

J&J's pharmaceutical portfolio is impressive.

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).

Company Vitals

Market Cap (USD)	$310,687
Avg Weekly Vol (30 wks)	33,480
30-week Range (USD)	90.66 - 108.37
Valuentum Sector	Consumer Staples
5-week Return	6.0%
13-week Return	2.9%
30-week Return	18.1%
Dividend Yield %	2.6%
Dividends per Share	2.80
Forward Dividend Payout Ratio	46.8%
Est. Normal Diluted EPS	6.63
P/E on Est. Normal Diluted EPS	16.3
Est. Normal EBITDA	29,150
Forward EV/EBITDA	11.7
EV/Est. Normal EBITDA	10.3
Forward Revenue Growth (5-yr)	4.0%
Forward EPS Growth (5-yr)	9.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.1%
Return on Assets	9.1%
ROIC, with goodwill	24.1%
ROIC, without goodwill	33.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	18,180
Net Debt	-11,026
Total Debt/EBITDA	0.8
Net Debt/EBITDA	NMF
EBITDA/Interest	47.8
Current Ratio	2.2
Quick Ratio	1.6

NMF = Not Meaningful

Investment Highlights

• Johnson & Johnson'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.

• J&J has built one of the most comprehensive health care businesses, generating approximately 70% of revenue from top positions in its respective markets. The firm is focused on innovation while broadening its geographic presence. Consumer product sales are ~20% of its operations.

• Johnson & Johnson 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 25.5% in coming years. Total debt-to-EBITDA was 0.8 last year, while debt-to-book capitalization stood at 19.7%. The firm plows about ~10% of annual sales into R&D -- a focus we like.

• J&J's pharma portfolio is impressive. REMICADE has 75% share of the US market for IV immunology products, and the therapy has exclusivity through 2018 in the US. STELARA (exclusivity through 2023 in US) and SIMPONI (exclusivity through 2024 in US) are other key profit drivers. The company's pipleline continues to be robust.

• J&J's dividend track record is solid. The firm's annual dividend payout has advanced from just $0.43 per share in 1997 to its current robust payout. J&J is a holding in the Dividend Growth portfolio, and we expect future dividend expansion.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**103.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clorox	20.3	2.4	109.1%
Colgate-Palmolive	21.8	2.1	116.6%
Kimberly-Clark	17.4	2.1	103.8%
Procter & Gamble	18.8	1.8	100.6%
Peer Median	19.5	2.1	106.5%
Johnson & Johnson	**18.0**	**2.5**	**98.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	67,224	71,312	75,805
Revenue, YoY%	3.4%	6.1%	6.3%
Operating Income	17,032	18,957	21,144
Operating Margin %	25.3%	26.6%	27.9%
Net Income	9,690	13,251	17,626
Net Income Margin %	14.4%	18.6%	23.3%
Diluted EPS	3.45	4.61	5.99
Diluted EPS, YoY %	-1.1%	33.7%	30.0%
Free Cash Flow (CFO-capex)	11,299	13,656	17,806
Free Cash Flow Margin %	16.8%	19.1%	23.5%

In Millions of USD (except for per share items)

Structure of the Household Products Industry — GOOD

Firms in the household products industry sell some of the most recognized branded consumer packaged goods in the world and often hold a significant market share position in a variety of product categories. Though the industry is characterized by stiff competition from retailers' private-label brands, constituents tend to boast meaningful competitive advantages due to their brand strength/reputation and generate high returns on invested capital. Household products companies remain tied to the vicissitudes of consumer spending, but we tend to like the structure of the group.

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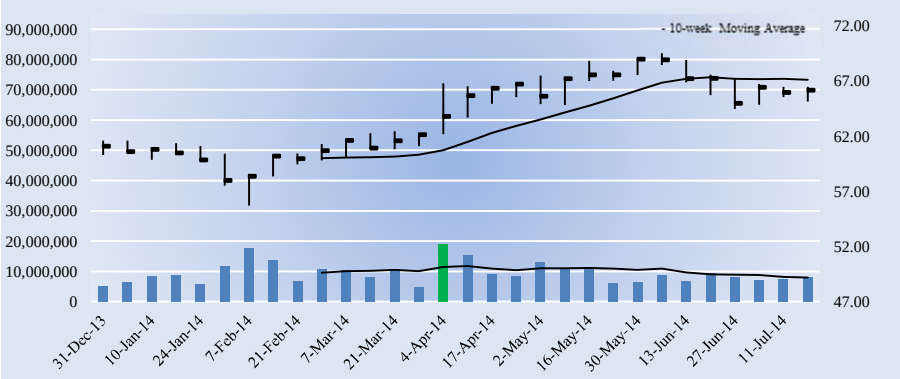
Kellogg K FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$63.00	$50.00 - $76.00	LARGE-CAP CORE	Consumer Staples	Food Products - Large

Kellogg's acquisition of Pringles gives it a growth engine in emerging markets.

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).

Company Vitals

Market Cap (USD)	$24,152
Avg Weekly Vol (30 wks)	9,491
30-week Range (USD)	55.69 - 69.5
Valuentum Sector	Consumer Staples
5-week Return	-1.7%
13-week Return	0.3%
30-week Return	9.5%
Dividend Yield %	2.8%
Dividends per Share	1.84
Forward Dividend Payout Ratio	45.8%
Est. Normal Diluted EPS	4.80
P/E on Est. Normal Diluted EPS	13.8
Est. Normal EBITDA	3,242
Forward EV/EBITDA	10.9
EV/Est. Normal EBITDA	9.6
Forward Revenue Growth (5-yr)	2.2%
Forward EPS Growth (5-yr)	3.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	56.5%
Return on Assets	9.7%
ROIC, with goodwill	11.8%
ROIC, without goodwill	20.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,358
Net Debt	7,085
Total Debt/EBITDA	2.2
Net Debt/EBITDA	2.1
EBITDA/Interest	14.3
Current Ratio	0.9
Quick Ratio	0.4

NMF = Not Meaningful

Investment Highlights

• Kellogg'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.

• Kellogg has a number of iconic brands. Pop-Tarts is a great example and has an impressive 80%+ share in the toaster pastries market thanks to strong advertising and innovation efforts. More than 100 years ago, W.K. Kellogg founded the company.

• Kellogg 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 10.4% in coming years. Total debt-to-EBITDA was 2.2 last year, while debt-to-book capitalization stood at 67.5%.

• The firm's acquisition of Pringles continues to perform better than expected. Pringles' potato chip business gives Kellogg a brand with more than $1.5 billion in annual sales and a solid growth engine in emerging markets.

• Kellogg's strategy is relatively simple: to win in breakfast and in emerging markets. Becoming a global snacks leader and growing frozen foods are other key priorities. India, Brazil, and the Middle East offer tremendous opportunities.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**67.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Campbell Soup	17.1	2.1	102.2%
General Mills	17.5	2.7	117.9%
Kraft Foods	18.6	NMF	110.7%
Mondelez Intl	22.2	2.0	106.9%
Peer Median	18.0	2.1	108.8%
Kellogg	**16.5**	**1.4**	**105.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	14,197	14,792	15,029
Revenue, YoY%	7.6%	4.2%	1.6%
Operating Income	1,562	2,837	2,325
Operating Margin %	11.0%	19.2%	15.5%
Net Income	961	1,807	1,453
Net Income Margin %	6.8%	12.2%	9.7%
Diluted EPS	2.67	4.95	4.02
Diluted EPS, YoY %	-21.1%	85.5%	-18.8%
Free Cash Flow (CFO-capex)	1,225	1,170	1,348
Free Cash Flow Margin %	8.6%	7.9%	9.0%

In Millions of USD (except for per share items)

Structure of the Food Products Industry — NEUTRAL

The food products industry is composed of a number of firms with strong brand names. However, market supply/demand dynamics and intense competition still impact product prices, while fluctuations in commodity costs can make earnings quite volatile. Private-label competition, competitors' promotional spending, and changing consumer preferences often drive demand trends. The group's customers—such as supermarkets, warehouses, and food distributors—continue to consolidate, increasing buying power over constituents and hurting margins. Still, we're generally neutral on the group.

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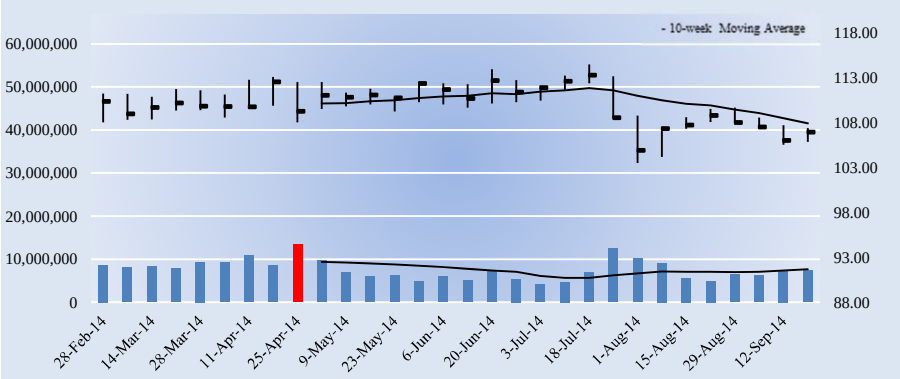
Kimberly-Clark KMB FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$103.00	$82.00 - $124.00	LARGE-CAP CORE	Consumer Staples	Household Products

Kimberly-Clark has raised its dividend in each of the past 40+ years.

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).

Company Vitals

Market Cap (USD)	$41,414
Avg Weekly Vol (30 wks)	7,561
30-week Range (USD)	103.5 - 114.45
Valuentum Sector	Consumer Staples
5-week Return	-1.3%
13-week Return	-5.1%
30-week Return	-3.1%
Dividend Yield %	3.1%
Dividends per Share	3.36
Forward Dividend Payout Ratio	54.7%
Est. Normal Diluted EPS	7.30
P/E on Est. Normal Diluted EPS	14.6
Est. Normal EBITDA	5,283
Forward EV/EBITDA	10.0
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	3.8%
Forward EPS Growth (5-yr)	9.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	37.0%
Return on Assets	9.8%
ROIC, with goodwill	14.6%
ROIC, without goodwill	20.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,761
Net Debt	4,707
Total Debt/EBITDA	1.4
Net Debt/EBITDA	1.2
EBITDA/Interest	14.4
Current Ratio	1.1
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• Kimberly-Clark'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.

• Kimberly-Clark is best known for its personal care and consumer tissue brands. The firm's products are used by one-quarter of the world's population. Its 'Personal Care' division accounts for ~45% of revenue.

• Kimberly-Clark 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 11.5% in coming years. Total debt-to-EBITDA was 1.4 last year, while debt-to-book capitalization stood at 53.9%. The firm plans to spin-off of its KC-Health Care operations.

• Kimberly Clark has a #1 or #2 position in 80+ countries, and it has 5 distinct billion-dollar brands: Huggies, Kleenex, Kimberly-Clark, Scott, and Kotex. It plans to drive rapid growth throughout K-C International (~40% of sales), particularly in China and Latin America. Growing higher-margin segments of K-C Professional (~15% of sales) will also be key.

• Kimberly-Clark has raised its dividend in each of the past 40+ years, and its Dividend Cushion score indicates future dividend increases are in store for investors.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**108.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clorox	20.3	2.4	109.1%
Colgate-Palmolive	21.8	2.1	116.6%
Johnson & Johnson	18.0	2.5	98.2%
Procter & Gamble	18.8	1.8	100.6%
Peer Median	19.5	2.3	104.8%
Kimberly-Clark	**17.4**	**2.1**	**103.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	21,063	21,152	21,638
Revenue, YoY%	1.0%	0.4%	2.3%
Operating Income	2,680	3,212	3,731
Operating Margin %	12.7%	15.2%	17.2%
Net Income	1,750	2,142	2,366
Net Income Margin %	8.3%	10.1%	10.9%
Diluted EPS	4.42	5.53	6.14
Diluted EPS, YoY %	10.7%	25.2%	11.0%
Free Cash Flow (CFO-capex)	2,195	2,087	2,266
Free Cash Flow Margin %	10.4%	9.9%	10.5%

In Millions of USD (except for per share items)

Structure of the Household Products Industry — GOOD

Firms in the household products industry sell some of the most recognized branded consumer packaged goods in the world and often hold a significant market share position in a variety of product categories. Though the industry is characterized by stiff competition from retailers' private-label brands, constituents tend to boast meaningful competitive advantages due to their brand strength/reputation and generate high returns on invested capital. Household products companies remain tied to the vicissitudes of consumer spending, but we tend to like the structure of the group.

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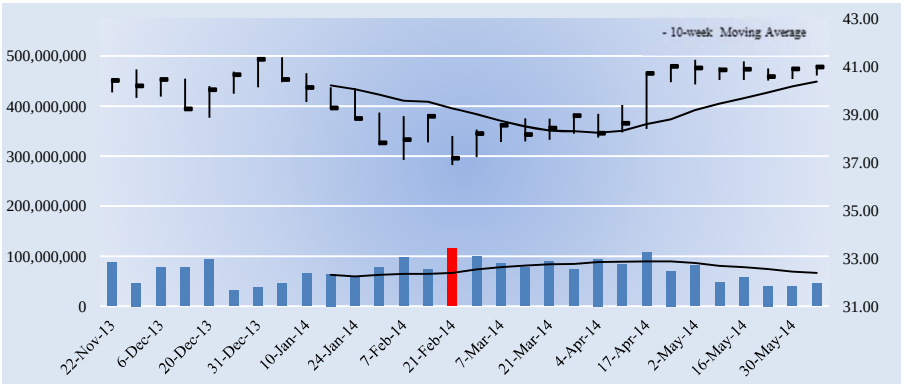
Coca-Cola KO FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$40.99	$35.00	$28.00 - $42.00	LARGE-CAP CORE	Consumer Staples	Beverages - nonalcoholic

Investors should be cognizant of the generosity embedded in Coca-Cola's fair value estimate.

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).

Company Vitals

Market Cap (USD)	$184,824
Avg Weekly Vol (30 wks)	71,322
30-week Range (USD)	36.89 - 41.39
Valuentum Sector	Consumer Staples
5-week Return	0.8%
13-week Return	6.3%
30-week Return	1.9%
Dividend Yield %	3.0%
Dividends per Share	1.22
Forward Dividend Payout Ratio	57.8%
Est. Normal Diluted EPS	2.43
P/E on Est. Normal Diluted EPS	16.9
Est. Normal EBITDA	15,669
Forward EV/EBITDA	14.5
EV/Est. Normal EBITDA	12.9
Forward Revenue Growth (5-yr)	3.3%
Forward EPS Growth (5-yr)	7.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	27.3%
Return on Assets	10.7%
ROIC, with goodwill	17.4%
ROIC, without goodwill	23.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	37,079
Net Debt	16,811
Total Debt/EBITDA	3.0
Net Debt/EBITDA	1.4
EBITDA/Interest	26.4
Current Ratio	1.1
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Coca-Cola'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.

• Coca-Cola is the world's largest beverage company. The firm owns and markets four of the world's top five nonalcoholic sparkling beverage brands: Coca-Cola, Diet Coke, Fanta and Sprite. The firm has seventeen $1 billion brands and more on the way.

• We live in a thirsty world. Since 2010, the non-alcoholic ready-to-drink (NARTD) beverage category has advanced at a nice mid-single-digit annual pace. NARTD retail value has increased by $135 billion during this time and is expected to grow more than $300 billion by 2020. Coca-Cola is very well-positioned to capture incremental growth driven by growing middle-classes across the world.

• The company boasts a number of competitive advantages: its brands, financial strength, distribution system, global reach, and a deep executive bench. Though the strength of Coca-Cola's competitive position is undeniable, we don't expect the 'cola wars' with Pepsi to subside anytime soon, nor do we think social pressures against sugary colas will wane.

• Coca-Cola has raised its dividend in each of the past 50+ years, and we expect growth to continue. Still, investors should be cognizant of the generosity embedded in Coca-Cola's fair value estimate, stemming from a low discount rate and elevated growth in the out-years.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**40.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dr Pepper Snapple	16.7	2.0	106.4%
Monster Beverage	26.8	1.9	106.7%
National Beverage	15.9	1.6	97.1%
PepsiCo	19.2	2.8	111.3%
Peer Median	17.9	1.9	106.5%
Coca-Cola	**19.4**	**2.8**	**117.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	48,017	46,854	46,995
Revenue, YoY%	3.2%	-2.4%	0.3%
Operating Income	10,779	10,228	11,920
Operating Margin %	22.4%	21.8%	25.4%
Net Income	9,019	8,584	9,423
Net Income Margin %	18.8%	18.3%	20.1%
Diluted EPS	1.97	1.90	2.11
Diluted EPS, YoY %	6.6%	-3.2%	10.9%
Free Cash Flow (CFO-capex)	7,865	7,992	9,186
Free Cash Flow Margin %	16.4%	17.1%	19.5%

In Millions of USD (except for per share items)

Structure of the Nonalcoholic Beverages Industry — GOOD

The nonalcoholic beverage segment of the commercial beverage industry is highly competitive, consisting of numerous companies that make various sparkling beverages, water products, juices, fruit drinks, energy and other performance-enhancing drinks. Pricing, advertising, product innovation, the availability of in-store private-label beverages, and health concerns about sugar-sweetened beverages are key drivers that impact demand. Leading brands with high levels of consumer acceptance and an expansive distribution network are sources of competitive strengths. We like the structure of the group.

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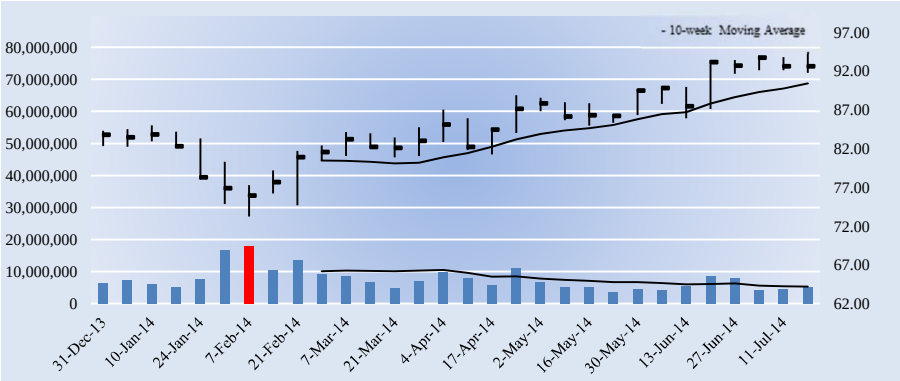
Mead Johnson MJN FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$80.00	$64.00 - $96.00	LARGE-CAP CORE	Consumer Staples	Food Products - Large

Mead Johnson's Enfa brand (Enfamil) has a leading global presence, with strong growth potential across the globe.

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).

Company Vitals

Market Cap (USD)	$18,809
Avg Weekly Vol (30 wks)	7,600
30-week Range (USD)	73.23 - 94.52
Valuentum Sector	Consumer Staples
5-week Return	5.9%
13-week Return	9.6%
30-week Return	10.9%
Dividend Yield %	1.6%
Dividends per Share	1.50
Forward Dividend Payout Ratio	40.0%
Est. Normal Diluted EPS	4.75
P/E on Est. Normal Diluted EPS	19.5
Est. Normal EBITDA	1,437
Forward EV/EBITDA	16.6
EV/Est. Normal EBITDA	13.4
Forward Revenue Growth (5-yr)	6.5%
Forward EPS Growth (5-yr)	12.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	-177.2%
Return on Assets	20.1%
ROIC, with goodwill	87.5%
ROIC, without goodwill	112.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,517
Net Debt	466
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.4
EBITDA/Interest	18.3
Current Ratio	1.2
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• Mead Johnson'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.

• Mead Johnson is a global, focused pediatric nutrition company. The company's Enfa brand (Enfamil) has a leading global presence, with strong growth potential across the globe.

• Mead Johnson 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 17.4% in coming years. Total debt-to-EBITDA was 1.4 last year, while debt-to-book capitalization stood at 83.9%.

• The firm's growth in Asia remains strong across most markets, including its biggest business in China/Hong Kong. Mead Johnson's North America/Europe segment also continues to show nice expansion. The firm is targeting non-GAAP EPS in 2014 in the range of $3.65-$3.72.

• Mead Johnson benefits from a number of long-term secular trends. Rising disposable dual-income families and the increasing awareness of the importance of early nutrition in lifelong health are two key demand drivers.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**90.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
General Mills	17.5	2.7	117.9%
Kellogg	16.5	1.4	105.0%
Kraft Foods	18.6	NMF	110.7%
Mondelez Intl	22.2	2.0	106.9%
Peer Median	18.0	2.0	108.8%
Mead Johnson	**24.7**	**2.3**	**115.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	3,901	4,201	4,415
Revenue, YoY%	6.1%	7.7%	5.1%
Operating Income	890	1,002	1,071
Operating Margin %	22.8%	23.9%	24.3%
Net Income	605	650	759
Net Income Margin %	15.5%	15.5%	17.2%
Diluted EPS	2.97	3.20	3.75
Diluted EPS, YoY %	19.3%	7.7%	17.2%
Free Cash Flow (CFO-capex)	568	566	631
Free Cash Flow Margin %	14.6%	13.5%	14.3%

In Millions of USD (except for per share items)

Structure of the Food Products Industry — NEUTRAL

The food products industry is composed of a number of firms with strong brand names. However, market supply/demand dynamics and intense competition still impact product prices, while fluctuations in commodity costs can make earnings quite volatile. Private-label competition, competitors' promotional spending, and changing consumer preferences often drive demand trends. The group's customers—such as supermarkets, warehouses, and food distributors—continue to consolidate, increasing buying power over constituents and hurting margins. Still, we're generally neutral on the group.

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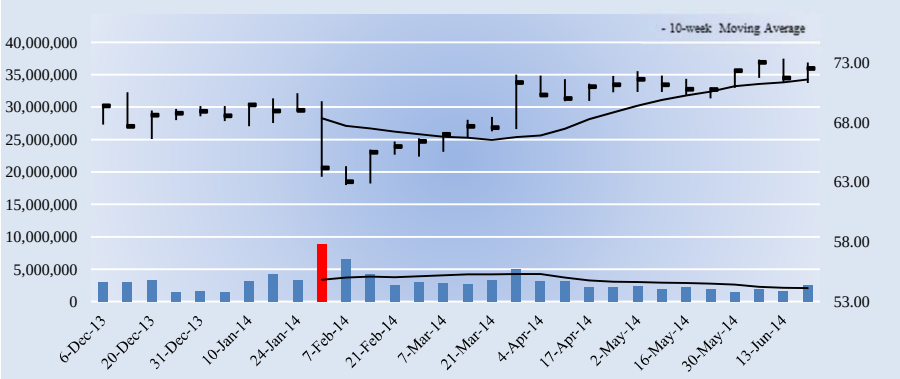
McCormick MKC FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$64.00	$51.00 - $77.00	MID-CAP CORE	Consumer Staples	Food Products

Two thirds of McCormick's sales are generated by branded products with a #1 position in their respective markets.

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).

Company Vitals

Market Cap (USD)	$9,686
Avg Weekly Vol (30 wks)	3,038
30-week Range (USD)	62.75 - 73.33
Valuentum Sector	Consumer Staples
5-week Return	2.6%
13-week Return	6.8%
30-week Return	5.0%
Dividend Yield %	2.0%
Dividends per Share	1.48
Forward Dividend Payout Ratio	44.8%
Est. Normal Diluted EPS	4.02
P/E on Est. Normal Diluted EPS	18.0
Est. Normal EBITDA	896
Forward EV/EBITDA	14.2
EV/Est. Normal EBITDA	12.1
Forward Revenue Growth (5-yr)	4.3%
Forward EPS Growth (5-yr)	12.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.2%
Return on Assets	9.0%
ROIC, with goodwill	19.7%
ROIC, without goodwill	46.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,233
Net Debt	1,170
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.7
EBITDA/Interest	13.1
Current Ratio	1.3
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• McCormick'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.

• McCormick dubs itself the global leader in flavor. The company makes spices, seasoning mixes, condiments and other flavorful products and distributes them to the entire food industry.

• McCormick 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 11.9% in coming years. Total debt-to-EBITDA was 1.8 last year, while debt-to-book capitalization stood at 39%.

• Two thirds of McCormick's sales are generated by branded products with a #1 position in their respective markets. Such brand strength should help the firm deliver on its long-term annual goals of mid-single-digit revenue expansion and 9%-11% earnings-per-share growth.

• The firm's international growth prospects are fantastic. In India, for example, demand for flavor has grown at a 12% CAGR since 2006. In China, this number is 8%.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**72.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dean Foods	30.5	NMF	97.7%
Hormel Foods	22.5	2.0	127.6%
Smucker	18.9	2.1	112.1%
Tyson Foods	12.5	1.4	82.8%
Peer Median	20.7	2.0	104.9%
McCormick	**22.0**	**2.2**	**113.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Nov-12	Nov-13	Nov-14
Revenue	4,014	4,123	4,280
Revenue, YoY%	8.6%	2.7%	3.8%
Operating Income	578	591	654
Operating Margin %	14.4%	14.3%	15.3%
Net Income	386	365	439
Net Income Margin %	9.6%	8.8%	10.3%
Diluted EPS	2.88	2.73	3.30
Diluted EPS, YoY %	10.8%	-5.1%	21.1%
Free Cash Flow (CFO-capex)	323	342	468
Free Cash Flow Margin %	8.1%	8.3%	10.9%

In Millions of USD (except for per share items)

Structure of the Food Products Industry — NEUTRAL

The food products industry is composed of a number of firms with strong brand names. However, market supply/demand dynamics and intense competition still impact product prices, while fluctuations in commodity costs can make earnings quite volatile. Private-label competition, competitors' promotional spending, and changing consumer preferences often drive demand trends. The group's customers—such as supermarkets, warehouses, and food distributors—continue to consolidate, increasing buying power over constituents and hurting margins. Still, we're generally neutral on the group.

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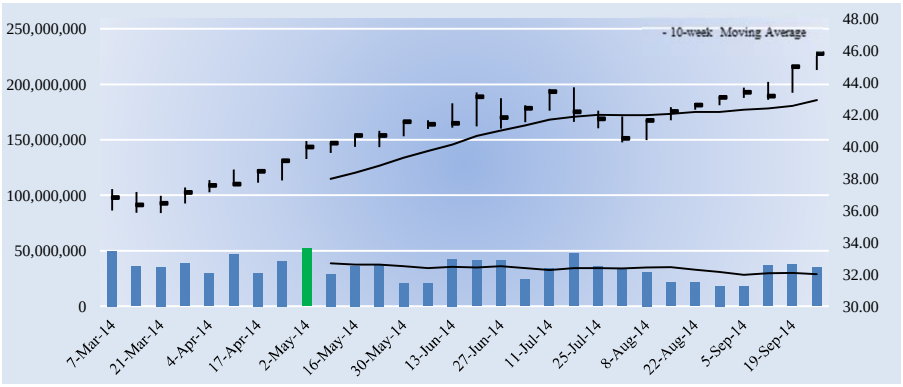
Altria Group MO FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$47.00	$38.00 - $56.00	LARGE-CAP VALUE	Consumer Staples	Tobacco

Altria has roughly a 27% economic and voting interest in SABMiller, offering the firm significant financial flexibility.

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).

Company Vitals

Market Cap (USD)	$91,574
Avg Weekly Vol (30 wks)	34,017
30-week Range (USD)	35.84 - 45.97
Valuentum Sector	Consumer Staples
5-week Return	7.2%
13-week Return	9.7%
30-week Return	27.0%
Dividend Yield %	4.2%
Dividends per Share	1.92
Forward Dividend Payout Ratio	73.5%
Est. Normal Diluted EPS	2.82
P/E on Est. Normal Diluted EPS	16.2
Est. Normal EBITDA	8,867
Forward EV/EBITDA	12.5
EV/Est. Normal EBITDA	11.6
Forward Revenue Growth (5-yr)	1.6%
Forward EPS Growth (5-yr)	5.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	107.7%
Return on Assets	11.2%
ROIC, with goodwill	31.7%
ROIC, without goodwill	46.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	14,517
Net Debt	11,342
Total Debt/EBITDA	1.7
Net Debt/EBITDA	1.4
EBITDA/Interest	7.9
Current Ratio	0.9
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• Altria makes and sells cigarettes and smokeless products in the US. It owns the Marlboro brand, which holds 43%+ retail cigarette share, and the Copenhagen and Skoal brands, which own more than 50% retail smokeless share. The company also has roughly a 27% economic and voting interest in brewer SABMiller, the stake of which we value at more than $20 billion.

• 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

• 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 1.7 last year, while debt-to-book capitalization stood at 77.9%.

• We're huge fans of Altria's long-term goals: grow adjusted diluted EPS at an average annual rate of 7%-9% and maintain a dividend payout ratio of approximately 80% of adjusted diluted EPS. Though cigarette volumes continue to decline in the US, the profit pool of tobacco makers has not thanks to material pricing gains.

• Altria boasts a hefty dividend yield, and its Valuentum Dividend Cushion score remains above 1 (which is good). We expect continued growth in its dividend payout for many years to come. Very few firms have Altria's financial flexibility.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Lorillard	17.6	2.0	98.3%
Philip Morris	16.0	1.2	96.8%
Reynolds American	17.1	2.3	104.1%
Vector Group	36.7	3.1	119.2%
Peer Median	17.3	2.1	101.2%
Altria Group	**17.5**	**3.5**	**97.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	17,500	17,663	17,840
Revenue, YoY%	5.3%	0.9%	1.0%
Operating Income	7,253	8,084	8,039
Operating Margin %	41.4%	45.8%	45.1%
Net Income	4,180	4,535	5,214
Net Income Margin %	23.9%	25.7%	29.2%
Diluted EPS	2.07	2.27	2.61
Diluted EPS, YoY %	25.7%	9.8%	15.2%
Free Cash Flow (CFO-capex)	3,779	4,244	6,429
Free Cash Flow Margin %	21.6%	24.0%	36.0%

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. In any case, we tend to like the structural characteristics of the tobacco industry and the shareholder-friendly policies of constituents.

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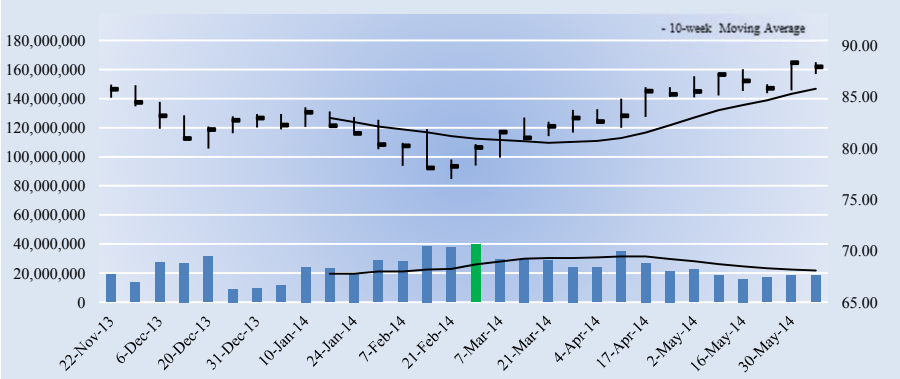
PepsiCo PEP FAIRLY VALUED

Buying Index™ 5 | Value Rating

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$87.91	$79.00	$63.00 - $95.00	LARGE-CAP CORE	Consumer Staples	Beverages - nonalcoholic

We're huge fans of Pepsi's brand portfolio.

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).

Company Vitals

Market Cap (USD)	$137,140
Avg Weekly Vol (30 wks)	23,937
30-week Range (USD)	77.01 - 88.48
Valuentum Sector	Consumer Staples
5-week Return	3.2%
13-week Return	7.8%
30-week Return	2.2%
Dividend Yield %	3.0%
Dividends per Share	2.62
Forward Dividend Payout Ratio	57.1%
Est. Normal Diluted EPS	5.33
P/E on Est. Normal Diluted EPS	16.5
Est. Normal EBITDA	14,929
Forward EV/EBITDA	11.9
EV/Est. Normal EBITDA	10.5
Forward Revenue Growth (5-yr)	3.5%
Forward EPS Growth (5-yr)	7.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.5%
Return on Assets	8.8%
ROIC, with goodwill	13.9%
ROIC, without goodwill	20.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	29,639
Net Debt	19,961
Total Debt/EBITDA	2.4
Net Debt/EBITDA	1.6
EBITDA/Interest	13.6
Current Ratio	1.2
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• PepsiCo'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.

• Pepsi is a global food/beverage company with a plethora of respected brands. Its portfolio includes the namesake Pepsi, Mountain Dew, Gatorade, Lay's, Doritos, Cheetos, Tostitos, Ruffles, Quaker oatmeal, Aunt Jemima, among others. The US accounts for about half of revenue.

• PepsiCo 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 11.4% in coming years. Total debt-to-EBITDA was 2.4 last year, while debt-to-book capitalization stood at 55%.

• Though we're huge fans of Pepsi's brand portfolio, competition remains fierce. Coca-Cola is its primary beverage competitor, while food and beverage rivals include Nestlé, Danone, Kellogg, General Mills, and Mondelēz. Pepsi has a significant scale advantage in North America, however. It has nineteen $1 billion global brands sold in the US.

• Pepsi's Valuentum Dividend Cushion score doesn't leave much room for future growth in the dividend. We think this is more of a function of the pace of its dividend growth in the past and its debt load than any fundamental weakness going forward.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	NEUTRAL
Relative Strength	STRONG
Money Flow Index (MFI)	OVERBOUGHT
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	86.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Coca-Cola	19.4	2.8	117.1%
Dr Pepper Snapple	16.7	2.0	106.4%
Monster Beverage	26.8	1.9	106.7%
National Beverage	15.9	1.6	97.1%
Peer Median	18.1	1.9	106.5%
PepsiCo	**19.2**	**2.8**	**111.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	65,492	66,415	67,212
Revenue, YoY%	-1.5%	1.4%	1.2%
Operating Income	9,112	9,705	10,444
Operating Margin %	13.9%	14.6%	15.5%
Net Income	6,178	6,740	7,153
Net Income Margin %	9.4%	10.1%	10.6%
Diluted EPS	3.92	4.32	4.59
Diluted EPS, YoY %	-2.8%	10.1%	6.1%
Free Cash Flow (CFO-capex)	5,765	6,893	7,123
Free Cash Flow Margin %	8.8%	10.4%	10.6%

In Millions of USD (except for per share items)

Structure of the Nonalcoholic Beverages Industry — GOOD

The nonalcoholic beverage segment of the commercial beverage industry is highly competitive, consisting of numerous companies that make various sparkling beverages, water products, juices, fruit drinks, energy and other performance-enhancing drinks. Pricing, advertising, product innovation, the availability of in-store private-label beverages, and health concerns about sugar-sweetened beverages are key drivers that impact demand. Leading brands with high levels of consumer acceptance and an expansive distribution network are sources of competitive strengths. We like the structure of the group.

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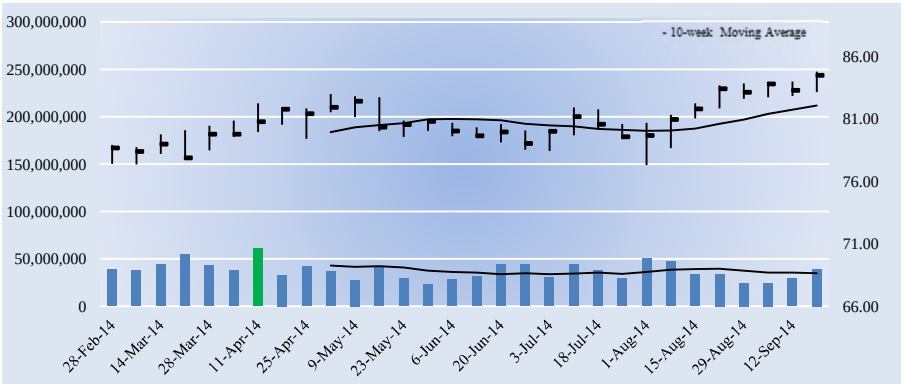
Procter & Gamble PG FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$84.00	$67.00 - $101.00	MEGA-CAP CORE	Consumer Staples	Household Products

Procter & Gamble boasts some of the most recognized branded consumer packaged goods.

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).

Company Vitals

Market Cap (USD)	$245,360
Avg Weekly Vol (30 wks)	37,424
30-week Range (USD)	77.29 - 84.77
Valuentum Sector	Consumer Staples
5-week Return	3.0%
13-week Return	5.5%
30-week Return	8.3%
Dividend Yield %	3.0%
Dividends per Share	2.57
Forward Dividend Payout Ratio	57.1%
Est. Normal Diluted EPS	5.59
P/E on Est. Normal Diluted EPS	15.1
Est. Normal EBITDA	24,370
Forward EV/EBITDA	13.2
EV/Est. Normal EBITDA	11.1
Forward Revenue Growth (5-yr)	3.9%
Forward EPS Growth (5-yr)	11.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.5%
Return on Assets	7.8%
ROIC, with goodwill	10.9%
ROIC, without goodwill	22.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	35,417
Net Debt	24,731
Total Debt/EBITDA	1.9
Net Debt/EBITDA	1.3
EBITDA/Interest	26.0
Current Ratio	0.9
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• Procter & Gamble'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.

• Procter & Gamble boasts some of the most recognized branded consumer packaged goods. Though the markets in which its products are sold are highly competitive, the firm is well positioned in the industry and holds a significant market share position.

• Procter & Gamble 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 17.3% in coming years. Total debt-to-EBITDA was 1.9 last year, while debt-to-book capitalization stood at 34.2%. We expect continued SG&A leveraging to drive cash flow improvement.

• P&G's brands include Tide, Ariel, Gillette, Venus, Bounty, Charmin, Pantene, Olay, Pampers, Crest, Oral-B, Duracell, and Vicks. The company's innovation pipeline is robust, and the markets the firm serves from 'Beauty' to 'Baby, Feminine, Family' to 'Health & Grooming' are massive and growing.

• Procter & Gamble boasts 120+ consecutive years of dividend payments and 55+ consecutive years of dividend increases. Its payout is rock-solid, and we include shares in the Dividend Growth portfolio.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**82.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clorox	20.3	2.4	109.1%
Colgate-Palmolive	21.8	2.1	116.6%
Johnson & Johnson	18.0	2.5	98.2%
Kimberly-Clark	17.4	2.1	103.8%
Peer Median	19.2	2.3	106.5%
Procter & Gamble	**18.8**	**1.8**	**100.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	84,167	83,062	85,471
Revenue, YoY%	0.6%	-1.3%	2.9%
Operating Income	14,789	15,288	17,279
Operating Margin %	17.6%	18.4%	20.2%
Net Income	11,312	11,565	12,969
Net Income Margin %	13.4%	13.9%	15.2%
Diluted EPS	3.86	3.98	4.50
Diluted EPS, YoY %	23.8%	3.1%	13.1%
Free Cash Flow (CFO-capex)	10,865	10,032	13,032
Free Cash Flow Margin %	12.9%	12.1%	15.2%

In Millions of USD (except for per share items)

Structure of the Household Products Industry — GOOD

Firms in the household products industry sell some of the most recognized branded consumer packaged goods in the world and often hold a significant market share position in a variety of product categories. Though the industry is characterized by stiff competition from retailers' private-label brands, constituents tend to boast meaningful competitive advantages due to their brand strength/reputation and generate high returns on invested capital. Household products companies remain tied to the vicissitudes of consumer spending, but we tend to like the structure of the group.

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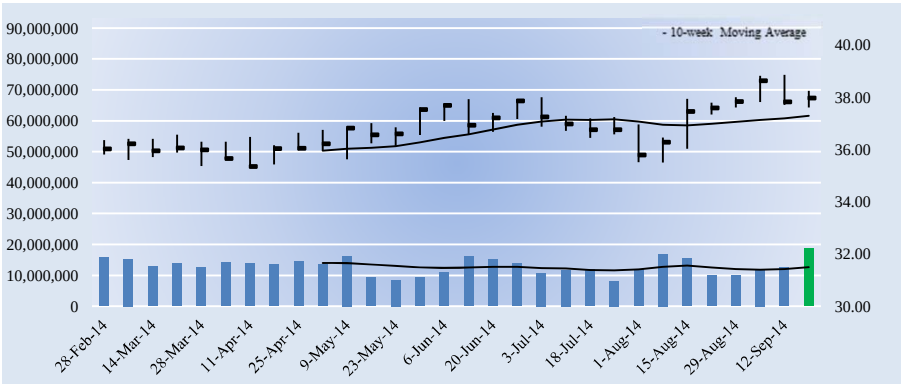
Sysco SYY FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$41.00	$33.00 - $49.00	LARGE-CAP VALUE	Consumer Staples	Food Retailers

We're huge fans of Sysco's expansive distribution network, which would be incredibly difficult for new entrants to replicate.

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).

Company Vitals

Market Cap (USD)	$22,411
Avg Weekly Vol (30 wks)	12,953
30-week Range (USD)	35.31 - 38.85
Valuentum Sector	Consumer Staples
5-week Return	1.1%
13-week Return	1.9%
30-week Return	5.1%
Dividend Yield %	3.1%
Dividends per Share	1.16
Forward Dividend Payout Ratio	60.8%
Est. Normal Diluted EPS	2.71
P/E on Est. Normal Diluted EPS	14.0
Est. Normal EBITDA	3,318
Forward EV/EBITDA	9.9
EV/Est. Normal EBITDA	7.5
Forward Revenue Growth (5-yr)	5.6%
Forward EPS Growth (5-yr)	19.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.6%
Return on Assets	8.3%
ROIC, with goodwill	14.8%
ROIC, without goodwill	19.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,760
Net Debt	2,347
Total Debt/EBITDA	1.3
Net Debt/EBITDA	1.1
EBITDA/Interest	17.3
Current Ratio	1.5
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Sysco'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.

• Sysco is the largest North American distributor of food and related products primarily to the foodservice and restaurant industry. The foodservice market is gigantic ($255 billion), and we think the firm has a long runway of growth ahead of it.

• Sysco's cash flow generation and financial leverage aren't much to speak of. The firm's free cash flow margin has averaged about 1.9% during the past three years, lower than the mid-single-digit range we'd expect for cash cows. However, the firm's cash flow should be sufficient to handle its low financial leverage.

• We're huge fans of Sysco's expansive distribution network, which would be incredibly difficult for new entrants to replicate. The company operates nearly 200 distribution facilities serving approximately 425,000 customers. It delivers over 1 billion cases every year.

• The firm sports a very nice dividend yield of 3.1%. We expect the firm to pay out about 61% of next year's earnings to shareholders as dividends. We're strongly considering the firm for addition to the Dividend Growth portfolio.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**37.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Costco	27.2	2.4	104.5%
Kroger	15.7	1.5	100.3%
Target	19.8	1.6	98.2%
Wal-Mart	15.1	2.4	102.5%
Peer Median	17.7	2.0	101.4%
Sysco	**19.9**	**1.3**	**92.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	44,411	46,517	49,354
Revenue, YoY%	4.8%	4.7%	6.1%
Operating Income	1,658	1,587	1,908
Operating Margin %	3.7%	3.4%	3.9%
Net Income	992	932	1,127
Net Income Margin %	2.2%	2.0%	2.3%
Diluted EPS	1.67	1.58	1.91
Diluted EPS, YoY %	-12.1%	-5.7%	20.9%
Free Cash Flow (CFO-capex)	1,000	970	1,055
Free Cash Flow Margin %	2.3%	2.1%	2.1%

In Millions of USD (except for per share items)

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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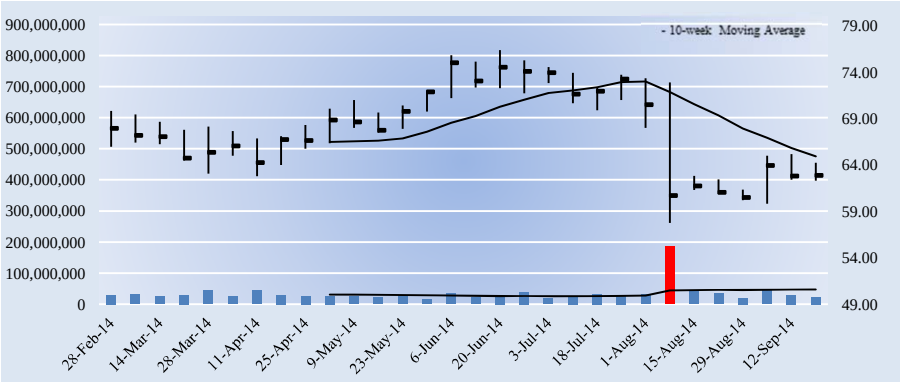
Walgreen WAG FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$58.00	$46.00 - $70.00	LARGE-CAP CORE	Consumer Staples	Food Retailers

Walgreen's operates the largest drugstore chain in the US.

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).

Company Vitals

Market Cap (USD)	$60,063
Avg Weekly Vol (30 wks)	34,802
30-week Range (USD)	57.75 - 76.39
Valuentum Sector	Consumer Staples
5-week Return	0.8%
13-week Return	-16.2%
30-week Return	-5.4%
Dividend Yield %	2.0%
Dividends per Share	1.26
Forward Dividend Payout Ratio	37.9%
Est. Normal Diluted EPS	4.00
P/E on Est. Normal Diluted EPS	15.7
Est. Normal EBITDA	7,654
Forward EV/EBITDA	9.6
EV/Est. Normal EBITDA	8.2
Forward Revenue Growth (5-yr)	5.2%
Forward EPS Growth (5-yr)	13.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.8%
Return on Assets	8.1%
ROIC, with goodwill	12.6%
ROIC, without goodwill	14.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,047
Net Debt	2,941
Total Debt/EBITDA	1.0
Net Debt/EBITDA	0.6
EBITDA/Interest	29.4
Current Ratio	1.3
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• Walgreen's 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 14.3% during the past three years.

• Walgreen's operates the largest drugstore chain in the US, with prescription drug sales representing about two thirds of its business. The company's integrated network of pharmacies allows easy access for customers to fill their prescriptions at any of its drugstores.

• Walgreen's CFO and pharmacy chief recently lost their jobs, in part as a result of a ~$1 billion forecasting error related to its prescription-drug business. Though the revision is not an act of illegal wrongdoing, it is still an embarrassment, especially in light of its decision to not relocate overseas amid political pressure. Peer CVS Caremark had to make no such adjustment.

• Walgreen's cash flow generation and financial leverage aren't much to speak of. The firm's free cash flow margin has averaged about 3.9% during the past three years, lower than the mid-single-digit range we'd expect for cash cows. However, the firm's cash flow should be sufficient to handle its low financial leverage.

• Though we like Walgreen's quite a bit, if its participation in any of the programs run by one or more of the large PBMs is terminated, results would suffer. Investors should remain laser-focused on any future aspects of healthcare reform.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	GOOD
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	MEDIUM
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	65.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Costco	27.2	2.4	104.5%
Kroger	15.7	1.5	100.3%
Target	19.8	1.6	98.2%
Wal-Mart	15.1	2.4	102.5%
Peer Median	17.7	2.0	101.4%
Walgreen	**18.9**	**1.9**	**108.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-12	Aug-13	Aug-14
Revenue	71,633	72,217	77,056
Revenue, YoY%	-0.8%	0.8%	6.7%
Operating Income	3,464	3,576	5,186
Operating Margin %	4.8%	5.0%	6.7%
Net Income	2,127	2,450	3,158
Net Income Margin %	3.0%	3.4%	4.1%
Diluted EPS	2.42	2.56	3.32
Diluted EPS, YoY %	-17.7%	6.1%	29.6%
Free Cash Flow (CFO-capex)	2,881	3,089	3,018
Free Cash Flow Margin %	4.0%	4.3%	3.9%

In Millions of USD (except for per share items)

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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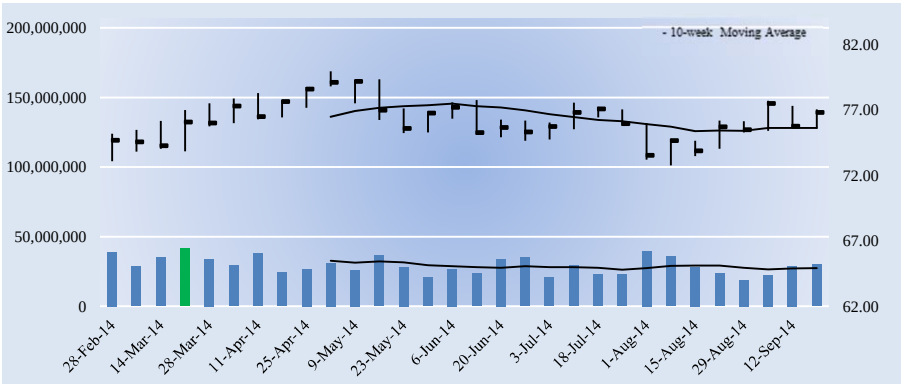
Wal-Mart WMT FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$75.00	$60.00 - $90.00	MEGA-CAP CORE	Consumer Staples	Food Retailers

Wal-Mart's everyday-low-prices strategy has revolutionized the industry.

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).

Company Vitals

Market Cap (USD)	$252,266
Avg Weekly Vol (30 wks)	29,327
30-week Range (USD)	72.77 - 79.98
Valuentum Sector	Consumer Staples
5-week Return	3.6%
13-week Return	1.7%
30-week Return	4.9%
Dividend Yield %	2.5%
Dividends per Share	1.92
Forward Dividend Payout Ratio	37.7%
Est. Normal Diluted EPS	5.91
P/E on Est. Normal Diluted EPS	13.0
Est. Normal EBITDA	41,202
Forward EV/EBITDA	8.1
EV/Est. Normal EBITDA	7.3
Forward Revenue Growth (5-yr)	3.8%
Forward EPS Growth (5-yr)	6.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.1%
Return on Assets	8.6%
ROIC, with goodwill	14.2%
ROIC, without goodwill	16.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	56,641
Net Debt	49,360
Total Debt/EBITDA	1.6
Net Debt/EBITDA	1.4
EBITDA/Interest	15.3
Current Ratio	0.9
Quick Ratio	0.2

NMF = Not Meaningful

Investment Highlights

• Wal-Mart'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.

• Wal-Mart operates retail stores. Its Wal-Mart US segment includes the company's mass merchant concept in the US. Its Wal-Mart International segment consists of the company's operations outside of the US. The Sam's Club segment includes warehouse membership clubs and samsclub.com.

• Wal-Mart'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.

• We don't see Wal-Mart going away anytime soon. Though it faces pressure from both Amazon and discount dollar stores, consumers continue to flock to its locations. Its everyday-low-prices strategy has revolutionized the industry.

• Wal-Mart International is the company's primary growth engine. With $125 billion in sales, its international business alone would be among the three largest retailers in the world. The company remains focused on expansion in Brazil and China.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**76.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Costco	27.2	2.4	104.5%
Kroger	15.7	1.5	100.3%
Target	19.8	1.6	98.2%
Walgreen	18.9	1.9	108.4%
Peer Median	19.4	1.7	102.4%
Wal-Mart	**15.1**	**2.4**	**102.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jan-13	Jan-14	Jan-15
Revenue	469,162	476,294	492,488
Revenue, YoY%	5.0%	1.5%	3.4%
Operating Income	27,801	26,872	27,865
Operating Margin %	5.9%	5.6%	5.7%
Net Income	16,999	15,878	16,545
Net Income Margin %	3.6%	3.3%	3.4%
Diluted EPS	5.02	4.84	5.09
Diluted EPS, YoY %	10.5%	-3.6%	5.3%
Free Cash Flow (CFO-capex)	12,693	9,998	14,172
Free Cash Flow Margin %	2.7%	2.1%	2.9%

In Millions of USD (except for per share items)

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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Energy

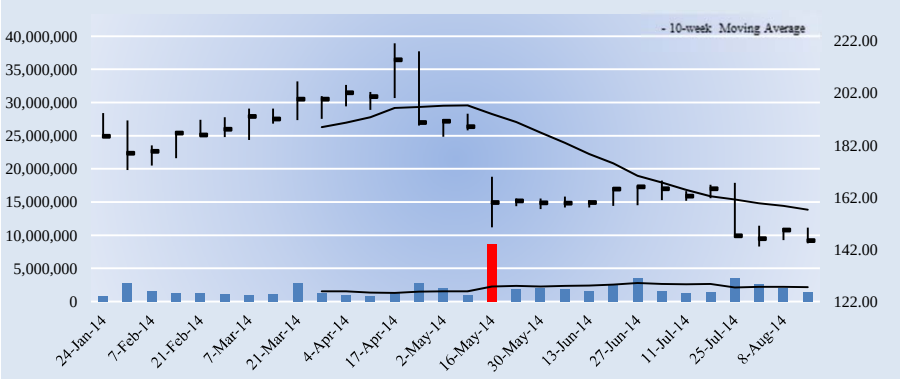
Core Labs CLB FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$153.00	$122.00 - $184.00	MID-CAP VALUE	Energy	Energy Equipment

Core Labs is in a class by itself.

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).

Company Vitals

Market Cap (USD)	$6,689
Avg Weekly Vol (30 wks)	2,026
30-week Range (USD)	143.14 - 221
Valuentum Sector	Energy
5-week Return	-10.6%
13-week Return	-9.0%
30-week Return	-24.2%
Dividend Yield %	1.4%
Dividends per Share	2.00
Forward Dividend Payout Ratio	33.7%
Est. Normal Diluted EPS	7.90
P/E on Est. Normal Diluted EPS	18.4
Est. Normal EBITDA	519
Forward EV/EBITDA	17.4
EV/Est. Normal EBITDA	13.4
Forward Revenue Growth (5-yr)	8.9%
Forward EPS Growth (5-yr)	14.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	113.4%
Return on Assets	34.0%
ROIC, with goodwill	56.4%
ROIC, without goodwill	91.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	267
Net Debt	242
Total Debt/EBITDA	0.7
Net Debt/EBITDA	0.7
EBITDA/Interest	38.6
Current Ratio	2.2
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• Core Labs is a Netherlands-based firm that is one of the world's leading providers of proprietary/patented reservoir description, production enhancement and reservoir management services to the oil and gas industry. Its services are directed toward enabling clients to improve reservoir performance and increase oil and gas recovery from their producing fields.

• We're big fans of Core Labs' three tenets: 1) maximize free cash flow through financial discipline, 2) maximize return on invested capital, and 3) return excess capital to shareholders. Shareholders have been very pleased since its IPO in 1995.

• Core Labs 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 26% in coming years. Total debt-to-EBITDA was 0.7 last year, while debt-to-book capitalization stood at 62%. High-margin services account for ~70% of its business.

• Core Labs is in a class by itself. Revenue to free cash flow conversion has been top-notch and excess economic profit creation has been impressive (many times that of peers). Senior management and scientists own $100+ million of stock, closely aligning them with shareholders.

• The firm is laser-focused on crude-oil developments, especially those in the deepwater and unconventional tight-oil plays that are primarily in shale reservoirs. More than 80% of Core Labs' revenue now comes from oil-related projects.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
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	**157.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Helmerich & Payne	15.6	1.1	93.8%
Oceaneering Intl	16.5	1.6	93.5%
Oil States Intl	16.8	NMF	96.8%
Superior Energy	18.7	NMF	88.7%
Peer Median	16.7	1.3	93.6%
Core Labs	**24.5**	**1.9**	**95.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	981	1,074	1,107
Revenue, YoY%	8.1%	9.4%	3.1%
Operating Income	293	333	371
Operating Margin %	29.9%	31.0%	33.5%
Net Income	216	243	271
Net Income Margin %	22.0%	22.6%	24.5%
Diluted EPS	4.54	5.28	5.93
Diluted EPS, YoY %	19.1%	16.2%	12.3%
Free Cash Flow (CFO-capex)	206	260	272
Free Cash Flow Margin %	21.0%	24.3%	24.6%

In Millions of USD (except for per share items)

Structure of the Energy Equipment Industry — NEUTRAL

The energy equipment industry is heavily tied to the exploration and production (upstream) expenditures of oil and gas producers across the globe. Many industry constituents participate in a number of different market segments to offer a complete range of products/services to customers. The fortunes of the group are levered to energy prices (crude/natural gas), as higher prices make drilling projects more attractive and increase the demand for oilfield equipment and services. However, falling prices have an opposite effect, creating long boom and bust cycles. We're neutral on the structure of the group.

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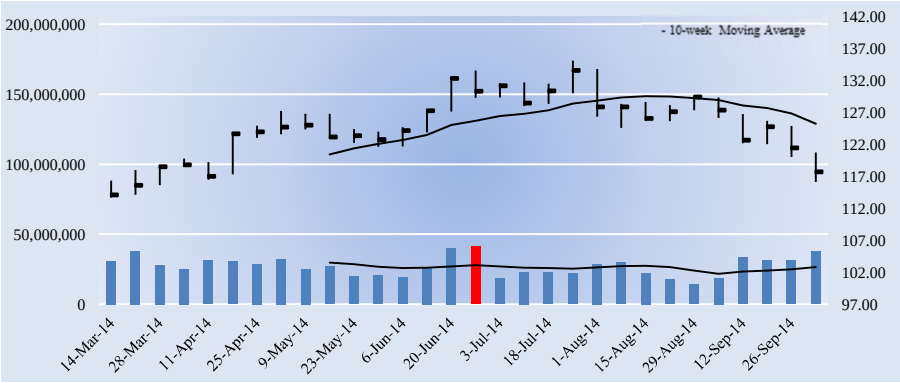
Chevron CVX FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$116.00	$93.00 - $139.00	MEGA-CAP CORE	Energy	Major Oil & Gas

Chevron boasts a hefty dividend yield that may be too hard to pass up.

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).

Company Vitals

Market Cap (USD)	$227,416
Avg Weekly Vol (30 wks)	27,178
30-week Range (USD)	113.68 - 135.1
Valuentum Sector	Energy
5-week Return	-8.9%
13-week Return	-9.8%
30-week Return	2.0%
Dividend Yield %	3.6%
Dividends per Share	4.28
Forward Dividend Payout Ratio	40.1%
Est. Normal Diluted EPS	12.13
P/E on Est. Normal Diluted EPS	9.7
Est. Normal EBITDA	52,808
Forward EV/EBITDA	4.8
EV/Est. Normal EBITDA	4.4
Forward Revenue Growth (5-yr)	0.7%
Forward EPS Growth (5-yr)	5.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.8%
Return on Assets	11.5%
ROIC, with goodwill	13.8%
ROIC, without goodwill	14.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	20,431
Net Debt	3,915
Total Debt/EBITDA	0.5
Net Debt/EBITDA	0.1
EBITDA/Interest	Excellent
Current Ratio	1.5
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• Chevron 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 14.3% during the past three years. Its upstream earnings per barrel are consistently best-in-class.

• Chevron is engaged in integrated petroleum operations, chemicals operations, mining activities, power generation and energy services. The upstream and downstream activities of the company are widely dispersed geographically (across the globe).

• On an indexed basis (2007), Chevron tops peers BP, Shell, Total, and Exxon in average capital employed. Against that same peer group, the firm's adjusted return on capital employed, which approximates our ROIC measure, has been consistently second (behind Exxon). Cash flow per share has been at the top of this peer group, however, allowing it to buy back $40+ billion worth of shares since 2004.

• We like Chevron's balance sheet, but its net cash position has deteriorated in recent quarters. The firm's primary competitors all boast a larger net debt position, however. We think a strong balance sheet is crucial in a commodity-producing business to withstand cyclical troughs and to sustain dividend growth.

• Chevron's dividend safety and expansion potential are top notch, and the firm is well-positioned to capture future global energy demand, which is expected to advance 40% by 2040. The firm is a holding in the Dividend Growth portfolio.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
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	**125.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
BP	9.1	NMF	87.1%
ConocoPhillips	11.7	1.4	108.4%
Exxon Mobil	12.1	2.8	103.2%
PetroChina	10.7	1.6	97.4%
Peer Median	11.2	1.6	100.3%
Chevron	**11.0**	**1.4**	**101.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	241,909	228,848	226,331
Revenue, YoY%	-4.6%	-5.4%	-1.1%
Operating Income	39,443	28,378	34,375
Operating Margin %	16.3%	12.4%	15.2%
Net Income	26,179	21,423	20,503
Net Income Margin %	10.8%	9.4%	9.1%
Diluted EPS	13.43	11.09	10.67
Diluted EPS, YoY %	-0.1%	-17.4%	-3.8%
Free Cash Flow (CFO-capex)	7,874	-2,983	1,250
Free Cash Flow Margin %	3.3%	-1.3%	0.6%

In Millions of USD (except for per share items)

Structure of the Oil & Gas (majors) Industry — NEUTRAL

The global oil and gas industry is dominated by state-owned firms, including member nations of OPEC, which have a large influence on pricing. Public constituents are not small, however, as firms in this group make up a large portion of the energy sector's market cap. Oil and gas prices are the key profit driver and largely reflect supply/demand dynamics, though it is not uncommon for speculative/geopolitical price premiums to occur. A firm's estimated reserve life and cost for exploration and development should be monitored closely. We're neutral on the structure of the majors, given their commoditized product.

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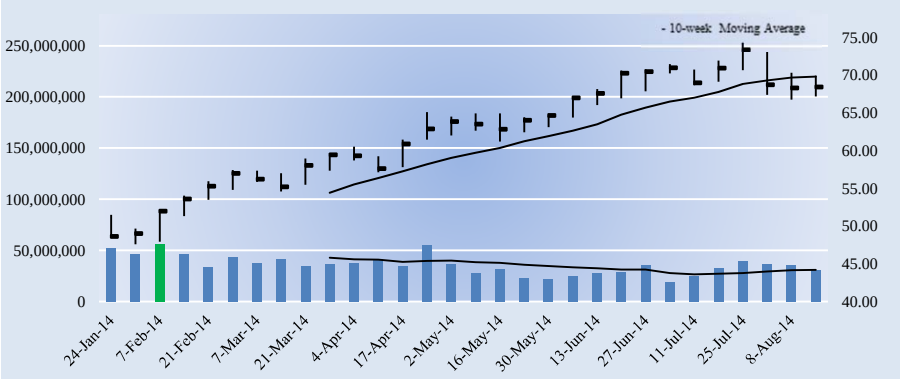
Halliburton HAL FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$74.00	$59.00 - $89.00	LARGE-CAP VALUE	Energy	Energy Equipment - Large

Halliburton's mature fields business and unconventionals are performing well.

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).

Company Vitals

Market Cap (USD)	$61,715
Avg Weekly Vol (30 wks)	35,860
30-week Range (USD)	47.6 - 74.33
Valuentum Sector	Energy
5-week Return	-1.4%
13-week Return	9.5%
30-week Return	33.7%
Dividend Yield %	0.9%
Dividends per Share	0.60
Forward Dividend Payout Ratio	14.6%
Est. Normal Diluted EPS	5.74
P/E on Est. Normal Diluted EPS	11.9
Est. Normal EBITDA	9,636
Forward EV/EBITDA	9.2
EV/Est. Normal EBITDA	7.0
Forward Revenue Growth (5-yr)	8.6%
Forward EPS Growth (5-yr)	24.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.3%
Return on Assets	10.6%
ROIC, with goodwill	23.8%
ROIC, without goodwill	26.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,816
Net Debt	5,460
Total Debt/EBITDA	1.3
Net Debt/EBITDA	0.9
EBITDA/Interest	17.8
Current Ratio	2.7
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• Halliburton'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.

• Halliburton is a provider of services and products to the energy industry related to the exploration, development, and production of oil and natural gas. The company has two operating segments: Completion & Production and Drilling & Evaluation. It was established in 1919.

• Halliburton's cash flow generation and financial leverage aren't much to speak of. The firm's free cash flow margin has averaged about 2.9% during the past three years, lower than the mid-single-digit range we'd expect for cash cows. However, the firm's cash flow should be sufficient to handle its low financial leverage.

• Halliburton looks to three areas for growth: 1) unconventional (shale gas, tight gas), deepwater, and mature fields (those past peak production). Halliburton has invested to capitalize on each of these areas of expansion. Roughly half of its business comes from the United States.

• Profits have been under pressure the past few years, but we're forecasting a strong recovery. The firm's deepwater revenue continues to grow at a rapid clip, however, and Halliburton's mature fields business and unconventionals are also performing well.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**70.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baker Hughes	16.0	1.2	96.7%
National Oilwell Varco	13.5	2.1	93.3%
Schlumberger	18.5	1.8	104.4%
Weatherford Intl	18.5	NMF	97.6%
Peer Median	17.3	1.8	97.1%
Halliburton	**16.7**	**1.2**	**92.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	28,503	29,402	32,813
Revenue, YoY%	14.8%	3.2%	11.6%
Operating Income	4,459	4,138	5,175
Operating Margin %	15.6%	14.1%	15.8%
Net Income	2,577	2,106	3,699
Net Income Margin %	9.0%	7.2%	11.3%
Diluted EPS	2.78	2.33	4.10
Diluted EPS, YoY %	-14.8%	-15.9%	75.6%
Free Cash Flow (CFO-capex)	30	1,494	2,104
Free Cash Flow Margin %	0.1%	5.1%	6.4%

In Millions of USD (except for per share items)

Structure of the Energy Equipment Industry — NEUTRAL

The energy equipment industry is heavily tied to the exploration and production (upstream) expenditures of oil and gas producers across the globe. Many industry constituents participate in a number of different market segments to offer a complete range of products/services to customers. The fortunes of the group are levered to energy prices (crude/natural gas), as higher prices make drilling projects more attractive and increase the demand for oilfield equipment and services. However, falling prices have an opposite effect, creating long boom and bust cycles. We're neutral on the structure of the group.

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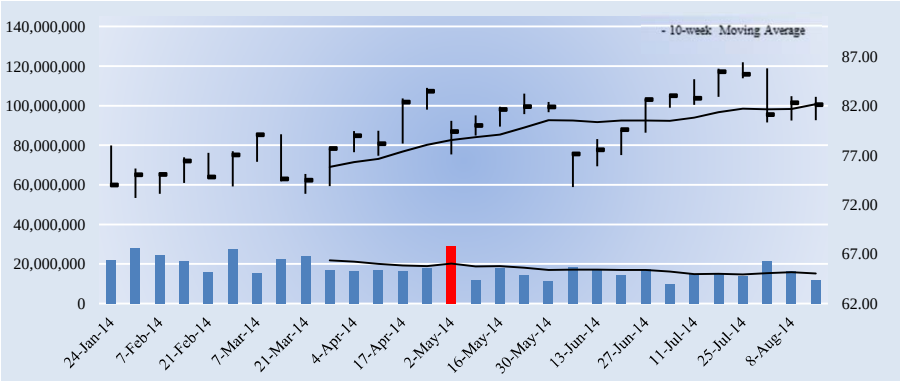
National Oilwell Varco NOV FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$88.00	$70.00 - $106.00	LARGE-CAP VALUE	Energy	Energy Equipment - Large

National Oilwell Varco is a worldwide provider of equipment and components used in oil and gas drilling and production operations.

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).

Company Vitals

Market Cap (USD)	$35,143
Avg Weekly Vol (30 wks)	18,043
30-week Range (USD)	72.67 - 86.41
Valuentum Sector	Energy
5-week Return	-1.2%
13-week Return	1.1%
30-week Return	5.9%
Dividend Yield %	2.2%
Dividends per Share	1.84
Forward Dividend Payout Ratio	30.3%
Est. Normal Diluted EPS	7.06
P/E on Est. Normal Diluted EPS	11.6
Est. Normal EBITDA	5,199
Forward EV/EBITDA	7.8
EV/Est. Normal EBITDA	6.7
Forward Revenue Growth (5-yr)	2.4%
Forward EPS Growth (5-yr)	7.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.0%
Return on Assets	8.0%
ROIC, with goodwill	12.6%
ROIC, without goodwill	19.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,150
Net Debt	-286
Total Debt/EBITDA	0.8
Net Debt/EBITDA	NMF
EBITDA/Interest	37.6
Current Ratio	2.5
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• National Oilwell Varco'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.

• National Oilwell Varco is a worldwide provider of equipment and components used in oil and gas drilling and production operations, oilfield services, and supply chain integration services to the upstream oil and gas industry. Its 'Rig Technology' division accounts for about half of its business.

• National Oilwell Varco 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 12% in coming years. Total debt-to-EBITDA was 0.8 last year, while debt-to-book capitalization stood at 12.4%.

• National Oilwell Varco recently completed plans to spin off its distribution business, creating two stand-alone, publicly traded corporations. This has benefited both entities as both are better able to focus on individual operations. The newly-created entity has been named NOW, Inc.

• We like National Oilwell Varco's fundamentals quite a bit, but investors should be cognizant that the oil and gas industry historically has experienced significant volatility. This will not change anytime soon.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**82.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baker Hughes	16.0	1.2	96.7%
Halliburton	16.7	1.2	92.5%
Schlumberger	18.5	1.8	104.4%
Weatherford Intl	18.5	NMF	97.6%
Peer Median	17.6	1.2	97.1%
National Oilwell Varco	**13.5**	**2.1**	**93.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	20,041	22,869	21,703
Revenue, YoY%	36.7%	14.1%	-5.1%
Operating Income	3,557	3,423	3,780
Operating Margin %	17.7%	15.0%	17.4%
Net Income	2,491	2,327	2,604
Net Income Margin %	12.4%	10.2%	12.0%
Diluted EPS	5.83	5.44	6.07
Diluted EPS, YoY %	24.0%	-6.8%	11.6%
Free Cash Flow (CFO-capex)	37	2,728	3,018
Free Cash Flow Margin %	0.2%	11.9%	13.9%

In Millions of USD (except for per share items)

Structure of the Energy Equipment Industry — NEUTRAL

The energy equipment industry is heavily tied to the exploration and production (upstream) expenditures of oil and gas producers across the globe. Many industry constituents participate in a number of different market segments to offer a complete range of products/services to customers. The fortunes of the group are levered to energy prices (crude/natural gas), as higher prices make drilling projects more attractive and increase the demand for oilfield equipment and services. However, falling prices have an opposite effect, creating long boom and bust cycles. We're neutral on the structure of the group.

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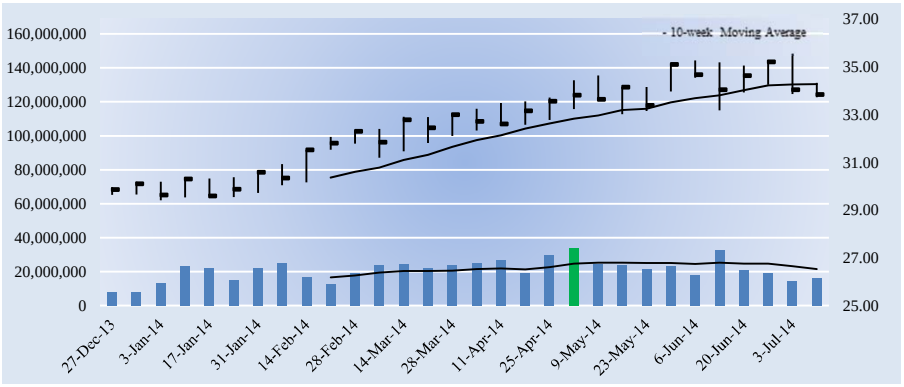
PPL PPL FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$33.00	$26.00 - $40.00	LARGE-CAP CORE	Energy	Utilities - Large

PPL operates a mostly rate-regulated business that boasts significant stability regardless of the broader economic environment.

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).

Company Vitals

Market Cap (USD)	$22,432
Avg Weekly Vol (30 wks)	20,984
30-week Range (USD)	29.4 - 35.56
Valuentum Sector	Energy
5-week Return	-2.1%
13-week Return	3.4%
30-week Return	13.6%
Dividend Yield %	4.4%
Dividends per Share	1.49
Forward Dividend Payout Ratio	66.5%
Est. Normal Diluted EPS	2.27
P/E on Est. Normal Diluted EPS	14.9
Est. Normal EBITDA	4,626
Forward EV/EBITDA	10.3
EV/Est. Normal EBITDA	9.3
Forward Revenue Growth (5-yr)	1.8%
Forward EPS Growth (5-yr)	5.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	13.4%
Return on Assets	3.4%
ROIC, with goodwill	9.9%
ROIC, without goodwill	9.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	21,608
Net Debt	20,506
Total Debt/EBITDA	4.9
Net Debt/EBITDA	4.6
EBITDA/Interest	4.4
Current Ratio	1.0
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• PPL 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 9.9% during the past three years.

• PPL operates a mostly rate-regulated business that boasts significant stability regardless of the broader economic environment. The company's rate base is expected to grow at a high-single-digit pace in coming years, and we have no qualms with its credit profile.

• PPL and private-equity firm Riverstone will create one of the largest independent power producers. PPL will spin off its competitive energy business and combine it with Riverstone's generation portfolio in a new publicly traded corporation called Talen Energy Corporation.

• Upon closing, PPL Corp's shareowners will own 65% of Talen Energy and Riverstone will own the balance. PPL Corp will have no continuing ownership interest in the new firm. Talen Energy will have significant scale, a very competitive cost structure and the financial agility to pursue growth opportunities.

• Following the spin-off, PPL will focus on high-performing regulated operations and maintain both its investment-grade credit rating and dividend rate. It still expects 4% annual earnings-per-share expansion.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**WEAK**
Financial Leverage	**HIGH**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**34.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Duke Energy	15.6	2.0	104.6%
Exelon	14.1	2.2	99.4%
National Grid	15.5	4.2	91.4%
PG&E	15.6	1.5	104.7%
Peer Median	15.5	2.1	102.0%
PPL	**15.1**	**3.4**	**102.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	12,286	11,860	11,220
Revenue, YoY%	-3.5%	-3.5%	-5.4%
Operating Income	3,109	3,036	2,866
Operating Margin %	25.3%	25.6%	25.5%
Net Income	1,532	1,128	1,606
Net Income Margin %	12.5%	9.5%	14.3%
Diluted EPS	2.63	1.70	2.24
Diluted EPS, YoY %	-2.8%	-35.4%	31.8%
Free Cash Flow (CFO-capex)	-335	-1,452	-212
Free Cash Flow Margin %	-2.7%	-12.2%	-1.9%

In Millions of USD (except for per share items)

Structure of the Utilities Industry — GOOD

Utilities provide an essential service, generally operate in a near-monopoly position, and benefit from significant barriers to entry due to the capital intensity of new projects and regulatory/environmental requirements. Regulatory frameworks differ across the grid, but most utilities benefit from an assured rate of return on capital investments through predetermined rate structures, where cost adjustments are made by authorities periodically. Most constituents benefit from stable operations and generally lower debt financing, though credit ratings should be monitored closely. We like the structure of the group.

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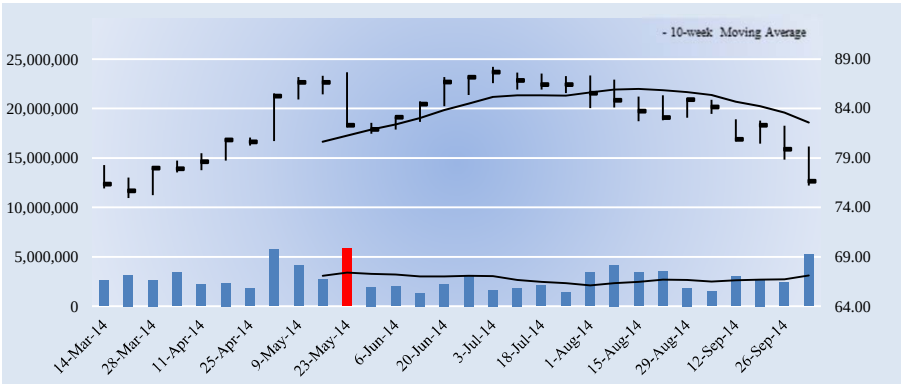
Royal Dutch Shell RDS FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$80.00	$68.00 - $104.00	MEGA-CAP VALUE	Energy	Major Oil & Gas

Royal Dutch Shell is one of the world's largest independent oil and gas companies.

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).

Company Vitals

Market Cap (USD)	$241,068
Avg Weekly Vol (30 wks)	2,844
30-week Range (USD)	74.91 - 88.13
Valuentum Sector	Energy
5-week Return	-9.6%
13-week Return	-12.4%
30-week Return	-1.4%
Dividend Yield %	4.6%
Dividends per Share per ADR	3.56
Forward Dividend Payout Ratio	133.0%
Est. Normal Diluted EPS	3.27
P/E on Est. Normal Diluted EPS	11.7
Est. Normal EBITDA	54,601
Forward EV/EBITDA	5.7
EV/Est. Normal EBITDA	5.1
Forward Revenue Growth (5-yr)	-0.4%
Forward EPS Growth (5-yr)	8.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.0%
Return on Assets	7.9%
ROIC, with goodwill	18.4%
ROIC, without goodwill	18.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	44,562
Net Debt	34,866
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.6
EBITDA/Interest	33.6
Current Ratio	1.2
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Royal Dutch Shell'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.

• Royal Dutch Shell is one of the world's largest independent oil and gas companies. The firm has investments across the globe. It continues to focus on capital efficiency and plans to sell $15 billion of assets through 2015.

• Shell is exposed to fluctuating prices of crude oil, natural gas, oil products and chemicals. Energy prices are affected by supply and demand, both globally and regionally. The drivers behind this volatility are largely beyond its control. Though cash flow from operations continues to be robust, its capital spending has been overwhelming in recent years. Management plans to cut back significantly.

• Royal Dutch Shell is well-positioned in both downstream and upstream operations. Its downstream strategy includes pursuing advantaged feedstock and leveraging its brand, while its upstream Americas strategy considers both deep-water and heavy oil endeavors.

• Shell's management is very shareholder-friendly. The company keeps paying more and more to shareholders in the form of dividends, as it layers on incremental share buy backs. We're expecting future dividend growth.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**WEAK**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**NEUTRAL**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**OVERSOLD**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**83.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
BP	9.1	NMF	87.1%
Chevron	11.0	1.4	101.5%
ConocoPhillips	11.7	1.4	108.4%
Exxon Mobil	12.1	2.8	103.2%
Peer Median	11.3	1.4	102.3%
Royal Dutch Shell	**14.3**	**1.7**	**95.8%**

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

Financial Summary

Fiscal Year End:	----- Actual ----- Dec-12	Dec-13	Dec-14
Revenue	467,153	451,235	433,959
Revenue, YoY%	-0.6%	-3.4%	-2.0%
Operating Income	50,512	33,592	27,900
Operating Margin %	10.8%	7.4%	6.4%
Net Income	26,712	16,371	16,913
Net Income Margin %	5.7%	3.6%	3.9%
Diluted EPS	4.26	2.60	2.68
Diluted EPS, YoY %	-14.0%	-39.0%	2.9%
Free Cash Flow (CFO-capex)	280	1	7,278
Free Cash Flow Margin %	0.1%	0.0%	1.7%

In Millions of USD (except for per share items)

Structure of the Oil & Gas (majors) Industry — NEUTRAL

The global oil and gas industry is dominated by state-owned firms, including member nations of OPEC, which have a large influence on pricing. Public constituents are not small, however, as firms in this group make up a large portion of the energy sector's market cap. Oil and gas prices are the key profit driver and largely reflect supply/demand dynamics, though it is not uncommon for speculative/geopolitical price premiums to occur. A firm's estimated reserve life and cost for exploration and development should be monitored closely. We're neutral on the structure of the majors, given their commoditized product.

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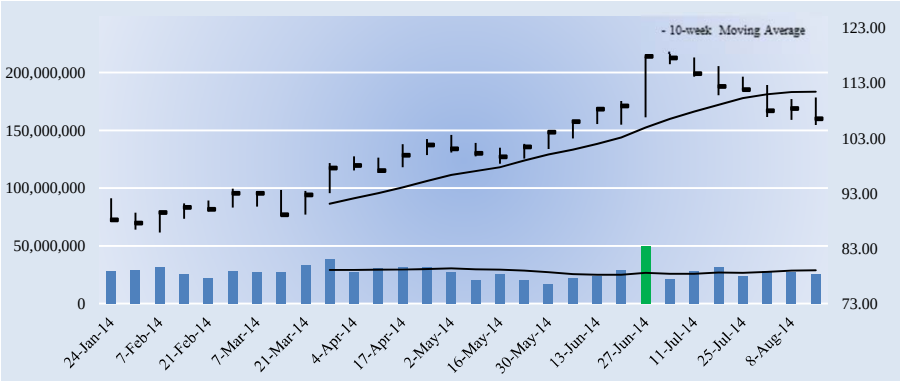
Schlumberger SLB FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$102.00	$82.00 - $122.00	LARGE-CAP CORE	Energy	Energy Equipment - Large

Schlumberger is a supplier of project management and information solutions to the oil and gas exploration and production industry.

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).

Company Vitals

Market Cap (USD)	$142,004
Avg Weekly Vol (30 wks)	27,817
30-week Range (USD)	85.89 - 118.76
Valuentum Sector	Energy
5-week Return	-7.2%
13-week Return	7.2%
30-week Return	16.8%
Dividend Yield %	1.5%
Dividends per Share	1.60
Forward Dividend Payout Ratio	27.8%
Est. Normal Diluted EPS	7.43
P/E on Est. Normal Diluted EPS	14.3
Est. Normal EBITDA	17,600
Forward EV/EBITDA	10.5
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	8.2%
Forward EPS Growth (5-yr)	11.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.8%
Return on Assets	9.7%
ROIC, with goodwill	16.4%
ROIC, without goodwill	25.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	13,176
Net Debt	4,806
Total Debt/EBITDA	1.0
Net Debt/EBITDA	0.4
EBITDA/Interest	33.3
Current Ratio	1.9
Quick Ratio	1.5

NMF = Not Meaningful

Investment Highlights

• Schlumberger is the world's leading supplier of technology, integrated project management and information solutions to the international oil and gas exploration and production industry. By market cap, the firm is bigger than the sum of its three main competitors (HAL, BHI, WFT) by a wide margin.

• Schlumberger's business quality 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.

• Schlumberger 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 14.6% in coming years. Total debt-to-EBITDA was 1 last year, while debt-to-book capitalization stood at 25%.

• Schlumberger's global margin lead versus the average of its three main competitors was 270 basis points a number of years ago, but focused execution has now enabled it to extend this lead to more than 800 basis points. The outperformance is mainly driven by the firm's international market, but also by resilient margins in North America.

• Technology remains at the core of Schlumberger. The firm's research transformation has shifted to a focus on increasing the rate of innovation, shortening the time to market, and improving product performance. High impact technology launches have surged as a result.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**111.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baker Hughes	16.0	1.2	96.7%
Halliburton	16.7	1.2	92.5%
National Oilwell Varco	13.5	2.1	93.3%
Weatherford Intl	18.5	NMF	97.6%
Peer Median	16.4	1.2	95.0%
Schlumberger	**18.5**	**1.8**	**104.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	42,321	46,459	50,454
Revenue, YoY%	7.0%	9.8%	8.6%
Operating Income	7,520	9,373	10,009
Operating Margin %	17.8%	20.2%	19.8%
Net Income	5,439	6,801	7,661
Net Income Margin %	12.9%	14.6%	15.2%
Diluted EPS	4.06	5.10	5.75
Diluted EPS, YoY %	15.7%	25.6%	12.6%
Free Cash Flow (CFO-capex)	2,603	5,884	6,522
Free Cash Flow Margin %	6.2%	12.7%	12.9%

In Millions of USD (except for per share items)

Structure of the Energy Equipment Industry — NEUTRAL

The energy equipment industry is heavily tied to the exploration and production (upstream) expenditures of oil and gas producers across the globe. Many industry constituents participate in a number of different market segments to offer a complete range of products/services to customers. The fortunes of the group are levered to energy prices (crude/natural gas), as higher prices make drilling projects more attractive and increase the demand for oilfield equipment and services. However, falling prices have an opposite effect, creating long boom and bust cycles. We're neutral on the structure of the group.

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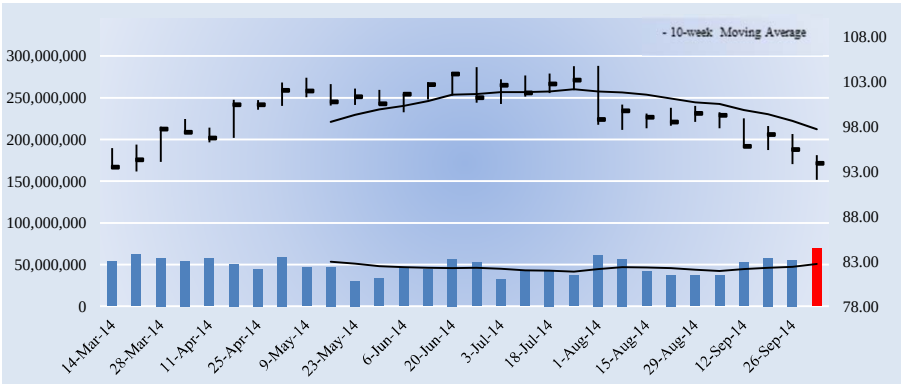
Exxon Mobil XOM FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$91.00	$73.00 - $109.00	MEGA-CAP CORE	Energy	Major Oil & Gas

Exxon's economic returns are the best among peers, and the firm has been consistently replacing reserves.

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).

Company Vitals

Market Cap (USD)	$415,032
Avg Weekly Vol (30 wks)	48,473
30-week Range (USD)	92.06 - 104.76
Valuentum Sector	Energy
5-week Return	-5.5%
13-week Return	-8.2%
30-week Return	-1.3%
Dividend Yield %	2.9%
Dividends per Share	2.76
Forward Dividend Payout Ratio	35.5%
Est. Normal Diluted EPS	8.23
P/E on Est. Normal Diluted EPS	11.4
Est. Normal EBITDA	77,528
Forward EV/EBITDA	5.6
EV/Est. Normal EBITDA	5.6
Forward Revenue Growth (5-yr)	0.3%
Forward EPS Growth (5-yr)	4.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.8%
Return on Assets	12.5%
ROIC, with goodwill	14.1%
ROIC, without goodwill	14.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	22,699
Net Debt	17,786
Total Debt/EBITDA	0.2
Net Debt/EBITDA	0.2
EBITDA/Interest	Excellent
Current Ratio	0.8
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• Exxon Mobil 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 14.1% during the past three years. Exxon has 25.2 BOEB of total proved reserves.

• Exxon Mobil is involved in the exploration and production of crude oil/natural gas, and the manufacture of petroleum products as well as the transportation and sale of crude oil, natural gas and petroleum products. It also makes commodity petrochemicals.

• We were quite impressed with Exxon Mobil's 2013 performance. Return on capital employed was a solid 17%+, while the company's reserve replacement was north of 100%. The firm's ROCE performance is consistently better than that of its peers, and its upstream earnings-per-barrel trails only that of Chevron in its peer group. It has generated $100+ billion in free cash flow since 2009.

• Exxon has a wonderful streak going. The energy giant has had 20 straight years of more than 100% reserve replacement. We find this to be a remarkable streak given its size and production capacity. The investments that it is making continue to position it for long-term success.

• Exxon Mobil's dividend is solid, and we expect growth in it for many years to come. The energy giant's Valuentum Dividend Cushion ratio is significantly greater than parity.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**MEDIUM**
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	**98.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
BP	9.1	NMF	87.1%
Chevron	11.0	1.4	101.5%
ConocoPhillips	11.7	1.4	108.4%
PetroChina	10.7	1.6	97.4%
Peer Median	10.9	1.4	99.4%
Exxon Mobil	**12.1**	**2.8**	**103.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	482,295	438,255	438,255
Revenue, YoY%	-0.8%	-9.1%	0.0%
Operating Income	64,043	74,382	59,617
Operating Margin %	13.3%	17.0%	13.6%
Net Income	44,880	32,580	33,679
Net Income Margin %	9.3%	7.4%	7.7%
Diluted EPS	9.70	7.37	7.78
Diluted EPS, YoY %	15.1%	-24.0%	5.5%
Free Cash Flow (CFO-capex)	21,899	11,245	21,215
Free Cash Flow Margin %	4.5%	2.6%	4.8%

In Millions of USD (except for per share items)

Structure of the Oil & Gas (majors) Industry — NEUTRAL

The global oil and gas industry is dominated by state-owned firms, including member nations of OPEC, which have a large influence on pricing. Public constituents are not small, however, as firms in this group make up a large portion of the energy sector's market cap. Oil and gas prices are the key profit driver and largely reflect supply/demand dynamics, though it is not uncommon for speculative/geopolitical price premiums to occur. A firm's estimated reserve life and cost for exploration and development should be monitored closely. We're neutral on the structure of the majors, given their commoditized product.

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Financials

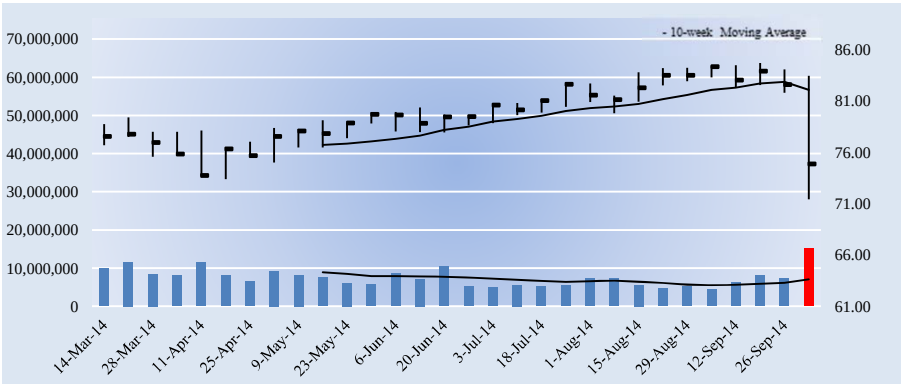
Automatic Data Processing ADP UNDERVALUED 0.2%

Buying Index™ 3 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$94.00	$75.00 - $113.00	LARGE-CAP VALUE	Information Technology	Staffing Services

ADP is one of the world's largest providers of business outsourcing solutions.

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).

Company Vitals

Market Cap (USD)	$36,160
Avg Weekly Vol (30 wks)	7,450
30-week Range (USD)	71.41 - 84.68
Valuentum Sector	Information Technology
5-week Return	-10.6%
13-week Return	-6.6%
30-week Return	-4.8%
Dividend Yield %	2.6%
Dividends per Share	1.92
Forward Dividend Payout Ratio	64.9%
Est. Normal Diluted EPS	3.54
P/E on Est. Normal Diluted EPS	21.1
Est. Normal EBITDA	2,910
Forward EV/EBITDA	6.1
EV/Est. Normal EBITDA	5.2
Forward Revenue Growth (5-yr)	3.0%
Forward EPS Growth (5-yr)	5.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.8%
Return on Assets	4.4%
ROIC, with goodwill	24.7%
ROIC, without goodwill	70.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,185
Net Debt	-21,089
Total Debt/EBITDA	1.0
Net Debt/EBITDA	NMF
EBITDA/Interest	373.7
Current Ratio	1.1
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• ADP's business quality 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. The recent price drop in shares was a result of the spin off of CDK Global and not market-driven.

• Automatic Data Processing (ADP) is one of the world's largest providers of business outsourcing solutions. The firm offers a wide range of easy-to-use human resource, payroll, tax and benefits administration solutions from a single source. It has 620,000 clients in 125+ countries.

• ADP 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 12.9% in coming years. The firm's intrisic value considers 'funds held for clients.' Investors should be cognizant that future methodology changes impacting how we account for such a balance can impact our estimate of the firm's fair value.

• In the US, the human capital market is a $50 billion market growing at a nice mid-single-digit pace. The market is ~$90 billion on a global basis. ADP has the potential to cover 95%+ of all multinational employees, offering further growth potential.

• ADP boasts a large, recurring revenue base resulting in strong, consistent cash flow generation. The firm's business model has low capital requirements. It has minimal long-term obligations and has been paying dividends continuously since 1974.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**UNATTRACTIVE**
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	**82.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Insperity	27.2	1.6	83.9%
Korn/Ferry	13.8	1.9	76.2%
Manpower	13.1	1.9	96.2%
Paychex	23.7	3.5	105.5%
Peer Median	18.8	1.9	90.1%
Automatic Data Processing	**25.3**	**3.1**	**79.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	11,310	12,207	11,181
Revenue, YoY%	6.0%	7.9%	-8.4%
Operating Income	1,619	1,849	2,092
Operating Margin %	14.3%	15.1%	18.7%
Net Income	1,364	1,503	1,415
Net Income Margin %	12.1%	12.3%	12.7%
Diluted EPS	2.80	3.11	2.96
Diluted EPS, YoY %	-0.7%	11.1%	-4.9%
Free Cash Flow (CFO-capex)	1,253	1,440	1,396
Free Cash Flow Margin %	11.1%	11.8%	12.5%

In Millions of USD (except for per share items)

Structure of the Staffing Services Industry — NEUTRAL

The staffing services industry spans firms that provide business outsourcing services to those that offer talent management solutions. Providers of business outsourcing solutions compete with a variety of independent firms as well as captive in-house functions. Their businesses are characterized by long-term client relationships and recurring revenue. Talent management firms offer executive recruitment and consulting services and face emerging competition from professional networking website providers. Attracting consultants is particularly important for executive recruitment entities. We're neutral on the group.

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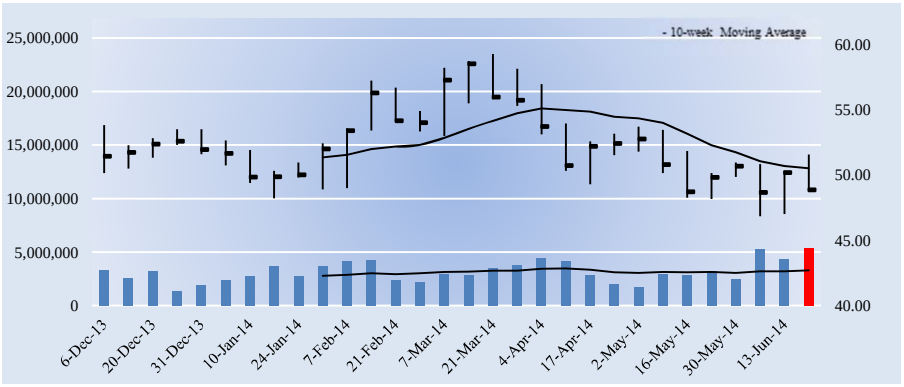
CBOE CBOE FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$47.00	$38.00 - $56.00	MID-CAP CORE	Financials	Exchanges

The CBOE maintains the largest share of all US options exchanges.

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).

Company Vitals

Market Cap (USD)	$4,269
Avg Weekly Vol (30 wks)	3,183
30-week Range (USD)	46.84 - 59.28
Valuentum Sector	Financials
5-week Return	0.9%
13-week Return	-13.1%
30-week Return	-6.8%
Dividend Yield %	1.5%
Dividends per Share	0.72
Forward Dividend Payout Ratio	32.3%
Est. Normal Diluted EPS	2.78
P/E on Est. Normal Diluted EPS	17.6
Est. Normal EBITDA	431
Forward EV/EBITDA	11.5
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	8.0%
Forward EPS Growth (5-yr)	10.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	67.0%
Return on Assets	46.7%
ROIC, with goodwill	140.0%
ROIC, without goodwill	140.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-221
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	2.9
Quick Ratio	2.8

NMF = Not Meaningful

Investment Highlights

• CBOE'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.

• CBOE Holdings is the holding company for Chicago Board Options Exchange, C2 Options Exchange, and the CBOE Futures Exchange. Its primary business is the operation of markets for the trading of listed, or exchange-traded, options contracts.

• CBOE 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 36.5% in coming years, and the firm had no debt as of last quarter. The company has a very strong product line-up in S&P 500 Index (SPX) options.

• Adjusted operating revenues have expanded at a 9%+ CAGR since 2009, while the firm's adjusted operating margin has expanded to ~50% from under 40% in 2009. This is a very healthy level of profitability. Diluted earnings-per-share has doubled since 2009. Investors should expect strong performance to continue.

• The CBOE maintained the largest share of all US options exchanges, consistently trading in excess of 1 billion contracts on an annual basis. Volatility trading (VIX options/futures) continues to be a growth area.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
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	**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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CME Group	21.4	2.3	110.4%
IntercontinentalExchange	20.0	1.7	103.6%
KCG	9.9	NMF	74.9%
NASDAQ	12.9	1.3	80.4%
Peer Median	16.4	1.7	92.0%
CBOE	**21.9**	**2.3**	**104.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	512	572	608
Revenue, YoY%	0.8%	11.7%	6.3%
Operating Income	244	286	315
Operating Margin %	47.6%	49.9%	51.8%
Net Income	157	176	194
Net Income Margin %	30.7%	30.7%	31.9%
Diluted EPS	1.80	2.01	2.23
Diluted EPS, YoY %	16.2%	12.0%	10.8%
Free Cash Flow (CFO-capex)	170	196	218
Free Cash Flow Margin %	33.3%	34.2%	35.8%

In Millions of USD (except for per share items)

Structure of the Exchanges Industry — GOOD

The exchanges industry consists of firms that deliver trading, clearing, exchange technology, and regulatory securities listing. Industry constituents operate some of the most well-known exchanges including the NASDAQ, Chicago Board Options Exchange, and the Chicago Mercantile Exchange. Firms carve out competitive advantages via scale (operating the largest market for a given financial instrument) and via technological superiority (transaction speeds and reliability). The securities markets are intensely competitive, but new entrants tend to have limited liquidity/capability. We like the industry structure.

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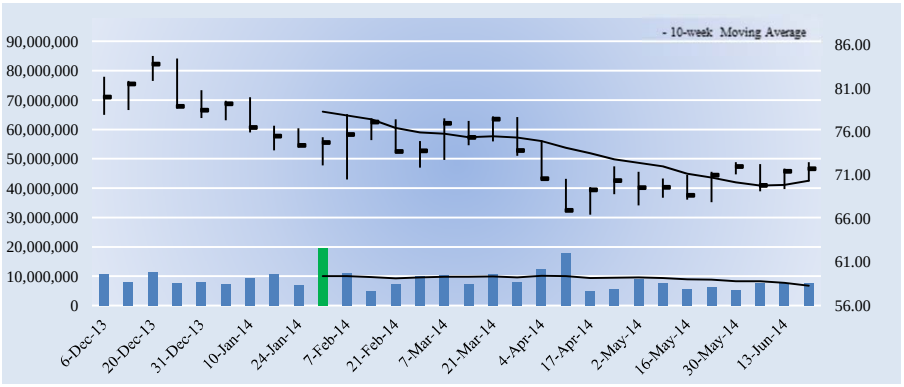
CME Group CME FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$65.00	$52.00 - $78.00	LARGE-CAP CORE	Financials	Exchanges

Customers prefer CME's centralized market primarily because of its liquidity and price transparency.

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).

Company Vitals

Market Cap (USD)	$23,993
Avg Weekly Vol (30 wks)	8,930
30-week Range (USD)	66.44 - 84.71
Valuentum Sector	Financials
5-week Return	4.5%
13-week Return	-7.6%
30-week Return	-12.5%
Dividend Yield %	2.6%
Dividends per Share	1.88
Forward Dividend Payout Ratio	56.1%
Est. Normal Diluted EPS	4.18
P/E on Est. Normal Diluted EPS	17.2
Est. Normal EBITDA	2,670
Forward EV/EBITDA	11.2
EV/Est. Normal EBITDA	9.1
Forward Revenue Growth (5-yr)	7.4%
Forward EPS Growth (5-yr)	10.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	5.8%
Return on Assets	3.1%
ROIC, with goodwill	12.9%
ROIC, without goodwill	98.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,857
Net Debt	319
Total Debt/EBITDA	1.5
Net Debt/EBITDA	0.2
EBITDA/Interest	12.8
Current Ratio	1.0
Quick Ratio	0.1

NMF = Not Meaningful

Investment Highlights

• CME 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.

• CME Group offers a wide range of global benchmark products (derivatives) across all major asset classes based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, weather and real estate. CME traces its roots back to the 19th century.

• CME Group 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 38.6% in coming years. Total debt-to-EBITDA was 1.5 last year, while debt-to-book capitalization stood at 11.9%.

• The company's two main competitive strengths include providing highly liquid markets and offering the most diverse product line. Customers prefer CME's centralized market primarily because of its liquidity and price transparency. The firm's products offer a means for hedging, speculation and asset allocation.

• Electronic trading value accounts for ~80% of its business, and the firm generates the most clearing and transaction fee revenue from its interest rate (~30% of sales) and energy (~25%) product lines.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**70.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CBOE	21.9	2.3	104.0%
IntercontinentalExchange	20.0	1.7	103.6%
KCG	9.9	NMF	74.9%
NASDAQ	12.9	1.3	80.4%
Peer Median	16.4	1.7	92.0%
CME Group	**21.4**	**2.3**	**110.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	2,915	2,936	3,077
Revenue, YoY%	-11.2%	0.7%	4.8%
Operating Income	1,720	1,707	1,918
Operating Margin %	59.0%	58.1%	62.3%
Net Income	896	977	1,121
Net Income Margin %	30.8%	33.3%	36.4%
Diluted EPS	2.70	2.92	3.35
Diluted EPS, YoY %	-50.3%	8.3%	14.8%
Free Cash Flow (CFO-capex)	1,075	1,155	1,167
Free Cash Flow Margin %	36.9%	39.3%	37.9%

In Millions of USD (except for per share items)

Structure of the Exchanges Industry — GOOD

The exchanges industry consists of firms that deliver trading, clearing, exchange technology, and regulatory securities listing. Industry constituents operate some of the most well-known exchanges including the NASDAQ, Chicago Board Options Exchange, and the Chicago Mercantile Exchange. Firms carve out competitive advantages via scale (operating the largest market for a given financial instrument) and via technological superiority (transaction speeds and reliability). The securities markets are intensely competitive, but new entrants tend to have limited liquidity/capability. We like the industry structure.

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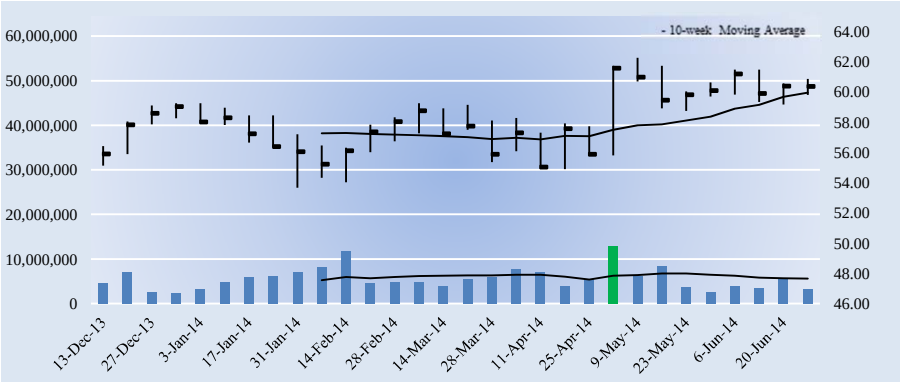
Fiserv FISV FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$52.00	$42.00 - $62.00	LARGE-CAP CORE	Information Technology	Financial Tech Services

Fiserv boasts a high-quality recurring revenue stream that we expect to grow at an organic mid-single-digit annual pace in coming years.

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).

Company Vitals

Market Cap (USD)	$32,134
Avg Weekly Vol (30 wks)	5,623
30-week Range (USD)	53.68 - 62.27
Valuentum Sector	Information Technology
5-week Return	1.1%
13-week Return	7.7%
30-week Return	7.4%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	3.97
P/E on Est. Normal Diluted EPS	15.2
Est. Normal EBITDA	3,812
Forward EV/EBITDA	10.8
EV/Est. Normal EBITDA	9.3
Forward Revenue Growth (5-yr)	5.0%
Forward EPS Growth (5-yr)	29.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.2%
Return on Assets	6.7%
ROIC, with goodwill	10.7%
ROIC, without goodwill	35.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,848
Net Debt	3,448
Total Debt/EBITDA	2.6
Net Debt/EBITDA	2.4
EBITDA/Interest	8.9
Current Ratio	1.2
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Fiserv is a leader in transaction-based technology solutions. The firm was formed in 1984 by merging two small data centers in Wisconsin and Florida. Since then, the firm has grown and acquired its way to ~$5 billion in revenue and 14,500+ clients around the world. 2013 marked its 28th consecutive year of double-digit adjusted EPS growth.

• Fiserv'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

• Fiserv 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 37.9% in coming years. Total debt-to-EBITDA was 2.6 last year, while debt-to-book capitalization stood at 51.8%. We like that management includes free-cash-flow per-share targets when it issues guidance.

• Fiserv's account processing services are characterized by mission-critical non-discretionary applications, long-term contracts, and high renewal rates. The firm's Mobiliti segment is well-positioned to capture growth in mobile payment demand.

• The company boasts a high-quality recurring revenue stream that we expect to grow at an organic mid-single-digit annual pace in coming years. The firm's adjusted operating margin hovers around ~30% on an annual basis.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**60.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Bottomline Tech	23.5	NMF	81.4%
Mastercard	24.1	2.0	92.9%
Visa	23.0	1.9	85.8%
Western Union	11.8	2.7	75.0%
Peer Median	23.3	2.0	83.6%
Fiserv	**17.8**	**1.7**	**116.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	4,482	4,814	5,055
Revenue, YoY%	3.3%	7.4%	5.0%
Operating Income	1,056	1,061	2,872
Operating Margin %	23.6%	22.0%	56.8%
Net Income	597	650	1,801
Net Income Margin %	13.3%	13.5%	35.6%
Diluted EPS	2.17	1.22	3.38
Diluted EPS, YoY %	27.5%	-43.7%	177.0%
Free Cash Flow (CFO-capex)	656	829	1,827
Free Cash Flow Margin %	14.6%	17.2%	36.1%

In Millions of USD (except for per share items)

Structure of the Financial Tech Services Industry — EXCELLENT

The financial tech services industry is primarily composed of firms that generate revenue by charging fees to customers for providing transaction processing and other payment-related services. Constituents operate in a rapidly-evolving legal/regulatory environment, particularly with respect to interchange fees, data protection, and information security. Several participants benefit from a significant competitive advantage – the network effect. As more consumers use credit/debit cards, more merchants accept them, thereby creating a virtuous cycle. The industry is one of the most attractive in our coverage.

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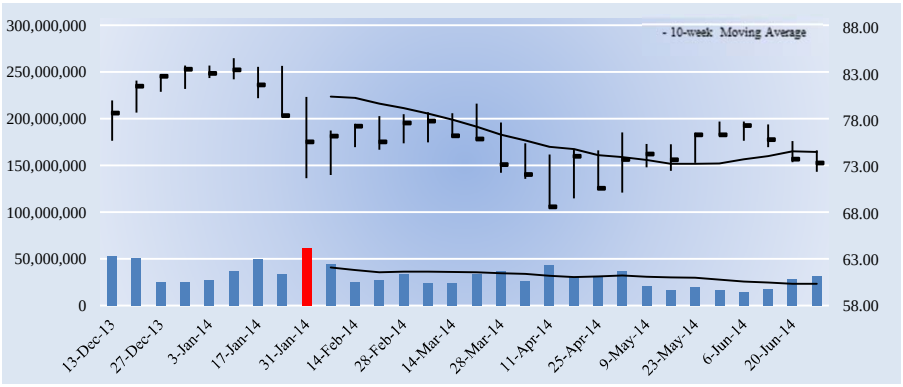
Mastercard MA FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$79.00	$63.00 - $95.00	LARGE-CAP BLEND	Information Technology	Financial Tech Services

Mastercard has a cash-rich business model and benefits from a powerful network effect.

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).

Company Vitals

Market Cap (USD)	$89,181
Avg Weekly Vol (30 wks)	31,530
30-week Range (USD)	68.68 - 84.748
Valuentum Sector	Information Technology
5-week Return	-4.5%
13-week Return	-0.6%
30-week Return	-3.8%
Dividend Yield %	0.6%
Dividends per Share	0.44
Forward Dividend Payout Ratio	14.5%
Est. Normal Diluted EPS	4.04
P/E on Est. Normal Diluted EPS	18.2
Est. Normal EBITDA	7,675
Forward EV/EBITDA	14.4
EV/Est. Normal EBITDA	10.6
Forward Revenue Growth (5-yr)	11.8%
Forward EPS Growth (5-yr)	14.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	40.3%
Return on Assets	22.2%
ROIC, with goodwill	72.8%
ROIC, without goodwill	100.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-7,929
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	340.1
Current Ratio	1.8
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• MasterCard is a payments industry leader. Every day, the firm's network makes payments happen. It doesn‘t issue cards, set interest rates or establish annual fees. MasterCard generates revenue by charging fees to issuers and acquirers for providing transaction processing and other payment-related services based on the gross dollar volume of activity.

• Mastercard'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

• Investors should expect MasterCard's revenue to grow at a low-to-mid teens annual pace through 2016. The biggest drivers behind that expectation rest in 5 percentage points of personal consumption expenditure expansion, 5 percentage points of secular electronic payment penetration, and a few points from strategic investments.

• Mastercard benefits from one of the strongest competitive advantages out there – the network effect. As more consumers use credit/debit cards, more merchants accept them, thereby creating a virtuous cycle. Amazingly, 85% of the world's transactions are still completed by cash and check. This provides a long runway for future growth.

• When it comes to the credit-card processing space, we generally prefer Visa and MasterCard, which do not take on credit risk like Discover or American Express. This shields it from credit quality concerns.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**75.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Bottomline Tech	23.5	NMF	81.4%
Fiserv	17.8	1.7	116.1%
Visa	23.0	1.9	85.8%
Western Union	11.8	2.7	75.0%
Peer Median	20.4	1.9	83.6%
Mastercard	**24.1**	**2.0**	**92.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	7,391	8,346	9,448
Revenue, YoY%	10.1%	12.9%	13.2%
Operating Income	3,937	4,503	5,364
Operating Margin %	53.3%	54.0%	56.8%
Net Income	2,759	3,116	3,731
Net Income Margin %	37.3%	37.3%	39.5%
Diluted EPS	2.19	2.56	3.04
Diluted EPS, YoY %	-85.3%	17.1%	18.5%
Free Cash Flow (CFO-capex)	2,852	3,980	4,085
Free Cash Flow Margin %	38.6%	47.7%	43.2%

In Millions of USD (except for per share items)

Structure of the Financial Tech Services Industry — EXCELLENT

The financial tech services industry is primarily composed of firms that generate revenue by charging fees to customers for providing transaction processing and other payment-related services. Constituents operate in a rapidly-evolving legal/regulatory environment, particularly with respect to interchange fees, data protection, and information security. Several participants benefit from a significant competitive advantage – the network effect. As more consumers use credit/debit cards, more merchants accept them, thereby creating a virtuous cycle. The industry is one of the most attractive in our coverage.

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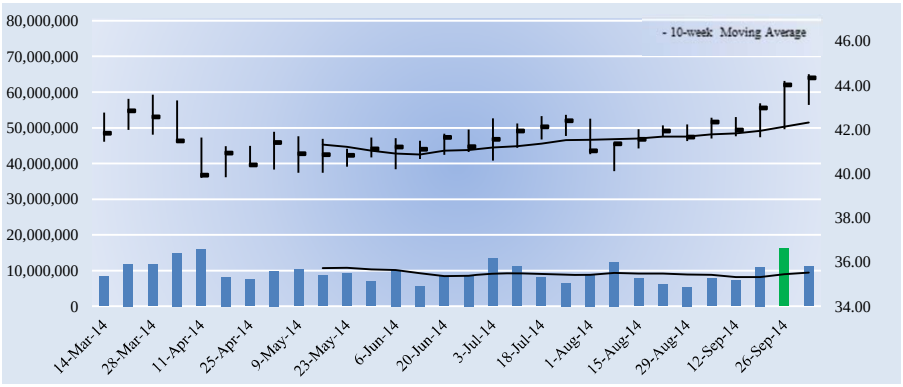
Paychex PAYX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$42.00	$34.00 - $50.00	LARGE-CAP CORE	Information Technology	Staffing Services

Paychex generates impressive free cash flow and has no debt.

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).

Company Vitals

Market Cap (USD)	$16,226
Avg Weekly Vol (30 wks)	9,646
30-week Range (USD)	39.8 - 44.49
Valuentum Sector	Information Technology
5-week Return	6.0%
13-week Return	6.7%
30-week Return	4.0%
Dividend Yield %	3.4%
Dividends per Share	1.52
Forward Dividend Payout Ratio	81.3%
Est. Normal Diluted EPS	2.17
P/E on Est. Normal Diluted EPS	20.4
Est. Normal EBITDA	1,484
Forward EV/EBITDA	9.0
EV/Est. Normal EBITDA	7.7
Forward Revenue Growth (5-yr)	6.7%
Forward EPS Growth (5-yr)	7.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	34.8%
Return on Assets	9.4%
ROIC, with goodwill	18.4%
ROIC, without goodwill	71.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-4,750
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	1.1
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• Paychex'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. The company's operating margins are very impressive.

• Paychex is a leader in the payroll, human resource, and benefits outsourcing industry. With a wide range of services – including payroll processing, retirement services, insurance, and a fully outsourced human resource solution – Paychex customizes its offering to the clients' business.

• Paychex 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 27.6% in coming years, and the firm had no debt as of last quarter.

• Paychex has two primary revenue sources: Payroll (67% of sales) and Human Resource Services (~33%). Its payroll services target small businesses with 1-50 employees and mid-market businessess with 50-1,000 employees. Its HRS is a leader in complimentary services sold to payroll clients (retirement, insurance and HR).

• Though the company's payout ratio (dividends paid per share divided by earnings per share) is high, the company boasts an excellent Valuentum Dividend Cushion score. This is largely due to its fantastic, cash-rich balance sheet.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**42.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Automatic Data Processing	25.3	3.1	79.6%
Insperity	27.2	1.6	83.9%
Korn/Ferry	13.8	1.9	76.2%
Manpower	13.1	1.9	96.2%
Peer Median	19.6	1.9	81.8%
Paychex	**23.7**	**3.5**	**105.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-13	May-14	May-15
Revenue	2,326	2,519	2,758
Revenue, YoY%	4.3%	8.3%	9.5%
Operating Income	864	942	1,081
Operating Margin %	37.1%	37.4%	39.2%
Net Income	569	628	687
Net Income Margin %	24.5%	24.9%	24.9%
Diluted EPS	1.56	1.71	1.87
Diluted EPS, YoY %	3.3%	9.9%	9.0%
Free Cash Flow (CFO-capex)	577	786	790
Free Cash Flow Margin %	24.8%	31.2%	28.6%

In Millions of USD (except for per share items)

Structure of the Staffing Services Industry — NEUTRAL

The staffing services industry spans firms that provide business outsourcing services to those that offer talent management solutions. Providers of business outsourcing solutions compete with a variety of independent firms as well as captive in-house functions. Their businesses are characterized by long-term client relationships and recurring revenue. Talent management firms offer executive recruitment and consulting services and face emerging competition from professional networking website providers. Attracting consultants is particularly important for executive recruitment entities. We're neutral on the group.

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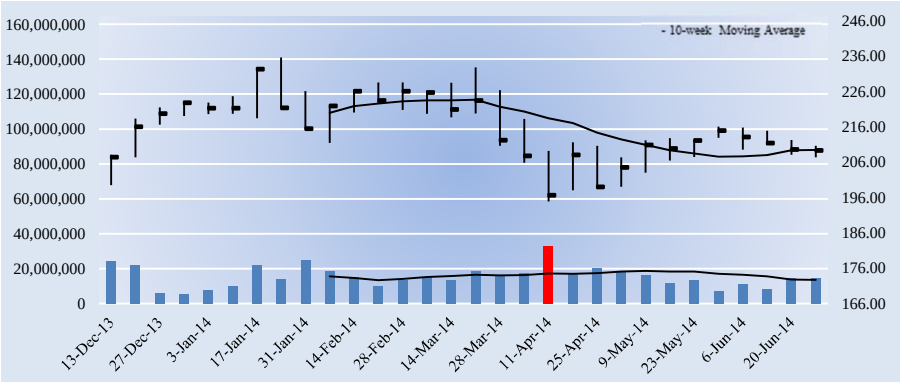
Visa V FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$244.00	$195.00 - $293.00	LARGE-CAP BLEND	Information Technology	Financial Tech Services

Visa benefits from one of the strongest competitive advantages out there – the network effect.

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).

Company Vitals

Market Cap (USD)	$137,288
Avg Weekly Vol (30 wks)	15,372
30-week Range (USD)	194.84 - 235.5
Valuentum Sector	Information Technology
5-week Return	-1.7%
13-week Return	-1.6%
30-week Return	3.7%
Dividend Yield %	0.8%
Dividends per Share	1.60
Forward Dividend Payout Ratio	17.6%
Est. Normal Diluted EPS	12.00
P/E on Est. Normal Diluted EPS	17.4
Est. Normal EBITDA	13,612
Forward EV/EBITDA	11.8
EV/Est. Normal EBITDA	9.8
Forward Revenue Growth (5-yr)	10.7%
Forward EPS Growth (5-yr)	14.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	8.4%
Return on Assets	6.1%
ROIC, with goodwill	30.3%
ROIC, without goodwill	61.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-4,304
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	1.8
Quick Ratio	1.4

NMF = Not Meaningful

Investment Highlights

• Visa is the largest retail electronic payments network based on payments volume, total volume and number of transactions. The company benefits from one of the strongest competitive advantages out there – the network effect. As more consumers use credit/debit cards, more merchants accept them, thereby creating a virtuous cycle.

• Visa is not a bank and does not issue credit cards. The firm takes on no credit risk--unlike American Express and Discover Financial--but remains an integral part of the trend toward a cashless society. Sales are primarily generated from payments volume on Visa-branded cards.

• Visa'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.

• Visa 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 61% in coming years, and the firm had no debt as of last quarter. The regulatory environment with respect to debit products remains the firm's biggest risk.

• Visa is included in the Best Ideas portfolio, and we think the company is one of the best ideas in one of the strongest industries, the Financial Tech Services industry. The company's fundamentals are rock-solid, in our view.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**209.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Bottomline Tech	23.5	NMF	81.4%
Fiserv	17.8	1.7	116.1%
Mastercard	24.1	2.0	92.9%
Western Union	11.8	2.7	75.0%
Peer Median	20.7	2.0	87.1%
Visa	**23.0**	**1.9**	**85.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-12	Sep-13	Sep-14
Revenue	10,421	11,778	12,873
Revenue, YoY%	13.4%	13.0%	9.3%
Operating Income	4,084	7,242	8,491
Operating Margin %	39.2%	61.5%	66.0%
Net Income	-11	4,980	5,837
Net Income Margin %	-0.1%	42.3%	45.3%
Diluted EPS	-0.02	7.59	9.08
Diluted EPS, YoY %	-100.6%	-46891.0%	19.6%
Free Cash Flow (CFO-capex)	2,478	2,551	8,157
Free Cash Flow Margin %	23.8%	21.7%	63.4%

In Millions of USD (except for per share items)

Structure of the Financial Tech Services Industry — EXCELLENT

The financial tech services industry is primarily composed of firms that generate revenue by charging fees to customers for providing transaction processing and other payment-related services. Constituents operate in a rapidly-evolving legal/regulatory environment, particularly with respect to interchange fees, data protection, and information security. Several participants benefit from a significant competitive advantage – the network effect. As more consumers use credit/debit cards, more merchants accept them, thereby creating a virtuous cycle. The industry is one of the most attractive in our coverage.

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Health Care

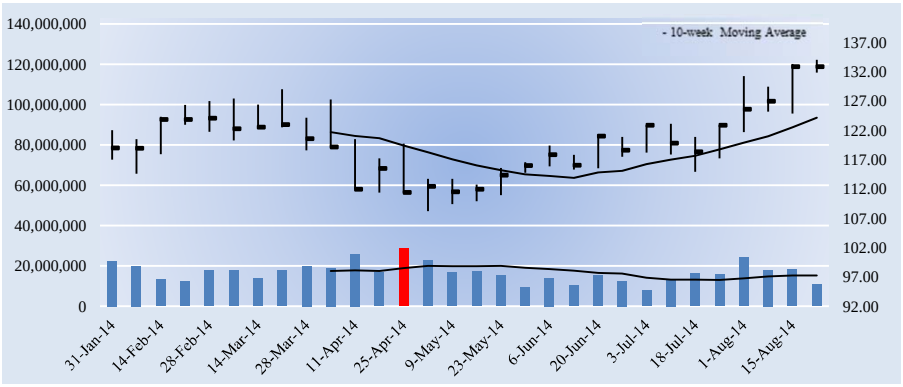
Amgen AMGN FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$120.00	$96.00 - $144.00	LARGE-CAP CORE	Health Care	Pharmaceuticals - Big

Amgen's pipeline continues to advance, and commercial execution of its portfolio remains strong, particularly with its Neulasta/NEUPOGEN franchise.

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).

Company Vitals

Market Cap (USD)	$101,607
Avg Weekly Vol (30 wks)	16,762
30-week Range (USD)	108.2 - 133.98
Valuentum Sector	Health Care
5-week Return	12.9%
13-week Return	14.8%
30-week Return	11.4%
Dividend Yield %	1.8%
Dividends per Share	2.44
Forward Dividend Payout Ratio	28.8%
Est. Normal Diluted EPS	9.60
P/E on Est. Normal Diluted EPS	13.8
Est. Normal EBITDA	9,890
Forward EV/EBITDA	12.6
EV/Est. Normal EBITDA	11.6
Forward Revenue Growth (5-yr)	3.3%
Forward EPS Growth (5-yr)	10.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.5%
Return on Assets	8.3%
ROIC, with goodwill	23.6%
ROIC, without goodwill	50.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	32,128
Net Debt	12,727
Total Debt/EBITDA	4.4
Net Debt/EBITDA	1.7
EBITDA/Interest	12.2
Current Ratio	3.4
Quick Ratio	2.8

NMF = Not Meaningful

Investment Highlights

• Amgen'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.

• Amgen is one of the world's largest biotechnology medicines firms. The company's pipeline continues to advance, and commercial execution of its portfolio remains strong, particularly with its Neulasta/NEUPOGEN franchise. The firm has been a pioneer since 1980.

• Amgen is investing for the long haul. By 2016, the firm expects to have pivotal data on about 10 innovative molecules in its later-stage pipeline and to advance its portfolio of about a half-dozen biosimilars, which could be launched by 2017. The firm's acquisition of Onyx indicates that R&D will remain a key focus.

• We like Amgen's approach to innovative research. The firm pursues a 'biology first' process allowing its scientists to first explore the complex molecular pathways of disease before determining what type of medicine is most likely to deliver optimal efficacy. Its subsidiary deCODE Genetics is a core part of this approach.

• Global expansion is a key element to future growth at Amgen. The firm continues to form partnerships and acquire rights to expand its presence in Japan, China, and key emerging markets.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**124.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Abbott	18.7	1.8	102.7%
Eli Lilly	22.2	0.9	109.3%
Merck	16.8	1.6	109.6%
Pfizer	12.7	1.8	90.4%
Peer Median	17.7	1.7	106.0%
Amgen	**15.7**	**2.0**	**110.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	17,265	18,676	19,722
Revenue, YoY%	10.8%	8.2%	5.6%
Operating Income	5,872	6,063	7,689
Operating Margin %	34.0%	32.5%	39.0%
Net Income	4,345	5,081	6,425
Net Income Margin %	25.2%	27.2%	32.6%
Diluted EPS	5.52	6.64	8.48
Diluted EPS, YoY %	36.7%	20.3%	27.7%
Free Cash Flow (CFO-capex)	5,193	5,598	7,096
Free Cash Flow Margin %	30.1%	30.0%	36.0%

In Millions of USD (except for per share items)

Structure of the Big Pharma Industry — GOOD

The big pharma industry is primarily composed of makers of branded drugs. Intellectual property protection is vital to the successful commercialization of medicines and offers makers of branded drugs a unique competitive advantage via patents, which can extend for decades. When branded drugs lose market exclusivity, however, makers of generic pharmaceuticals can generate intense price competition, causing drastic revenue losses on unprotected therapies. Long-term success for branded pharma companies depends on a strong and diverse drug pipeline, which can be augmented by M&A activity. We generally like the group and expect continued industry consolidation.

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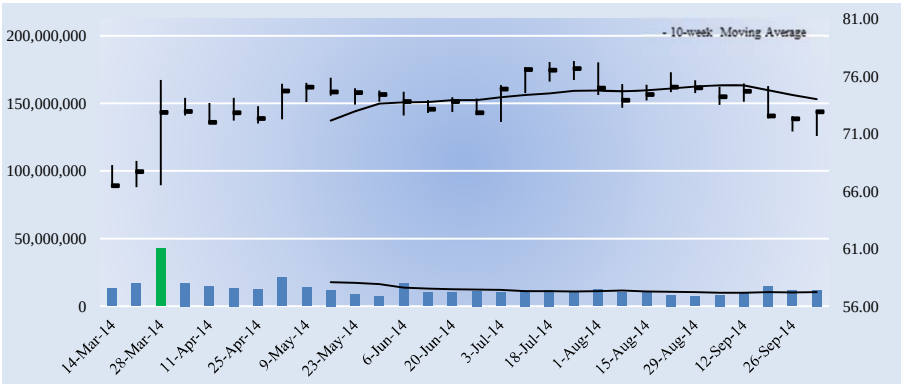
Baxter Intl BAX FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$71.00	$57.00 - $85.00	LARGE-CAP CORE	Health Care	Medical Instruments

Baxter's strong image and brand is augmented by an extensive global footprint and channel strength.

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).

Company Vitals

Market Cap (USD)	$40,028
Avg Weekly Vol (30 wks)	13,032
30-week Range (USD)	66.34 - 77.31
Valuentum Sector	Health Care
5-week Return	-2.7%
13-week Return	-2.6%
30-week Return	8.0%
Dividend Yield %	2.9%
Dividends per Share	2.08
Forward Dividend Payout Ratio	39.9%
Est. Normal Diluted EPS	5.74
P/E on Est. Normal Diluted EPS	12.7
Est. Normal EBITDA	4,951
Forward EV/EBITDA	10.0
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	4.3%
Forward EPS Growth (5-yr)	11.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	31.6%
Return on Assets	10.9%
ROIC, with goodwill	24.3%
ROIC, without goodwill	31.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	9,166
Net Debt	6,433
Total Debt/EBITDA	2.6
Net Debt/EBITDA	1.8
EBITDA/Interest	22.5
Current Ratio	1.7
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• Baxter Intl'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.

• Baxter makes products that help people with hemophilia, immune disorders, infectious diseases, kidney disease, trauma and other medical conditions. The firm's diversified healthcare portfolio generates 70%+ of revenue from products in market-leading positions.

• Baxter Intl 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 16.4% in coming years. Total debt-to-EBITDA was 2.6 last year, while debt-to-book capitalization stood at 52%. It has returned ~$4 billion to shareholders via dividends and buybacks since 2008.

• Baxter's strong image and brand is augmented by an extensive global footprint and channel strength. The company continues to enhance its position in hemophilia and advance its pipeline to late-stage development. There are ~20 phase III pipeline programs compared to just 2 in 2005.

• The firm sports a very nice dividend yield of 2.9%. We expect the firm to pay out about 40% of next year's earnings to shareholders as dividends. The company continues to target paying out 40% of earnings as dividends in the future.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
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	**74.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Becton, Dickinson	18.4	1.5	107.3%
Boston Scientific	14.4	NMF	66.3%
Stryker	17.1	1.6	103.1%
Thermo Fisher Scientific	17.3	1.6	103.8%
Peer Median	17.2	1.6	103.4%
Baxter Intl	**14.0**	**1.7**	**102.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	14,190	15,259	16,831
Revenue, YoY%	2.1%	7.5%	10.3%
Operating Income	2,821	2,668	3,717
Operating Margin %	19.9%	17.5%	22.1%
Net Income	2,326	2,012	2,833
Net Income Margin %	16.4%	13.2%	16.8%
Diluted EPS	4.18	3.66	5.21
Diluted EPS, YoY %	7.8%	-12.4%	42.2%
Free Cash Flow (CFO-capex)	1,945	1,673	2,229
Free Cash Flow Margin %	13.7%	11.0%	13.2%

In Millions of USD (except for per share items)

Structure of the Medical Instruments Industry — GOOD

The medical instrument industry is heavily regulated and characterized by rapid technological change. Firms have been forced to compete on price due to economically-motivated buyers, consolidation among healthcare providers, and declining reimbursement rates. Healthcare reform measures have put additional pressure on procedure rates and market sizes. Still, firms can gain advantages by developing products with differentiated clinical outcomes or by creating patent-protected technology. Since most constituents hold important patents or trade secrets, we tend to like the group.

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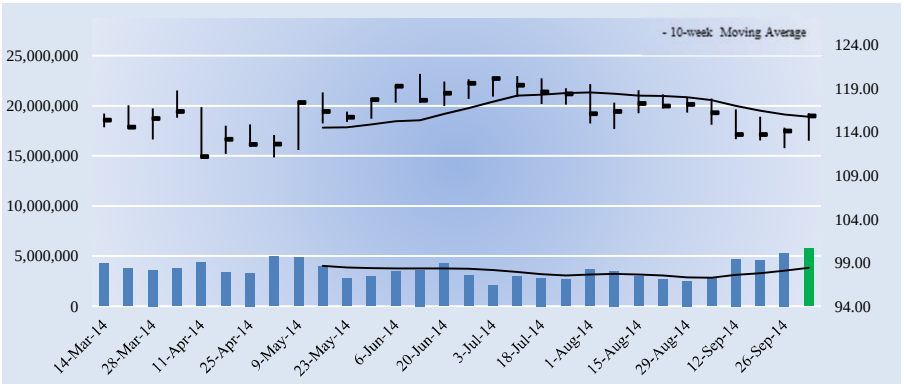
Becton, Dickinson BDX FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$108.00	$86.00 - $130.00	LARGE-CAP CORE	Health Care	Medical Instruments

New product revenue will continue to be a key driver for Becton, Dickinson.

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).

Company Vitals

Market Cap (USD)	$22,607
Avg Weekly Vol (30 wks)	3,647
30-week Range (USD)	111.07 - 120.66
Valuentum Sector	Health Care
5-week Return	-1.2%
13-week Return	-3.2%
30-week Return	0.4%
Dividend Yield %	1.9%
Dividends per Share	2.18
Forward Dividend Payout Ratio	34.6%
Est. Normal Diluted EPS	7.94
P/E on Est. Normal Diluted EPS	14.6
Est. Normal EBITDA	2,597
Forward EV/EBITDA	10.9
EV/Est. Normal EBITDA	9.2
Forward Revenue Growth (5-yr)	4.1%
Forward EPS Growth (5-yr)	15.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.2%
Return on Assets	10.2%
ROIC, with goodwill	16.6%
ROIC, without goodwill	19.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,970
Net Debt	1,362
Total Debt/EBITDA	2.2
Net Debt/EBITDA	0.8
EBITDA/Interest	13.1
Current Ratio	2.8
Quick Ratio	1.8

NMF = Not Meaningful

Investment Highlights

• Becton, Dickinson'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.

• Becton, Dickinson is a medical technology company that sells medical devices, instrument systems and reagents. BD Medical is the firm's largest division at more than half of revenue. The segment focuses on advancing medication delivery, reducing the risk of medication errors and enhancing diabetes treatment. The segment sells items such as needles, syringes, catheters, and sharps disposal containers. BD Diagnostics is its second-largest segment and provides products for the safe collection and transport of diagnostic specimens. The balance of revenue is generated from its BD Biosciences division, which sells applications associated with cellular analysis.

• Emerging markets continue to deliver robust performance at the company and now account for ~25% of total company revenues. Becton, Dickinson's business in China is growing at a nice double-digit pace, and areas such as India, Latin America, and the Middle East present opportunities.

• New product revenue will continue to be a key driver for the company and is expected to be as much as 18% of sales by fiscal year 2014 (almost double fiscal 2011 levels). We expect continued innovation to drive this percentage even higher.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**116.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baxter Intl	14.0	1.7	102.7%
Boston Scientific	14.4	NMF	66.3%
Stryker	17.1	1.6	103.1%
Thermo Fisher Scientific	17.3	1.6	103.8%
Peer Median	15.8	1.6	102.9%
Becton, Dickinson	**18.4**	**1.5**	**107.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-12	Sep-13	Sep-14
Revenue	7,708	8,054	8,408
Revenue, YoY%	-1.5%	4.5%	4.4%
Operating Income	1,558	1,255	1,625
Operating Margin %	20.2%	15.6%	19.3%
Net Income	1,110	929	1,218
Net Income Margin %	14.4%	11.5%	14.5%
Diluted EPS	5.30	4.76	6.30
Diluted EPS, YoY %	-5.1%	-10.3%	32.4%
Free Cash Flow (CFO-capex)	1,146	553	1,133
Free Cash Flow Margin %	14.9%	6.9%	13.5%

In Millions of USD (except for per share items)

Structure of the Medical Instruments Industry — GOOD

The medical instrument industry is heavily regulated and characterized by rapid technological change. Firms have been forced to compete on price due to economically-motivated buyers, consolidation among healthcare providers, and declining reimbursement rates. Healthcare reform measures have put additional pressure on procedure rates and market sizes. Still, firms can gain advantages by developing products with differentiated clinical outcomes or by creating patent-protected technology. Since most constituents hold important patents or trade secrets, we tend to like the group.

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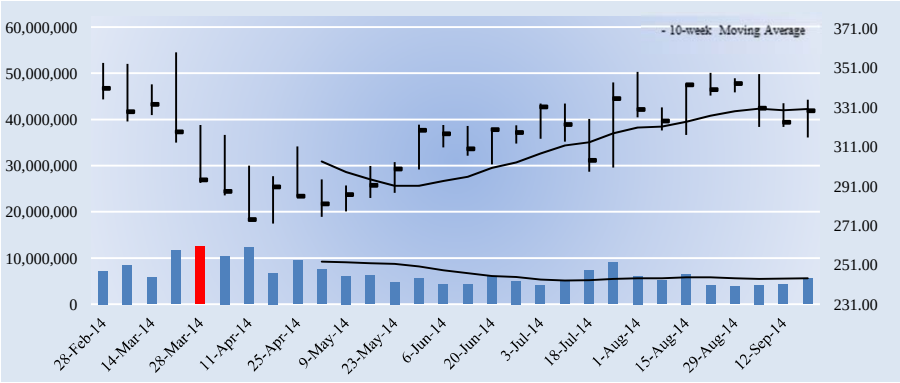
Biogen BIIB FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$307.00	$215.00 - $399.00	LARGE-CAP GROWTH	Health Care	Biotechnology

Biogen continues to advance its pipeline, and global AVONEX performance remains strong.

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).

Company Vitals

Market Cap (USD)	$78,461
Avg Weekly Vol (30 wks)	6,635
30-week Range (USD)	272.02 - 358.89
Valuentum Sector	Health Care
5-week Return	-5.3%
13-week Return	3.5%
30-week Return	-5.4%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	18.53
P/E on Est. Normal Diluted EPS	17.8
Est. Normal EBITDA	6,660
Forward EV/EBITDA	15.9
EV/Est. Normal EBITDA	11.7
Forward Revenue Growth (5-yr)	17.5%
Forward EPS Growth (5-yr)	24.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.0%
Return on Assets	15.4%
ROIC, with goodwill	22.4%
ROIC, without goodwill	29.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	596
Net Debt	-627
Total Debt/EBITDA	0.3
Net Debt/EBITDA	NMF
EBITDA/Interest	59.4
Current Ratio	1.8
Quick Ratio	1.3

NMF = Not Meaningful

Investment Highlights

• Biogen earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 29% during the past three years.

• Biogen is a global biotech firm that focuses on therapies for the treatment of multiple sclerosis (MS), neurodegenerative diseases, hemophilia and other autoimmune disorders. The firm continues to advance its pipeline, and global AVONEX performance remains strong.

• Biogen 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 33.6% in coming years. Total debt-to-EBITDA was 0.3 last year, while debt-to-book capitalization stood at 6.5%.

• Biogen's multiple sclerosis franchise is impressive. Its three main product drivers are AVONEX (a first-line MS therapy of choice), TYSABRI (a high efficacy treatment for MS), and TECFIDERA (the #1 oral MS therapy). We like its portfolio in this area, though it competes with Teva's Copaxone and other generics in the space.

• The company has a nice balance between early-stage and late-stage prospects. Early stage candidates include potential therapies for lupus nephritis, Alzheimer's, pulmonary fibrosis, and spinal muscular atrophy, among others.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**AGGRESSIVE**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**330.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Alexion Pharma	31.9	2.7	97.3%
BioMarin Pharma	-53.2	NMF	116.4%
Celgene	25.3	1.6	99.8%
Regeneron	35.1	2.5	104.6%
Peer Median	28.6	2.5	102.2%
Biogen	**24.9**	**1.7**	**107.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	5,516	6,932	9,684
Revenue, YoY%	9.3%	25.7%	39.7%
Operating Income	1,018	1,364	4,156
Operating Margin %	18.5%	19.7%	42.9%
Net Income	1,380	1,862	3,124
Net Income Margin %	25.0%	26.9%	32.3%
Diluted EPS	5.76	7.81	13.23
Diluted EPS, YoY %	14.3%	35.8%	69.3%
Free Cash Flow (CFO-capex)	1,619	-1,164	3,127
Free Cash Flow Margin %	29.3%	-16.8%	32.3%

In Millions of USD (except for per share items)

Structure of the Biotechnology Industry — GOOD

Firms in the biotechnology industry face no certain future. Drug development is complex, difficult, and risky, and failure rates are high. Product development cycles are extended—approximately 10 to 15 years from discovery to market. A potential new medicine must undergo years of testing to establish safety/efficacy. Sales depend on reimbursement from third-party payers. Competition can be fierce when biosimilar products exist, though patents are material competitive advantages. We like the group on the basis of patent protection, but the timing of expiration of such patents should be watched closely.

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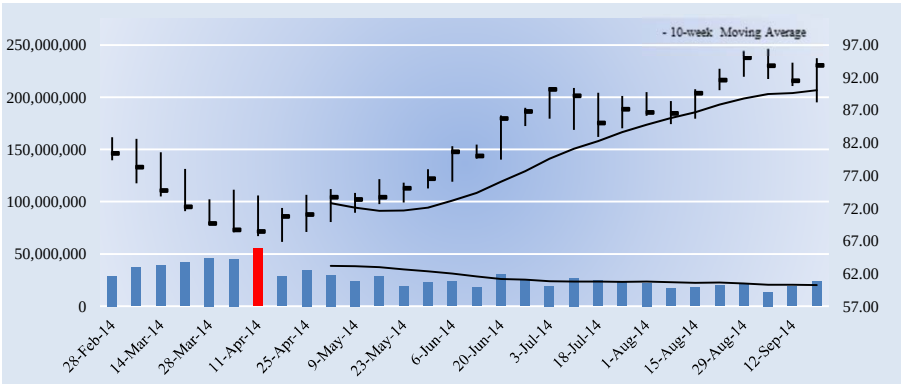
Celgene CELG FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$94.00	$71.00 - $118.00	LARGE-CAP BLEND	Health Care	Biotechnology

Celgene's product pipeline—which covers the areas of hematology, oncology, and immunology—is impressive.

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).

Company Vitals

Market Cap (USD)	$80,767
Avg Weekly Vol (30 wks)	27,521
30-week Range (USD)	66.85 - 96.44
Valuentum Sector	Health Care
5-week Return	4.1%
13-week Return	9.7%
30-week Return	16.2%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	5.70
P/E on Est. Normal Diluted EPS	16.5
Est. Normal EBITDA	6,157
Forward EV/EBITDA	19.2
EV/Est. Normal EBITDA	13.0
Forward Revenue Growth (5-yr)	15.2%
Forward EPS Growth (5-yr)	34.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.7%
Return on Assets	13.1%
ROIC, with goodwill	32.9%
ROIC, without goodwill	49.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,741
Net Debt	-946
Total Debt/EBITDA	2.0
Net Debt/EBITDA	NMF
EBITDA/Interest	25.7
Current Ratio	3.9
Quick Ratio	3.5

NMF = Not Meaningful

Investment Highlights

• Celgene earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. We expect the firm's return on invested capital (excluding goodwill) to expand to 111.6% from 60.5% during the next two years.

• Celgene is a biotech firm focused on developing therapies to treat cancer and immune-inflammatory related diseases. The company's product pipeline—which covers the areas of hematology, oncology, and immunology—is impressive.

• Celgene 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 45.1% in coming years. Total debt-to-EBITDA was 2 last year, while debt-to-book capitalization stood at 45.9%.

• Though the firm is facing lower sales of VIDAZA, worldside sales of Celgene's REVLIMID (treatment for multiple myeloma) and ABRAXANE (treatment for breast cancer) continue to grow at a fast clip. The firm's prospects were enhanced by the approval of OTEZLA (psoriatic athritis). Celgene continues to advance its pipeline.

• The areas of oncology, inflammation, and immunology are highly competitive. Numerous biotech firms are focused in these areas. This could either mean merger opportunities or heightened innovation and drug obsolescence risk (generics).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**AGGRESSIVE**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**90.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Alexion Pharma	31.9	2.7	97.3%
Biogen	24.9	1.7	107.2%
BioMarin Pharma	-53.2	NMF	116.4%
Regeneron	35.1	2.5	104.6%
Peer Median	28.4	2.5	105.9%
Celgene	**25.3**	**1.6**	**99.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	5,507	6,494	7,624
Revenue, YoY%	13.7%	17.9%	17.4%
Operating Income	1,915	1,980	3,729
Operating Margin %	34.8%	30.5%	48.9%
Net Income	1,456	1,450	3,167
Net Income Margin %	26.4%	22.3%	41.5%
Diluted EPS	1.65	1.68	3.72
Diluted EPS, YoY %	4.7%	2.0%	120.6%
Free Cash Flow (CFO-capex)	1,858	2,087	3,317
Free Cash Flow Margin %	33.7%	32.1%	43.5%

In Millions of USD (except for per share items)

Structure of the Biotechnology Industry — GOOD

Firms in the biotechnology industry face no certain future. Drug development is complex, difficult, and risky, and failure rates are high. Product development cycles are extended—approximately 10 to 15 years from discovery to market. A potential new medicine must undergo years of testing to establish safety/efficacy. Sales depend on reimbursement from third-party payers. Competition can be fierce when biosimilar products exist, though patents are material competitive advantages. We like the group on the basis of patent protection, but the timing of expiration of such patents should be watched closely.

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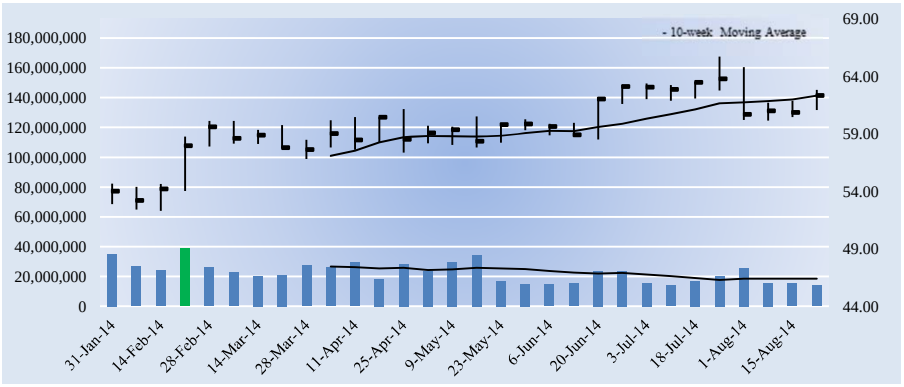
Eli Lilly LLY FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$57.00	$46.00 - $68.00	LARGE-CAP CORE	Health Care	Pharmaceuticals - Big

The loss of Zeprexa and Cymbalta patent exclusivity will weigh on near-term performance at Lilly, but the firm boasts a promising Phase III pipeline.

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).

Company Vitals

Market Cap (USD)	$67,603
Avg Weekly Vol (30 wks)	22,538
30-week Range (USD)	52.29 - 65.7
Valuentum Sector	Health Care
5-week Return	-1.1%
13-week Return	3.9%
30-week Return	14.9%
Dividend Yield %	3.1%
Dividends per Share	1.96
Forward Dividend Payout Ratio	69.8%
Est. Normal Diluted EPS	3.91
P/E on Est. Normal Diluted EPS	16.0
Est. Normal EBITDA	6,591
Forward EV/EBITDA	13.3
EV/Est. Normal EBITDA	10.2
Forward Revenue Growth (5-yr)	1.1%
Forward EPS Growth (5-yr)	4.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.3%
Return on Assets	12.5%
ROIC, with goodwill	34.2%
ROIC, without goodwill	38.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,213
Net Debt	-184
Total Debt/EBITDA	0.7
Net Debt/EBITDA	NMF
EBITDA/Interest	43.7
Current Ratio	1.5
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• Eli Lilly'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.

• Eli Lilly discovers, develops, manufactures, and markets products in two business segments—human pharmaceutical products and animal health products. The firm is poised to drive growth and expand margins post-2014 while building a sustainable R&D engine.

• Eli Lilly 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 18.5% in coming years. Total debt-to-EBITDA was 0.7 last year, while debt-to-book capitalization stood at 22.8%.

• Eli Lilly continues to face substantial revenue and earnings pressure as a result of the Zeprexa and Cymbalta patent expiration. Cymbalta sales, for example, are expected to fall ~75% in 2014. Cost control and the advancement of its solid Phase III pipeline will be critical to long-term success.

• The firm sports a very nice dividend yield of 3.1%. We expect the firm to pay out about 70% of next year's earnings to shareholders as dividends. The payout has been stuck in neutral for years, but we expect it to return to growth.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**62.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Abbott	18.7	1.8	102.7%
AbbVie	17.3	1.6	95.2%
Merck	16.8	1.6	109.6%
Pfizer	12.7	1.8	90.4%
Peer Median	17.0	1.7	98.9%
Eli Lilly	**22.2**	**0.9**	**109.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	22,603	23,113	19,808
Revenue, YoY%	-6.9%	2.3%	-14.3%
Operating Income	5,015	5,548	3,841
Operating Margin %	22.2%	24.0%	19.4%
Net Income	4,089	4,628	3,015
Net Income Margin %	18.1%	20.0%	15.2%
Diluted EPS	3.66	4.27	2.81
Diluted EPS, YoY %	2.9%	16.6%	-34.2%
Free Cash Flow (CFO-capex)	4,261	4,585	3,787
Free Cash Flow Margin %	18.8%	19.8%	19.1%

In Millions of USD (except for per share items)

Structure of the Big Pharma Industry — GOOD

The big pharma industry is primarily composed of makers of branded drugs. Intellectual property protection is vital to the successful commercialization of medicines and offers makers of branded drugs a unique competitive advantage via patents, which can extend for decades. When branded drugs lose market exclusivity, however, makers of generic pharmaceuticals can generate intense price competition, causing drastic revenue losses on unprotected therapies. Long-term success for branded pharma companies depends on a strong and diverse drug pipeline, which can be augmented by M&A activity. We generally like the group and expect continued industry consolidation.

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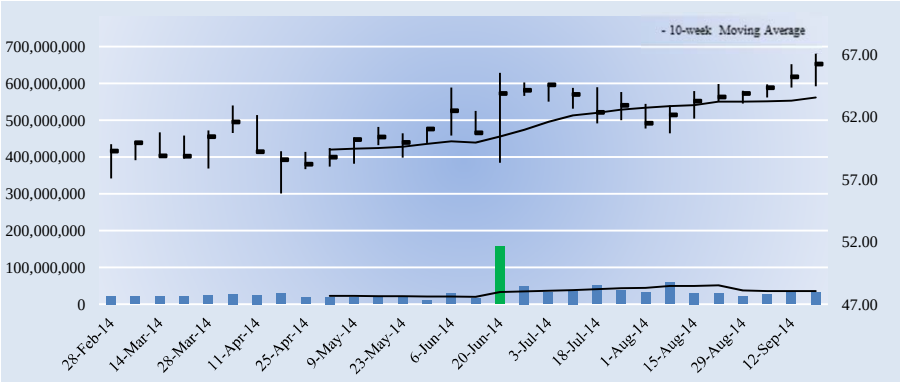
Medtronic MDT FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$72.00	$58.00 - $86.00	LARGE-CAP VALUE	Health Care	Medical Devices

Medtronic will buy Covidien in a tax-inversion deal.

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).

Company Vitals

Market Cap (USD)	$67,121
Avg Weekly Vol (30 wks)	32,122
30-week Range (USD)	55.85 - 67.11
Valuentum Sector	Health Care
5-week Return	4.0%
13-week Return	3.8%
30-week Return	15.6%
Dividend Yield %	1.8%
Dividends per Share	1.22
Forward Dividend Payout Ratio	29.8%
Est. Normal Diluted EPS	4.70
P/E on Est. Normal Diluted EPS	14.1
Est. Normal EBITDA	6,837
Forward EV/EBITDA	10.8
EV/Est. Normal EBITDA	9.5
Forward Revenue Growth (5-yr)	3.8%
Forward EPS Growth (5-yr)	12.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.7%
Return on Assets	9.8%
ROIC, with goodwill	29.3%
ROIC, without goodwill	61.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	11,928
Net Debt	-2,313
Total Debt/EBITDA	2.0
Net Debt/EBITDA	NMF
EBITDA/Interest	15.5
Current Ratio	3.8
Quick Ratio	3.2

NMF = Not Meaningful

Investment Highlights

• Medtronic'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.

• Medtronic is a global leader in medical technology. The company currently functions in two operating segments that manufacture and sell device-based medical therapies: Cardiac/Vascular and Restorative Therapies. Medtronic will buy Covidien in a tax-inversion deal.

• Medtronic 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 27.6% in coming years. Total debt-to-EBITDA was 2 last year, while debt-to-book capitalization stood at 38%.

• We think Medtronic's baseline expectations are achievable. The company expects to deliver consistent mid-single-digit revenue growth, consistently grow EPS 200-400 basis points faster than revenue, and return 50% of free cash flow to shareholders.

• The company's emerging market business should be a strong source of growth. Medtronic is targeting a 20% CAGR in emerging markets and expects emerging markets to represent 20% of its revenue mix by mid-decade (it's currently 10%).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**64.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Intuitive Surgical	30.4	2.2	112.3%
Varian Medical Systems	19.2	1.9	103.3%
Waters	18.9	2.2	102.6%
Zimmer	17.0	1.9	104.0%
Peer Median	19.1	2.0	103.6%
Medtronic	**16.2**	**1.8**	**92.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Apr-13	Apr-14	Apr-15
Revenue	16,590	17,005	17,753
Revenue, YoY%	2.5%	2.5%	4.4%
Operating Income	4,878	4,999	5,120
Operating Margin %	29.4%	29.4%	28.8%
Net Income	3,467	3,065	4,146
Net Income Margin %	20.9%	18.0%	23.4%
Diluted EPS	3.37	3.02	4.09
Diluted EPS, YoY %	4.7%	-10.4%	35.3%
Free Cash Flow (CFO-capex)	4,426	4,563	4,828
Free Cash Flow Margin %	26.7%	26.8%	27.2%

In Millions of USD (except for per share items)

Structure of the Medical Devices Industry — GOOD

The medical devices industry is heavily regulated and characterized by rapid technological change. Firms have been forced to compete on price due to economically-motivated buyers, consolidation among healthcare providers, and declining reimbursement rates. Healthcare reform measures have put additional pressure on procedure rates and market sizes. Still, firms can gain advantages by developing products with differentiated clinical outcomes or by creating patent-protected technology. Since most constituents hold important patents or trade secrets, we tend to like the group.

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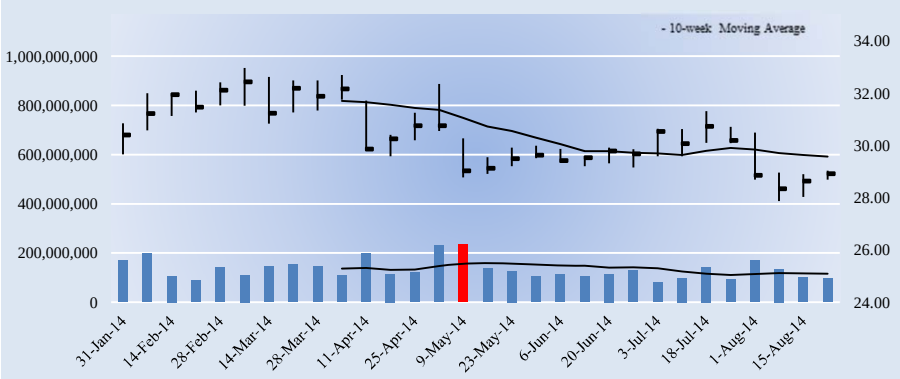
Pfizer PFE FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$32.00	$26.00 - $38.00	LARGE-CAP VALUE	Health Care	Pharmaceuticals - Big

Pfizer could restart its efforts to purchase AstraZeneca.

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).

Company Vitals

Market Cap (USD)	$199,403
Avg Weekly Vol (30 wks)	133,867
30-week Range (USD)	27.87 - 32.96
Valuentum Sector	Health Care
5-week Return	-5.0%
13-week Return	-3.4%
30-week Return	-3.7%
Dividend Yield %	3.6%
Dividends per Share	1.04
Forward Dividend Payout Ratio	45.8%
Est. Normal Diluted EPS	2.40
P/E on Est. Normal Diluted EPS	12.0
Est. Normal EBITDA	24,479
Forward EV/EBITDA	8.4
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	-0.4%
Forward EPS Growth (5-yr)	10.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.1%
Return on Assets	5.3%
ROIC, with goodwill	9.6%
ROIC, without goodwill	15.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	36,489
Net Debt	4,081
Total Debt/EBITDA	2.0
Net Debt/EBITDA	0.2
EBITDA/Interest	13.0
Current Ratio	2.4
Quick Ratio	1.8

NMF = Not Meaningful

Investment Highlights

• Pfizer'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.

• Pfizer is a research-based, global biopharmaceutical company. The company has a leading portfolio of products and medicines that support wellness and prevention, as well as treatment and cures for diseases across a broad range of therapeutic areas. It recently spun off Zoetis, its animal health operations.

• Pfizer 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 34.8% in coming years. Total debt-to-EBITDA was 2 last year, while debt-to-book capitalization stood at 32.4%. The firm's aggressive share buyback program should allow it to meet EPS targets.

• Pfizer has faced pressure from the loss of exclusivity of Lipitor, but we remain encouraged by potential new therapies in its pipeline and have no qualms with its decision to IPO its Animal Health business and sell its Nutrition operations. Recently-launched products such as Eliquis, Xeljanz, Xalkori, and Inlyta continue to gain traction.

• Pfizer could restart its efforts to purchase AstraZeneca (AZN), a deal motivated by putting to use non-US domiciled cash and the possibility for a lower tax burden by relocating overseas. We'll be monitoring any new developments very closely.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**DECLINING**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**30.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Abbott	18.7	1.8	102.7%
AbbVie	17.3	1.6	95.2%
Eli Lilly	22.2	0.9	109.3%
Merck	16.8	1.6	109.6%
Peer Median	18.0	1.6	106.0%
Pfizer	**12.7**	**1.8**	**90.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	58,986	51,584	49,675
Revenue, YoY%	-12.5%	-12.5%	-3.7%
Operating Income	17,991	16,366	22,257
Operating Margin %	30.5%	31.7%	44.8%
Net Income	9,490	11,341	15,356
Net Income Margin %	16.1%	22.0%	30.9%
Diluted EPS	1.26	1.64	2.27
Diluted EPS, YoY %	14.4%	30.1%	38.2%
Free Cash Flow (CFO-capex)	10,647	7,715	17,684
Free Cash Flow Margin %	18.1%	15.0%	35.6%

In Millions of USD (except for per share items)

Structure of the Big Pharma Industry — GOOD

The big pharma industry is primarily composed of makers of branded drugs. Intellectual property protection is vital to the successful commercialization of medicines and offers makers of branded drugs a unique competitive advantage via patents, which can extend for decades. When branded drugs lose market exclusivity, however, makers of generic pharmaceuticals can generate intense price competition, causing drastic revenue losses on unprotected therapies. Long-term success for branded pharma companies depends on a strong and diverse drug pipeline, which can be augmented by M&A activity. We generally like the group and expect continued industry consolidation.

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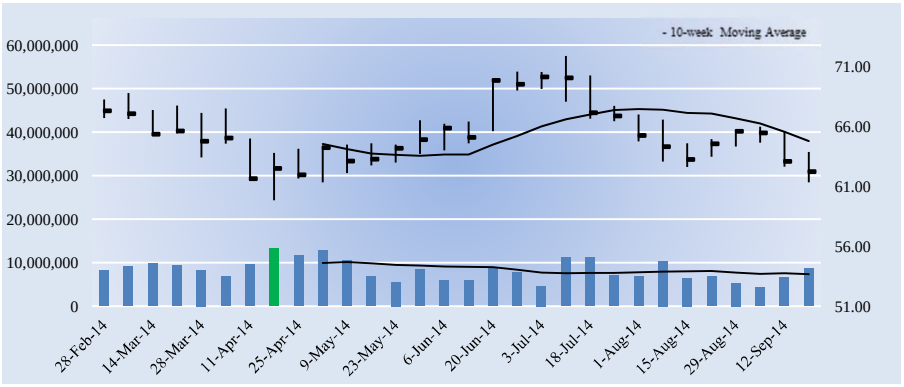
St. Jude STJ FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$70.00	$53.00 - $88.00	LARGE-CAP VALUE	Health Care	Medical Devices

St. Jude remains dedicated to investing in research and development.

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).

Company Vitals

Market Cap (USD)	$18,087
Avg Weekly Vol (30 wks)	8,267
30-week Range (USD)	59.85 - 71.9
Valuentum Sector	Health Care
5-week Return	-2.3%
13-week Return	-10.9%
30-week Return	-7.4%
Dividend Yield %	1.7%
Dividends per Share	1.08
Forward Dividend Payout Ratio	26.7%
Est. Normal Diluted EPS	5.01
P/E on Est. Normal Diluted EPS	12.4
Est. Normal EBITDA	1,974
Forward EV/EBITDA	12.2
EV/Est. Normal EBITDA	10.3
Forward Revenue Growth (5-yr)	4.4%
Forward EPS Growth (5-yr)	19.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.6%
Return on Assets	8.2%
ROIC, with goodwill	21.0%
ROIC, without goodwill	39.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,580
Net Debt	2,207
Total Debt/EBITDA	2.2
Net Debt/EBITDA	1.3
EBITDA/Interest	20.3
Current Ratio	2.8
Quick Ratio	2.0

NMF = Not Meaningful

Investment Highlights

• St. Jude earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 39% during the past three years.

• St. Jude remains dedicated to investing in research and development and is fully committed to delivering earnings-per-share expansion without sacrificing innovation expenses. Net income growth looks solid, while EPS is slated to grow in the high-single-digits on a normalized basis.

• St. Jude 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 23.1% in coming years. Total debt-to-EBITDA was 2.2 last year, while debt-to-book capitalization stood at 45.8%. The company boasts investment-grade credit ratings (Baa1/A)

• St. Jude's product portfolio includes implantable cardioverter defibrillators (ICDs), cardiac resynchronization therapy (CRT) devices, pacemakers, electrophysiology catheters, mapping and visualization systems, vascular closure devices, structural heart products, spinal cord stimulation and deep brain stimulation devices.

• The company estimates that the markets it participates in exceed $20 billion in size and are growing at an average annual rate of 4%. Potential markets such as CardioMEMS HF System and renal denervation may provide upside.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
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	**65.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Intuitive Surgical	30.4	2.2	112.3%
Varian Medical Systems	19.2	1.9	103.3%
Waters	18.9	2.2	102.6%
Zimmer	17.0	1.9	104.0%
Peer Median	19.1	2.0	103.6%
St. Jude	**15.4**	**1.3**	**88.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	5,503	5,501	5,710
Revenue, YoY%	-1.9%	0.0%	3.8%
Operating Income	1,398	1,352	1,358
Operating Margin %	25.4%	24.6%	23.8%
Net Income	752	723	1,162
Net Income Margin %	13.7%	13.1%	20.4%
Diluted EPS	2.39	2.49	4.04
Diluted EPS, YoY %	-5.4%	4.2%	62.4%
Free Cash Flow (CFO-capex)	1,055	739	1,237
Free Cash Flow Margin %	19.2%	13.4%	21.7%

In Millions of USD (except for per share items)

Structure of the Medical Devices Industry — GOOD

The medical devices industry is heavily regulated and characterized by rapid technological change. Firms have been forced to compete on price due to economically-motivated buyers, consolidation among healthcare providers, and declining reimbursement rates. Healthcare reform measures have put additional pressure on procedure rates and market sizes. Still, firms can gain advantages by developing products with differentiated clinical outcomes or by creating patent-protected technology. Since most constituents hold important patents or trade secrets, we tend to like the group.

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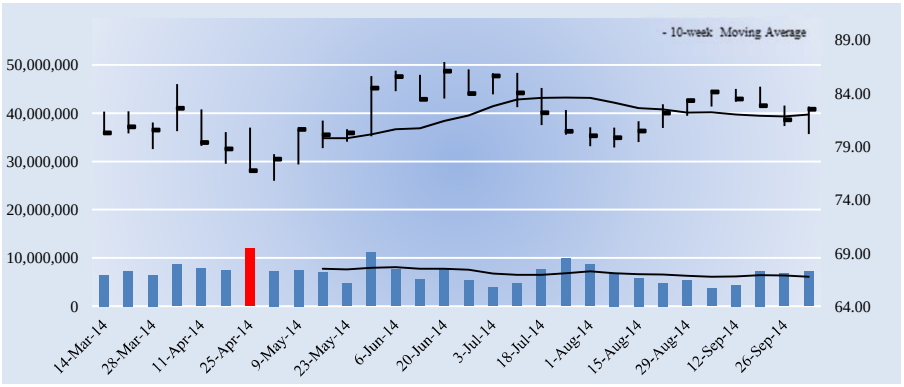
Stryker SYK FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$80.00	$64.00 - $96.00	LARGE-CAP CORE	Health Care	Medical Instruments

Stryker is one of the world's leading medical technology companies.

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).

Company Vitals

Market Cap (USD)	$31,527
Avg Weekly Vol (30 wks)	6,898
30-week Range (USD)	75.78 - 86.93
Valuentum Sector	Health Care
5-week Return	-1.3%
13-week Return	-3.7%
30-week Return	1.4%
Dividend Yield %	1.5%
Dividends per Share	1.22
Forward Dividend Payout Ratio	25.3%
Est. Normal Diluted EPS	5.66
P/E on Est. Normal Diluted EPS	14.6
Est. Normal EBITDA	2,936
Forward EV/EBITDA	11.9
EV/Est. Normal EBITDA	10.3
Forward Revenue Growth (5-yr)	6.1%
Forward EPS Growth (5-yr)	19.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	15.2%
Return on Assets	9.5%
ROIC, with goodwill	32.2%
ROIC, without goodwill	46.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,764
Net Debt	-1,216
Total Debt/EBITDA	1.7
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	3.1
Quick Ratio	2.1

NMF = Not Meaningful

Investment Highlights

• Stryker'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.

• Stryker is one of the world's leading medical technology companies. The company offers reconstructive, medical and surgical, and neurotechnology and spine products. Reconstructive (knees, hips, extremities) accounts for ~45% of sales. It owns 5,200 patents globally.

• Stryker 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 19.3% in coming years. Total debt-to-EBITDA was 1.7 last year, while debt-to-book capitalization stood at 23.4%.

• The company continues to benefit from strong double-digit gains in emerging markets led by China. Emerging markets revenue now accounts for 7% of the total. Stryker has also been active on the acquisition front, folding in Trauson in China and MAKO, which gives it a robotic-arm-assisted platform for reconstructive surgery.

• On an organic basis, we think investors should expect mid-single-digit organic annual sales increases and high-single-digit adjusted diluted earnings-per-share growth. We view this as solid performance.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**82.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baxter Intl	14.0	1.7	102.7%
Becton, Dickinson	18.4	1.5	107.3%
Boston Scientific	14.4	NMF	66.3%
Thermo Fisher Scientific	17.3	1.6	103.8%
Peer Median	15.9	1.6	103.2%
Stryker	**17.1**	**1.6**	**103.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	8,657	9,021	9,824
Revenue, YoY%	4.2%	4.2%	8.9%
Operating Income	1,816	1,304	2,207
Operating Margin %	21.0%	14.5%	22.5%
Net Income	1,298	1,006	1,832
Net Income Margin %	15.0%	11.2%	18.6%
Diluted EPS	3.39	2.63	4.82
Diluted EPS, YoY %	-1.9%	-22.3%	83.0%
Free Cash Flow (CFO-capex)	1,447	1,691	1,835
Free Cash Flow Margin %	16.7%	18.7%	18.7%

In Millions of USD (except for per share items)

Structure of the Medical Instruments Industry — GOOD

The medical instrument industry is heavily regulated and characterized by rapid technological change. Firms have been forced to compete on price due to economically-motivated buyers, consolidation among healthcare providers, and declining reimbursement rates. Healthcare reform measures have put additional pressure on procedure rates and market sizes. Still, firms can gain advantages by developing products with differentiated clinical outcomes or by creating patent-protected technology. Since most constituents hold important patents or trade secrets, we tend to like the group.

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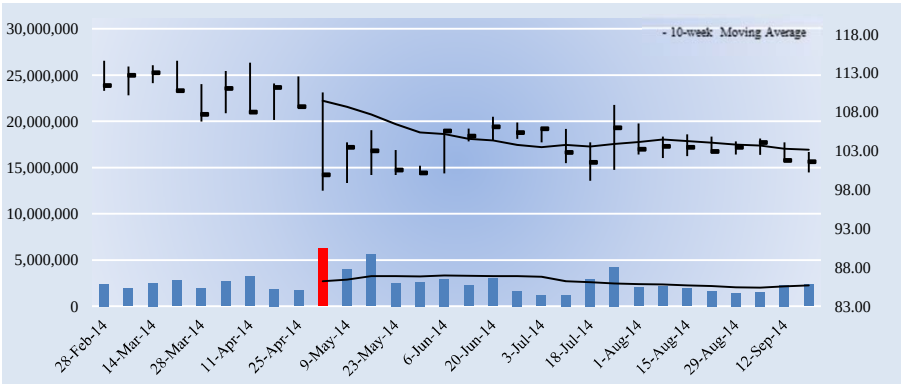
Waters WAT FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$99.00	$74.00 - $124.00	MID-CAP CORE	Health Care	Medical Devices

Waters is an analytical instrument manufacturer.

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).

Company Vitals

Market Cap (USD)	$8,791
Avg Weekly Vol (30 wks)	2,551
30-week Range (USD)	97.86 - 114.59
Valuentum Sector	Health Care
5-week Return	-2.5%
13-week Return	-4.2%
30-week Return	-10.4%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	6.67
P/E on Est. Normal Diluted EPS	15.2
Est. Normal EBITDA	717
Forward EV/EBITDA	13.7
EV/Est. Normal EBITDA	11.6
Forward Revenue Growth (5-yr)	4.6%
Forward EPS Growth (5-yr)	8.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	33.3%
Return on Assets	15.4%
ROIC, with goodwill	46.8%
ROIC, without goodwill	64.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,323
Net Debt	-480
Total Debt/EBITDA	2.2
Net Debt/EBITDA	NMF
EBITDA/Interest	19.9
Current Ratio	5.2
Quick Ratio	4.6

NMF = Not Meaningful

Investment Highlights

• Waters earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 64.7% during the past three years.

• Waters is an analytical instrument manufacturer. The company sells liquid chromatography, mass spectrometry (MS) systems, thermal analysis and rheometry instruments. The company's liquid chromatography technology continues to advance at a rapid clip.

• Waters 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 24.8% in coming years. Total debt-to-EBITDA was 2.2 last year, while debt-to-book capitalization stood at 42.9%.

• Pioneering a connected portfolio of separation and analytical science, laboratory informatics, and mass spectrometry, Waters' technology breakthroughs and laboratory solutions provide an enduring platform for customer success. The company continues to refresh its first-mover advantage.

• Though recent trends at Waters haven't been great, we think underlying demand for instrument systems remains strong and that the company's recurring revenue expansion is an attractive quality.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Resistance, 10-wk MA	103.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Intuitive Surgical	30.4	2.2	112.3%
Medtronic	16.2	1.8	92.0%
Varian Medical Systems	19.2	1.9	103.3%
Zimmer	17.0	1.9	104.0%
Peer Median	18.1	1.9	103.6%
Waters	**18.9**	**2.2**	**102.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	1,844	1,904	1,988
Revenue, YoY%	-0.4%	3.3%	4.4%
Operating Income	519	517	525
Operating Margin %	28.1%	27.2%	26.4%
Net Income	461	450	458
Net Income Margin %	25.0%	23.6%	23.0%
Diluted EPS	5.19	5.20	5.37
Diluted EPS, YoY %	10.6%	0.3%	3.3%
Free Cash Flow (CFO-capex)	358	366	441
Free Cash Flow Margin %	19.4%	19.2%	22.2%

In Millions of USD (except for per share items)

Structure of the Medical Devices Industry — GOOD

The medical devices industry is heavily regulated and characterized by rapid technological change. Firms have been forced to compete on price due to economically-motivated buyers, consolidation among healthcare providers, and declining reimbursement rates. Healthcare reform measures have put additional pressure on procedure rates and market sizes. Still, firms can gain advantages by developing products with differentiated clinical outcomes or by creating patent-protected technology. Since most constituents hold important patents or trade secrets, we tend to like the group.

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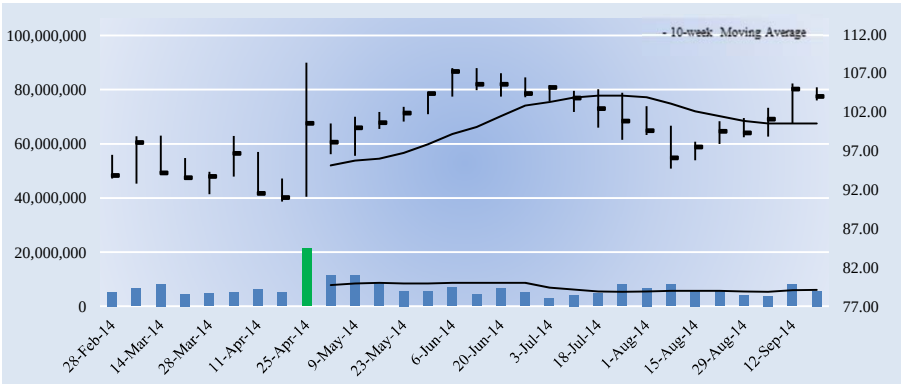
Zimmer ZMH FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$100.00	$80.00 - $120.00	LARGE-CAP CORE	Health Care	Medical Devices

Zimmer has a dominant position in knee and hip replacements, with over 25% and 20% market share, respectively.

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).

Company Vitals

Market Cap (USD)	$17,865
Avg Weekly Vol (30 wks)	6,643
30-week Range (USD)	90.48 - 108.33
Valuentum Sector	Health Care
5-week Return	6.2%
13-week Return	-1.7%
30-week Return	8.9%
Dividend Yield %	0.8%
Dividends per Share	0.88
Forward Dividend Payout Ratio	14.4%
Est. Normal Diluted EPS	7.01
P/E on Est. Normal Diluted EPS	14.8
Est. Normal EBITDA	1,977
Forward EV/EBITDA	10.0
EV/Est. Normal EBITDA	9.0
Forward Revenue Growth (5-yr)	3.1%
Forward EPS Growth (5-yr)	12.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	13.1%
Return on Assets	8.7%
ROIC, with goodwill	17.7%
ROIC, without goodwill	31.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,673
Net Debt	-135
Total Debt/EBITDA	1.0
Net Debt/EBITDA	NMF
EBITDA/Interest	23.0
Current Ratio	4.1
Quick Ratio	2.7

NMF = Not Meaningful

Investment Highlights

• Zimmer'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.

• Zimmer has a dominant position in knee and hip replacements, with over 25% and 20% market share, respectively. Global market annual growth for such replacements are in the low-single-digits, offering expansion opportunities.

• Zimmer 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 25.4% in coming years. Total debt-to-EBITDA was 1 last year, while debt-to-book capitalization stood at 21%.

• The firm's share price performance has trailed that of the market during the past quarter. However, it is trading within our fair value estimate range, so we don't view such activity as alarming.

• Zimmer's extremities portfolio currently includes a range of options for shoulder and elbow replacement. The company has a #3 position in this market, which is expected to grow at a 12% CAGR across the globe.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**101.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Intuitive Surgical	30.4	2.2	112.3%
Medtronic	16.2	1.8	92.0%
Varian Medical Systems	19.2	1.9	103.3%
Waters	18.9	2.2	102.6%
Peer Median	19.1	2.0	102.9%
Zimmer	**17.0**	**1.9**	**104.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	4,472	4,623	4,725
Revenue, YoY%	0.4%	3.4%	2.2%
Operating Income	1,299	1,252	1,402
Operating Margin %	29.0%	27.1%	29.7%
Net Income	755	761	1,045
Net Income Margin %	16.9%	16.5%	22.1%
Diluted EPS	4.29	4.43	6.11
Diluted EPS, YoY %	6.4%	3.3%	37.9%
Free Cash Flow (CFO-capex)	887	670	1,184
Free Cash Flow Margin %	19.8%	14.5%	25.1%

In Millions of USD (except for per share items)

Structure of the Medical Devices Industry — GOOD

The medical devices industry is heavily regulated and characterized by rapid technological change. Firms have been forced to compete on price due to economically-motivated buyers, consolidation among healthcare providers, and declining reimbursement rates. Healthcare reform measures have put additional pressure on procedure rates and market sizes. Still, firms can gain advantages by developing products with differentiated clinical outcomes or by creating patent-protected technology. Since most constituents hold important patents or trade secrets, we tend to like the group.

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Industrials

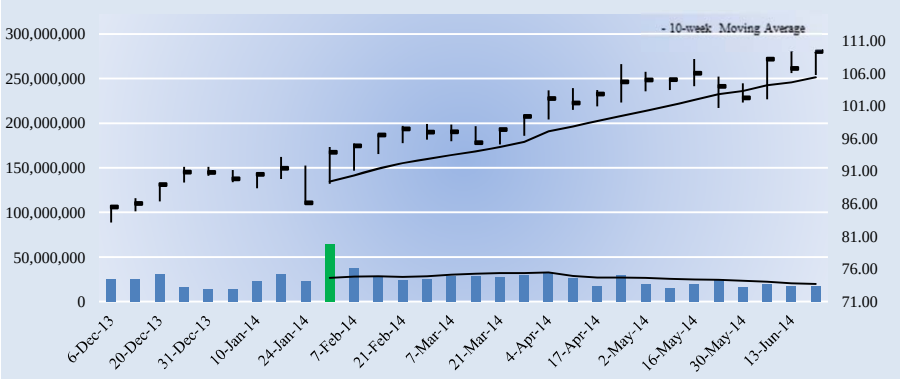
Caterpillar CAT FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$99.00	$79.00 - $119.00	LARGE-CAP CORE	Industrials	Machinery - agriculture

Cat's dealer network is a significant competitive advantage.

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).

Company Vitals

Market Cap (USD)	$72,038
Avg Weekly Vol (30 wks)	25,101
30-week Range (USD)	83.11 - 109.53
Valuentum Sector	Industrials
5-week Return	3.8%
13-week Return	12.1%
30-week Return	29.1%
Dividend Yield %	2.6%
Dividends per Share	2.80
Forward Dividend Payout Ratio	44.6%
Est. Normal Diluted EPS	7.67
P/E on Est. Normal Diluted EPS	14.3
Est. Normal EBITDA	11,368
Forward EV/EBITDA	8.6
EV/Est. Normal EBITDA	7.4
Forward Revenue Growth (5-yr)	3.7%
Forward EPS Growth (5-yr)	8.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	33.2%
Return on Assets	6.0%
ROIC, with goodwill	24.1%
ROIC, without goodwill	30.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	18,388
Net Debt	12,307
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.2
EBITDA/Interest	8.7
Current Ratio	1.4
Quick Ratio	0.9

NMF = Not Meaningful; Debt excludes debt associated with the finance sub.

Investment Highlights

• Caterpillar'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. Results are not immune to geopolitical risks, however.

• Caterpillar makes construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel-electric locomotives. The company also owns Caterpillar Financial Services (Cat Financial). Operations are tied to cyclical end markets.

• Caterpillar 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 7.7% in coming years. Total debt-to-EBITDA was 1.8 last year, while debt-to-book capitalization stood at 64.5%.

• Cat's dealer network is a significant competitive advantage. The company's reach is phenomenal, with about 50 dealers in the US and over 140 outside of the US (serving 180+ countries). We like the firm's proficiency in lowering costs, improving cash flows and continued execution of lean manufacturing initiatives.

• Near-term trends aren't favorable. Industry surveys indicate that total mining capital expenditures will fall another 20% in 2014 from 2013 levels, which were ~10% below 2012 spending. Mining equipment sales remain tied to expectations of commodity prices.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**NEUTRAL**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**OVERBOUGHT**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**105.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
AGCO Corp	10.1	NMF	94.1%
Deere	10.8	NMF	103.4%
Joy Global	19.3	NMF	121.8%
Manitowoc	17.8	1.9	89.3%
Peer Median	14.3	1.9	98.8%
Caterpillar	**17.4**	**2.2**	**110.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	65,875	55,656	56,213
Revenue, YoY%	9.5%	-15.5%	1.0%
Operating Income	10,435	7,336	6,690
Operating Margin %	15.8%	13.2%	11.9%
Net Income	5,681	3,789	4,131
Net Income Margin %	8.6%	6.8%	7.3%
Diluted EPS	8.48	5.75	6.27
Diluted EPS, YoY %	14.7%	-32.2%	9.0%
Free Cash Flow (CFO-capex)	4,145	8,335	4,786
Free Cash Flow Margin %	6.3%	15.0%	8.5%

In Millions of USD (except for per share items)

Structure of the Agricultural Machinery Industry — NEUTRAL

The agricultural machinery industry is composed of firms that make farm and construction equipment. Demand for agricultural equipment is levered to farm incomes and commodity prices, while purchases of construction equipment are dependent on global economic health. Population growth and the increasing need for food/energy are the major long-term drivers for new orders across the industry. Still, firms are competitive, capital intensive, and possess significant operating leverage. A strong/dependable brand and an expansive distribution network are keys to success. We're neutral on the group.

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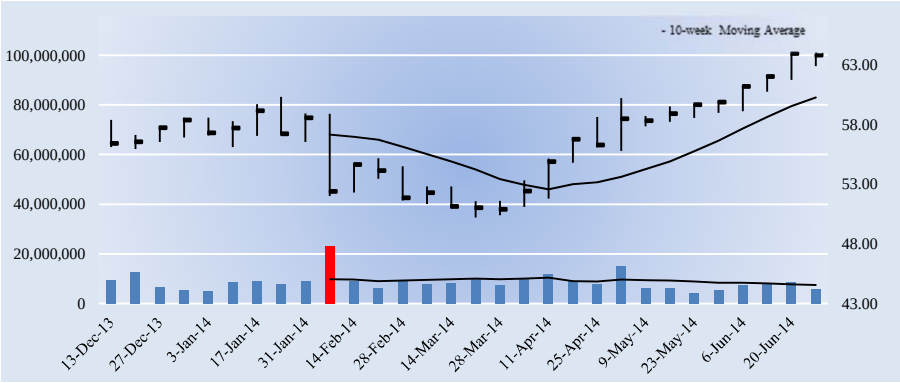
CH Robinson CHRW FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$58.00	$46.00 - $70.00	LARGE-CAP CORE	Industrials	Air Freight & Logistics

CH Robinson is a non-asset based transportation provider.

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).

Company Vitals

Market Cap (USD)	$10,022
Avg Weekly Vol (30 wks)	8,721
30-week Range (USD)	50.21 - 64.09
Valuentum Sector	Industrials
5-week Return	6.5%
13-week Return	23.3%
30-week Return	9.8%
Dividend Yield %	2.2%
Dividends per Share	1.40
Forward Dividend Payout Ratio	48.5%
Est. Normal Diluted EPS	3.85
P/E on Est. Normal Diluted EPS	16.6
Est. Normal EBITDA	1,012
Forward EV/EBITDA	13.7
EV/Est. Normal EBITDA	10.6
Forward Revenue Growth (5-yr)	6.5%
Forward EPS Growth (5-yr)	13.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	37.5%
Return on Assets	19.9%
ROIC, with goodwill	34.1%
ROIC, without goodwill	63.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	875
Net Debt	713
Total Debt/EBITDA	1.2
Net Debt/EBITDA	1.0
EBITDA/Interest	Excellent
Current Ratio	1.3
Quick Ratio	1.3

NMF = Not Meaningful

Investment Highlights

• CH Robinson'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.

• CH Robinson provides multimodal transportation services and logistics solutions, operating in North America, Europe, Asia, South America, and the Middle East. It has the largest contracted pool of motor capacity in North America.

• The company is a non-asset based transportation provider, meaning it does not own the transportation equipment that is used to transport customers' freight. This is a nice characteristic of its business model, resulting in high returns on capital. The firm has an attractive Economic Castle rating as a result.

• The firm's top 500 customers represent about half of total net revenue, with the largest customer accounting for ~2% of sales. Manufacturing is its largest end market at ~40% of sales, followed by food and beverage at ~25%. Annual revenue is expected to grow at 6%-11% pace.

• The company's industry-leading capacity, broad procurement options, and huge shipment volumes translate into better efficiency and a unique competitive advantage. Its long-term target is for 7%-12% annual EPS growth.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**NEUTRAL**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**OVERBOUGHT**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**60.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Expeditors Intl	23.1	2.0	107.6%
FedEx	17.0	1.4	100.9%
United Parcel Service	20.0	1.9	105.9%
Uti Worldwide	125.2	NMF	77.8%
Peer Median	21.6	1.9	103.4%
CH Robinson	**22.1**	**1.7**	**110.0%**

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

Financial Summary

Fiscal Year End:	----- Actual ----- Dec-12	Dec-13	Projected Dec-14
Revenue	11,359	12,752	13,504
Revenue, YoY%	9.9%	12.3%	5.9%
Operating Income	675	683	725
Operating Margin %	5.9%	5.4%	5.4%
Net Income	594	416	449
Net Income Margin %	5.2%	3.3%	3.3%
Diluted EPS	3.67	2.65	2.89
Diluted EPS, YoY %	40.0%	-27.8%	9.1%
Free Cash Flow (CFO-capex)	410	300	451
Free Cash Flow Margin %	3.6%	2.3%	3.3%

In Millions of USD (except for per share items)

Structure of the Air Freight & Logistics Industry — GOOD

The highly competitive air freight and logistics industry is heavily tied to cyclical domestic economic expansion (primarily from retail good shipments). The international freight market remains a critical growth engine for air cargo providers, while all constituents deal with the cost of rising fuel (diesel) prices and potentially price-sensitive demand during periods of economic weakness. Firms with freight-forwarding, asset-light operations and/or large difficult-to-replicate shipping networks can carve out sustainable competitive advantages while generating high returns on investment. We generally like the group.

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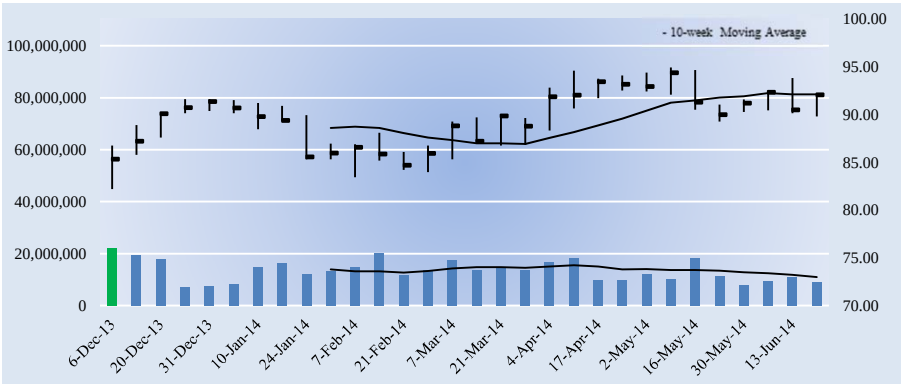
Deere DE FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$89.00	$71.00 - $107.00	LARGE-CAP CORE	Industrials	Machinery - agriculture

Deere's strong brand name and extensive dealer network are key competitive strengths.

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).

Company Vitals

Market Cap (USD)	$35,822
Avg Weekly Vol (30 wks)	13,454
30-week Range (USD)	82.2 - 94.89
Valuentum Sector	Industrials
5-week Return	1.3%
13-week Return	3.5%
30-week Return	9.2%
Dividend Yield %	2.6%
Dividends per Share	2.40
Forward Dividend Payout Ratio	28.3%
Est. Normal Diluted EPS	8.02
P/E on Est. Normal Diluted EPS	11.5
Est. Normal EBITDA	6,557
Forward EV/EBITDA	6.3
EV/Est. Normal EBITDA	6.7
Forward Revenue Growth (5-yr)	-2.3%
Forward EPS Growth (5-yr)	-0.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	43.6%
Return on Assets	5.8%
ROIC, with goodwill	30.8%
ROIC, without goodwill	33.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	13,540
Net Debt	8,412
Total Debt/EBITDA	1.9
Net Debt/EBITDA	1.2
EBITDA/Interest	9.8
Current Ratio	2.1
Quick Ratio	1.8

NMF = Not Meaningful; Debt excludes debt associated with the finance sub.

Investment Highlights

• Deere'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.

• Deere operates in three business segments. Its agricultural/turf segment makes tractors, loaders, combines, and harvesters. Its construction/forestry segment produces earthmoving machines, loaders and excavators, while its financial operation supports its dealer network via wholesale financing.

• The market for agricultural/turf equipment is competitive and includes rivals such as AGCO, CNH Global, Kubota, and Toro. The construction/forestry segment is also highly competitive, and Deere bumps heads in this market with Caterpillar, Komatsu, and Volvo, among others. Its financial services operation adds a degree of credit risk to its operations, as well.

• Deere is tied to the changing worldwide demand for farm outputs that are required to meet the population's growing food and bio-energy needs. Fluctuating agricultural commodity prices directly impact sales of Deere's equipment and are largely responsible for the cyclical tendencies of its operations.

• Though Deere investors will feel the up's and down's of the economic cycle, the firm's strong brand name and extensive dealer network are key competitive strengths. We like the company's fundamentals.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**WEAK**
Financial Leverage	**MEDIUM**
Growth	**DECLINING**
Technical Evaluation	**VERY BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**92.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
AGCO Corp	10.1	NMF	94.1%
Caterpillar	17.4	2.2	110.5%
Joy Global	19.3	NMF	121.8%
Manitowoc	17.8	1.9	89.3%
Peer Median	17.6	2.0	102.3%
Deere	**10.8**	**NMF**	**103.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Oct-12	Oct-13	Oct-14
Revenue	36,157	37,795	35,868
Revenue, YoY%	12.9%	4.5%	-5.1%
Operating Income	5,437	6,117	5,918
Operating Margin %	15.0%	16.2%	16.5%
Net Income	2,908	3,345	3,273
Net Income Margin %	8.0%	8.9%	9.1%
Diluted EPS	7.24	8.60	8.49
Diluted EPS, YoY %	12.5%	18.7%	-1.2%
Free Cash Flow (CFO-capex)	-1,110	687	6,824
Free Cash Flow Margin %	-3.1%	1.8%	19.0%

In Millions of USD (except for per share items)

Structure of the Agricultural Machinery Industry — NEUTRAL

The agricultural machinery industry is composed of firms that make farm and construction equipment. Demand for agricultural equipment is levered to farm incomes and commodity prices, while purchases of construction equipment are dependent on global economic health. Population growth and the increasing need for food/energy are the major long-term drivers for new orders across the industry. Still, firms are competitive, capital intensive, and possess significant operating leverage. A strong/dependable brand and an expansive distribution network are keys to success. We're neutral on the group.

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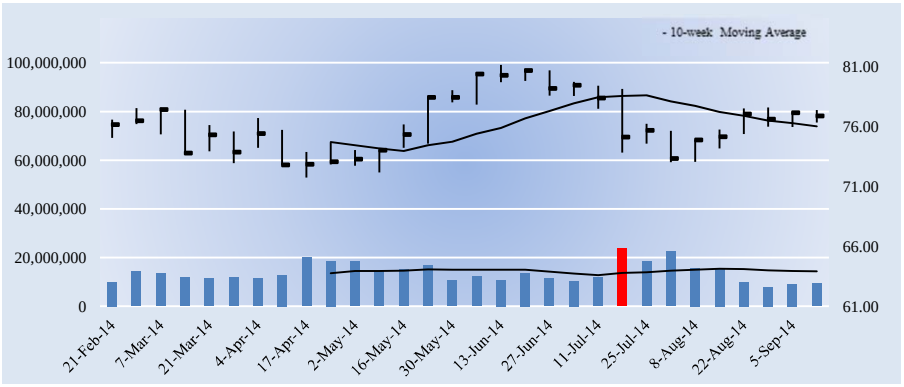
Danaher DHR FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$74.00	$59.00 - $89.00	LARGE-CAP CORE	Industrials	Conglomerates

Danaher's portfolio of premier brands includes Lange, Tektronix, and Beckman Coulter.

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).

Company Vitals

Market Cap (USD)	$54,662
Avg Weekly Vol (30 wks)	13,776
30-week Range (USD)	71.75 - 81.14
Valuentum Sector	Industrials
5-week Return	2.4%
13-week Return	-4.0%
30-week Return	1.0%
Dividend Yield %	0.5%
Dividends per Share	0.40
Forward Dividend Payout Ratio	10.7%
Est. Normal Diluted EPS	4.61
P/E on Est. Normal Diluted EPS	16.7
Est. Normal EBITDA	5,512
Forward EV/EBITDA	12.0
EV/Est. Normal EBITDA	10.0
Forward Revenue Growth (5-yr)	6.0%
Forward EPS Growth (5-yr)	7.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.8%
Return on Assets	7.6%
ROIC, with goodwill	9.0%
ROIC, without goodwill	23.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,499
Net Debt	384
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.1
EBITDA/Interest	28.6
Current Ratio	2.0
Quick Ratio	1.5

NMF = Not Meaningful

Investment Highlights

• Danaher'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.

• Danaher makes innovative products and provides services to professional, medical, industrial, and commercial customers. Its portfolio of premier brands, including Lange, Tektronix, and Beckman Coulter, is among the most highly recognized in each of the markets it serves.

• Danaher 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 14.1% in coming years. Total debt-to-EBITDA was 0.8 last year, while debt-to-book capitalization stood at 13.5%.

• Roughly 40% of Danaher's revenue stream is recurring, which mitigates cyclicality to a degree. We also applaud the firm's efforts to improve free cash flow conversion, which continues to increase as a percentage of net income. China offers significant expansion opportunities for the firm.

• Danaher is one of our favorite industrial firms. Though cyclical to a degree, the firm continues to drive gross margins higher. The Danaher Business System ensures the firm will stay competitive across the variety of market segments it serves.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
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)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**76.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
3M	19.1	2.5	117.0%
Honeywell	16.9	1.9	102.7%
Tyco Intl	22.1	1.8	110.8%
United Technologies	15.6	1.7	95.9%
Peer Median	18.0	1.9	106.8%
Danaher	**20.6**	**2.0**	**103.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	18,260	19,118	20,208
Revenue, YoY%	13.5%	4.7%	5.7%
Operating Income	3,095	3,275	3,646
Operating Margin %	17.0%	17.1%	18.0%
Net Income	2,299	2,695	2,649
Net Income Margin %	12.6%	14.1%	13.1%
Diluted EPS	3.22	3.79	3.74
Diluted EPS, YoY %	16.8%	17.6%	-1.4%
Free Cash Flow (CFO-capex)	2,864	3,034	2,769
Free Cash Flow Margin %	15.7%	15.9%	13.7%

In Millions of USD (except for per share items)

Structure of the Conglomerates Industry — GOOD

The industrial conglomerate industry is characterized by firms that operate various business lines on a global scale. Demand for industrial products tends to be cyclical in nature, and most firms couple their manufacturing operations with generally more stable services businesses to mitigate fundamental volatility. Firms tend to have bargaining power over suppliers due to industry dominance and boast substantial resources to adapt to changing conditions or competitive threats. Most sell products under powerful and recognizable brand names and look to emerging markets for future growth. We like the group.

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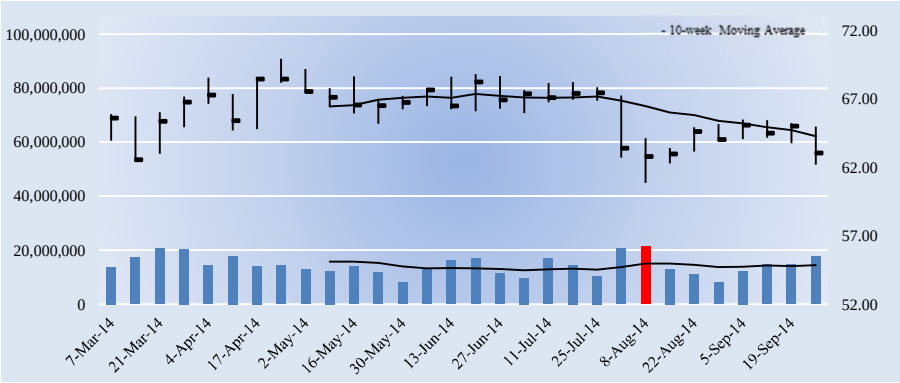
Emerson Electric EMR FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$64.00	$51.00 - $77.00	LARGE-CAP VALUE	Industrials	Electrical Equipment

Emerson remains well-positioned for a rebound in residential construction in North America.

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).

Company Vitals

Market Cap (USD)	$45,572
Avg Weekly Vol (30 wks)	14,470
30-week Range (USD)	60.85 - 69.94
Valuentum Sector	Industrials
5-week Return	-2.9%
13-week Return	-5.7%
30-week Return	-2.7%
Dividend Yield %	2.7%
Dividends per Share	1.72
Forward Dividend Payout Ratio	46.0%
Est. Normal Diluted EPS	4.51
P/E on Est. Normal Diluted EPS	14.0
Est. Normal EBITDA	6,090
Forward EV/EBITDA	9.1
EV/Est. Normal EBITDA	7.9
Forward Revenue Growth (5-yr)	3.1%
Forward EPS Growth (5-yr)	13.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.4%
Return on Assets	9.2%
ROIC, with goodwill	20.6%
ROIC, without goodwill	44.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,642
Net Debt	2,367
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.5
EBITDA/Interest	21.9
Current Ratio	1.4
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• Emerson Electric'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.

• Emerson offers a wide range of products and services in the industrial, commercial and consumer markets through its Process Management, Industrial Automation, Network Power, Climate Technologies, and Commercial & Residential Solutions businesses.

• Emerson Electric 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 13.6% in coming years. Total debt-to-EBITDA was 1.1 last year, while debt-to-book capitalization stood at 34.8%.

• Emerson continues to experience solid revenue expansion in Latin America, Canada, and the Middle East/Africa. We expect international expansion to continue to outpace growth in the US. The firm also remains well-positioned for a rebound in residential construction in North America.

• The firm sports a very nice dividend yield of 2.7%. We expect the firm to pay out about 46% of next year's earnings to shareholders as dividends. Emerson is a holding in the Dividend Growth portfolio.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
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)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**64.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Barnes Group	15.8	1.3	98.5%
Parker-Hannifin	15.2	2.1	97.3%
Pentair	17.3	1.5	107.0%
Roper Industries	23.1	2.3	118.9%
Peer Median	16.5	1.8	102.8%
Emerson Electric	**16.9**	**1.7**	**98.5%**

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

Financial Summary

Fiscal Year End:	----- Actual ----- Sep-12	Sep-13	Projected Sep-14
Revenue	24,412	24,669	24,546
Revenue, YoY%	0.8%	1.1%	-0.5%
Operating Income	4,332	4,304	4,451
Operating Margin %	17.7%	17.4%	18.1%
Net Income	1,968	2,004	2,674
Net Income Margin %	8.1%	8.1%	10.9%
Diluted EPS	2.68	2.77	3.74
Diluted EPS, YoY %	-17.7%	3.5%	34.8%
Free Cash Flow (CFO-capex)	2,388	2,971	3,198
Free Cash Flow Margin %	9.8%	12.0%	13.0%

In Millions of USD (except for per share items)

Structure of the Electrical Equipment Industry — NEUTRAL

The fragmented electrical equipment industry includes firms that primarily provide flow control and electrical components. Order trends and backlog are largely driven by the overall health of the economy, while all constituents must deal with volatile raw material prices. Most operate high fixed-cost business models, where operating leverage should be monitored closely, and face intense global competition. Still, we like the group's exposure to recurring maintenance, repair, and overhaul (MRO) revenue and its large and growing emerging-market opportunities. We're generally neutral on the industry's structure.

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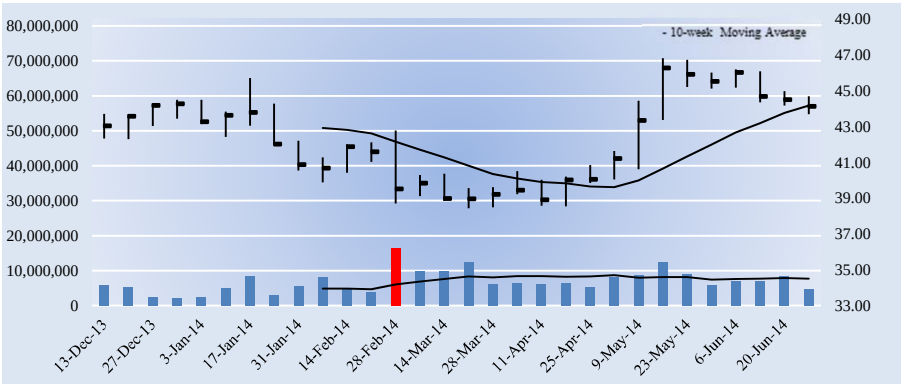
Expeditors Intl EXPD FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$41.00	$33.00 - $49.00	MID-CAP CORE	Industrials	Air Freight & Logistics

Expeditors' relationships with suppliers and partners allow it to find some of the best routing and pricing options for customers.

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).

Company Vitals

Market Cap (USD)	$9,126
Avg Weekly Vol (30 wks)	6,966
30-week Range (USD)	38.42 - 46.8
Valuentum Sector	Industrials
5-week Return	-4.1%
13-week Return	12.0%
30-week Return	1.4%
Dividend Yield %	1.5%
Dividends per Share	0.64
Forward Dividend Payout Ratio	33.5%
Est. Normal Diluted EPS	2.47
P/E on Est. Normal Diluted EPS	17.9
Est. Normal EBITDA	844
Forward EV/EBITDA	11.6
EV/Est. Normal EBITDA	9.3
Forward Revenue Growth (5-yr)	6.3%
Forward EPS Growth (5-yr)	13.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.1%
Return on Assets	12.4%
ROIC, with goodwill	60.2%
ROIC, without goodwill	60.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-1,274
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	2.8
Quick Ratio	2.7

NMF = Not Meaningful

Investment Highlights

• Expeditors Intl'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.

• Expeditors is a global logistics company. Its services include air and ocean freight consolidation and forwarding, vendor consolidation, customs clearance, cargo insurance, distribution and other value added logistics services.

• Expeditors Intl 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 6.8% in coming years, and the firm had no debt as of last quarter.

• The company is a non-asset based organization, which affords it considerable flexibility when managing customers' supply chains. Its relationships with suppliers and partners allow it to find some of the best routing and pricing options for customers.

• Expeditors made the largest ever investment in its sales program during 2013, and we expect efforts to bear fruit in coming years. Still, a focus on controlling costs and overhead expenses will be critical to earnings expansion.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**44.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CH Robinson	22.1	1.7	110.0%
FedEx	17.0	1.4	100.9%
United Parcel Service	20.0	1.9	105.9%
Uti Worldwide	125.2	NMF	77.8%
Peer Median	21.1	1.7	103.4%
Expeditors Intl	**23.1**	**2.0**	**107.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	5,981	6,080	6,439
Revenue, YoY%	-2.8%	1.7%	5.9%
Operating Income	667	671	627
Operating Margin %	11.2%	11.0%	9.7%
Net Income	333	349	389
Net Income Margin %	5.6%	5.7%	6.0%
Diluted EPS	1.57	1.68	1.91
Diluted EPS, YoY %	-12.3%	7.1%	13.3%
Free Cash Flow (CFO-capex)	322	354	405
Free Cash Flow Margin %	5.4%	5.8%	6.3%

In Millions of USD (except for per share items)

Structure of the Air Freight & Logistics Industry — GOOD

The highly competitive air freight and logistics industry is heavily tied to cyclical domestic economic expansion (primarily from retail good shipments). The international freight market remains a critical growth engine for air cargo providers, while all constituents deal with the cost of rising fuel (diesel) prices and potentially price-sensitive demand during periods of economic weakness. Firms with freight-forwarding, asset-light operations and/or large difficult-to-replicate shipping networks can carve out sustainable competitive advantages while generating high returns on investment. We generally like the group.

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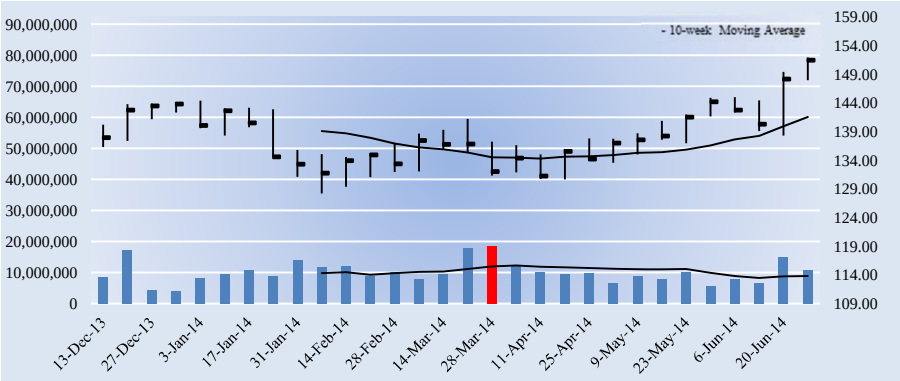
FedEx FDX FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$150.00	$120.00 - $180.00	LARGE-CAP CORE	Industrials	Air Freight & Logistics

Global trade growth and e-commerce continue to drive increased demand for FedEx's services.

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).

Company Vitals

Market Cap (USD)	$46,937
Avg Weekly Vol (30 wks)	10,117
30-week Range (USD)	128.17 - 151.89
Valuentum Sector	Industrials
5-week Return	6.6%
13-week Return	14.3%
30-week Return	8.3%
Dividend Yield %	0.5%
Dividends per Share	0.80
Forward Dividend Payout Ratio	9.0%
Est. Normal Diluted EPS	11.62
P/E on Est. Normal Diluted EPS	13.0
Est. Normal EBITDA	8,648
Forward EV/EBITDA	6.8
EV/Est. Normal EBITDA	5.6
Forward Revenue Growth (5-yr)	4.3%
Forward EPS Growth (5-yr)	15.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.0%
Return on Assets	6.1%
ROIC, with goodwill	12.3%
ROIC, without goodwill	14.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,737
Net Debt	1,829
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.3
EBITDA/Interest	42.5
Current Ratio	1.8
Quick Ratio	1.6

NMF = Not Meaningful

Investment Highlights

• FedEx's 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 14% during the past three years.

• FedEx provides customers and businesses worldwide with a broad portfolio of transportation, e-commerce and business services. The company operates under various segments including: FedEx Express, FedEx Ground, FedEx Freight, and FedEx Services

• The firm's operations are capital intensive, characterized by significant investments in aircraft, vehicles, technology, facilities, and package-handling and sort equipment. Capital expenditures are generally 7%-9% of sales. FedEx ended fiscal 2014 with $2.9 billion in cash and cash equivalents.

• FedEx's long-term financial goals are as follows: 1) achieve 10% operating margin; 2) increase EPS 10%-15% per year; 3) grow profitable revenue; 4) improve cash flows; 5) increase ROIC; 6) and increase the dividend. We like management's focus.

• Global trade growth and e-commerce continue to drive increased demand for FedEx's services. FedEx Express is becoming more efficient, FedEx Ground is gaining share, and FedEx Freight margins are rebounding.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**142.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CH Robinson	22.1	1.7	110.0%
Expeditors Intl	23.1	2.0	107.6%
United Parcel Service	20.0	1.9	105.9%
Uti Worldwide	125.2	NMF	77.8%
Peer Median	22.6	1.9	106.7%
FedEx	**17.0**	**1.4**	**100.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-13	May-14	May-15
Revenue	44,287	45,567	47,709
Revenue, YoY%	3.8%	2.9%	4.7%
Operating Income	2,551	3,446	4,452
Operating Margin %	5.8%	7.6%	9.3%
Net Income	1,561	2,097	2,738
Net Income Margin %	3.5%	4.6%	5.7%
Diluted EPS	4.92	6.76	8.90
Diluted EPS, YoY %	-23.2%	37.4%	31.5%
Free Cash Flow (CFO-capex)	1,313	731	2,027
Free Cash Flow Margin %	3.0%	1.6%	4.2%

In Millions of USD (except for per share items)

Structure of the Air Freight & Logistics Industry — GOOD

The highly competitive air freight and logistics industry is heavily tied to cyclical domestic economic expansion (primarily from retail good shipments). The international freight market remains a critical growth engine for air cargo providers, while all constituents deal with the cost of rising fuel (diesel) prices and potentially price-sensitive demand during periods of economic weakness. Firms with freight-forwarding, asset-light operations and/or large difficult-to-replicate shipping networks can carve out sustainable competitive advantages while generating high returns on investment. We generally like the group.

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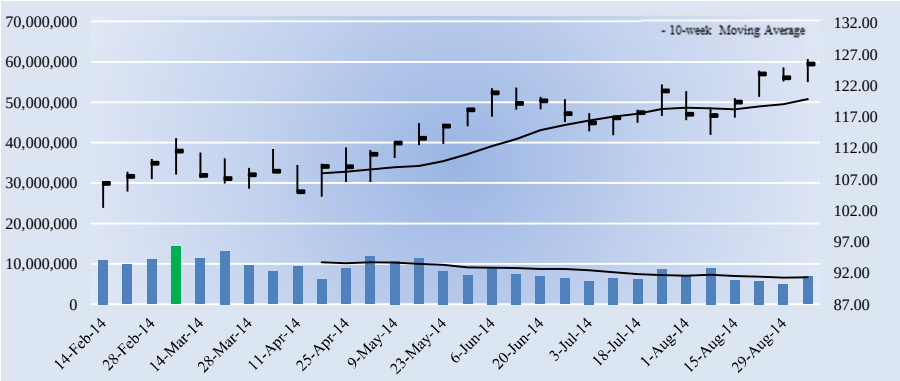
General Dynamics GD FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$106.00	$85.00 - $127.00	LARGE-CAP CORE	Industrials	A&D Prime

General Dynamics' product line-up ranges from Gulfstream business jets to nuclear-powered submarines.

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).

Company Vitals

Market Cap (USD)	$44,346
Avg Weekly Vol (30 wks)	8,587
30-week Range (USD)	102.44 - 126.22
Valuentum Sector	Industrials
5-week Return	6.9%
13-week Return	3.7%
30-week Return	21.6%
Dividend Yield %	2.0%
Dividends per Share	2.48
Forward Dividend Payout Ratio	32.5%
Est. Normal Diluted EPS	8.57
P/E on Est. Normal Diluted EPS	14.6
Est. Normal EBITDA	5,162
Forward EV/EBITDA	9.1
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	1.0%
Forward EPS Growth (5-yr)	6.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	11.9%
Return on Assets	4.6%
ROIC, with goodwill	17.2%
ROIC, without goodwill	53.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,908
Net Debt	-1,393
Total Debt/EBITDA	0.9
Net Debt/EBITDA	NMF
EBITDA/Interest	41.2
Current Ratio	1.5
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• General Dynamics is a leader in business aviation; combat vehicles/systems, armaments, and munitions; shipbuilding/marine systems; and information systems and technology. The firm's product line-up ranges from Gulfstream business jets to nuclear-powered submarines.

• General Dynamics 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 9.8% in coming years. Total debt-to-EBITDA was 0.9 last year, while debt-to-book capitalization stood at 21.2%.

• General Dynamics' 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.

• 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.

• At the end of 2013, the firm's backlog of unfulfilled business orders was $46 billion. Though this provides some good visibility into the defense contractor's future results, the backlog has been dwindling in recent years (it was $51 billion at year-end 2012).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**120.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Boeing	15.0	1.5	93.8%
Lockheed Martin	15.4	2.0	117.2%
Northrop Grumman	13.4	2.6	92.4%
Raytheon	14.0	2.1	106.3%
Peer Median	14.5	2.1	100.0%
General Dynamics	**16.5**	**2.8**	**118.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	31,513	31,218	30,250
Revenue, YoY%	-3.6%	-0.9%	-3.1%
Operating Income	2,827	3,685	4,192
Operating Margin %	9.0%	11.8%	13.9%
Net Income	-332	2,486	2,669
Net Income Margin %	-1.1%	8.0%	8.8%
Diluted EPS	-0.94	7.03	7.63
Diluted EPS, YoY %	-113.5%	-848.4%	8.4%
Free Cash Flow (CFO-capex)	2,235	2,786	3,048
Free Cash Flow Margin %	7.1%	8.9%	10.1%

In Millions of USD (except for per share items)

Structure of the Aerospace and Defense Industry — NEUTRAL

The global commercial aerospace duopoly is being challenged by encroaching international competitors who are intent on increasing market share. Though Boeing and Airbus dominate the large commercial aircraft segment, Embraer, Bombardier and other entrants from Russia, China and Japan are becoming stronger rivals. Long-term demand for commercial aircraft is cyclical and depends on the health of the credit markets, airline customers, and lessors. The defense industry has strong competition in all market segments and continues to face pressure due to weak funding and competing budget priorities.

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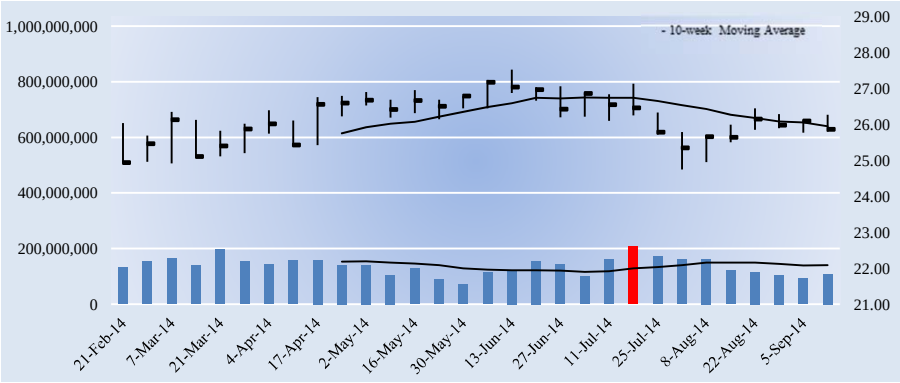
General Electric GE UNDERVALUED 4.4%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$32.00	$27.00 - $37.00	MEGA-CAP VALUE	Industrials	Conglomerates

General Electric has paid an amazing ~$150 billion in dividends since 1970.

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).

Company Vitals

Market Cap (USD)	$266,176
Avg Weekly Vol (30 wks)	136,819
30-week Range (USD)	24.75 - 27.53
Valuentum Sector	Industrials
5-week Return	0.1%
13-week Return	-4.0%
30-week Return	-0.5%
Dividend Yield %	3.4%
Dividends per Share	0.88
Forward Dividend Payout Ratio	51.9%
Est. Normal Diluted EPS	1.99
P/E on Est. Normal Diluted EPS	13.0
Est. Normal EBITDA	43,801
Forward EV/EBITDA	10.7
EV/Est. Normal EBITDA	9.9
Forward Revenue Growth (5-yr)	2.1%
Forward EPS Growth (5-yr)	9.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.3%
Return on Assets	3.7%
ROIC, with goodwill	23.9%
ROIC, without goodwill	52.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	299,555
Net Debt	167,019
Total Debt/EBITDA	8.3
Net Debt/EBITDA	4.6
EBITDA/Interest	3.6
Current Ratio	0.6
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• General Electric'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.

• GE is one of the largest and most diversified industrial and financial firms in the world--with products and services ranging from aircraft engines, power generation, water processing, and household appliances to medical imaging, business and consumer financing and industrial products.

• GE has strong liquidity, a large backlog, and major cost programs underway to deal with anything the economic environment has to throw at it. The firm has a balanced capital allocation strategy with significant cash returned to shareholders in recent years. Emerging market growth and infrastructure investments are key sources of expansion.

• Reduced reliance on GE Capital Corp (GECC) remains a sound trajectory. Not only do we think that increased transparency and potential monetization of a portion of its far-reaching financial operations is a prudent idea, but the move also frees up the executive suite to focus on driving top-notch performance at its industrial operations.

• GE boasts a very nice dividend yield, and its Dividend Cushion score is solid. The firm has paid an amazing ~$150 billion in dividends since 1970. It is one of our top ideas.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
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	**26.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
3M	19.1	2.5	117.0%
Honeywell	16.9	1.9	102.7%
Tyco Intl	22.1	1.8	110.8%
United Technologies	15.6	1.7	95.9%
Peer Median	18.0	1.9	106.8%
General Electric	**15.2**	**1.9**	**80.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	147,359	146,045	149,258
Revenue, YoY%	0.0%	-0.9%	2.2%
Operating Income	29,914	26,267	30,698
Operating Margin %	20.3%	18.0%	20.6%
Net Income	14,679	15,177	17,196
Net Income Margin %	10.0%	10.4%	11.5%
Diluted EPS	1.39	1.48	1.70
Diluted EPS, YoY %	4.9%	6.2%	15.0%
Free Cash Flow (CFO-capex)	17,243	17,241	15,722
Free Cash Flow Margin %	11.7%	11.8%	10.5%

In Millions of USD (except for per share items)

Structure of the Conglomerates Industry — GOOD

The industrial conglomerate industry is characterized by firms that operate various business lines on a global scale. Demand for industrial products tends to be cyclical in nature, and most firms couple their manufacturing operations with generally more stable services businesses to mitigate fundamental volatility. Firms tend to have bargaining power over suppliers due to industry dominance and boast substantial resources to adapt to changing conditions or competitive threats. Most sell products under powerful and recognizable brand names and look to emerging markets for future growth. We like the group.

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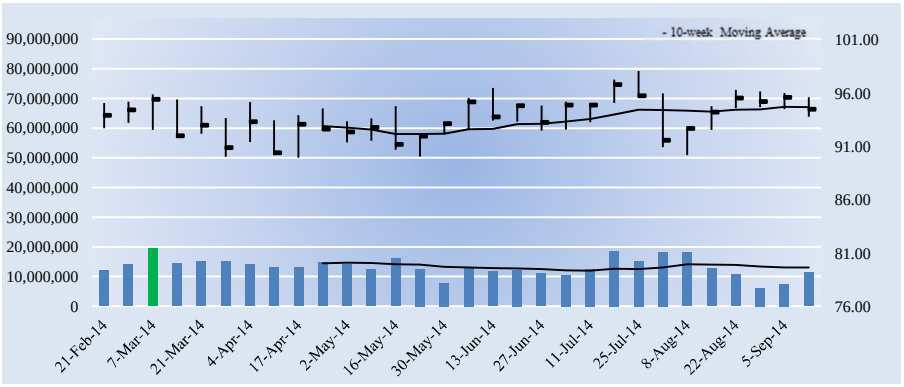
Honeywell HON FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$92.00	$74.00 - $110.00	LARGE-CAP CORE	Industrials	Conglomerates

Honeywell is targeting a long-term compound annual sales growth rate of roughly 4%-6%, and it expects segment margins to continue to expand.

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).

Company Vitals

Market Cap (USD)	$75,345
Avg Weekly Vol (30 wks)	13,234
30-week Range (USD)	89.96 - 98.09
Valuentum Sector	Industrials
5-week Return	1.6%
13-week Return	1.0%
30-week Return	0.1%
Dividend Yield %	1.9%
Dividends per Share	1.80
Forward Dividend Payout Ratio	32.2%
Est. Normal Diluted EPS	6.75
P/E on Est. Normal Diluted EPS	14.0
Est. Normal EBITDA	8,773
Forward EV/EBITDA	10.5
EV/Est. Normal EBITDA	8.9
Forward Revenue Growth (5-yr)	4.7%
Forward EPS Growth (5-yr)	9.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.7%
Return on Assets	7.0%
ROIC, with goodwill	13.8%
ROIC, without goodwill	31.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,829
Net Debt	2,407
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.4
EBITDA/Interest	19.8
Current Ratio	1.5
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• Honeywell'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.

• Honeywell is a conglomerate operating in the following areas: aerospace, automation and controls solutions, performance materials and technologies, and transportations systems. Its aerospace products are used on virtually every aircraft, while its building solutions are in over 150 million homes.

• Honeywell 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 11.7% in coming years. Total debt-to-EBITDA was 1.4 last year, while debt-to-book capitalization stood at 33.6%.

• Honeywell is targeting a long-term compound annual sales growth rate of roughly 4%-6%, and it expects segment margins to continue to expand. Though we expect continued margin improvement, our forecast for sales expansion is slightly lower than management's goals. This implies upside to our fair value estimate.

• Honeywell is targeting segment margins north of 20% for each of its four segments. Transportation Systems (turbo) is poised to grow the fastest and experience the largest margin potential. We're monitoring this segment closely.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**95.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
3M	19.1	2.5	117.0%
Danaher	20.6	2.0	103.9%
Tyco Intl	22.1	1.8	110.8%
United Technologies	15.6	1.7	95.9%
Peer Median	19.8	1.9	107.4%
Honeywell	**16.9**	**1.9**	**102.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	37,665	39,055	40,852
Revenue, YoY%	3.1%	3.7%	4.6%
Operating Income	4,156	5,501	6,368
Operating Margin %	11.0%	14.1%	15.6%
Net Income	2,926	3,924	4,461
Net Income Margin %	7.8%	10.0%	10.9%
Diluted EPS	3.69	4.92	5.60
Diluted EPS, YoY %	57.4%	33.2%	13.7%
Free Cash Flow (CFO-capex)	2,638	3,426	4,383
Free Cash Flow Margin %	7.0%	8.8%	10.7%

In Millions of USD (except for per share items)

Structure of the Conglomerates Industry — GOOD

The industrial conglomerate industry is characterized by firms that operate various business lines on a global scale. Demand for industrial products tends to be cyclical in nature, and most firms couple their manufacturing operations with generally more stable services businesses to mitigate fundamental volatility. Firms tend to have bargaining power over suppliers due to industry dominance and boast substantial resources to adapt to changing conditions or competitive threats. Most sell products under powerful and recognizable brand names and look to emerging markets for future growth. We like the group.

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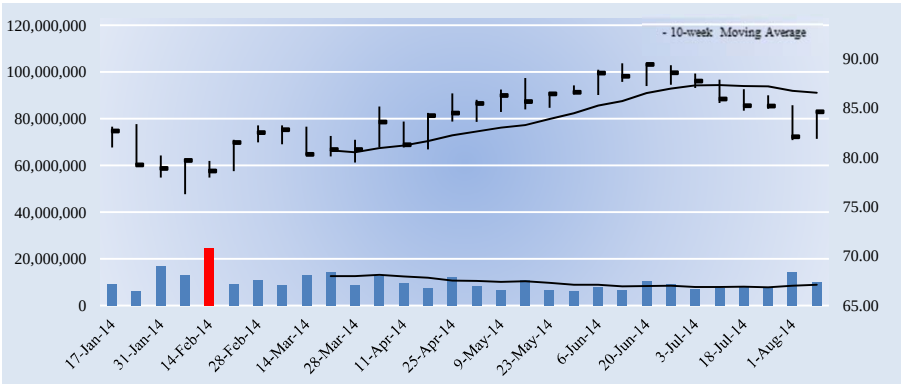
Illinois Tool Works ITW FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$85.00	$68.00 - $102.00	LARGE-CAP VALUE	Industrials	Machinery & Tools

Famous for its 80/20 business process that focuses on what is most important, Illinois Tool Works is a multi-national manufacturer of a diversified range of industrial products and equipment.

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).

Company Vitals

Market Cap (USD)	$38,011
Avg Weekly Vol (30 wks)	10,182
30-week Range (USD)	76.25 - 89.5
Valuentum Sector	Industrials
5-week Return	-3.6%
13-week Return	-2.3%
30-week Return	3.2%
Dividend Yield %	2.0%
Dividends per Share	1.68
Forward Dividend Payout Ratio	36.2%
Est. Normal Diluted EPS	5.94
P/E on Est. Normal Diluted EPS	14.3
Est. Normal EBITDA	4,685
Forward EV/EBITDA	10.7
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	5.3%
Forward EPS Growth (5-yr)	14.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.4%
Return on Assets	11.2%
ROIC, with goodwill	11.6%
ROIC, without goodwill	19.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,344
Net Debt	2,726
Total Debt/EBITDA	2.0
Net Debt/EBITDA	0.9
EBITDA/Interest	13.1
Current Ratio	1.6
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• Famous for its 80/20 business process that focuses on what is most important (the 20% of the items which account for 80% of the value), Illinois Tool Works is a multi-national manufacturer of a diversified range of industrial products and equipment.

• ITW has myriad operating segments: automotive OEM, test & measurement, electronics, food equipment, polymers & fluids, welding, construction products, and specialty products. Operating margins in the automotive OEM, welding, and specialty products segments are north of 20%.

• Illinois Tool Works 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 15.6% in coming years. Total debt-to-EBITDA was 2 last year, while debt-to-book capitalization stood at 39.5%.

• Illinois Tool Works' 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.

• Illinois Tool Works is committed to achieving the following goals through 2017: organic growth 200 basis points above market growth, operating margin at 20%+, ROIC at 20%+, and free operating cash flow at 100%+ of net income.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
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	**87.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dover	17.5	1.1	99.5%
Flowserve	18.6	1.5	98.6%
Graco	20.0	2.3	103.5%
Pall	23.0	1.7	105.0%
Peer Median	19.3	1.6	101.5%
Illinois Tool Works	**18.2**	**1.6**	**99.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	17,924	14,135	14,813
Revenue, YoY%	0.8%	-21.1%	4.8%
Operating Income	2,849	2,516	3,173
Operating Margin %	15.9%	17.8%	21.4%
Net Income	2,495	1,630	2,072
Net Income Margin %	13.9%	11.5%	14.0%
Diluted EPS	5.27	3.63	4.64
Diluted EPS, YoY %	29.3%	-31.2%	27.8%
Free Cash Flow (CFO-capex)	1,315	2,111	2,161
Free Cash Flow Margin %	7.3%	14.9%	14.6%

In Millions of USD (except for per share items)

Structure of the Machinery & Tools Industry — GOOD

The machinery and tools industry is fragmented and highly competitive. Most constituents offer a wide range of products in a myriad of markets. Firms are heavily exposed to fluctuating raw material prices (steel, resins, chemicals) and the vicissitudes of the global economic cycle, including customer capital/maintenance budgets. Several companies are recognized worldwide for their strong brand names and reputation for quality, innovation and value, and we view such attributes as material competitive advantages. Though pricing competition is not absent, we like the structural characteristics of the group.

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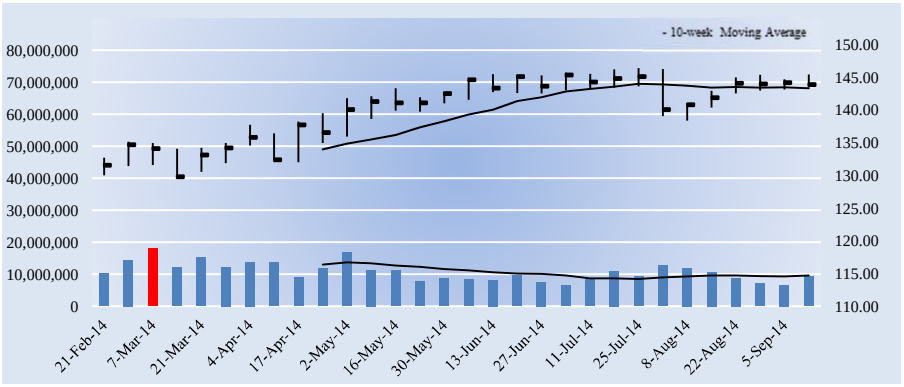
3M MMM FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$123.00	$101.00 - $145.00	LARGE-CAP CORE	Industrials	Conglomerates

3M is perhaps among the most innovative firms in our coverage universe.

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).

Company Vitals

Market Cap (USD)	$99,837
Avg Weekly Vol (30 wks)	10,730
30-week Range (USD)	129.7 - 146.43
Valuentum Sector	Industrials
5-week Return	2.1%
13-week Return	0.7%
30-week Return	8.8%
Dividend Yield %	2.4%
Dividends per Share	3.42
Forward Dividend Payout Ratio	45.3%
Est. Normal Diluted EPS	8.92
P/E on Est. Normal Diluted EPS	16.1
Est. Normal EBITDA	10,165
Forward EV/EBITDA	11.6
EV/Est. Normal EBITDA	10.1
Forward Revenue Growth (5-yr)	4.5%
Forward EPS Growth (5-yr)	8.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	27.4%
Return on Assets	14.0%
ROIC, with goodwill	21.1%
ROIC, without goodwill	31.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,009
Net Debt	2,672
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.3
EBITDA/Interest	54.9
Current Ratio	1.7
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• 3M'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.

• 3M is fundamentally a science-based company. The company makes imaginative products, and it is a leader in many markets--from health care and highway safety to office products and abrasives and adhesives. The company is perhaps among the most innovative firms in our coverage universe.

• 3M 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 16.2% in coming years. Total debt-to-EBITDA was 0.8 last year, while debt-to-book capitalization stood at 25.6%.

• 3M has ambitious goals for the period 2013-2017. The firm expects annual organic sales growth of 4-6%, annual earnings per share expansion of 9-11%, and 100% free cash flow conversion of net income. Our revenue and earnings expectations are in-line with management's during this period, and our future forecasts reveal a nice pace of further growth.

• 3M has accelerated its dividend growth in recent periods. Though we like its dividend quite a bit, dividend growth investors have bid shares too high. We don't think investors should lose sight of its valuation.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**VERY BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**143.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Danaher	20.6	2.0	103.9%
Honeywell	16.9	1.9	102.7%
Tyco Intl	22.1	1.8	110.8%
United Technologies	15.6	1.7	95.9%
Peer Median	18.7	1.9	103.3%
3M	**19.1**	**2.5**	**117.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	29,904	30,871	32,476
Revenue, YoY%	1.0%	3.2%	5.2%
Operating Income	6,483	6,666	7,444
Operating Margin %	21.7%	21.6%	22.9%
Net Income	4,444	4,659	5,219
Net Income Margin %	14.9%	15.1%	16.1%
Diluted EPS	6.32	6.72	7.55
Diluted EPS, YoY %	6.1%	6.3%	12.5%
Free Cash Flow (CFO-capex)	3,816	4,069	4,720
Free Cash Flow Margin %	12.8%	13.2%	14.5%

In Millions of USD (except for per share items)

Structure of the Conglomerates Industry — GOOD

The industrial conglomerate industry is characterized by firms that operate various business lines on a global scale. Demand for industrial products tends to be cyclical in nature, and most firms couple their manufacturing operations with generally more stable services businesses to mitigate fundamental volatility. Firms tend to have bargaining power over suppliers due to industry dominance and boast substantial resources to adapt to changing conditions or competitive threats. Most sell products under powerful and recognizable brand names and look to emerging markets for future growth. We like the group.

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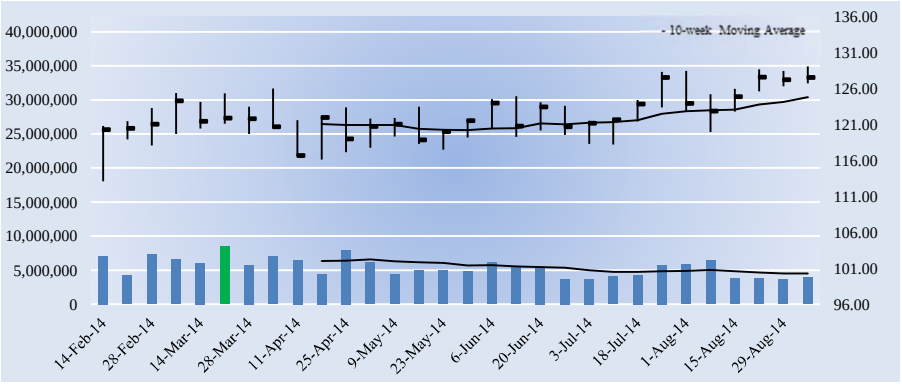
Northrop Grumman NOC FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$138.00	$110.00 - $166.00	LARGE-CAP VALUE	Industrials	A&D Prime

Northrop Grumman is a leading global security company.

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).

Company Vitals

Market Cap (USD)	$29,829
Avg Weekly Vol (30 wks)	5,409
30-week Range (USD)	113.12 - 129.1
Valuentum Sector	Industrials
5-week Return	3.2%
13-week Return	3.1%
30-week Return	11.2%
Dividend Yield %	2.2%
Dividends per Share	2.80
Forward Dividend Payout Ratio	29.5%
Est. Normal Diluted EPS	10.32
P/E on Est. Normal Diluted EPS	12.4
Est. Normal EBITDA	4,161
Forward EV/EBITDA	7.7
EV/Est. Normal EBITDA	7.4
Forward Revenue Growth (5-yr)	-0.5%
Forward EPS Growth (5-yr)	5.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.9%
Return on Assets	7.4%
ROIC, with goodwill	14.4%
ROIC, without goodwill	79.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,928
Net Debt	778
Total Debt/EBITDA	1.6
Net Debt/EBITDA	0.2
EBITDA/Interest	14.1
Current Ratio	1.6
Quick Ratio	1.3

NMF = Not Meaningful

Investment Highlights

• Northrop Grumman'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.

• Northrop Grumman is a leading global security company providing innovative systems, products and solutions in unmanned systems, cybersecurity, C4ISR, and logistics and modernization to government and commercial customers worldwide.

• Northrop Grumman 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 10.3% in coming years. Total debt-to-EBITDA was 1.6 last year, while debt-to-book capitalization stood at 35.8%.

• The company has positions on a number of large, long-term franchise programs: F-35, E-2D, F/A-18, EA-18G, B-2, JSTARS. Its unmanned platforms include the Global Hawk, BAMS, N-UCAS, and Fire Scout. Northrop also has strong core ISR sensor capabilities and a solid information processing position.

• Two of the more interesting things to know about Northrop Grumman is that shares outstanding have been reduced by a third since 2008, while its annual dividend has advanced at a 9% CAGR over the same time. The firm is very shareholder-friendly.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	DECLINING
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	125.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Boeing	15.0	1.5	93.8%
General Dynamics	16.5	2.8	118.3%
Lockheed Martin	15.4	2.0	117.2%
Raytheon	14.0	2.1	106.3%
Peer Median	15.2	2.1	111.7%
Northrop Grumman	**13.4**	**2.6**	**92.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	25,218	24,661	23,724
Revenue, YoY%	-4.5%	-2.2%	-3.8%
Operating Income	3,130	3,123	3,485
Operating Margin %	12.4%	12.7%	14.7%
Net Income	1,978	1,952	2,201
Net Income Margin %	7.8%	7.9%	9.3%
Diluted EPS	7.81	8.35	9.50
Diluted EPS, YoY %	5.4%	6.9%	13.9%
Free Cash Flow (CFO-capex)	2,309	2,119	2,377
Free Cash Flow Margin %	9.2%	8.6%	10.0%

In Millions of USD (except for per share items)

Structure of the Aerospace and Defense Industry — NEUTRAL

The global commercial aerospace duopoly is being challenged by encroaching international competitors who are intent on increasing market share. Though Boeing and Airbus dominate the large commercial aircraft segment, Embraer, Bombardier and other entrants from Russia, China and Japan are becoming stronger rivals. Long-term demand for commercial aircraft is cyclical and depends on the health of the credit markets, airline customers, and lessors. The defense industry has strong competition in all market segments and continues to face pressure due to weak funding and competing budget priorities.

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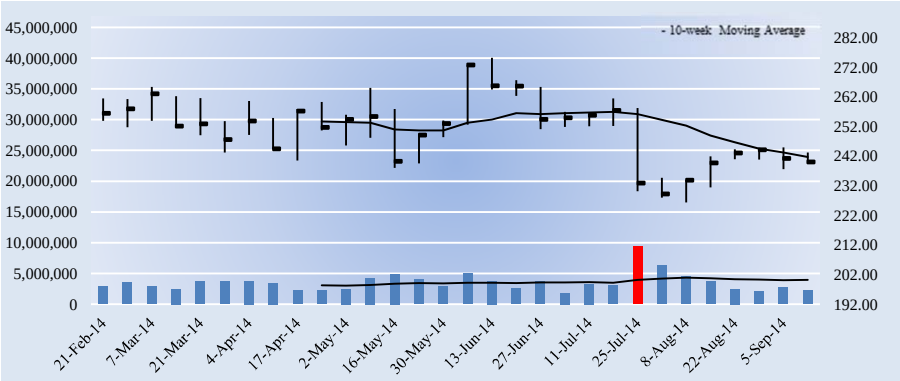
Precision Castparts PCP UNDERVALUED 2.5%

Buying Index™ 3 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$307.00	$246.00 - $368.00	LARGE-CAP BLEND	Industrials	A&D Suppliers

The margin expansion associated with Precision's acquisition of Titanium Metals will be significant.

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).

Company Vitals

Market Cap (USD)	$35,178
Avg Weekly Vol (30 wks)	3,523
30-week Range (USD)	226.38 - 275.09
Valuentum Sector	Industrials
5-week Return	2.7%
13-week Return	-9.5%
30-week Return	-8.1%
Dividend Yield %	0.1%
Dividends per Share	0.12
Forward Dividend Payout Ratio	0.9%
Est. Normal Diluted EPS	18.15
P/E on Est. Normal Diluted EPS	13.2
Est. Normal EBITDA	4,540
Forward EV/EBITDA	11.0
EV/Est. Normal EBITDA	8.5
Forward Revenue Growth (5-yr)	11.3%
Forward EPS Growth (5-yr)	13.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.1%
Return on Assets	11.0%
ROIC, with goodwill	14.0%
ROIC, without goodwill	24.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,571
Net Debt	3,210
Total Debt/EBITDA	1.2
Net Debt/EBITDA	1.1
EBITDA/Interest	39.0
Current Ratio	3.4
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• Precision Castparts' 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.

• Precision Castparts is a worldwide, diversified manufacturer of complex metal components and products. The company makes metal castings for every jet aircraft engine program in production or under development by its key customers--GE, Pratt & Whitney, and Rolls Royce.

• Precision Castparts 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 16.7% in coming years. Total debt-to-EBITDA was 1.2 last year, while debt-to-book capitalization stood at 23.9%.

• The company's products are ubiquitous and do not depend on which jet maker delivers more planes in any given year. Precision is also a trusted, low-cost supplier--it has been delivering castings to the jet-engine makers for over 20 years (40 years in GE's case).

• The potential margin expansion associated with the firm's Titanium Metals acquisition will be significant. CEO Mark Donegan is perhaps the most talented CEO in our coverage in extracting efficiencies from newly-acquired entities.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**242.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Astronics	19.7	1.3	94.6%
Hexcel Corp	18.5	1.6	94.4%
Rockwell Collins	16.9	1.3	98.5%
Spirit AeroSystems	11.5	NMF	103.4%
Peer Median	17.7	1.3	96.6%
Precision Castparts	**17.0**	**1.5**	**78.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Mar-13	Mar-14	Mar-15
Revenue	8,378	9,616	10,760
Revenue, YoY%	16.1%	14.8%	11.9%
Operating Income	2,161	2,672	3,158
Operating Margin %	25.8%	27.8%	29.3%
Net Income	1,432	1,760	2,089
Net Income Margin %	17.1%	18.3%	19.4%
Diluted EPS	9.76	12.01	14.11
Diluted EPS, YoY %	15.5%	23.0%	17.5%
Free Cash Flow (CFO-capex)	1,143	1,510	1,654
Free Cash Flow Margin %	13.6%	15.7%	15.4%

In Millions of USD (except for per share items)

Structure of the A&D Supplier Industry — GOOD

The aerospace supply chain will benefit from the multi-year backlogs at the airframe makers, Boeing and Airbus. Though the current upswing looks robust, commercial aerospace has historically been cyclical and remains influenced by airline profits, passenger traffic, credit-market health, and geopolitical conditions. Participants generally operate under contracts with significant long-term price concessions, so cost-containment remains critical. The strongest suppliers are those that have long-standing customer relationships, technical expertise, and state-of-the-art manufacturing facilities. We like the group.

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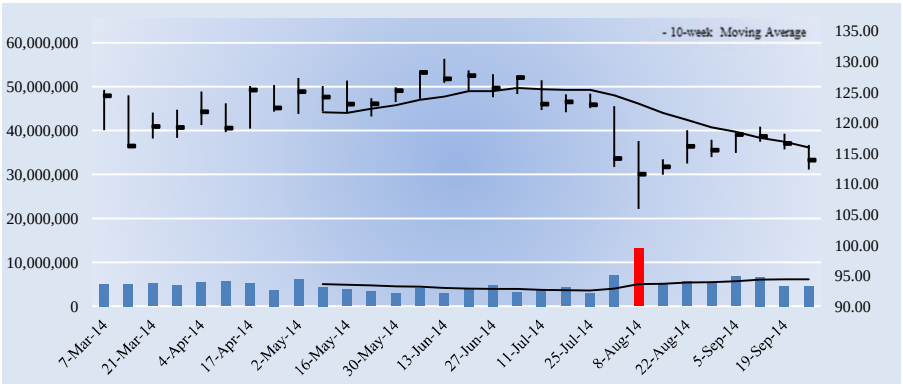
Parker-Hannifin PH FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$117.00	$94.00 - $140.00	LARGE-CAP VALUE	Industrials	Electrical Equipment

Parker-Hannifin is the world's leading diversified manufacturer of motion and control technologies and systems.

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).

Company Vitals

Market Cap (USD)	$17,245
Avg Weekly Vol (30 wks)	4,953
30-week Range (USD)	105.91 - 130.44
Valuentum Sector	Industrials
5-week Return	-2.5%
13-week Return	-9.6%
30-week Return	-4.3%
Dividend Yield %	1.7%
Dividends per Share	1.92
Forward Dividend Payout Ratio	25.7%
Est. Normal Diluted EPS	8.78
P/E on Est. Normal Diluted EPS	13.0
Est. Normal EBITDA	2,381
Forward EV/EBITDA	8.3
EV/Est. Normal EBITDA	7.3
Forward Revenue Growth (5-yr)	3.4%
Forward EPS Growth (5-yr)	8.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.0%
Return on Assets	8.8%
ROIC, with goodwill	13.5%
ROIC, without goodwill	22.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,325
Net Debt	138
Total Debt/EBITDA	1.3
Net Debt/EBITDA	0.1
EBITDA/Interest	21.0
Current Ratio	1.9
Quick Ratio	1.4

NMF = Not Meaningful

Investment Highlights

• Parker-Hannifin'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.

• Parker-Hannifin is the world's leading diversified manufacturer of motion and control technologies and systems. There remains ample opportunity for growth in this $120+ billion global market. The firm has increased its annual dividends paid to shareholders for more than 50 consecutive fiscal years.

• Parker-Hannifin 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 8.9% in coming years. Total debt-to-EBITDA was 1.3 last year, while debt-to-book capitalization stood at 25.9%.

• Parker-Hannifin generates roughly half of its business from MRO (maintenance, repair, and overhaul), which is a less cyclical and higher-margin channel. The company is targeting 15% segment operating margins through the course of the cycle. Its free cash flow conversion (free cash flow > net income) is consistently fantastic.

• When it comes to industrial entities, Parker-Hannifin is among the strongest. It has 20% share in the markets it serves and boasts top quartile performance in free-cash-flow generation and return on invested capital.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
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	**116.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Barnes Group	15.8	1.3	98.5%
Emerson Electric	16.9	1.7	98.5%
Pentair	17.3	1.5	107.0%
Roper Industries	23.1	2.3	118.9%
Peer Median	17.1	1.6	102.8%
Parker-Hannifin	**15.2**	**2.1**	**97.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	13,016	13,216	13,612
Revenue, YoY%	-1.0%	1.5%	3.0%
Operating Income	1,374	1,394	1,758
Operating Margin %	10.6%	10.5%	12.9%
Net Income	948	1,041	1,121
Net Income Margin %	7.3%	7.9%	8.2%
Diluted EPS	6.26	6.87	7.47
Diluted EPS, YoY %	-16.0%	9.9%	8.7%
Free Cash Flow (CFO-capex)	925	1,172	1,169
Free Cash Flow Margin %	7.1%	8.9%	8.6%

In Millions of USD (except for per share items)

Structure of the Electrical Equipment Industry — NEUTRAL

The fragmented electrical equipment industry includes firms that primarily provide flow control and electrical components. Order trends and backlog are largely driven by the overall health of the economy, while all constituents must deal with volatile raw material prices. Most operate high fixed-cost business models, where operating leverage should be monitored closely, and face intense global competition. Still, we like the group's exposure to recurring maintenance, repair, and overhaul (MRO) revenue and its large and growing emerging-market opportunities. We're generally neutral on the industry's structure.

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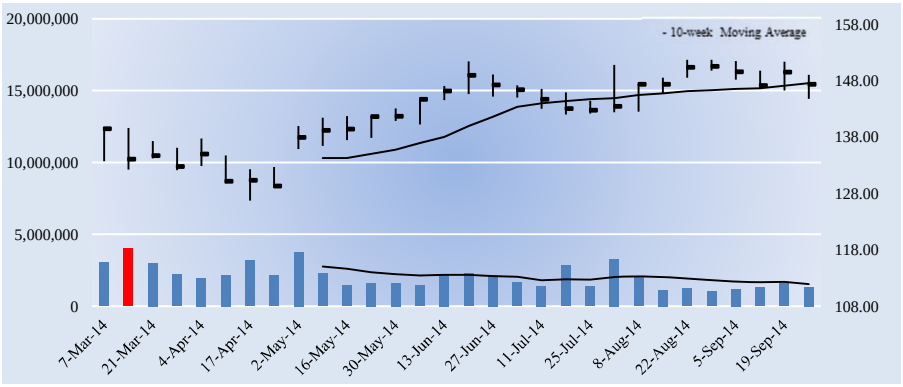
Roper Industries ROP FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$124.00	$99.00 - $149.00	LARGE-CAP CORE	Industrials	Electrical Equipment

We're huge fans of Roper's free cash flow generation, which has been better than net income for nearly 20 consecutive years.

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).

Company Vitals

Market Cap (USD)	$14,769
Avg Weekly Vol (30 wks)	2,059
30-week Range (USD)	126.75 - 151.74
Valuentum Sector	Industrials
5-week Return	-2.6%
13-week Return	0.3%
30-week Return	9.6%
Dividend Yield %	0.5%
Dividends per Share	0.80
Forward Dividend Payout Ratio	12.5%
Est. Normal Diluted EPS	7.82
P/E on Est. Normal Diluted EPS	18.9
Est. Normal EBITDA	1,449
Forward EV/EBITDA	14.0
EV/Est. Normal EBITDA	11.6
Forward Revenue Growth (5-yr)	7.2%
Forward EPS Growth (5-yr)	12.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.0%
Return on Assets	7.7%
ROIC, with goodwill	10.9%
ROIC, without goodwill	30.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,465
Net Debt	2,005
Total Debt/EBITDA	2.4
Net Debt/EBITDA	1.9
EBITDA/Interest	11.8
Current Ratio	2.1
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• Roper Industries' 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.

• Roper makes radio frequency products and services, industrial technology products, energy systems and medical/scientific imaging products. We're huge fans of its free cash flow conversion, which has been better than net income for nearly 20 consecutive years. This signals high-quality earnings.

• Roper Industries 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 20.6% in coming years. Total debt-to-EBITDA was 2.4 last year, while debt-to-book capitalization stood at 36.9%.

• We very much like Roper's focus on 'cash return on investment' (CRI). This metric approximates our return on invested capital metric, and on the basis of Roper's ValueCreation™ measure, it is executing well. CRI is a common metric used throughout the firm's business. At its core, the metric focuses on enterprise cash flow growth and discplined asset investment.

• Roper continues to put up solid order and backlog trends. Though the economic recovery has aided improvement, gross margins and EBITDA margins have jumped nearly 9 percentage points since 2009.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**148.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Barnes Group	15.8	1.3	98.5%
Emerson Electric	16.9	1.7	98.5%
Parker-Hannifin	15.2	2.1	97.3%
Pentair	17.3	1.5	107.0%
Peer Median	16.3	1.6	98.5%
Roper Industries	**23.1**	**2.3**	**118.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	2,993	3,238	3,513
Revenue, YoY%	7.0%	8.2%	8.5%
Operating Income	758	842	990
Operating Margin %	25.3%	26.0%	28.2%
Net Income	483	538	644
Net Income Margin %	16.1%	16.6%	18.3%
Diluted EPS	4.86	5.37	6.38
Diluted EPS, YoY %	11.8%	10.6%	18.8%
Free Cash Flow (CFO-capex)	639	760	699
Free Cash Flow Margin %	21.4%	23.5%	19.9%

In Millions of USD (except for per share items)

Structure of the Electrical Equipment Industry — NEUTRAL

The fragmented electrical equipment industry includes firms that primarily provide flow control and electrical components. Order trends and backlog are largely driven by the overall health of the economy, while all constituents must deal with volatile raw material prices. Most operate high fixed-cost business models, where operating leverage should be monitored closely, and face intense global competition. Still, we like the group's exposure to recurring maintenance, repair, and overhaul (MRO) revenue and its large and growing emerging-market opportunities. We're generally neutral on the industry's structure.

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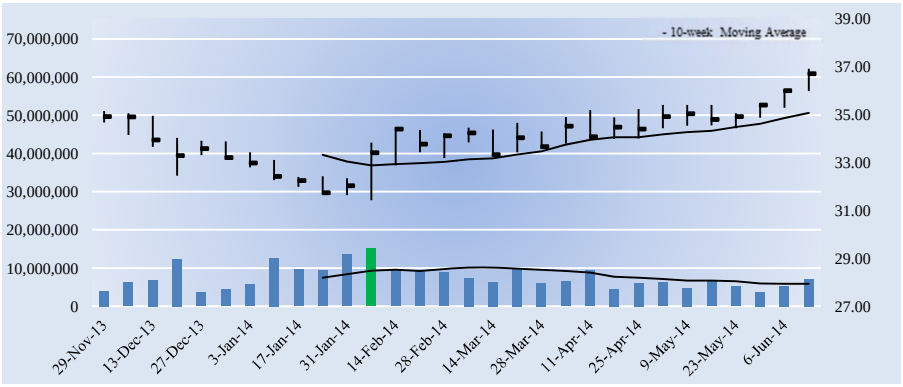
Republic Services RSG FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$39.00	$31.00 - $47.00	LARGE-CAP VALUE	Industrials	Environmental Services

Through long-term exclusive franchise contracts with municipalities, Republic operates as a monopoly in nearly 30% of its markets.

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).

Company Vitals

Market Cap (USD)	$13,340
Avg Weekly Vol (30 wks)	7,536
30-week Range (USD)	31.42 - 36.91
Valuentum Sector	Industrials
5-week Return	4.3%
13-week Return	9.7%
30-week Return	4.5%
Dividend Yield %	2.8%
Dividends per Share	1.04
Forward Dividend Payout Ratio	52.5%
Est. Normal Diluted EPS	2.40
P/E on Est. Normal Diluted EPS	15.3
Est. Normal EBITDA	2,707
Forward EV/EBITDA	8.2
EV/Est. Normal EBITDA	7.4
Forward Revenue Growth (5-yr)	3.4%
Forward EPS Growth (5-yr)	11.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	7.5%
Return on Assets	3.0%
ROIC, with goodwill	8.0%
ROIC, without goodwill	20.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,018
Net Debt	6,805
Total Debt/EBITDA	2.9
Net Debt/EBITDA	2.8
EBITDA/Interest	6.7
Current Ratio	0.8
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• Republic Services' 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.

• Republic Services is the second largest provider of services in the domestic non-hazardous solid waste industry, as measured by revenue. The firm has ~340 collection operations in ~40 states and Puerto Rico. It owns and operates ~190 active solid waste landfills.

• Republic Services 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 12.2% in coming years. Total debt-to-EBITDA was 2.9 last year, while debt-to-book capitalization stood at 47%.

• Republic's enormous Apex regional landfill in Clark County, Nevada, is the busiest facility in the US and should enjoy years of strong cash flow generation from one of the fastest-growing areas in the country.

• Republic's disposal assets represent a long-term strategic benefit that will only become more valuable over time due to an increasingly onerous regulatory environment and continued citizens' group opposition to greenfield sites.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**35.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clean Harbors	34.5	2.0	124.9%
Stericycle	27.7	2.4	101.3%
Waste Connections	23.1	2.2	123.2%
Waste Management	18.5	2.8	107.3%
Peer Median	25.4	2.3	115.3%
Republic Services	**18.5**	**1.9**	**94.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	8,118	8,417	8,729
Revenue, YoY%	-0.9%	3.7%	3.7%
Operating Income	1,365	1,375	1,386
Operating Margin %	16.8%	16.3%	15.9%
Net Income	572	589	710
Net Income Margin %	7.0%	7.0%	8.1%
Diluted EPS	1.55	1.62	1.98
Diluted EPS, YoY %	-0.4%	4.3%	22.2%
Free Cash Flow (CFO-capex)	689	744	1,031
Free Cash Flow Margin %	8.5%	8.8%	11.8%

In Millions of USD (except for per share items)

Structure of the Environmental Services Industry — GOOD

The oligopolistic US non-hazardous solid-waste services industry is dominated by Waste Management, Republic Services and Waste Connections, which collectively generate over half of industry revenue and control an equal percentage of valuable disposal capacity. Most operators boast strong returns on capital and predictable cash flow streams, buoyed in part by real pricing expansion. The landfill business has significant barriers to entry, while Stericycle's niche in the medical-waste industry and US Ecology's monopolistic radioactive waste disposal assets are compelling. We like the structure of the group.

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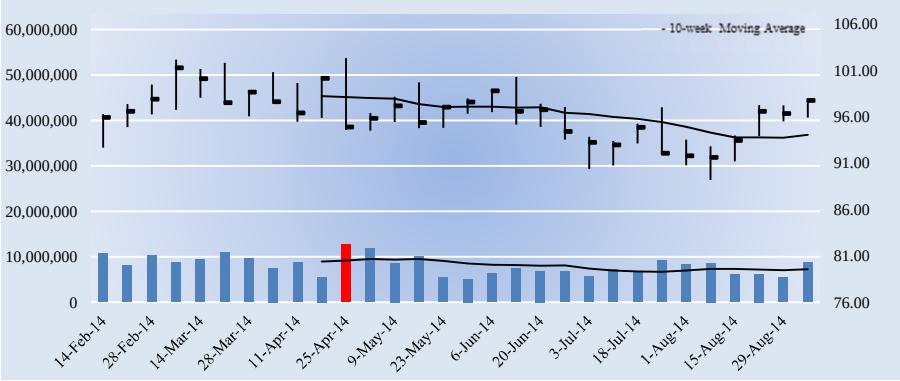
Raytheon RTN FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$92.00	$74.00 - $110.00	LARGE-CAP CORE	Industrials	A&D Prime

Raytheon'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).

Company Vitals

Market Cap (USD)	$31,694
Avg Weekly Vol (30 wks)	8,110
30-week Range (USD)	89.17 - 102.33
Valuentum Sector	Industrials
5-week Return	6.5%
13-week Return	-0.7%
30-week Return	3.7%
Dividend Yield %	2.5%
Dividends per Share	2.42
Forward Dividend Payout Ratio	34.7%
Est. Normal Diluted EPS	7.94
P/E on Est. Normal Diluted EPS	12.3
Est. Normal EBITDA	4,176
Forward EV/EBITDA	8.4
EV/Est. Normal EBITDA	7.7
Forward Revenue Growth (5-yr)	-0.4%
Forward EPS Growth (5-yr)	7.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.7%
Return on Assets	7.4%
ROIC, with goodwill	14.7%
ROIC, without goodwill	104.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,734
Net Debt	437
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.1
EBITDA/Interest	16.1
Current Ratio	1.7
Quick Ratio	1.6

NMF = Not Meaningful

Investment Highlights

• Raytheon provides state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing; effects; and command, control, communications and intelligence systems, as well as a broad range of mission support services.

• Raytheon 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 11.8% in coming years. Total debt-to-EBITDA was 1.4 last year, while debt-to-book capitalization stood at 30%.

• Raytheon'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.

• The firm's share price performance has trailed that of the market during the past quarter. However, it is trading within our fair value estimate range, so we don't view such activity as alarming.

• The firm sports a very nice dividend yield of 2.5%. We expect the firm to pay out about 35% of next year's earnings to shareholders as dividends. Its Dividend Cushion ratio is north of 2.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**94.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Boeing	15.0	1.5	93.8%
General Dynamics	16.5	2.8	118.3%
Lockheed Martin	15.4	2.0	117.2%
Northrop Grumman	13.4	2.6	92.4%
Peer Median	15.2	2.3	105.5%
Raytheon	**14.0**	**2.1**	**106.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	24,414	23,706	22,734
Revenue, YoY%	-1.8%	-2.9%	-4.1%
Operating Income	2,989	2,938	3,386
Operating Margin %	12.2%	12.4%	14.9%
Net Income	1,889	1,932	2,237
Net Income Margin %	7.7%	8.1%	9.8%
Diluted EPS	5.65	5.96	6.97
Diluted EPS, YoY %	7.1%	5.4%	16.9%
Free Cash Flow (CFO-capex)	1,543	1,985	2,513
Free Cash Flow Margin %	6.3%	8.4%	11.1%

In Millions of USD (except for per share items)

Structure of the Aerospace and Defense Industry — NEUTRAL

The global commercial aerospace duopoly is being challenged by encroaching international competitors who are intent on increasing market share. Though Boeing and Airbus dominate the large commercial aircraft segment, Embraer, Bombardier and other entrants from Russia, China and Japan are becoming stronger rivals. Long-term demand for commercial aircraft is cyclical and depends on the health of the credit markets, airline customers, and lessors. The defense industry has strong competition in all market segments and continues to face pressure due to weak funding and competing budget priorities.

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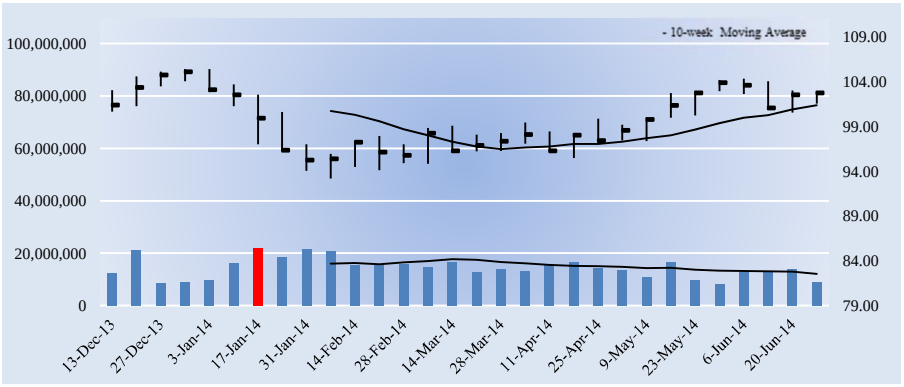
United Parcel Service UPS FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$97.00	$78.00 - $116.00	LARGE-CAP CORE	Industrials	Air Freight & Logistics

We're huge fans of UPS' worldwide integrated network, respected brand and consistent cash generation.

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).

Company Vitals

Market Cap (USD)	$97,369
Avg Weekly Vol (30 wks)	14,427
30-week Range (USD)	93.19 - 105.37
Valuentum Sector	Industrials
5-week Return	-0.2%
13-week Return	5.2%
30-week Return	-0.3%
Dividend Yield %	2.6%
Dividends per Share	2.68
Forward Dividend Payout Ratio	52.2%
Est. Normal Diluted EPS	6.56
P/E on Est. Normal Diluted EPS	15.7
Est. Normal EBITDA	11,484
Forward EV/EBITDA	10.7
EV/Est. Normal EBITDA	9.0
Forward Revenue Growth (5-yr)	4.8%
Forward EPS Growth (5-yr)	11.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	47.7%
Return on Assets	8.3%
ROIC, with goodwill	31.7%
ROIC, without goodwill	35.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	10,872
Net Debt	5,627
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.6
EBITDA/Interest	26.7
Current Ratio	1.9
Quick Ratio	1.6

NMF = Not Meaningful

Investment Highlights

• United Parcel Service'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.

• United Parcel Services 'shrinks the globe.' The firm is the world's largest package delivery company, a leader in the US less-than-truckload industry and the premier provider of global supply chain management solutions.

• United Parcel Service 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 10.6% in coming years. Total debt-to-EBITDA was 1.1 last year, while debt-to-book capitalization stood at 62.7%.

• UPS boasts an industry-leading adjusted operating margin in small packages. At ~14%, it is nearly double the average of DHL (~9%), FedEx (~8%), and TNT (~3%). The company benefits from over 100 years of improvement and investment. Its culture is one of continual reinvention.

• We're huge fans of UPS' worldwide integrated network, respected brand and consistent free cash flow generation. It has superior scale and efficiencies. Emerging markets represent the firm's largest growth opportunities.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**101.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CH Robinson	22.1	1.7	110.0%
Expeditors Intl	23.1	2.0	107.6%
FedEx	17.0	1.4	100.9%
Uti Worldwide	125.2	NMF	77.8%
Peer Median	22.6	1.7	104.3%
United Parcel Service	**20.0**	**1.9**	**105.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	54,127	55,438	58,044
Revenue, YoY%	1.9%	2.4%	4.7%
Operating Income	5,593	8,274	7,667
Operating Margin %	10.3%	14.9%	13.2%
Net Income	807	4,372	4,773
Net Income Margin %	1.5%	7.9%	8.2%
Diluted EPS	0.83	4.61	5.13
Diluted EPS, YoY %	-78.3%	453.8%	11.3%
Free Cash Flow (CFO-capex)	5,063	5,239	5,621
Free Cash Flow Margin %	9.4%	9.5%	9.7%

In Millions of USD (except for per share items)

Structure of the Air Freight & Logistics Industry — GOOD

The highly competitive air freight and logistics industry is heavily tied to cyclical domestic economic expansion (primarily from retail good shipments). The international freight market remains a critical growth engine for air cargo providers, while all constituents deal with the cost of rising fuel (diesel) prices and potentially price-sensitive demand during periods of economic weakness. Firms with freight-forwarding, asset-light operations and/or large difficult-to-replicate shipping networks can carve out sustainable competitive advantages while generating high returns on investment. We generally like the group.

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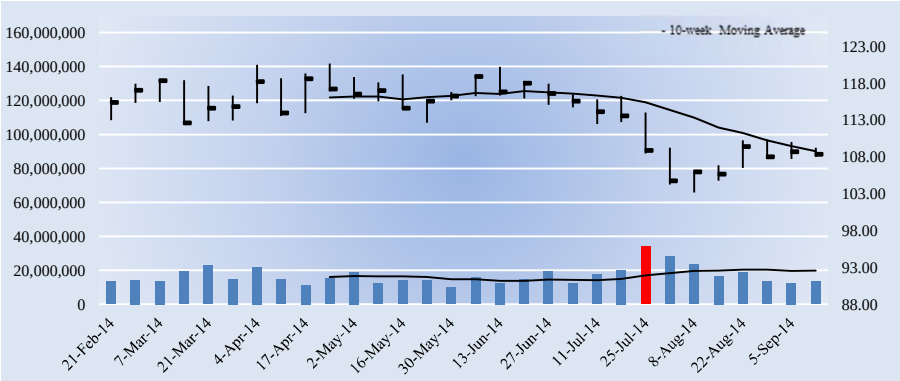
United Technologies UTX FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$113.00	$90.00 - $136.00	LARGE-CAP VALUE	Industrials	Conglomerates

We're big fans of United Tech's decision to pick up Goodrich to augment its commercial aerospace portfolio.

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).

Company Vitals

Market Cap (USD)	$99,151
Avg Weekly Vol (30 wks)	16,716
30-week Range (USD)	103.14 - 120.66
Valuentum Sector	Industrials
5-week Return	1.7%
13-week Return	-7.0%
30-week Return	-5.0%
Dividend Yield %	2.2%
Dividends per Share	2.36
Forward Dividend Payout Ratio	34.1%
Est. Normal Diluted EPS	8.47
P/E on Est. Normal Diluted EPS	12.8
Est. Normal EBITDA	14,019
Forward EV/EBITDA	9.7
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	4.5%
Forward EPS Growth (5-yr)	10.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.5%
Return on Assets	7.5%
ROIC, with goodwill	11.3%
ROIC, without goodwill	24.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	20,060
Net Debt	17,401
Total Debt/EBITDA	2.0
Net Debt/EBITDA	1.8
EBITDA/Interest	11.0
Current Ratio	1.3
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• United Technologies' 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.

• United Tech's commercial businesses are Otis elevators and escalators and UTC Climate, Controls & Security. The firm's aerospace businesses are Sikorsky aircraft and UTC Propulsion & Aerospace Systems, which includes Pratt & Whitney aircraft engines and UTC Aerospace Systems products.

• United Technologies 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 10.8% in coming years. Total debt-to-EBITDA was 2 last year, while debt-to-book capitalization stood at 38.8%.

• We're big fans of the company's decision to pick up Goodrich to augment its commercial aerospace portfolio. Revenue passenger miles (air travel) are expected to expand at a rapid pace in coming decades, and annual aircraft deliveries should follow suit. The commercial backlogs at the airframe makers are simply tremendous.

• New equipment orders at Otis in China continue to perform well, and we like the backdrop for large commercial engine spares at Pratt & Whitney. We continue to pay close attention to the pace of order expansion.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
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	**109.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
3M	19.1	2.5	117.0%
Danaher	20.6	2.0	103.9%
Honeywell	16.9	1.9	102.7%
Tyco Intl	22.1	1.8	110.8%
Peer Median	19.8	2.0	107.4%
United Technologies	**15.6**	**1.7**	**95.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	57,708	62,626	65,382
Revenue, YoY%	-0.8%	8.5%	4.4%
Operating Income	6,732	8,058	10,081
Operating Margin %	11.7%	12.9%	15.4%
Net Income	4,840	5,686	6,323
Net Income Margin %	8.4%	9.1%	9.7%
Diluted EPS	5.34	6.21	6.93
Diluted EPS, YoY %	-2.8%	16.4%	11.5%
Free Cash Flow (CFO-capex)	3,424	5,171	6,175
Free Cash Flow Margin %	5.9%	8.3%	9.4%

In Millions of USD (except for per share items)

Structure of the Conglomerates Industry — GOOD

The industrial conglomerate industry is characterized by firms that operate various business lines on a global scale. Demand for industrial products tends to be cyclical in nature, and most firms couple their manufacturing operations with generally more stable services businesses to mitigate fundamental volatility. Firms tend to have bargaining power over suppliers due to industry dominance and boast substantial resources to adapt to changing conditions or competitive threats. Most sell products under powerful and recognizable brand names and look to emerging markets for future growth. We like the group.

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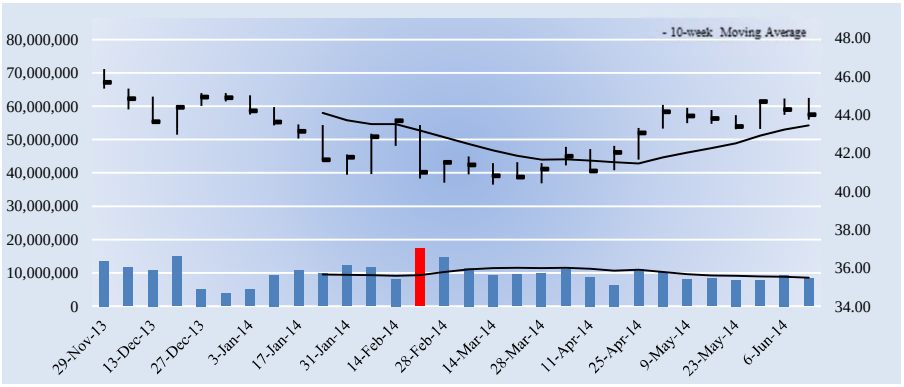
Waste Management WM FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$41.00	$33.00 - $49.00	LARGE-CAP CORE	Industrials	Environmental Services

Waste Management's landfill operations boast significant barriers to entry due to regulatory requirements and NIMBY opposition.

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).

Company Vitals

Market Cap (USD)	$20,671
Avg Weekly Vol (30 wks)	9,875
30-week Range (USD)	40.35 - 46.38
Valuentum Sector	Industrials
5-week Return	-0.2%
13-week Return	7.5%
30-week Return	-4.8%
Dividend Yield %	3.4%
Dividends per Share	1.50
Forward Dividend Payout Ratio	62.9%
Est. Normal Diluted EPS	2.85
P/E on Est. Normal Diluted EPS	15.4
Est. Normal EBITDA	4,167
Forward EV/EBITDA	8.1
EV/Est. Normal EBITDA	7.4
Forward Revenue Growth (5-yr)	2.7%
Forward EPS Growth (5-yr)	74.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	10.8%
Return on Assets	3.0%
ROIC, with goodwill	9.4%
ROIC, without goodwill	13.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	10,226
Net Debt	9,991
Total Debt/EBITDA	3.0
Net Debt/EBITDA	2.9
EBITDA/Interest	7.1
Current Ratio	0.8
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• Waste Management'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.

• Waste Management is the largest environmental solutions provider in North America, serving more than 20 million customers in the US, Canada and Puerto Rico. The company has the largest network of recycling facilities, transfer stations and landfills in the industry.

• The firm's asset base is quite diverse. Its landfill operations boast significant barriers to entry due to regulatory requirements and stiff NIMBY opposition. The collection side of its residential business is generally recession-resistant, though volatile commodity prices can cause swings in recycling revenue.

• Its commercial and industrial pick-up operations are somewhat cyclical, however. More than 80% of its commercial and industrial customers have a contract length of 3 or more years, which provides some stability, but volumes in this economically-sensitive area can still be volatile.

• Waste Management has a hefty dividend payout, but the company's Valuentum Dividend Cushion ratio could be better. Still, dividend growth investors should expect modest annual expansion in the dividend going forward.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
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	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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clean Harbors	34.5	2.0	124.9%
Republic Services	18.5	1.9	94.1%
Stericycle	27.7	2.4	101.3%
Waste Connections	23.1	2.2	123.2%
Peer Median	25.4	2.1	112.2%
Waste Management	**18.5**	**2.8**	**107.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	13,649	13,983	14,291
Revenue, YoY%	2.0%	2.4%	2.2%
Operating Income	2,001	2,070	2,412
Operating Margin %	14.7%	14.8%	16.9%
Net Income	817	98	1,109
Net Income Margin %	6.0%	0.7%	7.8%
Diluted EPS	1.76	0.21	2.38
Diluted EPS, YoY %	-13.7%	-88.1%	1042.7%
Free Cash Flow (CFO-capex)	785	1,184	1,353
Free Cash Flow Margin %	5.8%	8.5%	9.5%

In Millions of USD (except for per share items)

Structure of the Environmental Services Industry — GOOD

The oligopolistic US non-hazardous solid-waste services industry is dominated by Waste Management, Republic Services and Waste Connections, which collectively generate over half of industry revenue and control an equal percentage of valuable disposal capacity. Most operators boast strong returns on capital and predictable cash flow streams, buoyed in part by real pricing expansion. The landfill business has significant barriers to entry, while Stericycle's niche in the medical-waste industry and US Ecology's monopolistic radioactive waste disposal assets are compelling. We like the structure of the group.

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Technology

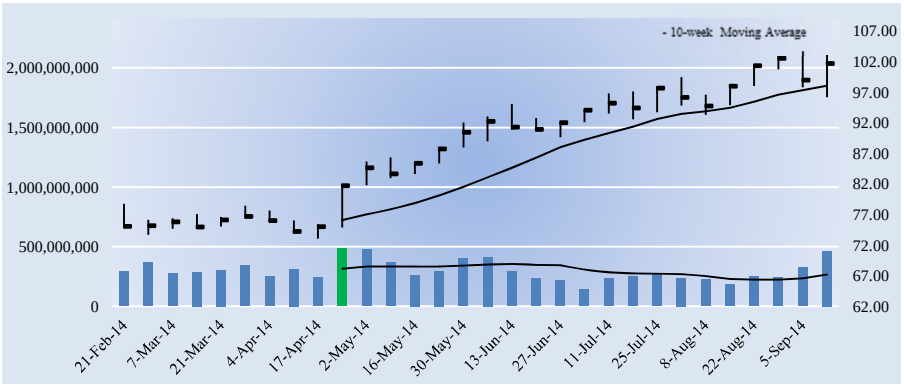
Apple AAPL FAIRLY VALUED

Valuentum Buying Index™ 6 **Valuentum Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$115.00	$94.00 - $136.00	MEGA-CAP VALUE	Information Technology	Computer Hardware

We've raised our fair value estimate of Apple…again.

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).

Company Vitals

Market Cap (USD)	$662,989
Avg Weekly Vol (30 wks)	297,334
30-week Range (USD)	73.047 - 103.74
Valuentum Sector	Information Technology
5-week Return	6.7%
13-week Return	11.1%
30-week Return	30.3%
Dividend Yield %	1.8%
Dividends per Share	1.88
Forward Dividend Payout Ratio	29.4%
Est. Normal Diluted EPS	7.66
P/E on Est. Normal Diluted EPS	13.3
Est. Normal EBITDA	72,344
Forward EV/EBITDA	8.7
EV/Est. Normal EBITDA	7.4
Forward Revenue Growth (5-yr)	6.2%
Forward EPS Growth (5-yr)	8.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	38.4%
Return on Assets	25.0%
ROIC, with goodwill	249.1%
ROIC, without goodwill	269.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	16,960
Net Debt	-129,801
Total Debt/EBITDA	0.3
Net Debt/EBITDA	NMF
EBITDA/Interest	410.0
Current Ratio	1.7
Quick Ratio	3.8

NMF = Not Meaningful

Investment Highlights

• Apple'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.

• Apple is as much a brand as it is one of the most innovative companies. The firm's traditional computers continue to gain market share, particularly in the US, and particularly with younger consumers. The company's execution remains top notch, and it should continue to take market share in that segment.

• Apple 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 24.7% in coming years. Total debt-to-EBITDA was 0.3 last year, while debt-to-book capitalization stood at 12.1%.

• Apple continues to impress. The firm's rollout of future iterations of the iPhone should propel its fundamentals ever higher. Though we're not embedding another blockbuster hit in our model, we wouldn't be surprised if Apple delivers another one from its pipeline. Mobile payment initiatives and/or Apple TV could offer a material boost to earnings.

• Apple's cash hoard is more than some of the market capitalizations of the largest companies in the S&P 500. The company retains tremendous flexibility in this regard, and we continue to expect dividend increases and share buybacks.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
Near-term Technical Support, 10-week MA	98.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
BlackBerry	-17.5	NMF	98.1%
Cray	33.7	1.2	102.1%
Hewlett-Packard	9.7	1.5	98.8%
IBM	10.6	1.4	100.1%
Peer Median	10.1	1.4	99.5%
Apple	**15.9**	**2.0**	**88.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-12	Sep-13	Sep-14
Revenue	156,508	170,910	180,139
Revenue, YoY%	44.6%	9.2%	5.4%
Operating Income	55,241	48,999	54,418
Operating Margin %	35.3%	28.7%	30.2%
Net Income	41,733	37,037	41,278
Net Income Margin %	26.7%	21.7%	22.9%
Diluted EPS	6.31	5.68	6.39
Diluted EPS, YoY %	59.5%	-9.9%	12.6%
Free Cash Flow (CFO-capex)	41,454	44,590	42,674
Free Cash Flow Margin %	26.5%	26.1%	23.7%

In Millions of USD (except for per share items)

Structure of the Computer Hardware Industry — NEUTRAL

The computer hardware space, which spans the personal computer to the iPhone and iPad, is highly competitive. The industry is characterized by frequent product introductions and rapid technological advances that can cause dramatic market share shifts. Though some firms benefit from a strong brand, participants often price aggressively, pressuring margins. Firms are also subject to potential component shortages/disruptions, which can punish performance. Obsolescence may be an eventuality for some, and services revenue has become critical for others. We're neutral on the space.

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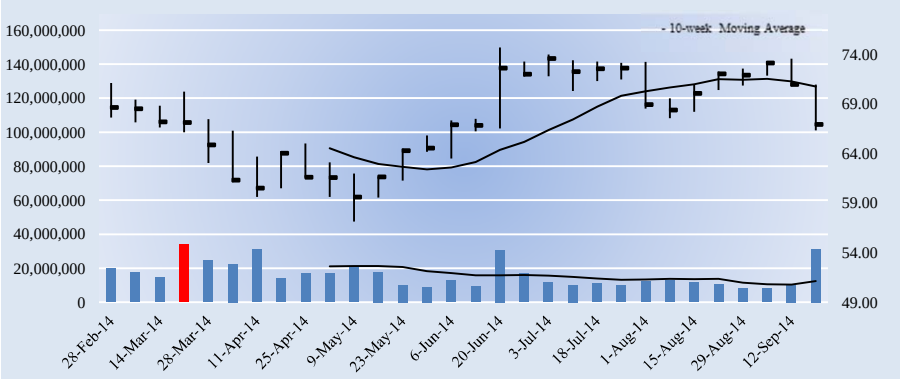
Adobe Systems ADBE FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$65.00	$52.00 - $78.00	LARGE-CAP GROWTH	Information Technology	Software

Adobe continues to gain significant traction with respect to Creative Cloud subscriptions.

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).

Company Vitals

Market Cap (USD)	$34,372
Avg Weekly Vol (30 wks)	16,182
30-week Range (USD)	57.15 - 74.69
Valuentum Sector	Information Technology
5-week Return	-5.0%
13-week Return	-8.0%
30-week Return	-2.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	2.58
P/E on Est. Normal Diluted EPS	25.9
Est. Normal EBITDA	2,200
Forward EV/EBITDA	27.9
EV/Est. Normal EBITDA	14.9
Forward Revenue Growth (5-yr)	13.3%
Forward EPS Growth (5-yr)	45.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	11.0%
Return on Assets	7.1%
ROIC, with goodwill	29.4%
ROIC, without goodwill	201.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,514
Net Debt	-1,660
Total Debt/EBITDA	2.0
Net Debt/EBITDA	NMF
EBITDA/Interest	11.4
Current Ratio	2.7
Quick Ratio	2.5

NMF = Not Meaningful

Investment Highlights

• Adobe Systems' 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.

• Adobe is one of the largest software companies in the world. The firm's flagship offering in its digital media business is Adobe Creative Cloud, which allows customers to download the latest version of Adobe Creative Suite products (like Photoshop). The firm also continues to focus on digital marketing solutions.

• Adobe Systems 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 28.5% in coming years. Total debt-to-EBITDA was 2 last year, while debt-to-book capitalization stood at 18.4%.

• Adobe continues to gain significant traction with respect to Creative Cloud subscriptions. Growing from just 195k in the third quarter of 2012, Adobe anticipates exponential growth in coming quarters and will round out fiscal 2014 with 2.8+ million paying subscribers. We love this recurring, subscription-based model.

• Adobe Marketing Cloud is quickly becoming a favorite of Chief Marketing Officers, as digital marketing bookings continue to expand at a nice clip.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**71.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
F5 Networks	23.1	1.8	108.6%
Microsoft	17.3	1.6	81.9%
Oracle	12.9	1.4	75.1%
Salesforce.com	110.9	NMF	105.9%
Peer Median	20.2	1.6	93.9%
Adobe Systems	**53.4**	**2.6**	**103.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Nov-12	Nov-13	Nov-14
Revenue	4,404	4,055	4,181
Revenue, YoY%	4.4%	-7.9%	3.1%
Operating Income	1,177	449	843
Operating Margin %	26.7%	11.1%	20.2%
Net Income	833	290	650
Net Income Margin %	18.9%	7.2%	15.5%
Diluted EPS	1.66	0.56	1.25
Diluted EPS, YoY %	0.2%	-65.9%	121.8%
Free Cash Flow (CFO-capex)	1,229	963	964
Free Cash Flow Margin %	27.9%	23.8%	23.1%

In Millions of USD (except for per share items)

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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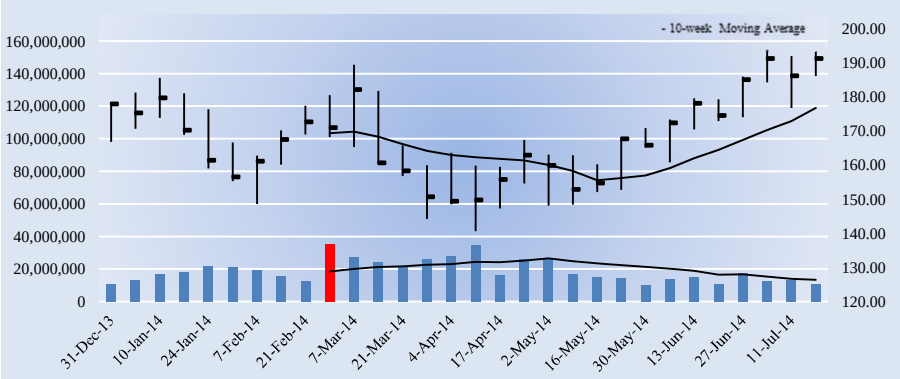
Baidu BIDU FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$234.00	$187.00 - $281.00	LARGE-CAP BLEND	Information Technology	Internet Software & Svcs

Baidu is well-positioned to capitalize on increased Internet penetration in China.

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).

Company Vitals

Market Cap (USD)	$66,979
Avg Weekly Vol (30 wks)	18,867
30-week Range (USD)	140.66 - 193.89
Valuentum Sector	Information Technology
5-week Return	7.7%
13-week Return	21.6%
30-week Return	12.9%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	10.73
P/E on Est. Normal Diluted EPS	17.8
Est. Normal EBITDA	4,938
Forward EV/EBITDA	24.4
EV/Est. Normal EBITDA	12.9
Forward Revenue Growth (5-yr)	31.7%
Forward EPS Growth (5-yr)	26.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	46.6%
Return on Assets	29.1%
ROIC, with goodwill	102.5%
ROIC, without goodwill	171.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,914
Net Debt	-3,470
Total Debt/EBITDA	1.4
Net Debt/EBITDA	NMF
EBITDA/Interest	28.3
Current Ratio	3.9
Quick Ratio	3.7

NMF = Not Meaningful

Investment Highlights

• Baidu'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.

• Baidu provide its users with many channels to find and share information. In addition to its core Chinese web search product, where it controls 60%-80% share, the firm powers many popular community-based products, such as Baidu PostBar, Baidu Knows, and Baidu Encyclopedia.

• Baidu 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 25.4% in coming years. Total debt-to-EBITDA was 1.4 last year, while debt-to-book capitalization stood at 31.5%.

• China's Internet space is booming. With the world's largest Internet user population, and a long way to go to reach internet penetration levels of developed countries, China's internet is growing in both influence and sophistication. Baidu remains at the forefront of this trend.

• We doubt any firm that is not natively based in China will ever develop a search platform that better serves the country's 1.3 billion people. And for those firms based in China, Baidu has a significant first-mover advantage.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	AGGRESSIVE
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	177.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Facebook	42.1	2.5	68.4%
Google	22.3	1.6	87.4%
WebMD	56.3	3.6	112.5%
Yahoo	23.2	NMF	87.7%
Peer Median	32.7	2.5	87.5%
Baidu	**32.7**	**1.5**	**81.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	3,574	5,271	8,049
Revenue, YoY%	54.9%	47.5%	52.7%
Operating Income	1,771	1,847	2,237
Operating Margin %	49.5%	35.0%	27.8%
Net Income	1,675	1,736	2,048
Net Income Margin %	46.9%	32.9%	25.4%
Diluted EPS	4.79	4.95	5.84
Diluted EPS, YoY %	58.5%	3.4%	17.9%
Free Cash Flow (CFO-capex)	1,511	1,540	2,110
Free Cash Flow Margin %	42.3%	29.2%	26.2%

In Millions of USD (except for per share items)

Structure of the Internet Software & Services Industry — NEUTRAL

The Internet software/services industry is composed of a variety of companies with rapidly-changing business models. Most focus on improving the ways people connect with information, either via Internet search or by social media platforms, and generate revenue primarily by delivering cost-effective online advertising. Constituents earn significant returns on invested capital due to their capital-light operations, though competition remains fierce. We expect most companies in this group to look substantially different 10 years from now than they do today. Overall, we're neutral on the structure.

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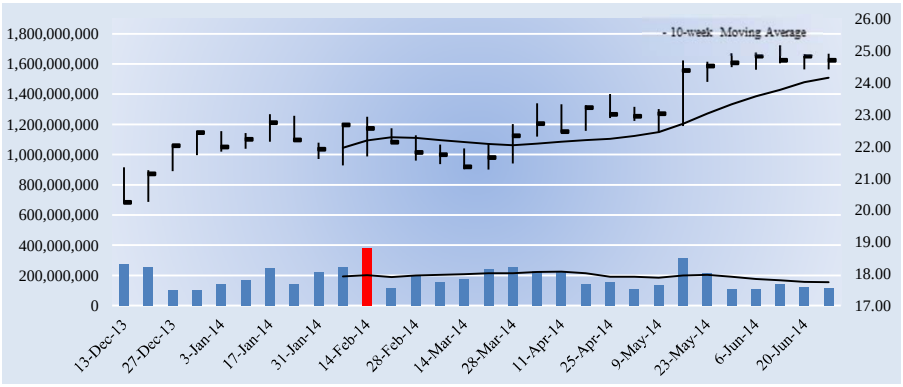
Cisco CSCO UNDERVALUED 1.2%

Buying Index™ 7 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$31.00	$25.00 - $37.00	LARGE-CAP VALUE	Information Technology	Networking Equipment

Cisco is focused on gaining share in its core competencies and profiting from the shift to cloud computing.

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).

Company Vitals

Market Cap (USD)	$132,886
Avg Weekly Vol (30 wks)	186,428
30-week Range (USD)	20.22 - 25.17
Valuentum Sector	Information Technology
5-week Return	-0.2%
13-week Return	9.8%
30-week Return	16.0%
Dividend Yield %	3.1%
Dividends per Share	0.76
Forward Dividend Payout Ratio	36.9%
Est. Normal Diluted EPS	2.19
P/E on Est. Normal Diluted EPS	11.3
Est. Normal EBITDA	16,136
Forward EV/EBITDA	6.2
EV/Est. Normal EBITDA	6.1
Forward Revenue Growth (5-yr)	0.5%
Forward EPS Growth (5-yr)	4.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.2%
Return on Assets	9.0%
ROIC, with goodwill	34.4%
ROIC, without goodwill	72.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	16,211
Net Debt	-34,399
Total Debt/EBITDA	1.2
Net Debt/EBITDA	NMF
EBITDA/Interest	23.4
Current Ratio	3.0
Quick Ratio	2.7

NMF = Not Meaningful

Investment Highlights

• Cisco'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.

• Cisco sells Internet Protocol based networking and other products related to the communications and IT industry. The firm provides a broad line of products for transporting data, voice, and video. It is #1 or #2 across a wide variety of architectures.

• Cisco 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 24.7% in coming years. Total debt-to-EBITDA was 1.2 last year, while debt-to-book capitalization stood at 21.5%. The firm intends to return a minimum of 50% of annual free cash flow to shareholders via dividends and buybacks.

• Cisco's revenue growth trajectory continues to shift lower. The company will use its newly authorized share buyback program to aid in earnings-per-share expansion in coming periods. If the firm misses bottom-line numbers, we'd grow more and more concerned about a loss of focus in the executive suite.

• Future revenue growth at Cisco is now expected to be in the range of 3%-6% during the next 3-5 years. This is down from 5%-7% annual growth expectations it set during its conference in 2011. The firm must continue to adapt to evolving markets.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**24.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Aruba Networks	23.2	NMF	77.3%
Finisar	13.5	1.7	78.8%
Juniper Networks	15.0	1.9	81.6%
Riverbed Technology	17.3	NMF	92.9%
Peer Median	16.1	1.8	80.2%
Cisco	**12.0**	**3.2**	**79.7%**

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

Financial Summary

Fiscal Year End:	----- Actual ----- Jul-12	Jul-13	Projected Jul-14
Revenue	46,061	48,607	46,954
Revenue, YoY%	6.6%	5.5%	-3.4%
Operating Income	10,369	11,301	13,508
Operating Margin %	22.5%	23.2%	28.8%
Net Income	8,041	9,983	10,863
Net Income Margin %	17.5%	20.5%	23.1%
Diluted EPS	1.49	1.86	2.06
Diluted EPS, YoY %	27.5%	24.7%	11.0%
Free Cash Flow (CFO-capex)	10,365	11,734	12,412
Free Cash Flow Margin %	22.5%	24.1%	26.4%

In Millions of USD (except for per share items)

Structure of the Networking Equipment Industry — POOR

Firms in the networking equipment industry provide products for transporting data, voice, and video within businesses and around the world. Participants must adapt to address virtualization/cloud-driven needs in the enterprise data center market; the convergence of video, collaboration, and networked mobility technologies; and the move toward programmable, virtual networks. The industry is characterized by low barriers to entry, rapid technological change and significant pricing competition. Gross margins can be volatile and should be watched closely. We don't like the structure of the group.

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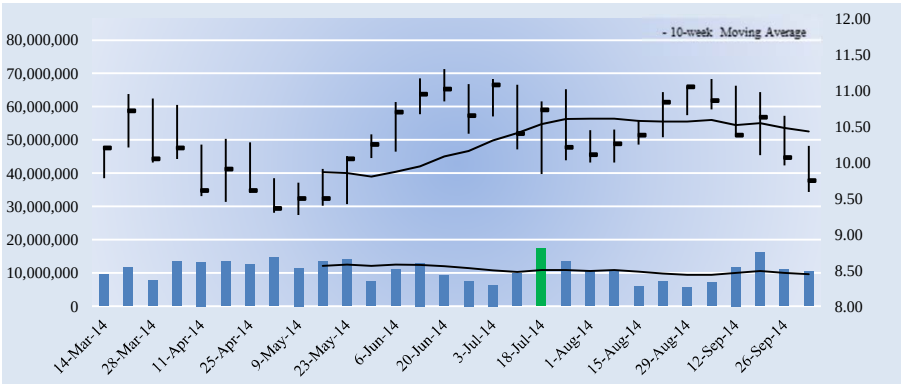
Cypress Semi CY FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$10.00	$7.00 - $13.00	SMALL-CAP VALUE	Information Technology	Broad Line Semiconductors

A decline in the Static Random Access Memory (SRAM) market is Cypress' biggest challenge.

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).

Company Vitals

Market Cap (USD)	$1,448
Avg Weekly Vol (30 wks)	10,905
30-week Range (USD)	9.27 - 11.3
Valuentum Sector	Information Technology
5-week Return	-11.9%
13-week Return	-11.6%
30-week Return	-3.3%
Dividend Yield %	4.5%
Dividends per Share	0.44
Forward Dividend Payout Ratio	80.7%
Est. Normal Diluted EPS	0.71
P/E on Est. Normal Diluted EPS	13.8
Est. Normal EBITDA	183
Forward EV/EBITDA	10.7
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	4.4%
Forward EPS Growth (5-yr)	-220.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	-1.5%
Return on Assets	2.9%
ROIC, with goodwill	41.5%
ROIC, without goodwill	49.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	248
Net Debt	144
Total Debt/EBITDA	44.7
Net Debt/EBITDA	25.9
EBITDA/Interest	0.7
Current Ratio	1.0
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• Cypress Semi earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 49.2% during the past three years.

• Cypress Semi delivers high-performance, mixed-signal, programmable solutions. Its offerings include the flagship Programmable System-on-Chip (PSoC) families and derivatives such as CapSense touch sensing and TrueTouch solutions for touchscreens.

• Cypress Semi's cash flow generation is robust, but its financial leverage could potentially be concerning down the road. If cash flows begin to weaken, we'd become more cautious on the firm's overall financial health. The company has relentlessly cut operating expenses in recent years, shrinking headcount.

• Cypress Semi's performance has not been great. The firm's fundamentals peaked in 2011 and have declined since then. Profitability continues to fall below management's 20% pretax profit target. The company continues to battle for market share, and PSoC expansion will be its best chance to return to peak profit levels.

• A decline in the Static Random Access Memory (SRAM) market is Cypress' biggest challenge. SRAM accounts for ~$200 million of its top line (was ~$340 million in 2010). Under a bear-case scenario, this revenue stream could dip to ~$160 million in 2018.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
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	**10.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Advanced Micro Devices	28.1	NMF	85.0%
Intel	15.4	2.3	103.1%
STMicroelectronics	39.9	NMF	76.5%
Texas Instruments	19.2	1.9	114.2%
Peer Median	23.6	2.1	94.1%
Cypress Semi	**17.9**	**NMF**	**97.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	770	723	739
Revenue, YoY%	-22.7%	-6.1%	2.3%
Operating Income	-13	-43	100
Operating Margin %	-1.7%	-5.9%	13.5%
Net Income	-22	-46	81
Net Income Margin %	-2.9%	-6.4%	11.0%
Diluted EPS	-0.15	-0.31	0.55
Diluted EPS, YoY %	-116.7%	108.3%	-274.7%
Free Cash Flow (CFO-capex)	102	31	107
Free Cash Flow Margin %	13.3%	4.3%	14.4%

In Millions of USD (except for per share items)

Structure of the Broad Line Semiconductor Industry — POOR

The broad line semiconductor industry is characterized by intense competition, rapid technological change, and frequent product introductions. The number and variety of computing devices have expanded rapidly, creating a connected landscape between suppliers and competitors. New market segments have emerged rapidly (smartphones, tablets), and constituents must continuously innovate to maintain share as traditional PC demand faces pressure. Though some firms may gain advantages via the combination of their manufacturing/test facilities with their design teams, we think the structure of the group is poor.

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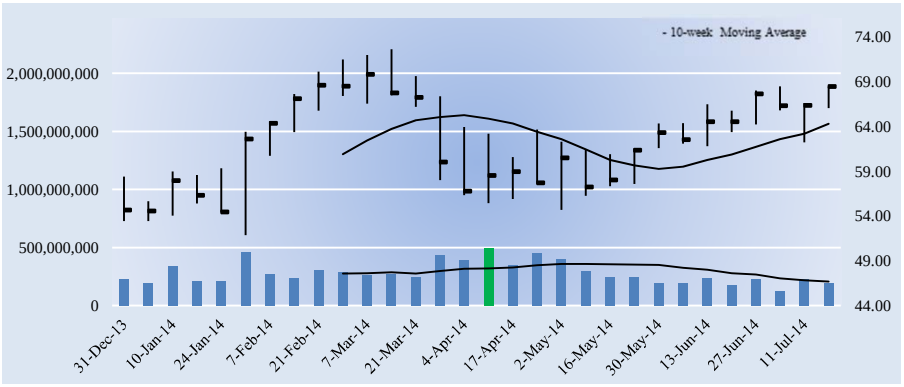
Facebook FB UNDERVALUED 9.6%

Buying Index™ 7 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$100.00	$75.00 - $125.00	LARGE-CAP BLEND	Information Technology	Internet Software & Svcs

The range of potential outcomes with respect to Facebook's valuation are astounding.

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).

Company Vitals

Market Cap (USD)	$172,213
Avg Weekly Vol (30 wks)	280,267
30-week Range (USD)	51.85 - 72.59
Valuentum Sector	Information Technology
5-week Return	6.6%
13-week Return	15.1%
30-week Return	17.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	2.72
P/E on Est. Normal Diluted EPS	25.2
Est. Normal EBITDA	13,780
Forward EV/EBITDA	20.2
EV/Est. Normal EBITDA	11.7
Forward Revenue Growth (5-yr)	33.2%
Forward EPS Growth (5-yr)	46.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	27.6%
Return on Assets	7.7%
ROIC, with goodwill	36.6%
ROIC, without goodwill	43.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	476
Net Debt	-10,973
Total Debt/EBITDA	0.1
Net Debt/EBITDA	NMF
EBITDA/Interest	76.3
Current Ratio	11.9
Quick Ratio	11.5

NMF = Not Meaningful

Investment Highlights

• Facebook earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. We expect the firm's return on invested capital (excluding goodwill) to expand to 93.4% from 62.7% during the next two years.

• Facebook's mission is to make the world more open and connected. People use Facebook to stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them.

• As global data coverage improves, the number of mobile monthly active users will continue to grow. Facebook looks well-positioned to seize upon this trend, and the firm's younger demographics are increasingly accessing its platform from mobile devices. For younger demographics in particular, advertisers may have to go to Facebook to find their desired target market.

• The range of potential outcomes with respect to Facebook's valuation are astounding. Though its business model doesn't have many comparable stories, we do recall a time when AOL was also the Internet. With such low barriers to entry, the landscape could be completely different in five to ten years, posing both risks and opportunities.

• Fundamental risks aside, the likelihood of a single-stock bubble in Facebook is high. If talk of Facebook possibly becoming the new Internet starts to expand across social media, the trajectory of its share price rise will be meteoric (whether it comes true or not).

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**AGGRESSIVE**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**64.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baidu	32.7	1.5	81.7%
Google	22.3	1.6	87.4%
WebMD	56.3	3.6	112.5%
Yahoo	23.2	NMF	87.7%
Peer Median	28.0	1.6	87.5%
Facebook	**42.1**	**2.5**	**68.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	5,089	7,872	12,241
Revenue, YoY%	37.1%	54.7%	55.5%
Operating Income	538	2,804	6,424
Operating Margin %	10.6%	35.6%	52.5%
Net Income	32	1,491	4,134
Net Income Margin %	0.6%	18.9%	33.8%
Diluted EPS	0.01	0.59	1.63
Diluted EPS, YoY %	-95.9%	3909.6%	174.5%
Free Cash Flow (CFO-capex)	1,749	2,860	3,523
Free Cash Flow Margin %	34.4%	36.3%	28.8%

In Millions of USD (except for per share items)

Structure of the Internet Software & Services Industry — NEUTRAL

The Internet software/services industry is composed of a variety of companies with rapidly-changing business models. Most focus on improving the ways people connect with information, either via Internet search or by social media platforms, and generate revenue primarily by delivering cost-effective online advertising. Constituents earn significant returns on invested capital due to their capital-light operations, though competition remains fierce. We expect most companies in this group to look substantially different 10 years from now than they do today. Overall, we're neutral on the structure.

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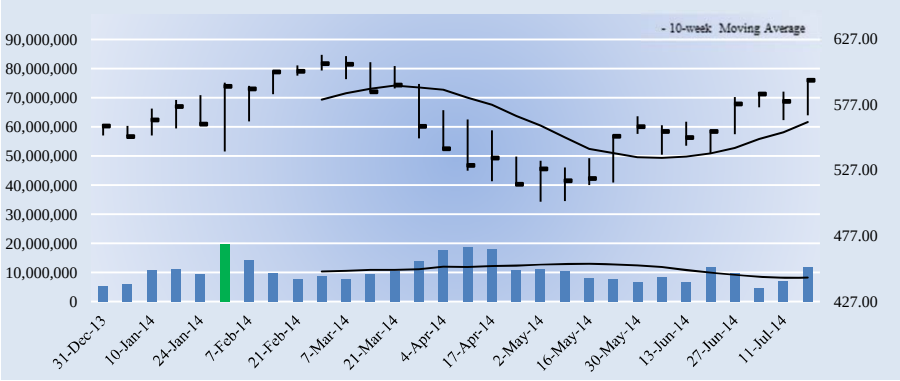
Google GOOG FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$681.00	$545.00 - $817.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

Google has a strong future in search—both on the desktop and via mobile devices.

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).

Company Vitals

Market Cap (USD)	$403,237
Avg Weekly Vol (30 wks)	10,506
30-week Range (USD)	502.8 - 614.44
Valuentum Sector	Information Technology
5-week Return	8.3%
13-week Return	11.0%
30-week Return	6.8%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	37.02
P/E on Est. Normal Diluted EPS	16.1
Est. Normal EBITDA	35,123
Forward EV/EBITDA	13.9
EV/Est. Normal EBITDA	10.0
Forward Revenue Growth (5-yr)	14.4%
Forward EPS Growth (5-yr)	21.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.9%
Return on Assets	13.3%
ROIC, with goodwill	55.7%
ROIC, without goodwill	88.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,245
Net Debt	-53,472
Total Debt/EBITDA	0.3
Net Debt/EBITDA	NMF
EBITDA/Interest	215.7
Current Ratio	4.6
Quick Ratio	4.3

NMF = Not Meaningful

Investment Highlights

• Google'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.

• Once known exclusively for its search dominance, which it maintains, Google has become a tech company focused on a number of things: social, Android, ads, YouTube, Chrome, and research. We think the company will have some megahits in the years ahead, and shares are worth nearly $700 each.

• Google 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 25.9% in coming years. Total debt-to-EBITDA was 0.3 last year, while debt-to-book capitalization stood at 5.7%.

• Google has a strong future in search—both on the desktop and via mobile devices. The company recently announced that it will sell Motorola Mobility, a value-creating move as it can now allocate more capital to high-return opportunities or new concepts such as self-driving cars, Glass, Fiber, or other innovative ideas.

• Google is a holding in the portfolio of the Best Ideas Newsletter. We like its valuation, growth potential, cash-flow generation and competitive profile. Very few firms are more attractive on a fundamental basis.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**563.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baidu	32.7	1.5	81.7%
Facebook	42.1	2.5	68.4%
WebMD	56.3	3.6	112.5%
Yahoo	23.2	NMF	87.7%
Peer Median	37.4	2.5	84.7%
Google	**22.3**	**1.6**	**87.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	50,175	59,825	66,705
Revenue, YoY%	32.4%	19.2%	11.5%
Operating Income	12,760	13,966	20,799
Operating Margin %	25.4%	23.3%	31.2%
Net Income	10,788	12,214	18,116
Net Income Margin %	21.5%	20.4%	27.2%
Diluted EPS	33.42	18.02	26.73
Diluted EPS, YoY %	12.3%	-46.1%	48.3%
Free Cash Flow (CFO-capex)	13,397	10,595	15,588
Free Cash Flow Margin %	26.7%	17.7%	23.4%

In Millions of USD (except for per share items)

Structure of the Internet Software & Services Industry — NEUTRAL

The Internet software/services industry is composed of a variety of companies with rapidly-changing business models. Most focus on improving the ways people connect with information, either via Internet search or by social media platforms, and generate revenue primarily by delivering cost-effective online advertising. Constituents earn significant returns on invested capital due to their capital-light operations, though competition remains fierce. We expect most companies in this group to look substantially different 10 years from now than they do today. Overall, we're neutral on the structure.

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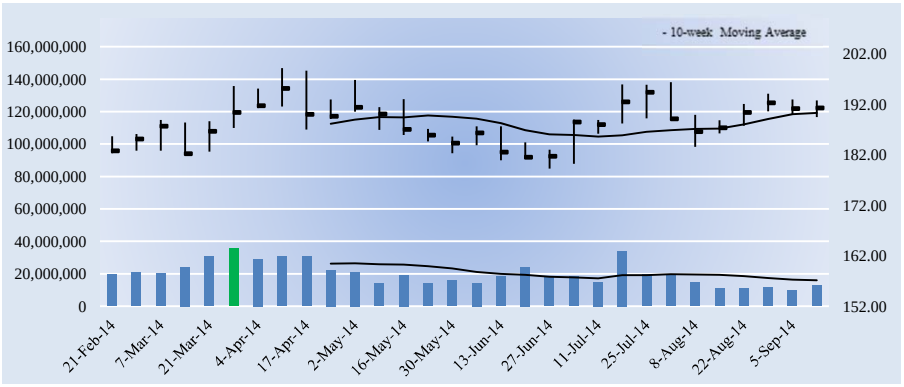
IBM IBM FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$191.00	$153.00 - $229.00	MEGA-CAP CORE	Information Technology	Computer Hardware

Our fair value estimate of IBM is based on its burgeoning services backlog and expectations that the firm will deliver on its earnings-per-share goals in coming years.

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).

Company Vitals

Market Cap (USD)	$210,990
Avg Weekly Vol (30 wks)	20,006
30-week Range (USD)	179.27 - 199.21
Valuentum Sector	Information Technology
5-week Return	1.8%
13-week Return	4.9%
30-week Return	4.4%
Dividend Yield %	2.3%
Dividends per Share	4.40
Forward Dividend Payout Ratio	24.3%
Est. Normal Diluted EPS	20.88
P/E on Est. Normal Diluted EPS	9.2
Est. Normal EBITDA	29,043
Forward EV/EBITDA	8.7
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	0.2%
Forward EPS Growth (5-yr)	9.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	79.2%
Return on Assets	13.8%
ROIC, with goodwill	31.8%
ROIC, without goodwill	66.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	39,718
Net Debt	28,652
Total Debt/EBITDA	1.7
Net Debt/EBITDA	1.2
EBITDA/Interest	58.3
Current Ratio	1.3
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• IBM'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.

• IBM solves business problems via integrated hardware/software solutions that leverage IT and its knowledge of business processes. Its solutions help reduce a client's costs or enable new capabilities that generate revenue. Warren Buffett owns ~6% of the firm.

• IBM 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 21% in coming years. Total debt-to-EBITDA was 1.7 last year, while debt-to-book capitalization stood at 63.5%.

• We like the firm's high-margin $140 billion services backlog, but fundamentals have been waning in recent periods. Revenue and operating income have faced pressure, and the company has mitigated the declines via low-quality share buybacks. We're a bit uncomfortable that its 'growth markets' revenue continues to decline.

• IBM has ambitious plans to reach $20 in operating earnings per share by 2015 via a combination of revenue expansion, operating leverage, and share repurchases. If the firm doesn't hit that mark, it won't be far from it thanks to share buyback flexibility.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**190.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Apple	15.9	2.0	88.4%
BlackBerry	-17.5	NMF	98.1%
Cray	33.7	1.2	102.1%
Hewlett-Packard	9.7	1.5	98.8%
Peer Median	12.8	1.5	98.5%
IBM	**10.6**	**1.4**	**100.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	104,507	99,751	97,756
Revenue, YoY%	-2.3%	-4.6%	-2.0%
Operating Income	20,443	18,778	23,017
Operating Margin %	19.6%	18.8%	23.5%
Net Income	16,604	16,483	19,155
Net Income Margin %	15.9%	16.5%	19.6%
Diluted EPS	14.37	14.94	18.09
Diluted EPS, YoY %	10.0%	4.0%	21.1%
Free Cash Flow (CFO-capex)	14,869	13,345	20,272
Free Cash Flow Margin %	14.2%	13.4%	20.7%

In Millions of USD (except for per share items)

Structure of the Computer Hardware Industry — NEUTRAL

The computer hardware space, which spans the personal computer to the iPhone and iPad, is highly competitive. The industry is characterized by frequent product introductions and rapid technological advances that can cause dramatic market share shifts. Though some firms benefit from a strong brand, participants often price aggressively, pressuring margins. Firms are also subject to potential component shortages/disruptions, which can punish performance. Obsolescence may be an eventuality for some, and services revenue has become critical for others. We're neutral on the space.

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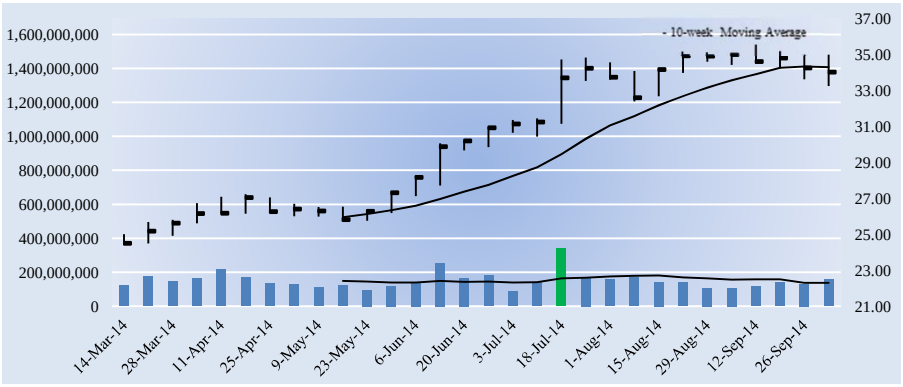
Intel INTC FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$33.00	$26.00 - $40.00	LARGE-CAP CORE	Information Technology	Broad Line Semiconductors

Intel is investing heavily to make its future bright.

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).

Company Vitals

Market Cap (USD)	$173,451
Avg Weekly Vol (30 wks)	151,309
30-week Range (USD)	24.4 - 35.56
Valuentum Sector	Information Technology
5-week Return	-2.1%
13-week Return	9.5%
30-week Return	38.3%
Dividend Yield %	2.6%
Dividends per Share	0.90
Forward Dividend Payout Ratio	40.7%
Est. Normal Diluted EPS	2.47
P/E on Est. Normal Diluted EPS	13.8
Est. Normal EBITDA	24,107
Forward EV/EBITDA	7.9
EV/Est. Normal EBITDA	7.3
Forward Revenue Growth (5-yr)	3.4%
Forward EPS Growth (5-yr)	7.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.5%
Return on Assets	14.8%
ROIC, with goodwill	32.3%
ROIC, without goodwill	41.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	13,446
Net Debt	1,800
Total Debt/EBITDA	0.7
Net Debt/EBITDA	0.1
EBITDA/Interest	82.2
Current Ratio	2.4
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• Intel'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.

• Intel designs and manufactures advanced integrated digital technology platforms, which are used in PCs (including Ultrabooks), servers, tablets, smartphones, automobiles, automated factory systems, and medical devices.

• Intel 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 19.5% in coming years. Total debt-to-EBITDA was 0.7 last year, while debt-to-book capitalization stood at 18.8%.

• Though many fear Intel will be left behind by the mobile revolution, we think those worries are overblown. Intel will spend billions on research and development in the coming years, and we expect the company will become a viable competitor in the mobile space.

• Intel provided a conservative outlook for 2014. Revenue is expected to be approximately flat, but a marginal increase is most likely. Intel's gross margin is expected to be approximately 61% for 2014.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**34.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Advanced Micro Devices	28.1	NMF	85.0%
Avago Tech	17.8	1.2	95.9%
STMicroelectronics	39.9	NMF	76.5%
Texas Instruments	19.2	1.9	114.2%
Peer Median	23.6	1.5	90.5%
Intel	**15.4**	**2.3**	**103.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	53,341	52,708	55,976
Revenue, YoY%	-1.2%	-1.2%	6.2%
Operating Income	14,638	12,531	14,301
Operating Margin %	27.4%	23.8%	25.5%
Net Income	11,005	9,620	11,161
Net Income Margin %	20.6%	18.3%	19.9%
Diluted EPS	2.13	1.89	2.21
Diluted EPS, YoY %	-10.8%	-11.5%	17.2%
Free Cash Flow (CFO-capex)	7,042	5,657	8,909
Free Cash Flow Margin %	13.2%	10.7%	15.9%

In Millions of USD (except for per share items)

Structure of the Broad Line Semiconductor Industry — POOR

The broad line semiconductor industry is characterized by intense competition, rapid technological change, and frequent product introductions. The number and variety of computing devices have expanded rapidly, creating a connected landscape between suppliers and competitors. New market segments have emerged rapidly (smartphones, tablets), and constituents must continuously innovate to maintain share as traditional PC demand faces pressure. Though some firms may gain advantages via the combination of their manufacturing/test facilities with their design teams, we think the structure of the group is poor.

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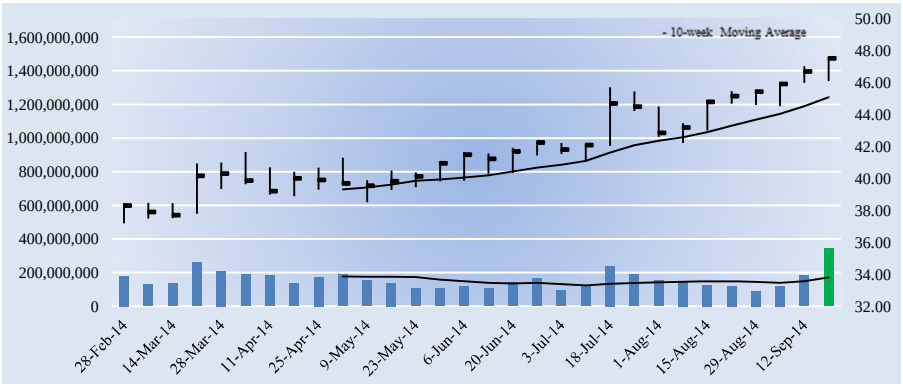
Microsoft MSFT FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$58.00	$46.00 - $70.00	MEGA-CAP VALUE	Information Technology	Software

Microsoft continues to have upside potential.

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).

Company Vitals

Market Cap (USD)	$399,120
Avg Weekly Vol (30 wks)	157,419
30-week Range (USD)	37.19 - 47.57
Valuentum Sector	Information Technology
5-week Return	5.7%
13-week Return	13.9%
30-week Return	26.1%
Dividend Yield %	2.6%
Dividends per Share	1.24
Forward Dividend Payout Ratio	45.1%
Est. Normal Diluted EPS	3.66
P/E on Est. Normal Diluted EPS	13.0
Est. Normal EBITDA	44,258
Forward EV/EBITDA	9.7
EV/Est. Normal EBITDA	7.6
Forward Revenue Growth (5-yr)	7.6%
Forward EPS Growth (5-yr)	11.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	27.9%
Return on Assets	15.1%
ROIC, with goodwill	69.8%
ROIC, without goodwill	108.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	22,645
Net Debt	-63,064
Total Debt/EBITDA	0.7
Net Debt/EBITDA	NMF
EBITDA/Interest	55.4
Current Ratio	2.5
Quick Ratio	2.3

NMF = Not Meaningful

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 products include operating systems, server applications, desktop and server management tools, software development tools, video games, and online advertising. Its hardware devices include the Surface RT and Surface Pro, and the Xbox 360 gaming and entertainment console.

• 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 27.3% in coming years. Total debt-to-EBITDA was 0.7 last year, while debt-to-book capitalization stood at 20.1%.

• 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 2.6%. We expect the firm to pay out about 45% of next year's earnings to shareholders as dividends. Its Dividend Cushion score is a remarkable 3.4.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**45.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Adobe Systems	53.4	2.6	103.0%
F5 Networks	23.1	1.8	108.6%
Oracle	12.9	1.4	75.1%
Salesforce.com	110.9	NMF	105.9%
Peer Median	38.3	1.8	104.4%
Microsoft	**17.3**	**1.6**	**81.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	77,849	86,833	100,032
Revenue, YoY%	5.6%	11.5%	15.2%
Operating Income	26,764	27,886	28,550
Operating Margin %	34.4%	32.1%	28.5%
Net Income	21,863	22,074	22,880
Net Income Margin %	28.1%	25.4%	22.9%
Diluted EPS	2.58	2.63	2.75
Diluted EPS, YoY %	29.3%	1.8%	4.5%
Free Cash Flow (CFO-capex)	24,576	26,746	23,359
Free Cash Flow Margin %	31.6%	30.8%	23.4%

In Millions of USD (except for per share items)

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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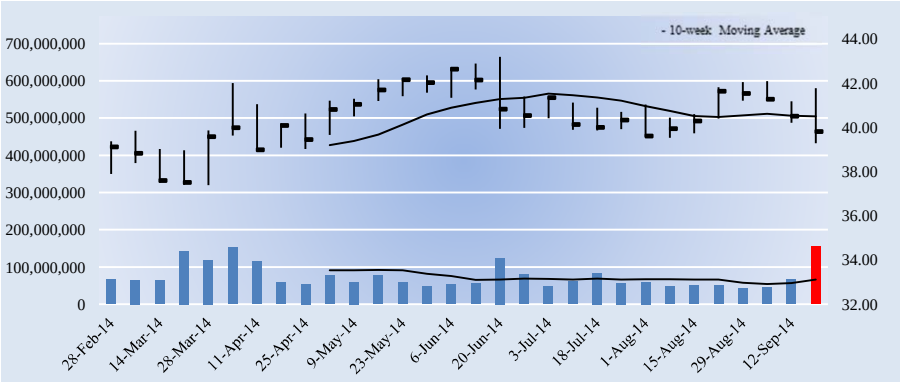
Oracle ORCL UNDERVALUED 5.5%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$53.00	$42.00 - $64.00	LARGE-CAP VALUE	Information Technology	Software

Though revenue growth at Oracle remains subdued, free cash flow generation does not.

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).

Company Vitals

Market Cap (USD)	$183,239
Avg Weekly Vol (30 wks)	74,558
30-week Range (USD)	37.38 - 43.19
Valuentum Sector	Information Technology
5-week Return	-1.6%
13-week Return	-2.8%
30-week Return	4.3%
Dividend Yield %	1.2%
Dividends per Share	0.48
Forward Dividend Payout Ratio	15.5%
Est. Normal Diluted EPS	3.65
P/E on Est. Normal Diluted EPS	10.9
Est. Normal EBITDA	24,990
Forward EV/EBITDA	7.9
EV/Est. Normal EBITDA	6.7
Forward Revenue Growth (5-yr)	4.2%
Forward EPS Growth (5-yr)	12.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.2%
Return on Assets	13.2%
ROIC, with goodwill	37.8%
ROIC, without goodwill	167.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	24,175
Net Debt	-14,644
Total Debt/EBITDA	1.4
Net Debt/EBITDA	NMF
EBITDA/Interest	19.6
Current Ratio	3.3
Quick Ratio	3.1

NMF = Not Meaningful

Investment Highlights

• Oracle'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.

• Oracle is shifting the complexity from IT, moving it out of the enterprise by engineering hardware and software to work together—in the cloud and in the data center. Its software, hardware systems and services businesses represented 74%, 14% and 12% of total revenues, respectively, in fiscal 2013.

• Oracle 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 38.7% in coming years. Total debt-to-EBITDA was 1.4 last year, while debt-to-book capitalization stood at 34%.

• Though revenue growth at Oracle remains subdued, free cash flow generation does not. Shares currently trade at the low end of our fair value range, but we prefer Microsoft due to its strong enterprise presence and huge return of capital to shareholders.

• Long-time CEO Larry Ellison has resigned the position. Former Hewlett-Packard CEO Mark Hurd and Safra Catz will be co-CEOs going forward. Ellison will take over the role as chairman, and we expect him to continue to impact the firm in a positive way.

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	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**40.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Adobe Systems	53.4	2.6	103.0%
F5 Networks	23.1	1.8	108.6%
Microsoft	17.3	1.6	81.9%
Salesforce.com	110.9	NMF	105.9%
Peer Median	38.3	1.8	104.4%
Oracle	**12.9**	**1.4**	**75.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-13	May-14	May-15
Revenue	37,180	38,275	39,653
Revenue, YoY%	0.2%	2.9%	3.6%
Operating Income	14,432	14,983	18,451
Operating Margin %	38.8%	39.1%	46.5%
Net Income	10,925	10,955	14,229
Net Income Margin %	29.4%	28.6%	35.9%
Diluted EPS	2.26	2.38	3.09
Diluted EPS, YoY %	15.1%	5.5%	29.9%
Free Cash Flow (CFO-capex)	13,574	14,341	15,312
Free Cash Flow Margin %	36.5%	37.5%	38.6%

In Millions of USD (except for per share items)

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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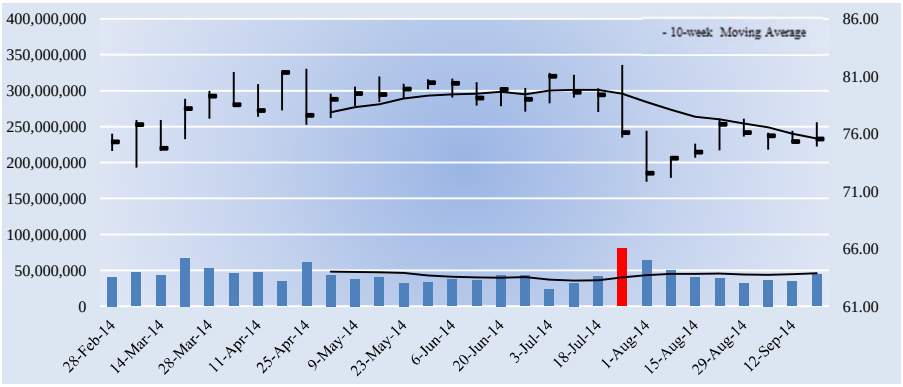
QUALCOMM QCOM FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$99.00	$74.00 - $124.00	LARGE-CAP VALUE	Information Technology	Communications Equipment

QUALCOMM has revolutionized the mobile phone industry.

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).

Company Vitals

Market Cap (USD)	$132,480
Avg Weekly Vol (30 wks)	43,265
30-week Range (USD)	71.82 - 81.97
Valuentum Sector	Information Technology
5-week Return	0.9%
13-week Return	-5.1%
30-week Return	-0.6%
Dividend Yield %	2.2%
Dividends per Share	1.68
Forward Dividend Payout Ratio	31.3%
Est. Normal Diluted EPS	6.11
P/E on Est. Normal Diluted EPS	12.4
Est. Normal EBITDA	13,746
Forward EV/EBITDA	8.8
EV/Est. Normal EBITDA	7.5
Forward Revenue Growth (5-yr)	7.7%
Forward EPS Growth (5-yr)	12.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.7%
Return on Assets	18.8%
ROIC, with goodwill	61.6%
ROIC, without goodwill	100.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-29,406
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	373.0
Current Ratio	3.8
Quick Ratio	6.1

NMF = Not Meaningful

Investment Highlights

• QUALCOMM earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. We expect the firm's return on invested capital (excluding goodwill) to expand to 155.3% from 131.6% during the next two years.

• QUALCOMM has revolutionized the mobile phone industry. Through its own R&D and through partnerships with other firms, the company develops breakthrough technology and then licenses it across the wireless industry.

• QUALCOMM 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 35% in coming years, and the firm had no debt as of last quarter.

• Investors should expect increasing demand for the firm's chipsets and strong growth in 3G/4G smartphones around the world. The company holds an impressive $30+ billion in cash, cash equivalents and marketable securities on its balance sheet. This gives it significant financial flexibility.

• QUALCOMM is better positioned than most in its industry. The company owns a strong patent portfolio in CDMA and OFDMA (among others), and its licensing model continues to generate elevated margins and strong returns on capital.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
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	76.00

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Alcatel-Lucent	-81.7	NMF	66.0%
Harris Corp	14.2	2.3	97.0%
JDS Uniphase	21.3	NMF	95.3%
Tellabs	-241.6	NMF	81.3%
Peer Median	-33.7	2.3	88.3%
QUALCOMM	**14.1**	**1.6**	**76.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-12	Sep-13	Sep-14
Revenue	19,121	24,866	27,054
Revenue, YoY%	27.8%	30.0%	8.8%
Operating Income	5,786	7,561	10,667
Operating Margin %	30.3%	30.4%	39.4%
Net Income	5,333	6,853	9,477
Net Income Margin %	27.9%	27.6%	35.0%
Diluted EPS	3.06	3.91	5.36
Diluted EPS, YoY %	13.3%	27.5%	37.3%
Free Cash Flow (CFO-capex)	3,938	7,715	9,521
Free Cash Flow Margin %	20.6%	31.0%	35.2%

In Millions of USD (except for per share items)

Structure of the Communications Equipment Industry — VERY POOR

The communications equipment industry continues to undergo rapid change, as network traffic expands, new service offerings are introduced, and end user demand shifts. Competition among communication network solution vendors remains intense, as securing new opportunities often requires agreeing to less favorable commercial terms and pricing. Rivalry among constituents will only increase in coming years, as Chinese equipment vendors gain entry into the US market and incumbent competitors strive to retain share. We don't think such conditions are favorable to generating long-term economic profit.

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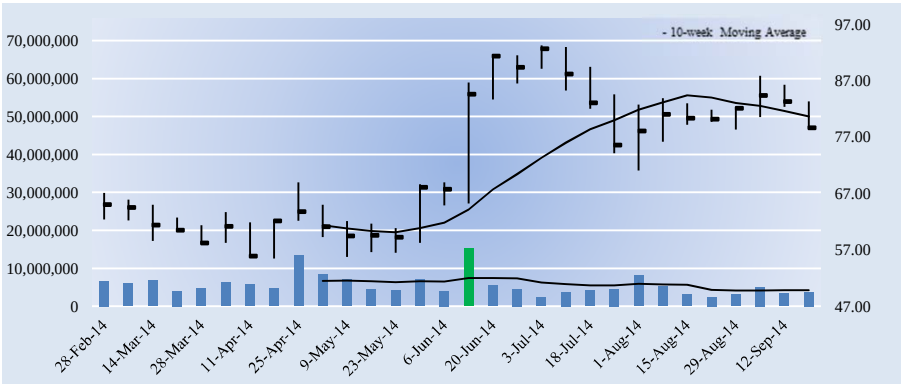
Synaptics SYNA FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$87.00	$70.00 - $104.00	MID-CAP BLEND	Information Technology	Computers & Peripherals

Synaptics generates half of its revenue from mobile smartphones and feature phones.

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).

Company Vitals

Market Cap (USD)	$2,919
Avg Weekly Vol (30 wks)	5,583
30-week Range (USD)	55.46 - 93.27
Valuentum Sector	Information Technology
5-week Return	-3.0%
13-week Return	-13.9%
30-week Return	25.5%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	5.75
P/E on Est. Normal Diluted EPS	13.7
Est. Normal EBITDA	488
Forward EV/EBITDA	6.0
EV/Est. Normal EBITDA	5.1
Forward Revenue Growth (5-yr)	11.6%
Forward EPS Growth (5-yr)	36.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.6%
Return on Assets	10.8%
ROIC, with goodwill	78.2%
ROIC, without goodwill	93.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-447
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	2.9
Quick Ratio	2.5

NMF = Not Meaningful

Investment Highlights

• Synaptics' 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.

• Synaptics provides custom human interface solutions for navigation, cursor control, and multimedia controls for personal computer OEMs. The company generates half of its revenue from mobile smartphones and feature phones.

• Synaptics 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 17.1% in coming years, and the firm had no debt as of last quarter.

• Synaptics is levered to expansion in mobile smartphone sales. Industry projections for the mobile smartphone market from 2012 through 2016 show a compound annual growth rate of 18%, reflecting the trend towards greater functionality. We like the firm's positioning and growth prospects.

• The tablet market represents a new opportunity for Synaptics' touchscreen intellectual portfolio. We expect the firm to grow in this area as well.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**HIGH**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**81.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
EMC Corp	15.2	1.7	92.3%
NetApp	14.2	2.0	95.6%
SanDisk	17.2	1.8	90.3%
Western Digital	11.7	4.6	102.6%
Peer Median	14.7	1.9	93.9%
Synaptics	**15.8**	**1.7**	**90.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	664	948	1,197
Revenue, YoY%	21.0%	42.8%	26.3%
Operating Income	100	142	296
Operating Margin %	15.1%	15.0%	24.8%
Net Income	99	47	187
Net Income Margin %	14.9%	4.9%	15.6%
Diluted EPS	2.89	1.26	4.99
Diluted EPS, YoY %	83.8%	-56.5%	296.5%
Free Cash Flow (CFO-capex)	54	93	223
Free Cash Flow Margin %	8.1%	9.8%	18.6%

In Millions of USD (except for per share items)

Structure of the Computers & Peripherals Industry — POOR

Firms in the computer and peripherals industry primarily make storage solutions, while others may offer custom-designed computer/mobile interface solutions or other ancillary computer/mobile products. The industry is characterized by rapid technological change, which has not only increased the adoption of technologies for use in a variety of devices but also has put significant pricing/gross-margin pressure on industry constituents. Competition is fierce, threats of over-supply are continuous, and the prospects for generating long-term competitive advantages are negligible. We don't like the structure of the group.

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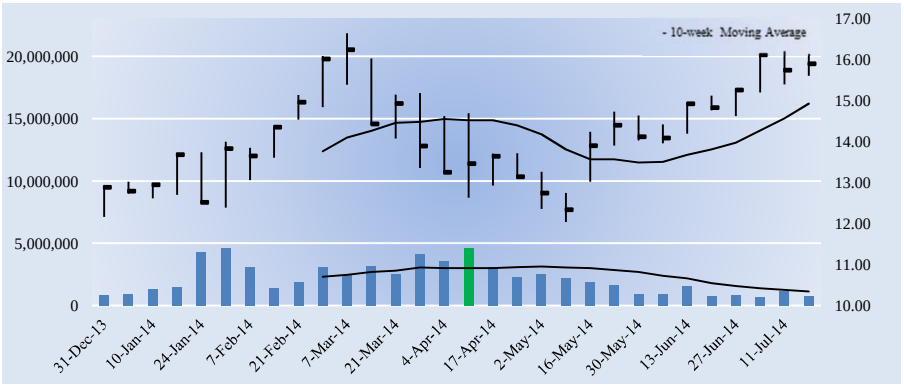
Tencent TCEHY FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$18.00	$14.00 - $22.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

Tencent has grown into China's largest and most used Internet service portal.

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).

Company Vitals

Market Cap (CNY)	$889,395
Avg Weekly Vol (30 wks)	2,163
30-week Range (USD)	12.04 - 16.646
Valuentum Sector	Information Technology
5-week Return	6.6%
13-week Return	16.3%
30-week Return	30.3%
Dividend Yield %	0.0%
Dividends per Share per ADR	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	4.24
P/E on Est. Normal Diluted EPS	23.0
Est. Normal EBITDA	50,861
Forward EV/EBITDA	25.7
EV/Est. Normal EBITDA	16.9
Forward Revenue Growth (5-yr)	24.2%
Forward EPS Growth (5-yr)	27.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	35.5%
Return on Assets	19.4%
ROIC, with goodwill	136.8%
ROIC, without goodwill	152.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of CNY

Total Debt	12,464
Net Debt	-31,518
Total Debt/EBITDA	0.6
Net Debt/EBITDA	NMF
EBITDA/Interest	244.8
Current Ratio	1.8
Quick Ratio	2.2

NMF = Not Meaningful

Investment Highlights

• Tencent earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. We expect the firm's return on invested capital (excluding goodwill) to expand to 179% from 164.6% during the next two years.

• Tencent has grown into China's largest and most used Internet service portal. Its diversified services include QQ, Weixin and WeChat for communications; Qzone for social networking; QQ Game Platform for online games; and QQ.com for information. Online games account for more than half of revenue.

• Recent results continue to be impressive, making our forward forecasts for a ~25% top-line CAGR during the next five years (and our fair value estimate) potentially conservative. Total revenues are benefiting from e-commerce transactions and online advertising, both of which remain strong.

• The company continues to position itself well for the mobile revolution. Recent investments have achieved deep mobile engagement, as evidenced by rapidly-increasing usage of apps such as Mobile QQ, Mobile Qzone, Weixin, and WeChat on smart phones.

• eBay has partnered with Tencent to launch a Chinese e-commerce joint venture. We think opportunities related to combining social media with payment infrastructure could yield tremendous results over the long haul.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**AGGRESSIVE**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**15.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baidu	32.7	1.5	81.7%
Facebook	42.1	2.5	68.4%
Google	22.3	1.6	87.4%
Yahoo	23.2	NMF	87.7%
Peer Median	28.0	1.6	84.5%
Tencent	**34.9**	**2.1**	**89.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue (CNY)	43,894	60,437	82,194
Revenue, YoY%	54.0%	37.7%	36.0%
Operating Income (CNY)	15,479	19,194	31,477
Operating Margin %	34.0%	31.8%	38.3%
Net Income (CNY)	12,785	15,563	25,456
Net Income Margin %	29.1%	25.8%	31.0%
Diluted EPS (USD)	1.40	1.70	2.79
Diluted EPS, YoY %	27.2%	21.7%	63.6%
Free Cash Flow (CFO-capex)	15,772	16,054	23,192
Free Cash Flow Margin %	35.9%	26.6%	28.2%

In Millions of CNY (except for per share items)

Structure of the Internet Software & Services Industry — NEUTRAL

The Internet software/services industry is composed of a variety of companies with rapidly-changing business models. Most focus on improving the ways people connect with information, either via Internet search or by social media platforms, and generate revenue primarily by delivering cost-effective online advertising. Constituents earn significant returns on invested capital due to their capital-light operations, though competition remains fierce. We expect most companies in this group to look substantially different 10 years from now than they do today. Overall, we're neutral on the structure.

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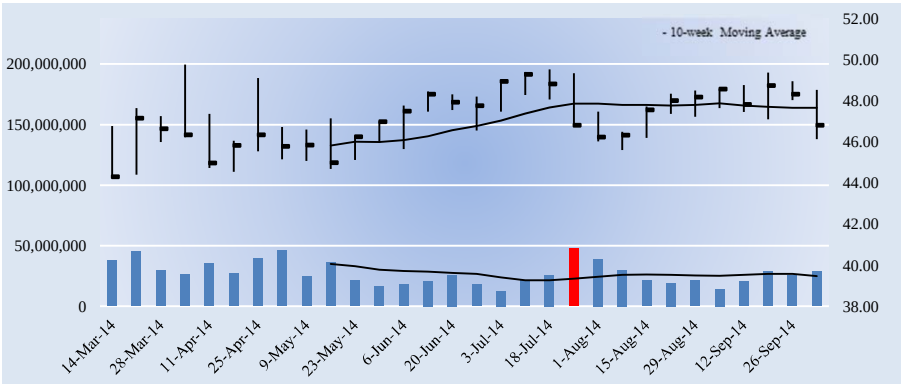
Texas Instruments TXN FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$41.00	$33.00 - $49.00	LARGE-CAP CORE	Information Technology	Broad Line Semiconductors

Texas Instruments is #1 in analog and embedded combined, but it still has room to grow.

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).

Company Vitals

Market Cap (USD)	$52,111
Avg Weekly Vol (30 wks)	27,449
30-week Range (USD)	44.29 - 49.77
Valuentum Sector	Information Technology
5-week Return	-3.3%
13-week Return	-3.9%
30-week Return	2.0%
Dividend Yield %	2.9%
Dividends per Share	1.36
Forward Dividend Payout Ratio	55.9%
Est. Normal Diluted EPS	3.03
P/E on Est. Normal Diluted EPS	15.5
Est. Normal EBITDA	5,798
Forward EV/EBITDA	10.9
EV/Est. Normal EBITDA	9.2
Forward Revenue Growth (5-yr)	5.7%
Forward EPS Growth (5-yr)	13.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.9%
Return on Assets	11.0%
ROIC, with goodwill	26.5%
ROIC, without goodwill	36.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,158
Net Debt	1,329
Total Debt/EBITDA	1.2
Net Debt/EBITDA	0.3
EBITDA/Interest	45.1
Current Ratio	2.9
Quick Ratio	1.8

NMF = Not Meaningful

Investment Highlights

• Texas Instruments' 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.

• Texas Instruments designs and makes semiconductors and sells them to electronics designers and manufacturers all over the world. It has four segments: Analog, Embedded Processing, Wireless and Other. The firm is #1 in analog and embedded combined, but it still has room to grow.

• Texas Instruments 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 23.5% in coming years. Total debt-to-EBITDA was 1.2 last year, while debt-to-book capitalization stood at 32.3%. The firm has reduced its share count by ~40% in the past decade.

• TI boasts a diverse product portfolio, but it faces intense competition from a long list of rivals: Analog Devices, Freescale Semi, Intersil Corp, and NXP Semi, among others. Pricing pressure will continue across much of its product line-up, but we're confident the company can navigate the landscape effectively, as it has done so effectively for the past 80+ years.

• Texas Instruments' acquisition of National Semiconductor does not change our view on the firm's dividend strength. Management is committed to returning cash to shareholders, and the firm's Valuentum Dividend Cushion score remains solid.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**48.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Advanced Micro Devices	28.1	NMF	85.0%
Avago Tech	17.8	1.2	95.9%
Intel	15.4	2.3	103.1%
STMicroelectronics	39.9	NMF	76.5%
Peer Median	22.9	1.7	90.5%
Texas Instruments	**19.2**	**1.9**	**114.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	12,825	12,205	13,120
Revenue, YoY%	-6.6%	-4.8%	7.5%
Operating Income	2,687	2,984	3,501
Operating Margin %	21.0%	24.4%	26.7%
Net Income	1,759	2,162	2,682
Net Income Margin %	13.7%	17.7%	20.4%
Diluted EPS	1.53	1.94	2.43
Diluted EPS, YoY %	-19.6%	26.6%	25.3%
Free Cash Flow (CFO-capex)	2,919	2,972	3,232
Free Cash Flow Margin %	22.8%	24.4%	24.6%

In Millions of USD (except for per share items)

Structure of the Broad Line Semiconductor Industry — POOR

The broad line semiconductor industry is characterized by intense competition, rapid technological change, and frequent product introductions. The number and variety of computing devices have expanded rapidly, creating a connected landscape between suppliers and competitors. New market segments have emerged rapidly (smartphones, tablets), and constituents must continuously innovate to maintain share as traditional PC demand faces pressure. Though some firms may gain advantages via the combination of their manufacturing/test facilities with their design teams, we think the structure of the group is poor.

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Materials

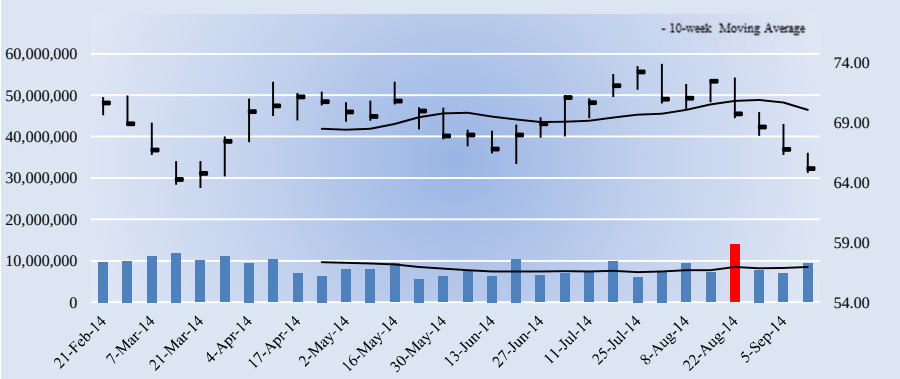
BHP Billiton BHP FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$67.00	$50.00 - $84.00	LARGE-CAP VALUE	Materials	Mining - diversified

Though BHP boasts a diversified portfolio, the firm's performance remains tied to commodity price swings.

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).

Company Vitals

Market Cap (USD)	$173,977
Avg Weekly Vol (30 wks)	8,562
30-week Range (USD)	63.54 - 73.91
Valuentum Sector	Materials
5-week Return	-8.6%
13-week Return	-3.4%
30-week Return	-7.5%
Dividend Yield %	3.6%
Dividends per Share	2.36
Forward Dividend Payout Ratio	67.0%
Est. Normal Diluted EPS	4.55
P/E on Est. Normal Diluted EPS	14.3
Est. Normal EBITDA	28,492
Forward EV/EBITDA	8.7
EV/Est. Normal EBITDA	7.1
Forward Revenue Growth (5-yr)	4.8%
Forward EPS Growth (5-yr)	7.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.0%
Return on Assets	15.5%
ROIC, with goodwill	40.5%
ROIC, without goodwill	41.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	35,060
Net Debt	28,841
Total Debt/EBITDA	1.3
Net Debt/EBITDA	1.0
EBITDA/Interest	36.7
Current Ratio	1.0
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• BHP Billiton earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 41.2% during the past three years.

• BHP is a leading global resources company operating in the following groups: Petroleum, Aluminium, Base Metals (including uranium), Diamonds and Specialty Products, Stainless Steel Materials, Iron Ore, Manganese, Metallurgical Coal, and Energy Coal.

• BHP Billiton 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 14.4% in coming years. Total debt-to-EBITDA was 1.3 last year, while debt-to-book capitalization stood at 33.2%.

• BHP Billiton's success will be largely tied to growth in the Chinese market, which has become a significant source of global demand for commodities. Sales to China represent roughly one third of its business. China GDP growth remains robust but it is slowing.

• BHP's operations are characterized by very high operating margins, and its production execution continues to be excellent. Though the firm boasts a diversified portfolio, BHP's performance still remains tied to commodity price swings.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
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)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**70.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Cliffs Natural Resources	-38.9	NMF	83.2%
Freeport McMoRan	14.1	0.8	103.8%
Rio Tinto	8.9	0.9	71.6%
Vale	7.4	1.5	82.0%
Peer Median	8.1	0.9	82.6%
BHP Billiton	**18.5**	**1.2**	**97.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-12	Jun-13	Jun-14
Revenue	72,226	65,968	68,607
Revenue, YoY%	1.4%	-8.7%	4.0%
Operating Income	25,803	20,844	16,173
Operating Margin %	35.7%	31.6%	23.6%
Net Income	15,417	10,876	9,401
Net Income Margin %	21.3%	16.5%	13.7%
Diluted EPS	5.77	4.07	3.52
Diluted EPS, YoY %	-32.4%	-29.4%	-13.5%
Free Cash Flow (CFO-capex)	12,025	7,050	4,356
Free Cash Flow Margin %	16.6%	10.7%	6.3%

In Millions of USD (except for per share items)

Structure of the Diversified Mining Industry — POOR

The diversified mining industry is highly cyclical and almost entirely commoditized, with little differentiation from one firm to the next. Rising input costs can only be passed on to consumers if industry-wide prices increase. Exploration and development require large capital investments, which could pressure cash flows during weak economic times. A miner's position on the cost curve for each respective resource is a critical investment consideration, given the volatility of commodity prices. Though emerging market growth will be a key source of demand for years to come, we don't like the structure of the group.

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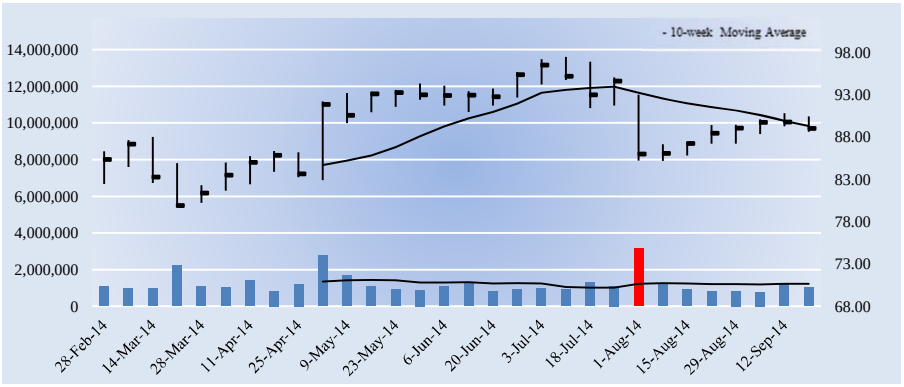
Compass Minerals CMP FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$85.00	$68.00 - $102.00	MID-CAP CORE	Materials	Chemicals - agriculture

Compass Minerals operates the largest rock salt mine in the world in Canada and is among the lowest-cost salt producers in its markets.

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).

Company Vitals

Market Cap (USD)	$2,975
Avg Weekly Vol (30 wks)	1,209
30-week Range (USD)	79.89 - 97.5
Valuentum Sector	Materials
5-week Return	1.5%
13-week Return	-4.3%
30-week Return	3.2%
Dividend Yield %	2.7%
Dividends per Share	2.40
Forward Dividend Payout Ratio	52.8%
Est. Normal Diluted EPS	5.94
P/E on Est. Normal Diluted EPS	15.0
Est. Normal EBITDA	378
Forward EV/EBITDA	10.9
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	6.3%
Forward EPS Growth (5-yr)	12.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	27.0%
Return on Assets	9.9%
ROIC, with goodwill	17.6%
ROIC, without goodwill	17.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	479
Net Debt	319
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.2
EBITDA/Interest	14.5
Current Ratio	2.2
Quick Ratio	1.4

NMF = Not Meaningful

Investment Highlights

• Compass Minerals' 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.

• Compass Minerals operates the largest rock salt mine in the world in Canada and is among the lowest-cost salt producers in its markets. The firm provides high-quality food salt, packaged deicing, and other salt and mineral products.

• Compass Minerals 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 12.7% in coming years. Total debt-to-EBITDA was 1.8 last year, while debt-to-book capitalization stood at 46.3%.

• The salt industry has a long history of modest growth and steady price increases across various grades. Compass' cash flows from salt have not been materially impacted by a variety of economic cycles. The company's history stretches as far back as 1844!

• We like the firm's diverse end market exposure: highway deicing (44%), consumer and industrial (32%), and specialty fertilizer (24%). This should help mitigate cyclicality to a degree.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**89.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CF Industries	13.0	NMF	101.7%
Monsanto	21.9	1.8	115.1%
Potash Corp	19.5	1.2	104.1%
Scotts Miracle-Gro	17.1	1.8	96.3%
Peer Median	18.3	1.8	102.9%
Compass Minerals	**19.6**	**1.9**	**104.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	942	1,130	1,246
Revenue, YoY%	-14.8%	19.9%	10.3%
Operating Income	133	186	221
Operating Margin %	14.1%	16.4%	17.8%
Net Income	89	131	153
Net Income Margin %	9.4%	11.6%	12.3%
Diluted EPS	2.68	3.91	4.55
Diluted EPS, YoY %	-40.7%	45.9%	16.1%
Free Cash Flow (CFO-capex)	21	116	104
Free Cash Flow Margin %	2.2%	10.2%	8.4%

In Millions of USD (except for per share items)

Structure of the Agricultural Chemicals Industry — NEUTRAL

The agricultural chemical industry is highly competitive. Product innovation, intellectual property protection, worldwide distribution, and farmer relationships are keys to success in the seeds and genomics business. The potash, phosphate, nitrogen, and rock salt markets have minimal product differentiation, though producers can gain an advantage in markets close to their sources of supply or when costs (transportation, processing) can be minimized. We're generally neutral on the structure of the group due to commodity price swings, but firms can carve out competitive advantages in local markets.

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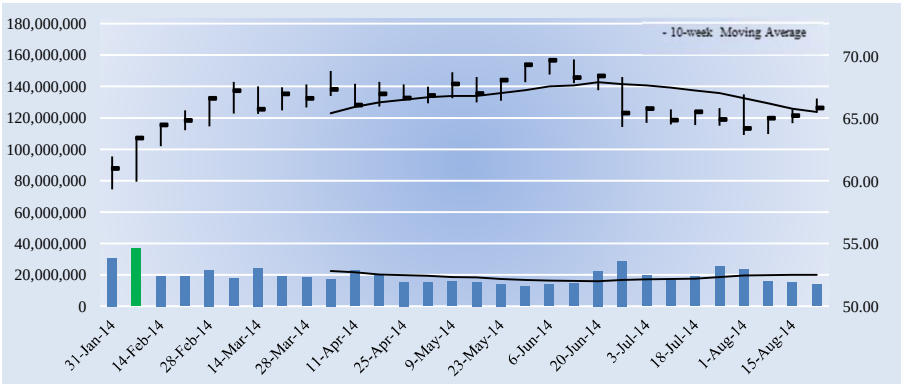
DuPont DD FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$69.00	$55.00 - $83.00	LARGE-CAP VALUE	Materials	Chemicals - broad

DuPont is targeting a long-term pace of sales and earnings expansion that is significantly greater than our current forecasts.

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).

Company Vitals

Market Cap (USD)	$61,457
Avg Weekly Vol (30 wks)	19,510
30-week Range (USD)	59.35 - 69.75
Valuentum Sector	Materials
5-week Return	1.0%
13-week Return	-3.5%
30-week Return	9.8%
Dividend Yield %	2.9%
Dividends per Share	1.88
Forward Dividend Payout Ratio	46.1%
Est. Normal Diluted EPS	5.02
P/E on Est. Normal Diluted EPS	13.1
Est. Normal EBITDA	7,818
Forward EV/EBITDA	9.8
EV/Est. Normal EBITDA	8.3
Forward Revenue Growth (5-yr)	3.7%
Forward EPS Growth (5-yr)	13.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.6%
Return on Assets	6.2%
ROIC, with goodwill	16.4%
ROIC, without goodwill	19.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	12,462
Net Debt	3,376
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.4
EBITDA/Interest	20.5
Current Ratio	1.8
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• DuPont has eight reportable segments: Agriculture, Electronics & Communications, Industrial Biosciences, Nutrition & Health, Performance Chemicals, Performance Materials, Safety & Protection and Other. The firm announced that it intends to separate its 'Performance Chemicals' segment through a US tax-free spin-off to shareholders in mid-2015.

• DuPont has three strategic priorities to increase value: 1) extend its leadership across high-value segments of the agriculture and food chain; 2) develop biotech capabilities to create new bio-based businesses; and 3) strengthen its position in high-value materials.

• DuPont is targeting a long-term sales CAGR of 7% due to secular trends in food, energy and protection coupled with new products/applications. It expects a 12% long-term earnings CAGR due to higher margins on new products and ongoing productivity enhancements. If achieved, there is upside to our fair value estimate.

• Population, urbanization and income growth in the developing world will continue to drive demand for DuPont's products. Agricultural productivity and nutrient solutions are critical to feeding the world. Rigorous pipeline management and disciplined project execution will aid performance.

• The firm sports a very nice dividend yield of 2.9%. We expect the firm to pay out about 46% of next year's earnings to shareholders as dividends. Its strong Dividend Cushion score and above-average annual yield make for a good combination.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**66.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dow Chemical	17.8	1.1	106.2%
Ecolab	26.9	1.7	108.2%
PPG Industries	21.2	1.3	97.4%
Praxair	20.3	1.7	115.7%
Peer Median	20.7	1.5	107.2%
DuPont	**16.1**	**1.6**	**95.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	35,310	36,144	36,397
Revenue, YoY%	-8.8%	2.4%	0.7%
Operating Income	7,299	7,593	4,969
Operating Margin %	20.7%	21.0%	13.7%
Net Income	2,447	2,849	3,808
Net Income Margin %	6.9%	7.9%	10.5%
Diluted EPS	2.60	3.05	4.08
Diluted EPS, YoY %	-29.6%	17.6%	33.6%
Free Cash Flow (CFO-capex)	2,653	-702	3,629
Free Cash Flow Margin %	7.5%	-1.9%	10.0%

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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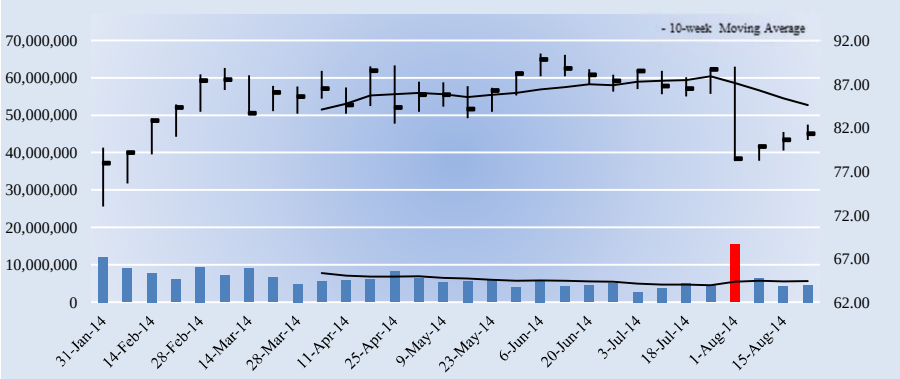
Eastman Chemical EMN UNDERVALUED 5.7%

Buying Index™ 3 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$108.00	$86.00 - $130.00	LARGE-CAP VALUE	Materials	Chemicals - broad

We've raised our fair value estimate of Eastman Chemical significantly since the last update.

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).

Company Vitals

Market Cap (USD)	$12,022
Avg Weekly Vol (30 wks)	6,384
30-week Range (USD)	73 - 90.55
Valuentum Sector	Materials
5-week Return	-5.6%
13-week Return	-6.1%
30-week Return	8.9%
Dividend Yield %	1.7%
Dividends per Share	1.40
Forward Dividend Payout Ratio	20.1%
Est. Normal Diluted EPS	8.03
P/E on Est. Normal Diluted EPS	10.1
Est. Normal EBITDA	2,370
Forward EV/EBITDA	7.6
EV/Est. Normal EBITDA	6.8
Forward Revenue Growth (5-yr)	3.5%
Forward EPS Growth (5-yr)	2.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	30.3%
Return on Assets	8.6%
ROIC, with goodwill	18.2%
ROIC, without goodwill	21.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,254
Net Debt	4,017
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.7
EBITDA/Interest	13.2
Current Ratio	1.9
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Eastman Chemical'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.

• Eastman Chemical is a global specialty chemical company that produces a broad range of advanced materials, additives and functional products, specialty chemicals, and fibers. The company's strategic shift away from 'commodity' chemicals has brightened its future.

• Eastman Chemical 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 12.6% in coming years. Total debt-to-EBITDA was 1.8 last year, while debt-to-book capitalization stood at 52.8%. Its cumulative free cash flow generation has been $2+ billion during the past 5 years.

• Two thirds of the company's sales comes from product lines with leading market positions, from additives (cellulosic polymers, insoluble sulfers) to advanced materials (copolyester, PVB resin) to fibers (acetate tow, acetate yarn). Capital spending will continue to support organic growth projects throughout the company.

• Eastman Chemical stands to benefit from long-term global trends such as energy efficiency, a rising middle class in emerging economies, and increased health and wellness. The company expects ~10%-15% earnings per share growth in 2015.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
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	**85.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dow Chemical	17.8	1.1	106.2%
DuPont	16.1	1.6	95.4%
Ecolab	26.9	1.7	108.2%
PPG Industries	21.2	1.3	97.4%
Peer Median	19.5	1.4	101.8%
Eastman Chemical	**11.7**	**1.8**	**75.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	8,102	9,350	9,546
Revenue, YoY%	12.9%	15.4%	2.1%
Operating Income	920	1,938	1,663
Operating Margin %	11.4%	20.7%	17.4%
Net Income	436	1,165	1,029
Net Income Margin %	5.4%	12.5%	10.8%
Diluted EPS	2.95	7.88	6.96
Diluted EPS, YoY %	28.5%	167.2%	-11.7%
Free Cash Flow (CFO-capex)	657	814	1,124
Free Cash Flow Margin %	8.1%	8.7%	11.8%

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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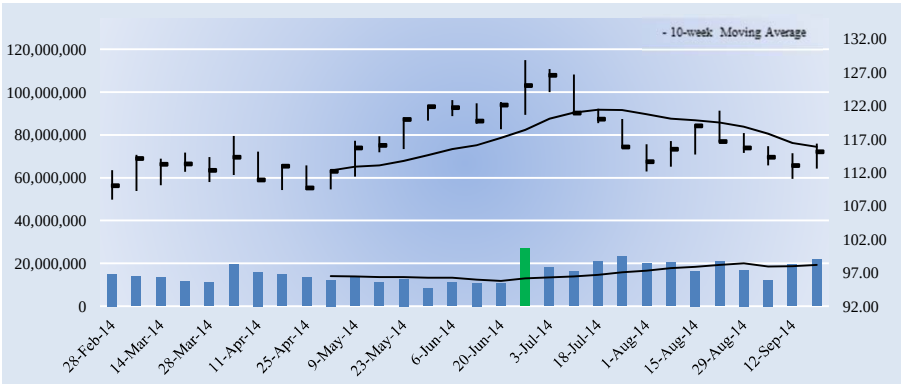
Monsanto MON FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$100.00	$80.00 - $120.00	LARGE-CAP CORE	Materials	Chemicals - agriculture

Monsanto's seeds, biotechnology trait products, and herbicides provide farmers with solutions that greatly improve productivity.

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).

Company Vitals

Market Cap (USD)	$62,125
Avg Weekly Vol (30 wks)	15,749
30-week Range (USD)	107.96 - 128.79
Valuentum Sector	Materials
5-week Return	-4.1%
13-week Return	-5.8%
30-week Return	2.7%
Dividend Yield %	1.5%
Dividends per Share	1.72
Forward Dividend Payout Ratio	32.7%
Est. Normal Diluted EPS	6.96
P/E on Est. Normal Diluted EPS	16.5
Est. Normal EBITDA	5,900
Forward EV/EBITDA	13.0
EV/Est. Normal EBITDA	10.2
Forward Revenue Growth (5-yr)	5.3%
Forward EPS Growth (5-yr)	13.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.9%
Return on Assets	10.5%
ROIC, with goodwill	19.8%
ROIC, without goodwill	27.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,112
Net Debt	-1,810
Total Debt/EBITDA	0.5
Net Debt/EBITDA	NMF
EBITDA/Interest	24.3
Current Ratio	2.3
Quick Ratio	1.5

NMF = Not Meaningful

Investment Highlights

• Monsanto'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.

• Monsanto's seeds, biotechnology trait products, and herbicides provide farmers with solutions that greatly improve productivity, but competition is fierce and continuous innovation remains vital to maintain superior returns.

• Monsanto 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 19.9% in coming years. Total debt-to-EBITDA was 0.5 last year, while debt-to-book capitalization stood at 14.4%.

• Monsanto is working to meet its goal of doubling corn, soybean, cotton, and canola yields by 2030. As the population grows, there are more mouths to feed and less land that can be used for crop growth. The company continues to innovate and improve its products.

• We think success over the next decade will require more than improvements in individual component technologies. Monsanto is well-positioned to bring integrated technologies in the seed, plant, and feed 'yield as a system.'

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
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	**116.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CF Industries	13.0	NMF	101.7%
Compass Minerals	19.6	1.9	104.7%
Potash Corp	19.5	1.2	104.1%
Scotts Miracle-Gro	17.1	1.8	96.3%
Peer Median	18.3	1.8	102.9%
Monsanto	**21.9**	**1.8**	**115.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-12	Aug-13	Aug-14
Revenue	13,504	14,861	15,678
Revenue, YoY%	14.2%	10.0%	5.5%
Operating Income	3,138	3,570	3,993
Operating Margin %	23.2%	24.0%	25.5%
Net Income	2,039	2,471	2,826
Net Income Margin %	15.1%	16.6%	18.0%
Diluted EPS	3.77	4.58	5.26
Diluted EPS, YoY %	27.6%	21.3%	14.9%
Free Cash Flow (CFO-capex)	2,322	1,900	2,552
Free Cash Flow Margin %	17.2%	12.8%	16.3%

In Millions of USD (except for per share items)

Structure of the Agricultural Chemicals Industry — NEUTRAL

The agricultural chemical industry is highly competitive. Product innovation, intellectual property protection, worldwide distribution, and farmer relationships are keys to success in the seeds and genomics business. The potash, phosphate, nitrogen, and rock salt markets have minimal product differentiation, though producers can gain an advantage in markets close to their sources of supply or when costs (transportation, processing) can be minimized. We're generally neutral on the structure of the group due to commodity price swings, but firms can carve out competitive advantages in local markets.

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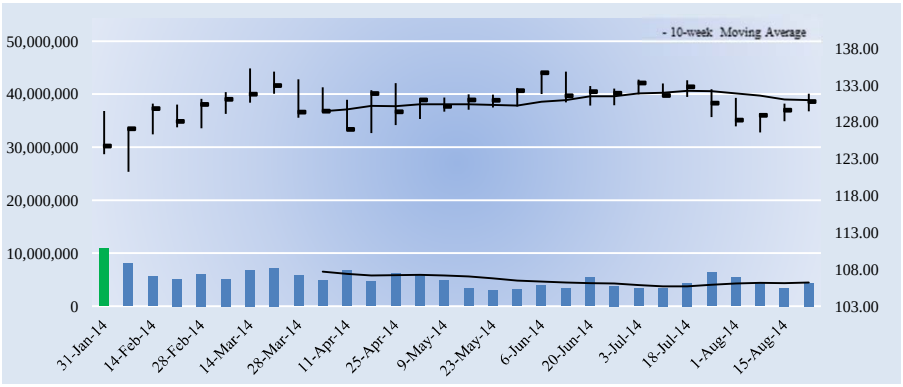
Praxair PX FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$113.00	$90.00 - $136.00	LARGE-CAP CORE	Materials	Chemicals - broad

Praxair generates roughly 25% of its revenue from attractive 15-year take-or-pay contracts.

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).

Company Vitals

Market Cap (USD)	$39,093
Avg Weekly Vol (30 wks)	5,169
30-week Range (USD)	121.22 - 135.24
Valuentum Sector	Materials
5-week Return	-1.2%
13-week Return	-0.4%
30-week Return	2.8%
Dividend Yield %	2.0%
Dividends per Share	2.60
Forward Dividend Payout Ratio	40.3%
Est. Normal Diluted EPS	8.48
P/E on Est. Normal Diluted EPS	15.4
Est. Normal EBITDA	4,986
Forward EV/EBITDA	11.8
EV/Est. Normal EBITDA	9.6
Forward Revenue Growth (5-yr)	6.5%
Forward EPS Growth (5-yr)	13.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.9%
Return on Assets	10.2%
ROIC, with goodwill	12.1%
ROIC, without goodwill	14.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,811
Net Debt	8,673
Total Debt/EBITDA	2.4
Net Debt/EBITDA	2.3
EBITDA/Interest	22.8
Current Ratio	1.1
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• Praxair 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 14.7% during the past three years.

• Praxair is the largest industrial gas company in North and South America and one of the largest worldwide. The company produces, sells and distributes atmospheric (oxygen, nitrogen, argon, among others), process and specialty gases (carbon dioxide, helium, among others), and high-performance surface

• Praxair 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 14.2% in coming years. Total debt-to-EBITDA was 2.4 last year, while debt-to-book capitalization stood at 57.1%.

• Praxair generates roughly 25% of its revenue from attractive 15-year take-or-pay contracts via its onsite/pipeline business. The company also has exclusive supply agreements in its merchant liquid business that make up an additional 30%+ of its revenue base. Contracts in its merchant business range from 3-7 years.

• Production and distribution density are keys to driving higher profitability and ROIC. The company is growing and building density in North America (~50% of sales) and is one of the best-positioned players and preferred suppliers in South America (~20% of sales).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**131.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dow Chemical	17.8	1.1	106.2%
DuPont	16.1	1.6	95.4%
Ecolab	26.9	1.7	108.2%
PPG Industries	21.2	1.3	97.4%
Peer Median	19.5	1.4	101.8%
Praxair	**20.3**	**1.7**	**115.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	11,224	11,925	12,509
Revenue, YoY%	-0.2%	6.2%	4.9%
Operating Income	2,459	2,625	2,872
Operating Margin %	21.9%	22.0%	23.0%
Net Income	1,692	1,755	1,920
Net Income Margin %	15.1%	14.7%	15.3%
Diluted EPS	5.61	5.87	6.45
Diluted EPS, YoY %	2.8%	4.7%	9.9%
Free Cash Flow (CFO-capex)	572	897	1,184
Free Cash Flow Margin %	5.1%	7.5%	9.5%

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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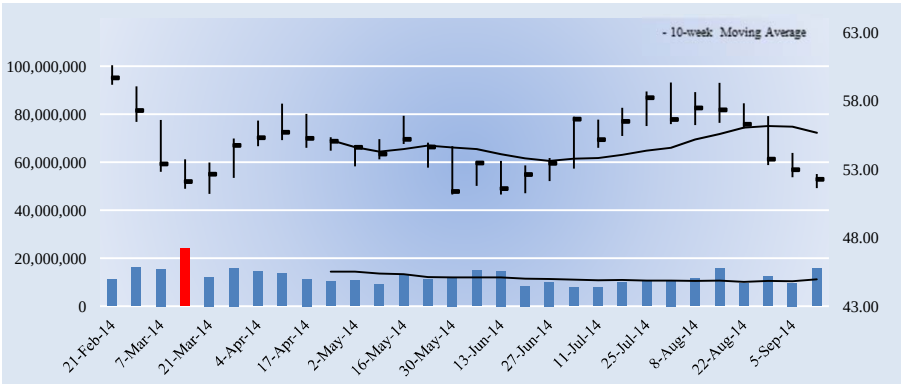
Rio Tinto RIO UNDERVALUED 5.2%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$73.00	$55.00 - $91.00	LARGE-CAP VALUE	Materials	Mining - diversified

Rio Tinto is one of the world's largest miners.

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).

Company Vitals

Market Cap (USD)	$97,121
Avg Weekly Vol (30 wks)	12,267
30-week Range (USD)	51.17 - 60.61
Valuentum Sector	Materials
5-week Return	-10.7%
13-week Return	1.4%
30-week Return	-12.4%
Dividend Yield %	4.2%
Dividends per Share	2.19
Forward Dividend Payout Ratio	37.3%
Est. Normal Diluted EPS	6.34
P/E on Est. Normal Diluted EPS	8.3
Est. Normal EBITDA	17,404
Forward EV/EBITDA	5.8
EV/Est. Normal EBITDA	5.3
Forward Revenue Growth (5-yr)	6.0%
Forward EPS Growth (5-yr)	28.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	2.8%
Return on Assets	1.4%
ROIC, with goodwill	27.0%
ROIC, without goodwill	29.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,171
Net Debt	-5,334
Total Debt/EBITDA	0.3
Net Debt/EBITDA	NMF
EBITDA/Interest	37.3
Current Ratio	1.5
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• Rio Tinto earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 29.8% during the past three years.

• Rio Tinto is one of the world's largest miners. The firm is a global leader in the aluminum industry and the second-largest producer supplying the global seaborne iron ore trade. It also has copper, diamonds, and coal operations.

• We continue to like Rio Tinto's decision to strengthen its balance sheet by enhancing cash flows and reducing capital spending. A focus on debt repayment is also welcome news for long-term investors.

• We're big fans of the firm's Australian Pilbara operations, which have close proximity to some of the world's largest and fastest-growing markets for iron ore. The company also has a nice position on the cost curve for aluminum smelting, and its copper assets are of high quality.

• Rio Tinto understands that cost-containment is the name of the game in any commodity-producing industry. Through improved crane scheduling and rationalized training, productivity has improved materially.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
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	**56.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
BHP Billiton	18.5	1.2	97.3%
Cliffs Natural Resources	-38.9	NMF	83.2%
Freeport McMoRan	14.1	0.8	103.8%
Vale	7.4	1.5	82.0%
Peer Median	10.7	1.2	90.2%
Rio Tinto	**8.9**	**0.9**	**71.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	50,967	51,171	53,883
Revenue, YoY%	-15.8%	0.4%	5.3%
Operating Income	11,461	14,119	10,761
Operating Margin %	22.5%	27.6%	20.0%
Net Income	-2,983	3,665	10,811
Net Income Margin %	-5.9%	7.2%	20.1%
Diluted EPS	-1.61	1.97	5.88
Diluted EPS, YoY %	-153.5%	-222.3%	198.0%
Free Cash Flow (CFO-capex)	-11,087	2,077	4,863
Free Cash Flow Margin %	-21.8%	4.1%	9.0%

In Millions of USD (except for per share items)

Structure of the Diversified Mining Industry — POOR

The diversified mining industry is highly cyclical and almost entirely commoditized, with little differentiation from one firm to the next. Rising input costs can only be passed on to consumers if industry-wide prices increase. Exploration and development require large capital investments, which could pressure cash flows during weak economic times. A miner's position on the cost curve for each respective resource is a critical investment consideration, given the volatility of commodity prices. Though emerging market growth will be a key source of demand for years to come, we don't like the structure of the group.

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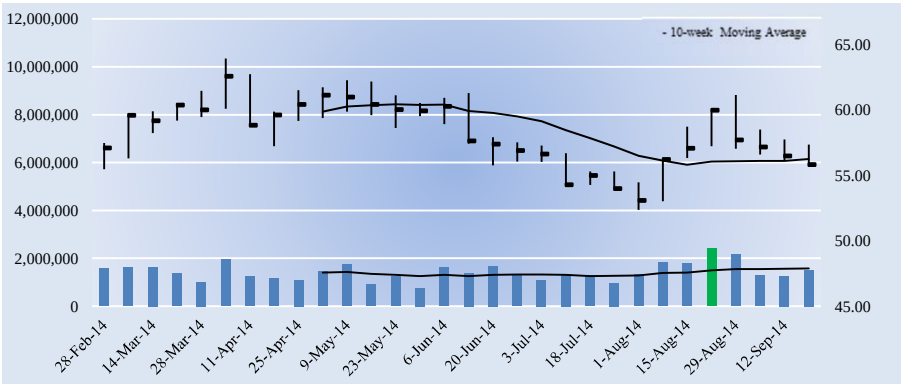
Scotts Miracle-Gro SMG FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$58.00	$45.00 - $71.00	MID-CAP VALUE	Materials	Chemicals - agriculture

Scotts Miracle-Gro is laser-focused on long-term gross margin improvement.

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).

Company Vitals

Market Cap (USD)	$3,496
Avg Weekly Vol (30 wks)	1,433
30-week Range (USD)	52.38 - 63.96
Valuentum Sector	Materials
5-week Return	-3.0%
13-week Return	-2.9%
30-week Return	-0.9%
Dividend Yield %	3.1%
Dividends per Share	1.75
Forward Dividend Payout Ratio	53.5%
Est. Normal Diluted EPS	3.91
P/E on Est. Normal Diluted EPS	14.3
Est. Normal EBITDA	511
Forward EV/EBITDA	8.9
EV/Est. Normal EBITDA	7.7
Forward Revenue Growth (5-yr)	2.5%
Forward EPS Growth (5-yr)	12.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.8%
Return on Assets	6.4%
ROIC, with goodwill	12.8%
ROIC, without goodwill	16.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	571
Net Debt	441
Total Debt/EBITDA	1.5
Net Debt/EBITDA	1.1
EBITDA/Interest	6.5
Current Ratio	1.7
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• Scotts Miracle-Gro earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. We expect the firm's return on invested capital (excluding goodwill) to expand to 27.3% from 20.7% during the next two years.

• Scotts Miracle-Gro is a leading manufacturer of branded consumer lawn and garden products. Its brands include Scotts, Songbird, Miracle-Gro, Ortho, Roundup, and Osmocote.

• Scotts Miracle-Gro'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.

• Scotts Miracle-Gro is laser-focused on long-term gross margin improvement. The firm has increased prices and continues to manage commodity fluctuations as it pursues cost-cutting initiatives. It expects to achieve significant savings by 2016.

• Though Scotts Miracle-Gro has some of the most recognized brands in the industry, the company sells into a competitive market and relies on Home Depot, Lowe's and Walmart.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**56.00**

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CF Industries	13.0	NMF	101.7%
Compass Minerals	19.6	1.9	104.7%
Monsanto	21.9	1.8	115.1%
Potash Corp	19.5	1.2	104.1%
Peer Median	19.5	1.8	104.4%
Scotts Miracle-Gro	**17.1**	**1.8**	**96.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-12	Sep-13	Sep-14
Revenue	2,826	2,817	2,825
Revenue, YoY%	-0.3%	-0.3%	0.3%
Operating Income	248	321	382
Operating Margin %	8.8%	11.4%	13.5%
Net Income	113	161	205
Net Income Margin %	4.0%	5.7%	7.3%
Diluted EPS	1.82	2.58	3.27
Diluted EPS, YoY %	-1.0%	41.3%	27.1%
Free Cash Flow (CFO-capex)	91	278	228
Free Cash Flow Margin %	3.2%	9.9%	8.1%

In Millions of USD (except for per share items)

Structure of the Agricultural Chemicals Industry — NEUTRAL

The agricultural chemical industry is highly competitive. Product innovation, intellectual property protection, worldwide distribution, and farmer relationships are keys to success in the seeds and genomics business. The potash, phosphate, nitrogen, and rock salt markets have minimal product differentiation, though producers can gain an advantage in markets close to their sources of supply or when costs (transportation, processing) can be minimized. We're generally neutral on the structure of the group due to commodity price swings, but firms can carve out competitive advantages in local markets.

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The Case for the Valuentum Style of Investing

Brian Nelson, CFA*

First Version: May 2012

Abstract

The benefits of value and momentum strategies on an individual basis have been well-documented in financial literature. Academic research has also concluded that a simply-constructed portfolio consisting 50% of a long-short value-oriented portfolio and 50% of a long-short momentum-oriented portfolio produces a higher Sharpe ratio and lower volatility than either value or momentum alone. We study the reasons behind this phenomenon and strive to answer the question: what are the types of stocks that drive such outperformance? Though the benefits of using a combined value and momentum approach in a portfolio management setting have been widely-accepted, we believe we are the first to identify the abnormal-return benefits of investing in a cohort of individual stocks that have both good value and good momentum qualities while shorting a cohort of individual stocks that have both poor value and poor momentum qualities. We also reveal the inherent link between the diverse backing of combined value and momentum strategies in financial literature and our stock-selection methodology, the Valuentum Buying Index, which identifies undervalued firms with strong momentum qualities.

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I. Introduction

The work of Asness, et al (2009) offers the following context with respect to value versus growth and high positive momentum versus low positive momentum as it relates to individual equities.

> A long literature finds that, on average, value stocks (with high book or accounting values relative to market values) outperform growth stocks (with low book-to-market ratios) and stocks with high positive momentum (high 12-month past returns) outperform stocks with low positive momentum (Stattman (1980), Fama-French (1992), Jegadeesh and Titman (1993), Asness (1994), Grinblatt and Moskowitz (2004)). This evidence has been extended to stocks in other countries (Fama and French (1998), Rouwenhorst (1998), Liew and Vassalou (2000), Griffin, Ji, and Martin (2003), Chui, Wei, and Titman (2000)), and to country equity indices (Asness, Liew, and Stevens (1997), Bhojraj and Swaminathan (2006)).

Please note the breadth of academic research supporting the risk-adjusted return superiority of value versus growth investing and high positive momentum stocks versus low positive momentum stocks. Throughout this paper, we show that a combined value and momentum portfolio – a 'Valuentum' portfolio – outperforms the individual strategies of value, growth, momentum, and a combined portfolio of growth-momentum, on average.

Asness, et al (2009) concluded that "the negative correlation between value and momentum strategies and their high expected returns makes a simple equal-weighted combination of the two a powerful strategy that produces a significantly higher Sharpe ratio than either stand alone and makes the combination portfolio far more stable across markets and time periods than either value or momentum alone." Academic work that combines the framework of two or more methodologies is embraced within the Valuentum community of investors, and in our view, provides a unique perspective on the potential abnormal return benefits of cross-methodological approaches.

We also posit that, within a combined value-momentum portfolio, the embedded subset of firms that have both good value characteristics and good momentum characteristics is the key driver behind outperformance on the long side. And similarly, the embedded subset of firms that have poor value characteristics and poor momentum characteristics is the key driver behind outperformance on the short side. These two subsets represent the major driver of outperformance behind the combined value and momentum approach, in our view. We reveal such a phenomenon within this paper.

Plotted on the next page are the cumulative returns to value, momentum, and a 50/50 combination of value and momentum strategies among a global basket of individual stocks. According to Asness, et al (2009), the 'Value' (blue) line represents the returns of a long-short portfolio that has long positions in stocks with good value characteristics (a high ratio of the book value of equity to the market value of equity) and short positions in those with poor value

characteristics (a low ratio of the book value of equity to the market value of equity). The 'Momentum' (green) line represents the returns of a long-short portfolio that goes long stocks that recently performed well and short those that recently performed poorly. The 'Combo' portfolio represents a 50/50 combination of the above value and momentum portfolios.

The following results regarding the Ansess, et al (2009) study are quite intriguing (see below), and we suspect these findings have yet to reach the mainstream financial community (outside of academia). The work largely provides the broad framework to justify the benefits of the combination of value and momentum strategies in a portfolio setting. However, we seek to dig deeper to uncover the qualities of individual equities that generate the value-momentum portfolio's significant outperformance versus other strategies via our own statistical work.

We think individual investors, financial advisors, and institutional money-managers are increasingly interested in the characteristics of underlying equities that drive outsize returns in broad-based investment strategies to further augment the performance of individual portfolios.

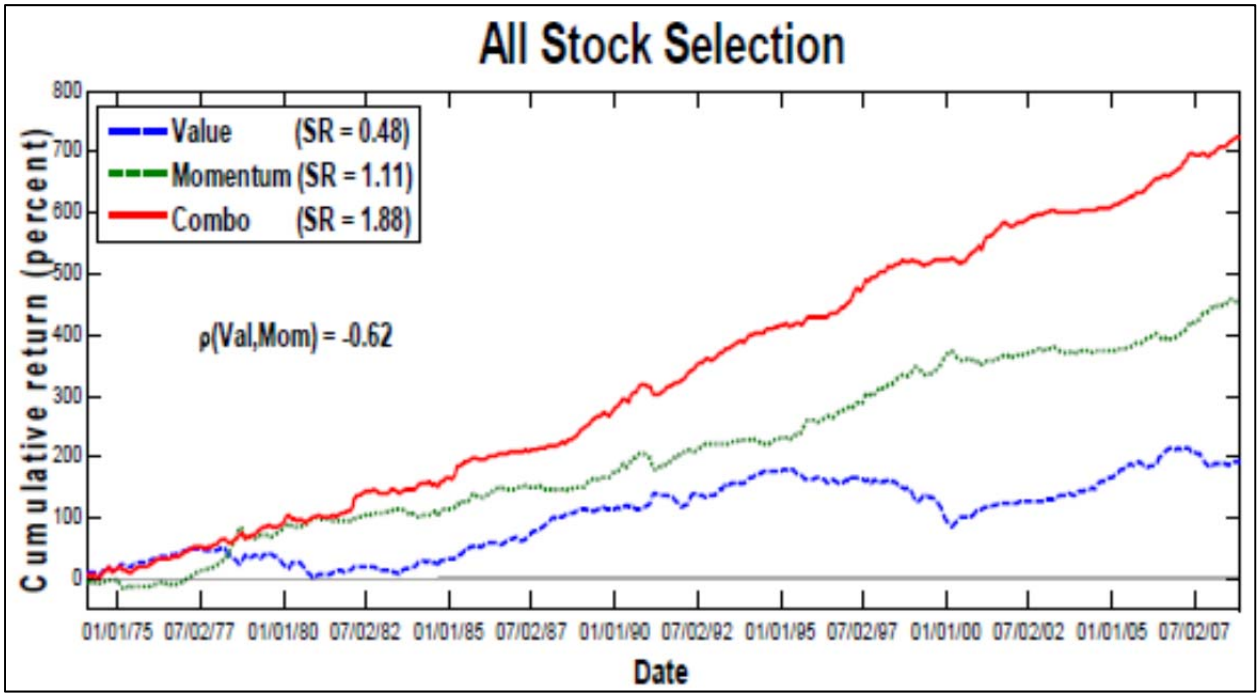


Image Source: Asness, et al (2009)

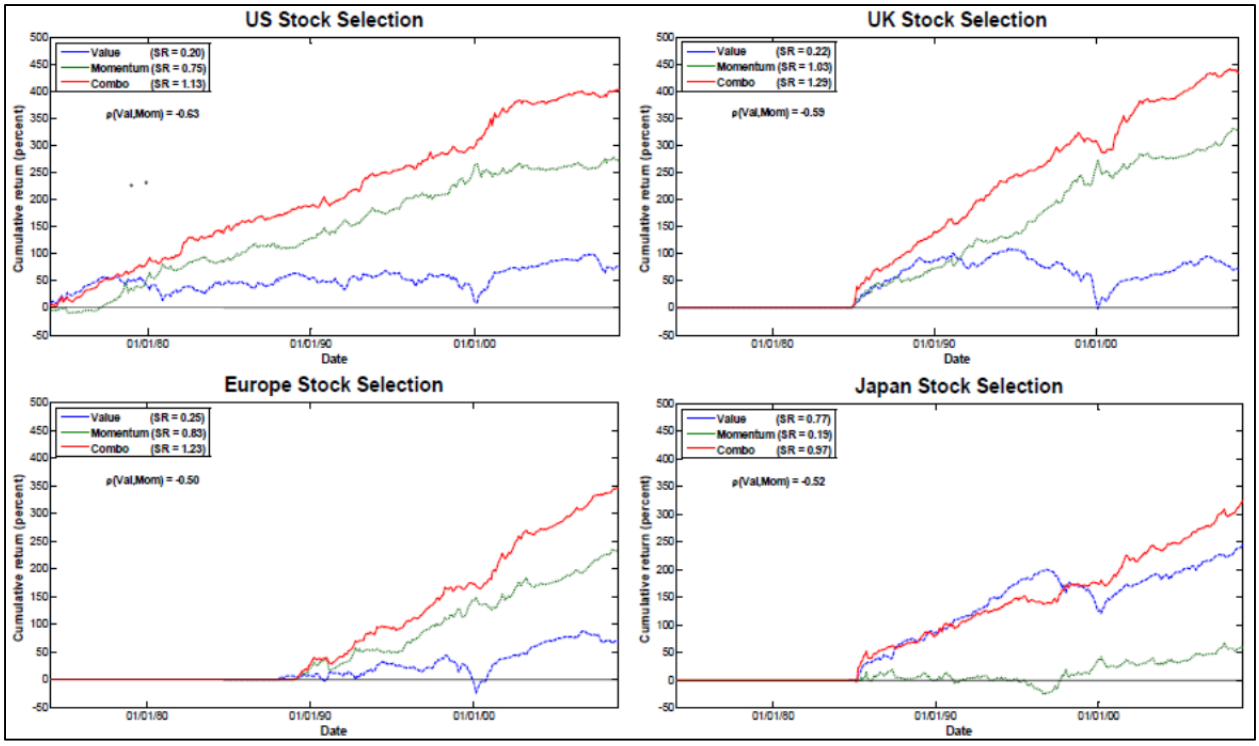


Image Source: Asness, et al (2009)

By extending the conclusions of previous academic works (Stattman (1980), Fama-French (1992), Jegadeesh and Titman (1993), Asness (1994, 2009), Grinblatt and Moskowitz (2004)), we hypothesize that the subset of stocks that have overlapping qualities of good value characteristics and good momentum characteristics not only outperform traditional value, growth, and momentum methodologies, alone, but also are the key driver behind the positive abnormal returns of the value-momentum combination portfolio. We also hypothesize that the subset of stocks that have overlapping qualities of poor value characteristics and poor momentum characteristics will underperform not only the combined value-momentum portfolio but also value, growth, and momentum on an individual basis.

We have substantiated our hypotheses by identifying and highlighting outperformers in a combination portfolio – a 'Valuentum' portfolio – using historical fundamental and pricing data of non-financial firms in the current Dow Jones Industrial Average (DJIA). As Asness, et al (2009) presents, the 'Combo' portfolio of value and momentum outperforms everywhere (US, UK, Europe, Japan), and we use the DJIA as a way to identify the qualities of those stocks that are key performance drivers behind such a value-momentum combination portfolio's abnormal returns. We chose the DJIA because firms in it are both liquid and well known.

We define firms that generate such significant outperformance as 'Valuentum' stocks – stocks on the long side that are both undervalued and exhibit bullish momentum characteristics and stocks on the short side that are both overvalued and exhibit bearish momentum characteristics – and we define the combined approach the Valuentum Style of Investing.

Though previous works have examined the efficacy of value and momentum separately and within one asset class at a single point in time and have analyzed value and momentum together from a long-short portfolio perspective across asset classes, we believe we are the first to identify the benefits of investing in (shorting) a cohort of stocks with both good (poor) value and momentum qualities and identifying such stocks through a systematic methodology, the Valuentum Buying Index.

Subsequent research may show that a combined value-momentum portfolio's outperformance may be further augmented by lagging certain variables, as there is a defined positive correlation between value and momentum (value in one year may lead to momentum in the next for the exact same stock), or by implementing the oversight of a portfolio manager. Our research concludes that due to data interpretation, the benefits of applying a portfolio manager to this process cannot be underestimated. The performance of the portfolio of our Best Ideas Newsletter showcases this benefit.

II. The 50/50 Value-Momentum Long-Short Portfolio Construction

In order to establish the case for Valuentum investing, the reader must first become familiar with the structure of the 50/50 value-momentum long-short portfolio as widely disseminated in financial literature.

Value Portfolio: *We generate portfolios sorted on value and examine zero-cost portfolios that go long stocks with "good" value characteristics, that is, high BM, and short those with low BM* (Asness et al, 2009).

Momentum Portfolio: *We construct portfolios sorted on momentum and examine zero-cost portfolios that are long the assets that recently performed relatively well and short those that performed relatively poorly* (Asness et al, 2009).

The combination portfolio represents a 50% weighting of the value portfolio and a 50% weighting of the momentum portfolio:

$$r_t^{COMBO} = s_t \left(0.5\, r_t^{VALUE} + 0.5\, r_t^{MOM2\text{-}12} \right)$$

Image Source: Asness, et al (2009)

III. Results of the Combination Portfolio

Asness, et al (2009) indicates the following conclusions with respect to the combination portfolio:

> The results highlight the power and robustness of combining value and momentum everywhere and, in particular, the power of combining value/momentum combo portfolios everywhere…Because of their positive average returns and negative correlation between them, the combination of value and momentum in every asset class

> produces powerful performance results, generating information ratios consistently greater than either of the stand alone strategies in all markets and asset classes…Combining value and momentum results in about 60 percent of all stock selection profits coming from the short side and about an even split between long and short contributions for all non-stock selection. For the all combination strategy, the contribution from longs and shorts is also about equal.

As it relates to portfolio return attribution in previous academic literature, Asness, et al (2009) concludes that roughly 60% of stock-selection profits from the combined value and momentum strategy come from the short side. This suggests that stocks with poor value characteristics and poor momentum characteristics offer a stronger signal for a downward move in price than stocks with good value and good momentum characteristics do for an upward move in price. However, our research indicates more upside potential from the long side in a combination portfolio (long return versus average return), though we admit there are substantial and material differences between the data set and time period applied.

In either case, since shorting stocks may not be a viable strategy for every type of investor, we seek to capture such a phenomenon via put options (synthetic short exposure) in the portfolio of our Best Ideas Newsletter.

IV. Outperforming Equities in the Value-Momentum Combined Portfolio

Though the tremendous benefits of using a combined value and momentum approach in a portfolio setting have been well-documented in financial literature, we seek to identify the common qualities of the particular equities that drive the significant abnormal returns in a value-momentum combination portfolio relative to the value and momentum (and by extension growth) portfolios, individually.

At any particular point in time, the ‘Value’ portfolio will consist of long positions of stocks that represent good value and short positions of stocks that have poor value characteristics. Further, at the same point in time, the ‘Momentum’ portfolio will consist of long positions of stocks that have good recent performance and short positions of stocks that have poor recent performance.

And at the same time, the ‘Combo’ portfolio, by extension, will have a 50% long position in stocks that have good value characteristics and in stocks that have good momentum characteristics. A combination portfolio will also have a 50% short position in stocks that have poor value characteristics and in stocks that have poor momentum characteristics.

Historical back-testing lends itself to a few defendable assumptions on which we build our hypotheses:

1) Unlike forward projections of equity prices, the returns on individual stocks in the past are fixed. Across the universe of stocks used in the results presented by Asness, et al

(2009), we can conclude that the same basket is applied to the 'Value', 'Momentum', and 'Combo' portfolios.

2) The selection of stocks in the 'Value' portfolio will be identical to those representing the value component in the 'Combo' portfolio. The selection of stocks in the 'Momentum' portfolio will be identical to those representing the momentum component of the 'Combo' portfolio. As such, stock selection can assumed to be static across the components of the 'Combo' portfolio and the 'Value' and 'Momentum' portfolios with respect to each return data point in the analysis presented by Asness, et al (2009).
3) The outperformance of a combination portfolio relative to the value and momentum portfolios, individually, is the result of not just the weightings of the value and momentum portfolios within the combination portfolio but, more importantly, the particular stocks within the combination portfolio that may be "over-weighted."

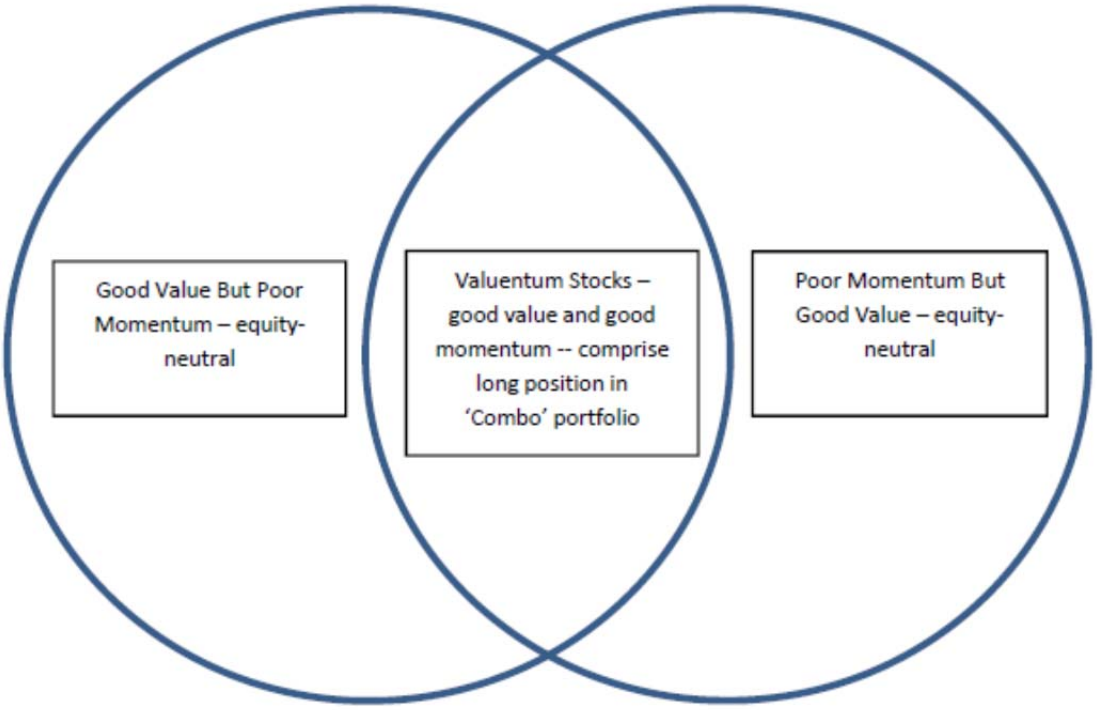
We posit that the abnormal returns of any combination portfolio are driven by the "over-weightings" of particular equities when compared to their relative weightings in the individual portfolios, respectively. Said differently, in a combination portfolio, firms that have both good value characteristics and good momentum characteristics are "over-weighted" (when compared to other holdings in a combination portfolio) on the long side (given the overlap), while firms that have poor value characteristics and poor momentum characteristics are "over-weighted" (when compared to other holdings in a combination portfolio) on the short side (given the overlap).

The Venn diagram on the next page displays this particular phenomenon. For a single stock that is both good value and good momentum, it will have an outsize weighting in a combination portfolio on the long side, while for a single stock that is both poor value and poor momentum, it will have an outsize weighting in a combination portfolio on the short side.

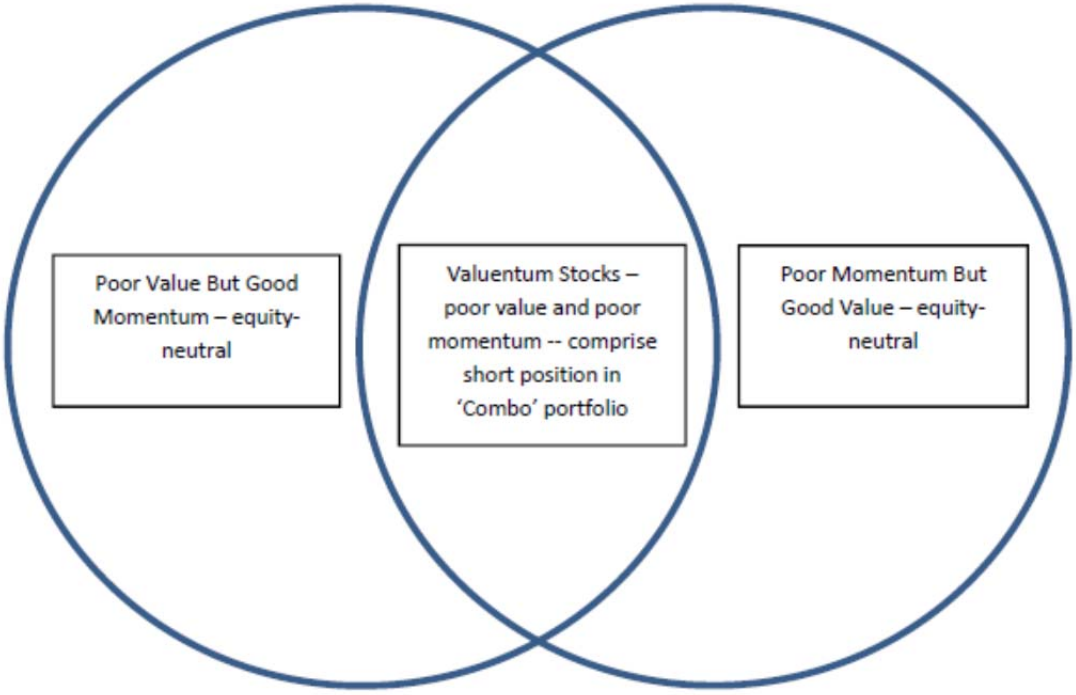
For stocks that have good value but poor momentum or for stocks that have poor value but good momentum, the portfolio will be equity-neutral, as long and short exposure will negate the position. Based on our interpretation, the work of Asness, et al (2009) notes this particular occurrence: "some of the securities (appear) on the long (short) side of value and short (long) side of momentum (page 11)." We take this to mean an equity-neutral strategy on certain positions, but confirmation of such is not material to our conclusions.

By extension and for the sake of simplification, the long side of a combination portfolio can be viewed as a collection of equities with good value and good momentum characteristics and the short side of a combination portfolio can be viewed as a collection of equities with poor value and poor momentum characteristics.

Long Side of 'Combo' Portfolio



Short Side of 'Combo' Portfolio



We seek to further analyze our combined portfolio – a 'Valuentum' portfolio – to identify the qualities of portfolio constituents that generate the majority of abnormal returns relative to the value and momentum portfolios, individually and respectively. We posit the "over-weighting" of stocks with both good value characteristics and good momentum characteristics on the long side and the "over-weighting" of stocks with both poor value characteristics and poor momentum characteristics on the short side are responsible for the abnormal returns of a combination portfolio. We detail such a phenomenon in our work below.

V. Data and Portfolio Construction

We use non-financial constituents in the current Dow Jones Industrial Average (DJIA) as our basic data set to illustrate this occurrence. Specifically, we omit BAC, JPM, TRV, and KFT, the latter lacking sufficient data history. We select the DJIA as it represents a liquid subset of well-known firms in the global financial system. We first select the period January 2002 through May 2012, as data for this period is readily available and can easily be confirmed. We further substantiate our research with data from the period January 1995 through May 2012. For the January 2002 through May 2012 period, we use data from CIS and Morningstar. For the January 1995 through May 2012 period, we use data from CIS and Factset.

The benefits of a long-short combination portfolio of value and momentum have been well-documented, so the goal of this exercise is to reveal the kinds of stocks that fit the Valuentum Style of Investing and their subsequent returns in future periods versus other stocks included in the data set. Further, we believe a portfolio management overlay, as that pursued in the portfolio of our Best Ideas Newsletter, can bolster returns of a 'Valuentum' portfolio by mitigating entries caused by data anomalies and errors.

To measure value, we sort the data set by a firm's end of initial period price-to-earnings ratio (see Figure I & III). Firms that have low price-to-earnings ratios (the bottom half of the data set) have good value characteristics, while firms that have high price-to-earnings ratios (the top half of the data set) have poor value characteristics. To measure momentum, we sort the data set by a firm's trailing 2-year return through the beginning of the initial period (see Figure II & IV). Firms that have strong relative price performance (the top half of the data set) have good momentum characteristics, while firms that have poor relative price performance (the bottom half of the data set) have poor momentum characteristics. We are less concerned about identifying the precise value signal or momentum signal in this exercise than we are in revealing the substantial benefits of using value and momentum combined. We explain our value and momentum signals later in the paper.

The 'Value' portfolio is a 50/50 long-short portfolio that goes long stocks with good value characteristics and short stocks with poor value characteristics. The 'Momentum' portfolio is a 50/50 long-short portfolio that goes long stocks with good momentum characteristics and short stocks with poor momentum characteristics. The 'Valuentum' portfolio in this example is a

50/50 long-short portfolio that only goes long stocks with both good value and good momentum characteristics and only goes short stocks with both poor value and poor momentum characteristics. These are zero-cost, zero turnover portfolios.

To assess the performance of each portfolio, we take the average total return of each portfolio constituent beginning January 2002 through May 2012 (excluding dividends) and beginning January 1995 through May 2012. We then take the difference between the average long return and average short return of each portfolio to arrive at an average total return measure for each portfolio.

A. January 2002 – May 2012

We show the returns from January 2002 through May 2012 of each portfolio below:

Momentum (LR - SR)	Value (LR - SR)	Combined (LR - SR)
30.8%	62.4%	86.5%

* LR = Long Return; SR = Short Return

The 'Valuentum' portfolio generates a total return that was 24.1 percentage points better than the 'Value' portfolio alone and nearly three times that of the 'Momentum' portfolio alone during this time period.

Long Concentration

Short Concentration

Symbol	Return Jan 2002 - May 2012	Position
CAT	355.6%	Valuentum Long
MCD	330.1%	
CVX	235.5%	Valuentum Long
XOM	166.4%	Valuentum Long
UTX	160.5%	Valuentum Long
DIS	137.1%	Valuentum Short
KO	124.6%	Valuentum Short
BA	113.7%	
IBM	107.2%	
AXP	105.8%	
PG	97.3%	Valuentum Short
MMM	96.5%	
DD	61.0%	
VZ	53.3%	
T	52.9%	Valuentum Long
JNJ	42.3%	
WMT	29.0%	
HD	22.7%	Valuentum Long
MSFT	18.5%	Valuentum Short
HPQ	14.2%	Valuentum Short
MRK	1.0%	
INTC	-9.6%	Valuentum Short
CSCO	-16.0%	Valuentum Short
PFE	-21.9%	Valuentum Long*
GE	-27.7%	
AA	-70.2%	

* Entry offered less clear value signal and long position could be avoided with portfolio management overlay.

Out of the top five equity performers in the data set, the 'Valuentum' portfolio went long 4 of them in its portfolio (CAT, CVX, XOM, UTX), including the top performer (CAT). Out of the worst five equity performers during this time period, the 'Valuentum' portfolio went short 2 of them (INTC, CSCO). The worst performer (AA) would have flashed a short signal shortly after the snapshot date of January 2002.

Though the 'Valuentum' portfolio showed excellent stock-selection proficiency in identifying winners and losers (see long and short concentrations in previous image) during this time period, the 'Valuentum' portfolio faced a performance headwind by going short firms whose performance heading into the beginning of 2002 was considerably poor, namely with respect to DIS and KO. Another headwind was presented in the long selection of PFE, as price-to-earnings data was particularly volatile around the snapshot period for this company (20.8 in 2002 versus 161.3 in 2003).

We believe such performance headwinds can be mitigated through active management by limiting the portfolio's aggregate short exposure at the bottom of the business cycle and by steering clear of firms where the value signal is less certain (PFE). Further research may show additional benefits of a combination portfolio by adding a short-term trading overlay (more frequent re-balancing) and factoring in other firm-specific or macroeconomic indicators to bolster returns.

Valuentum Portfolio	Return (Jan 2002 - May 2012)
Long	
CAT	355.6%
CVX	235.5%
XOM	166.4%
UTX	160.5%
T	52.9%
HD	22.7%
PFE	-21.9%
Average Long Return	138.8%
Short	
CSCO	-16.0%
INTC	-9.6%
HPQ	14.2%
MSFT	18.5%
PG	97.3%
KO	124.6%
DIS	137.1%
Average Short Return	52.3%
LR - SR	86.5%

The outperformance of the combined value and momentum strategy may have been expected thanks to previous academic work, but the sorting proficiency of the combined value and momentum approach is quite remarkable. Not only did stocks on the long side of the 'Valuentum' portfolio produce the best returns of any sub-portfolio, on average, but stocks on the short side of the 'Valuentum' portfolio produced the worst returns of any sub-portfolio, on average.

Portfolio	Return
Valuentum Long Average	138.8%
Value Long Average	115.0%
Momentum Long Average	99.2%
Data Universe Average	83.8%
Weak Momentum Long Average	68.4%
Data Universe Median	57.2%
Growth Long Average	52.7%
Valuentum Short Average	52.3%

We think this is partly due to proficient stock-selection and partly due to more concentrated positions in better performing stocks on the long side and poor performing stocks on the short side. The 'Valuentum' portfolio consisted of 14 positions during this time period, while the 'Value' and 'Momentum' portfolios consisted of 26 positions each. This speaks to the benefits of the "over-weighting" of outperforming stocks on the long side and the "over-weighting" of underperforming stocks on the short side, a phenomenon that we hypothesize is present in the Asness, et al (2009) work.

Though not displayed for brevity, during this time period the 'Valuentum' portfolio also outperformed a growth-momentum portfolio combination, which goes long only stocks with both good growth and good momentum characteristics and goes short only stocks with both good value (poor growth) and poor momentum characteristics. During this time period, a growth-momentum portfolio combination generated a negative 30.5% return (-30.5%), as losses on the short side of the portfolio (83.5%) overwhelmed gains from the long side (53.1%).

B. January 1995 – May 2012

We show the returns from January 1995 through May 2012 of each portfolio below:

Momentum (LR - SR)	Value (LR - SR)	Combined (LR - SR)
321.0%	72.9%	426.7%

* LR = Long Return; SR = Short Return

Over this time period, the 'Valuentum' portfolio outperformed the 'Momentum' portfolio by 105.7 percentage points, while it dwarfed the returns of the 'Value' portfolio. Out of the top five equity performers in the data set, the 'Valuentum' portfolio went long the top 3 (IBM, UTX, CAT). Out of the worst five equity performers during this time period, the 'Valuentum' portfolio went short just one of them (DIS). The worst performing equity within our data set over this time

period, VZ, offered a good value signal and a poor momentum signal. The firm was not captured on the short side of the 'Valuentum' portfolio. The 'Valuentum' portfolio, however, revealed even greater sorting qualities between winners and losers during this time period, in our view.

Long Concentration

Short Concentration

Symbol	Return Jan 1995 - May 2012	Position
IBM	1203.2%	Valuentum Long
UTX	1150.3%	Valuentum Long
CAT	960.6%	Valuentum Long
MSFT	916.1%	
CSCO	797.3%	
XOM	711.1%	
CVX	687.7%	
AXP	665.6%	Valuentum Long
MCD	649.4%	
INTC	639.7%	
WMT	606.8%	
JNJ	522.0%	
HD	507.4%	Valuentum Short
PG	458.4%	Valuentum Long
PFE	420.7%	Valuentum Short
MMM	417.9%	Valuentum Short
BA	331.3%	
KO	304.2%	Valuentum Short
GE	252.3%	
MRK	239.2%	Valuentum Short
T	222.1%	Valuentum Long
DD	221.4%	
DIS	210.3%	Valuentum Short
HPQ	175.3%	
AA	20.7%	
VZ	14.7%	

Valuentum Portfolio	Return (Jan 1995 - May 2012)
Long	
IBM	1203.2%
UTX	1150.3%
CAT	960.6%
AXP	665.6%
PG	458.4%
T	222.1%
Average Long Return	776.7%
Short	
DIS	210.3%
MRK	239.2%
KO	304.2%
MMM	417.9%
PFE	420.7%
HD	507.4%
Average Short Return	350.0%
LR - SR	426.7%

Over this time period, the stocks on the long side of the 'Valuentum' portfolio produced the best returns of any sub-portfolio, on average, and stocks on the short side of the 'Valuentum' portfolio produced the worst returns of any sub-portfolio, on average. This is consistent with the results of time period January 2002 – May 2012.

Portfolio	Return
Valuentum Long Average	776.7%
Momentum Long Average	672.3%
Value Long Average	548.2%
Data Universe Average	511.8%
Data Universe Median	482.9%
Growth Long Average	475.3%
Weak Momentum Long Average	351.3%
Valuentum Short Average	350.0%

And again, we think this is partly due to proficient stock-selection and partly due to more concentrated positions in better performing stocks on the long side and poor performing stocks on the short side. The 'Valuentum' portfolio over this time period consisted of 12 positions, while the 'Value' and 'Momentum' portfolio consisted of 26 positions each. This again speaks to the benefits of the "over-weighting" of outperforming stocks on the long side and the "over-weighting" of underperforming stocks on the short side.

Though not displayed for brevity, during this time period the 'Valuentum' portfolio also outperformed a growth-momentum combination portfolio, which goes long only stocks with both good growth and good momentum characteristics and goes short only stocks with both good value (poor growth) and poor momentum characteristics. During this time period, a growth-momentum combination portfolio generated a 230.3% return (582.7% long less 352.4% short return), slightly worse than the 'Momentum' strategy alone but materially better than a 'Value' strategy.

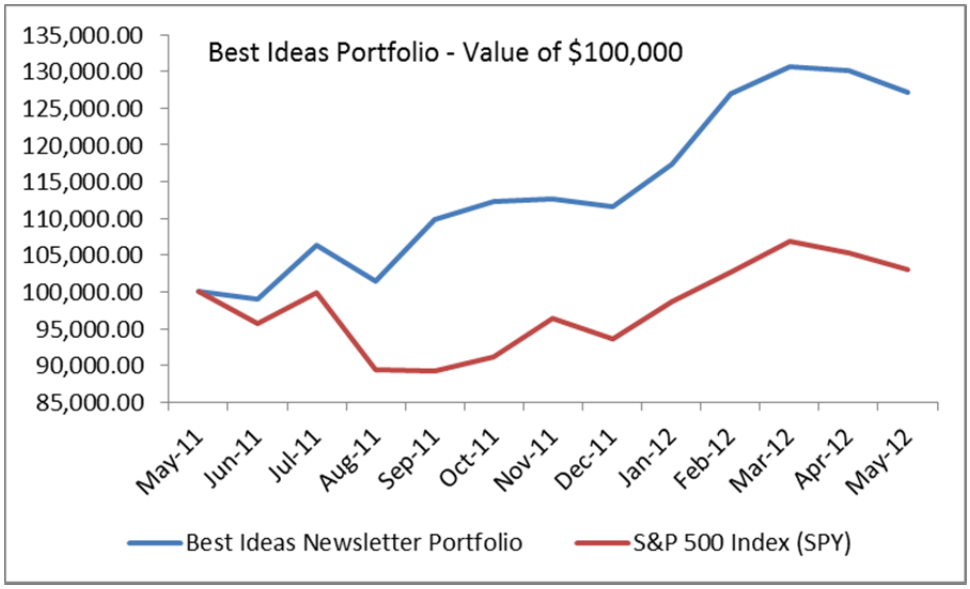
VI. Conclusions

Firms that have both good value and good momentum qualities generate abnormal returns relative to firms that have poor value and poor momentum qualities. A 'Valuentum' portfolio has been shown to consistently outperform value, growth, momentum and combined growth-momentum portfolios over various time periods. We also show that value may, depeneding on the data set and during certain time periods (January 2002 – May 2012), outperform momentum, a view that we believe is not necessarily inconsistent with the work of Asness, et al (2009). Still, over longer time horizons, momentum has outperformed value, further supporting previous academic literature. However, no other strategy (value, growth, momentum, or combined growth-momentum) stacks up to the power of the 'Valuentum' approach.

The Valuentum Style of Investing has been shown to sort winners from losers effectively and apply outsize weightings appropriately to maximize returns relative to value, growth, and momentum strategies, individually. The duration of the data used in our analysis also suggests that a 'Valuentum' portfolio can outperform over a longer-term horizon, even with limited or no re-balancing.

A. Empirical Evidence

We continue to empirically test our conclusions via the performance of the actively-managed portfolio included in our Best Ideas Newsletter. We believe a portfolio management overlay in actively adjusting the weightings of long and short exposure of 'Valuentum' equities (beyond the 50/50 approach) can result in even greater portfolio outperformance than what would be originally expected through predictive models. The performance of the portfolio of our Best Ideas Newsletter is another data point supporting the use of the Valuentum Style of Investing.



Value of a $100,000 Investment (includes dividends)														
	5/17/2011	6/15/2011	7/13/2011	8/12/2011	9/13/2011	10/11/2011	11/11/2011	12/12/2011	1/13/2012	2/12/2012	3/14/2012	4/13/2012	5/14/2012	Avg
Best Ideas Newsletter Portfolio	100,000.00	99,013.62	106,457.85	101,415.15	109,865.95	112,285.02	112,646.21	111,608.10	117,311.19	126,944.51	130,603.74	130,093.74	127,128.46	
SPY	100,000.00	95,773.08	99,832.69	89,492.80	89,206.42	91,154.57	96,399.88	93,679.25	98,623.11	102,783.18	106,965.86	105,341.02	103,057.16	
Outperformance	0.00	3,240.54	6,625.16	11,922.35	20,659.53	21,130.45	16,246.33	17,928.85	18,688.08	24,161.33	23,637.88	24,752.72	24,071.30	
Long Percentage (%)	10.0	49.7	90.9	86.8	83.7	89.2	95.0	94.5	86.4	82.8	83.3	83.2	68.3	77.2
Cash & Short Percentage (%)	90.0	50.3	9.1	13.2	16.3	10.8	5.0	5.5	13.6	17.2	16.7	16.8	31.7	22.8

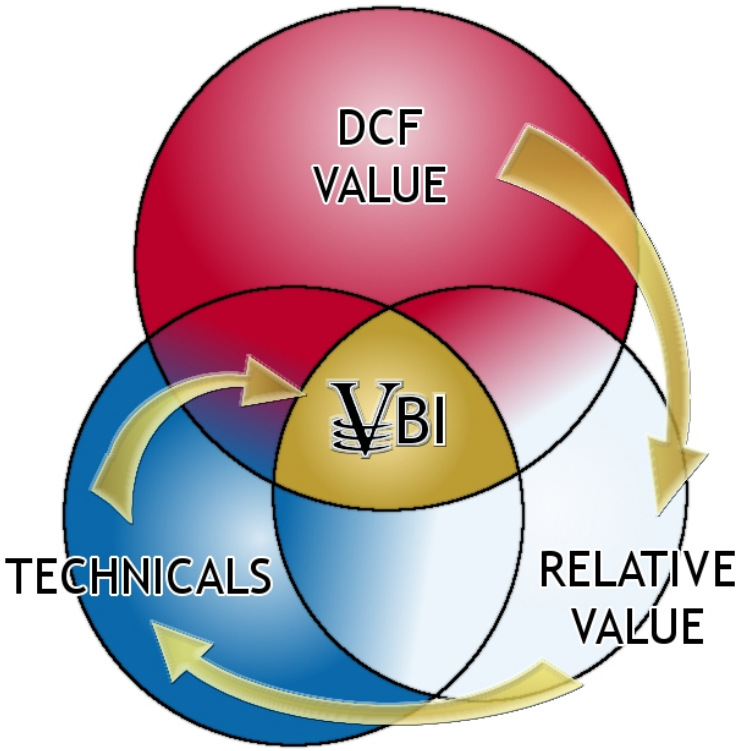
VII. Valuentum Investing – The Valuentum Buying Index

A. Introduction

The Valuentum Buying Index (VBI) is a contingent, adaptive stock-selection methodology that captures both the value and momentum qualities of individual equities at a particular point in time. We view the VBI as the most straightforward way to translate a rigorously back-tested process into a transparent and easy-to-follow investment methodology.

The Valuentum Buying Index (VBI), the center of the Venn diagram, 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 size of the circles reveals the relative emphasis we place on each investment consideration, while the arrows display the order of our process -- value first then technicals and momentum last. A firm's Valuentum Buying Index score is contingent on its value and momentum variables.

Stocks that meet our demanding criteria fall in the center of the Venn diagram, displaying attractive characteristics from a DCF basis (our primary value signal), a relative value basis, and with respect to a technical and momentum assessment (our momentum signal). Our process is consistent with the framework outlined in this paper in that both value and momentum assessments are integral to our stock-selection process.



Academic literature suggests that analyzing a stock across a wide spectrum of philosophies (namely value and momentum) is the clearest route to significant risk-adjusted portfolio outperformance. We embrace the combination of value and momentum strategies (and all cross-

methodological work) and view a firm's valuation and its technical and momentum indicators as core to a superior stock-selection process.

At Valuentum, we think companies that are attractive across the investment methodology spectrum – including value and momentum – have the greatest probability of capital appreciation and relative outperformance. On the other hand, we think the worst stocks will be shunned by most investment disciplines and display expensive valuations, poor technicals and deteriorating momentum indicators. Said differently, we're bullish on firms that have good value characteristics and good momentum characteristics, while we're bearish on firms that have poor value characteristics and poor momentum characteristics.

Another benefit of a unified value and momentum process, in our view, is that anecdotally it allows for improved entry and exit points on the most undervalued stocks. Future research may confirm that the greatest outperformance of undervalued equities may occur in immediate subsequent periods following an improvement in their underlying technical and momentum indicators. The work of Jagadeesh, et al (1993), for example, documents that over a three-to-twelve month horizon, past winners on average continue to outperform past losers, so when a stock becomes cheap, patience may be in order as it can certainly become cheaper.

> The price continuations are particularly notable for stocks with the worst past earnings performance, whose results are below average for up to three years afterwards (Jagadeesh, et al, 1993).

Only when both sides of the investment spectrum are combined can investors get the best stocks on the market today at the best prices, in our view. We think focusing just on valuation may encourage the buying of a stock all the way down (see Jagadeesh, et al, 1993), while just using technical and momentum indicators may expose an unhedged portfolio to significantly overpriced stocks at their peaks. We point to the dot-com bubble as evidence of this dynamic.

B. We Use a Rigorous Discounted Cash Flow Valuation Process as our Primary Value Signal

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. Warren Buffett's track record of investing in "economic castles protected by unbreachable moats" is one that cannot be ignored in our cross-methodological process. However, this area remains of key interest for further research as it is unclear whether such returns are driven more by the "value" factor of Buffett's style than a documented "moat" factor.

Recent data by Morningstar, for example, shows a negligible difference between the returns of its moat universe (about 60% of its covered stocks) versus the performance of the S&P 500 over the most recent 10-year time period. The data also show negligible difference in performance

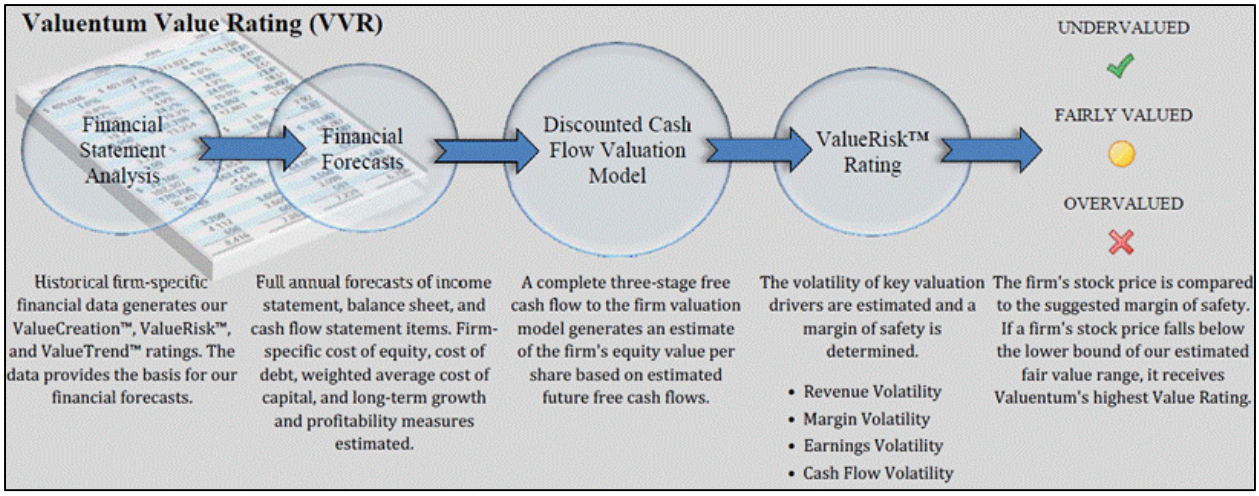
between wide and narrow moat stocks. However, when factoring in a valuation component to their process, as outlined in its Morningstar Wide Moat Focus Index Fund, the returns markedly improve relative to the S&P 500 Index. One can infer through this work that valuation may be more of an explanatory factor of returns than Buffett's "moat" factor, and if so, a combined value and momentum strategy may offer tangible portfolio benefits over such a value process alone (see Asness et al, 2009).

On the other hand, future research may instead conclude that Warren Buffett's style is consistent with the Valuentum Style of Investing as his focus on valuation coupled with the performance of the stocks in the Berkshire portfolio indicate most of his outsize returns come from undervalued firms that have generated significant relative price out-performance, and by extensive, positive momentum indicators over time. Undervalued firms with bullish technical and momentum indicators are 'Valuentum' stocks.

Though academic literature remains inconclusive to our knowledge on the major drivers behind Buffett's outperformance, economic-profit and competitive-advantage analysis remain key components of our process. We compare a company's return on invested capital (ROIC) to our estimate of its weighted average cost of capital (WACC) to assess whether it is creating economic profit for shareholders (ROIC less WACC equals economic profit). Firms that have improving economic profit spreads over their respective cost of capital score high on our ValueCreation and ValueTrend measures, while firms that have relatively stable returns score well with respect to our ValueRisk evaluation, which impacts our margin-of-safety assessment.

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 stocks with both good value and good momentum characteristics at bargain-basement levels. On the other hand, market volatility provides investors with opportunities to sell stocks with poor value and poor momentum characteristics at overpriced levels.

We then 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. The concept of momentum reinforces the idea of applying a fair value range in situations where the momentum "effect" may be present.

C. We Perform a Forward-Looking Relative Value Assessment to Bolster our Value Signal

Our discounted cash-flow process allows us to arrive at an absolute view of the firm's intrinsic value. However, we also include a forward-looking relative value assessment in our process to further bolster our rigorous discounted cash-flow process and improve our value signal. 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.

The inclusion of a relative value assessment using common valuation parameters further ties our real-world application to the standard valuation measures used in academic literature. A common value signal is the ratio of the book value of equity to the market value of equity, or book to market (*BM*). By employing the price-to-earnings ratio in our analysis, we are taking the inverse of this ratio and assessing the forward contributions to book value as opposed to book value itself. We view such an approach as a practical application of the value signal, particularly when combined with our rigorous discounted cash-flow process.

D. We Use Technical Analysis to Bolster our Momentum Signal

> Underlying the efficient market hypothesis is the notion that if any predictable patterns exist in returns, investors will quickly act to exploit them, until the source of predictability is eliminated. However, this does not seem to be the case for either stock return or earnings based momentum strategies. Both strategies have been well-known and were well-publicized by at least the early 1990s, but both continue to generate excess

> profits. We would argue that the momentum effect represents perhaps the strongest evidence against the efficient markets hypothesis (Jagadeesh 2001).

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 whether it has 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.

Rigorous valuation analysis and technical/momentum analysis are not mutually exclusive, and we believe both can be used together to bolster returns. Our firm-wide view is that technical analysis is in part a self-reinforcing prophecy, but we are not against capitalizing on the understanding of such a discipline. Chan, et al (1996) theorizes on the possibility of why momentum strategies may be effective:

> Another possibility is that the profitability of momentum strategies stems from overreaction induced by positive feedback trading strategies of the sort discussed by DeLong, Shleifer, Summers, and Waldmann (1990). This explanation implies that “trend-chasers” reinforce movements in stock prices even in the absence of fundamental information, so that the returns for past winners and losers are (at least partly) temporary in nature…(but)…The bulk of the evidence suggests that the drifts in future returns are not subsequently reversed, so momentum does not appear to be entirely driven by positive feedback trading.

An evaluation of a stock's 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. The application of simple moving averages to our process allows us to identify stocks whose near-term performance is stronger than their intermediate-term performance, thus revealing the momentum signal.

We embrace the idea that the future is inherently unpredictable and that not all fundamental factors can be included in a valuation model. By extension, we also use technical and momentum analysis to help safeguard us against value traps, negative momentum trends, analyst error, and the opportunity cost of holding an undervalued equity for years before it converges to fair value. As the work of Chan, et al (1996) suggests, even an undervalued equity can underperform for up to three years after a poor earnings report.

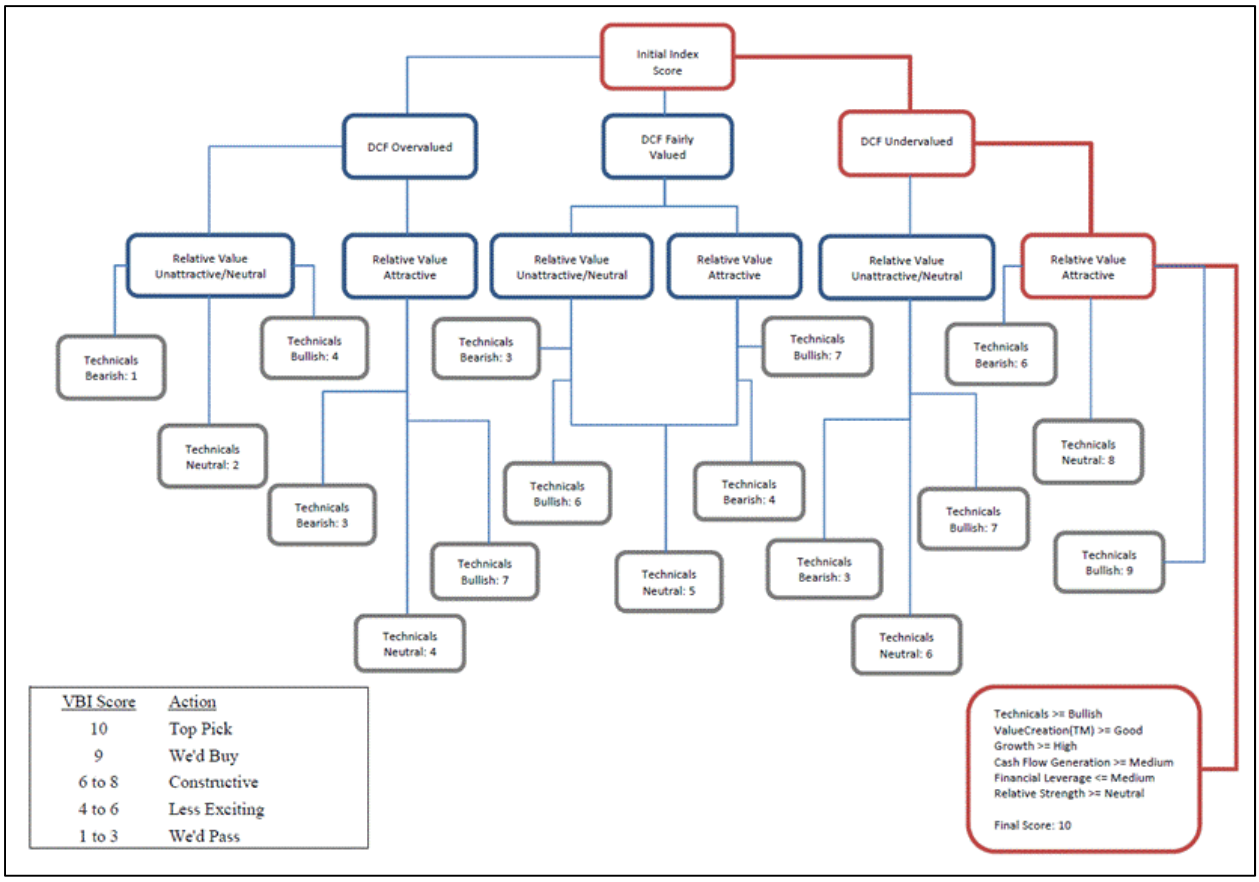
E. Combining Value and Momentum - the Valuentum Buying Index

The red line on the flow chart below reveals our contingent, adaptive stock-selection methodology. We strive to identify stocks where both the value and momentum signals are clearly good or clearly poor.

To earn the highest score on our scale, the company would need to be undervalued on a DCF basis and attractive on a relative value basis. We view this assessment as key in determining whether the firm meets the criteria of having good value characteristics. The stock would also have to be exhibiting bullish technical and momentum indicators, the latter used in assessing whether the company meets the criteria of having good momentum characteristics.

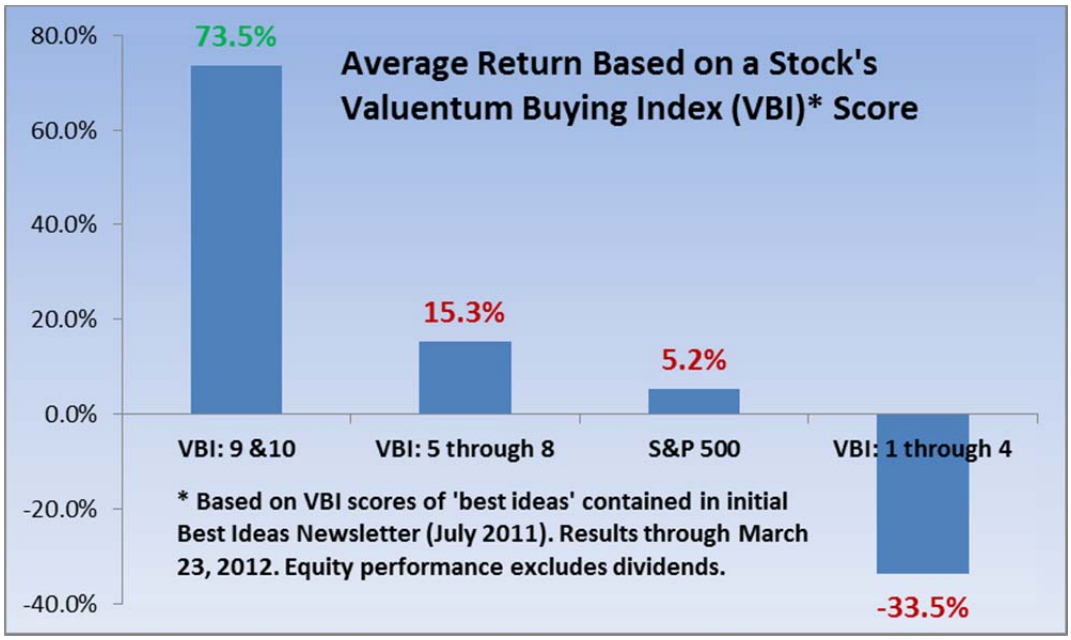
The firm would need a ValueCreation rating of good or excellent, exhibit high or aggressive growth prospects, and generate at least a medium or neutral assessment for cash flow generation, financial leverage, and relative price strength. We use these fundamental factors as a way to capture relatively high quality firms within our portfolio and to safeguard against a variety of risks (deteriorating product demand, liquidity issues, etc.) while also capturing any perceived phenomenon related to a “moat” factor.

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.



F. Performance of the Valuentum Buying Index

Initial testing results of the Valuentum Buying Index have been very encouraging. The performance reflects the subset of firms deemed to fit the 'Valuentum' style at the time of the writing of our inaugural Best Ideas Newsletter in July 2011. Firms that generate a 9 or 10 on our Valuentum Buying Index have good value characteristics and good momentum characteristics, while firms that generate a 1 through 4 typically have poor value characteristics and neutral or poor momentum characteristics. The results are consistent with previous academic literature, and we expect to expand our sample set over time.



Additionally, the performance remains consistent with a combined value and momentum approach, while the smaller, more selective data set (embedded in the above performance) indicates that a portfolio management overlay may be able to extract even more outperformance than traditional predictive models by mitigating positions with less clear value and momentum indicators or avoiding them altogether.

January 2002 – May 2012

Figure I

Symbol	Price / Earnings
BA	54.1
AA	39.2
CSCO	35.3
INTC	33.9
DIS	31.6
MSFT	29.8
WMT	29.3
HPQ	27.7*
KO	27.5
IBM	25.3
JNJ	24.9
MMM	24.7
PG	24.6
VZ	23.2
DD	23.0
XOM	21.7
MCD	20.9
PFE	20.8
CAT	19.9
MRK	18.1
AXP	17.7
GE	16.1
HD	15.3
UTX	14.0
T	12.2
CVX	12.2*

* 2003 PE; 2002 PE NMF.

Figure II

Symbol	2yr Trail Perf - 2002
JNJ	37.3%
UTX	33.3%
CAT	26.4%
MMM	24.2%
PFE	17.3%
WMT	10.7%
CVX	6.5%
AA	6.2%
XOM	-1.6%
IBM	-3.0%
BA	-5.6%
T	-8.6%
HD	-10.9%
GE	-14.5%
PG	-15.7%
DD	-20.4%
VZ	-20.6%
MRK	-21.9%
KO	-22.0%
MCD	-26.2%
INTC	-28.9%
AXP	-33.7%
MSFT	-34.9%
DIS	-41.0%
HPQ	-46.6%
CSCO	-63.8%

January 1995 – May 2012

Figure III

Symbol	Price / Earnings
BA	68.2
MSFT	39.0
CSCO	36.7
CVX	36.6
HD	35.4
KO	31.3
MMM	28.6
PFE	25.2
MRK	24.3
JNJ	23.0
MCD	22.9
DIS	22.1
HPQ	20.0
WMT	19.6
PG	19.4
GE	18.5
T	18.5
UTX	16.6
VZ	16.4
XOM	15.5
INTC	14.1
AXP	13.3
IBM	12.6
DD	12.5
AA	11.9
CAT	10.3

Figure IV

Symbol	2yr Trail Perf - 1995
CAT	86.8%
AXP	64.6%
CSCO	50.4%
IBM	47.0%
UTX	46.0%
HPQ	43.3%
JNJ	38.6%
MSFT	37.5%
PG	37.1%
MCD	36.4%
T	33.6%
CVX	33.2%
BA	32.7%
INTC	30.8%
PFE	30.8%
KO	28.1%
GE	26.7%
DD	24.6%
VZ	14.7%
MMM	14.0%
DIS	13.0%
XOM	12.1%
AA	11.0%
MRK	6.3%
HD	-3.8%
WMT	-29.0%

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Glossary of Valuentum Terms

Business Quality Matrix. We compare the firm's ValueCreation and ValueRisk ratings. The box is an easy way for investors to quickly assess the business quality of a company. Firms that generate economic profits with little operating variability score near the top right of the matrix.

Cash Flow Generation. Firms' cash flow generation capacity are measured along the scale of STRONG, MEDIUM, and WEAK. A firm with a 3-year historical free cash flow margin (free cash flow divided by sales) greater than 5% receives a STRONG rating, while firms earning less than 1% of sales as free cash flow receive a WEAK rating.

Company Description. The description section provides a brief company profile and in the top right corner indicates the investment style that Valuentum assigns to the stock. Nano-cap: Less than $50 million; Micro-cap: Between $50 million and $200 million; Small-cap: Between $200 million and $2 billion; Mid-cap: Between $2 billion and $10 billion; Large-cap: Between $10 billion and $200 billion; Mega-cap: Over $200 billion. Blend: Firm's that we think are undervalued and exhibit high growth prospects (growth in excess of three times the rate of assumed inflation). Value: Firm's that we believe are undervalued, but do not exhibit high growth prospects. Growth: Firms that are not undervalued, in our opinion, but exhibit high growth prospects. Core: Firms that are neither undervalued nor exhibit high growth prospects.

Company Vitals. In this section, we list key financial information and the sector and industry that Valuentum assigns to the stock. The P/E-Growth (5-yr), or PEG ratio, divides the current share price by last year's earnings (EPS) and then divides that quotient by our estimate of the firm's 5-year EPS growth rate. The estimated normalized diluted EPS and estimated normalized EBITDA represent the five-year forward average of these measures used in our discounted cash flow model. The P/E on estimated normalized EPS divides the current share price by estimated normalized diluted EPS. The EV/estimated normalized EBITDA considers the current enterprise value of the

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company and divides it by estimated normalized EBITDA. EV is defined as the firm's market capitalization plus total debt, minority interest, preferred stock less cash and cash equivalents.

DCF Valuation. We opine on the firm's valuation based on our DCF process. Firms that are trading with an appropriate discount to our fair value estimate receive an UNDERVALUED rating. Firms that are trading within our fair value range receive a FAIRLY VALUED rating, while firms that are trading above the upper bound of our fair value range receive an OVERVALUED rating.

Dividend Growth Potential. We blend our analysis of a firm's Dividend Safety with its historical Track Record, while also considering historical dividend growth trends. We believe such a combination captures a firm's capacity (cash flow) and willingness (track record) to raise its dividend in the future. Scale: EXCELLENT, GOOD, POOR, VERY POOR.

Dividend Safety. We measure the safety of a firm's dividend by adding its net cash to our forecast of its future cash flows and divide that sum by our forecast of its future dividend payments. This process results in a ratio called the Valuentum Dividend Cushion™. Scale: Above 2.75 = EXCELLENT; Between 1.25 and 2.75 = GOOD; Between 0.5 and 1.25 = POOR; Below 0.5 = VERY POOR.

Dividend Strength. Our assessment of the firm's dividend strength is expressed in a matrix. If the safety of a firm's dividend is EXCELLENT and its growth prospects are also EXCELLENT, it scores high on our matrix (top right). If the firm's dividend safety and the potential future growth are VERY POOR, it scores lower on our scale (bottom left).

Dividend Track Record. We assess each firm's dividend track record based on whether the fundamentals of the firm have ever forced it to cut its dividend. If the firm has ever cut its dividend (within the last 10 years), we view its track record as RISKY. If the firm has maintained and/or raised its dividend each year (over the past 10 years), we view its track record as HEALTHY.

Estimated Fair Value. This measure is an output of our DCF valuation model and represents our opinion of the fair equity value per share of the company.

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We would expect a firm's stock price to converge to this value within the next 3 years.

Fair Value Range. The fair value range represents an upper bound and lower bound, between which we would consider the firm to be fairly valued. The range considers our estimate of the firm's fair value and the margin of safety suggested by the volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow (the determinants behind our ValueRisk rating).

Financial Leverage. Based on the firm's normalized debt-to-EBITDA metric, we rank firms on the following scale: LOW, MEDIUM, and HIGH. Companies with a normalized debt-to-EBITDA ratio below 1.5 receive a LOW score, while those with a measure above 3 receive a HIGH score.

Money Flow Index (MFI). The MFI is a technical indicator that measures buying and selling pressure based on both price and volume. Traders typically use this measure to identify potential reversals with overbought and oversold levels. We use a 14-week measure to rank firms along the following scale: EXTREMELY OVERBOUGHT (>90), OVERBOUGHT (80-90), NEUTRAL (20-80), OVERSOLD (10-20), EXTREMELY OVERSOLD (0-10).

Range of Potential Outcomes. The firm's margin of safety is shown in the graphic of a normal distribution. We consider a firm to be undervalued if its stock price falls along the green line and overvalued if the stock price falls along the red line. We consider the firm to be fairly valued if its stock price falls along the yellow line.

Relative Value. We compare the firm's forward price-to earnings (PE) ratio and its price/earnings-to-growth (PEG) ratio to that of its peers. If both measures fall below the peer median, the firm receives an ATTRACTIVE rating. If both are above the peer median, the firm receives an UNATTRACTIVE rating. Any other combination results in a NEUTRAL rating.

Return on Invested Capital. At Valuentum, we place considerable emphasis on return on invested capital (both with and without goodwill). The measure focuses on the return (earnings) the company is generating on its operating

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assets and is superior to return on equity and return on assets, which can be skewed by a firm's leverage or excess cash balance, respectively.

Risk of Capital Loss. We think capital preservation is key for the dividend investor. As such, we evalute the risk of capital loss by assessing the intrinsic value of each firm based on our discounted cash-flow process. If a firm is significantly OVERVALUED, we think the risk of capital loss is HIGH. If a firm is FAIRLY VALUED, we think the risk of capital loss is MEDIUM, and if a firm is UNDERVALUED, we think the risk of capital loss is LOW.

Stock Price Relative Strength. We assess the perfomance of the company's stock during the past quarter, 13 weeks, relative to an ETF that mirrors the aggregate performance of constituents of the stock market. Firms are measured along the scale of STRONG, NEUTRAL, and WEAK. Companies that have outperformed the market index by more than 2.5% during this 13-week period receive a STRONG rating, while firms that trailed the market index by more than 2.5% during this 13-week period receive a WEAK rating.

Technical Evaluation. We evaluate a firm's near-term and medium-term moving averages and money flow index (MFI) to assign each firm a rating along the following scale: VERY BULLISH, BULLISH, NEUTRAL, BEARISH, and VERY BEARISH.

Timeliness Matrix. We compare the company's recent stock performance relative to the market benchmark with our assessment of its valuation. Firms that are experiencing near-term stock price outperformance and are undervalued by our estimate may represent timely buys.

Upside/Downside Volume. Heavy volume on up days and lower volume on down days suggests that institutions are heavily participating in a stock's upward advance. We use the trailing 14-week average of upside and downside volume to calculate an informative ratio. We rank each firm's U/D volume ratio along the following scale: BULLISH, IMPROVING, DETERIORATING, and BEARISH.

ValueCreation. This is a proprietary Valuentum measure. ValueCreation indicates the firm's historical track record in creating economic value for shareholders, taking the average difference between ROIC (without goodwill)

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and the firm's estimated WACC during the past three years. The firm's performance is measured along the scale of EXCELLENT, GOOD, POOR, and VERY POOR. Those firms with EXCELLENT ratings have a demonstrated track record of creating economic value, while those that register a VERY POOR mark have been destroying economic value.

Valuentum Dividend Cushion™. This is a proprietary Valuentum measure that drives our assessment of the firm's Dividend Safety rating. The forward-looking measure assesses dividend coverage via the cash characteristics of the business.

ValueRisk. This is a proprietary Valuentum measure. ValueRisk indicates the historical volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow. The standard deviation of each measure is calculated and scaled against last year's measure to arrive at a percentage deviation for each item. These percentage deviations are weighted equally to arrive at the corresponding fair value range for each stock, measured in percentage terms. The firm's performance is measured along the scale of LOW, MEDIUM, HIGH, and VERY HIGH. The ValueRisk™ rating for each firm also determines the fundamental beta of each firm along the following scale: LOW (0.85), MEDIUM (1), HIGH (1.15), VERY HIGH (1.3).

ValueTrend. This is a proprietary Valuentum measure. ValueTrend indicates the trajectory of the firm's return on invested capital (ROIC). Firms that earned an ROIC last year that was greater than the 3-year average of the measure earn a POSITIVE rating. Firms that earned an ROIC last year that was less than the 3-year average of the measure earn a NEGATIVE rating.

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