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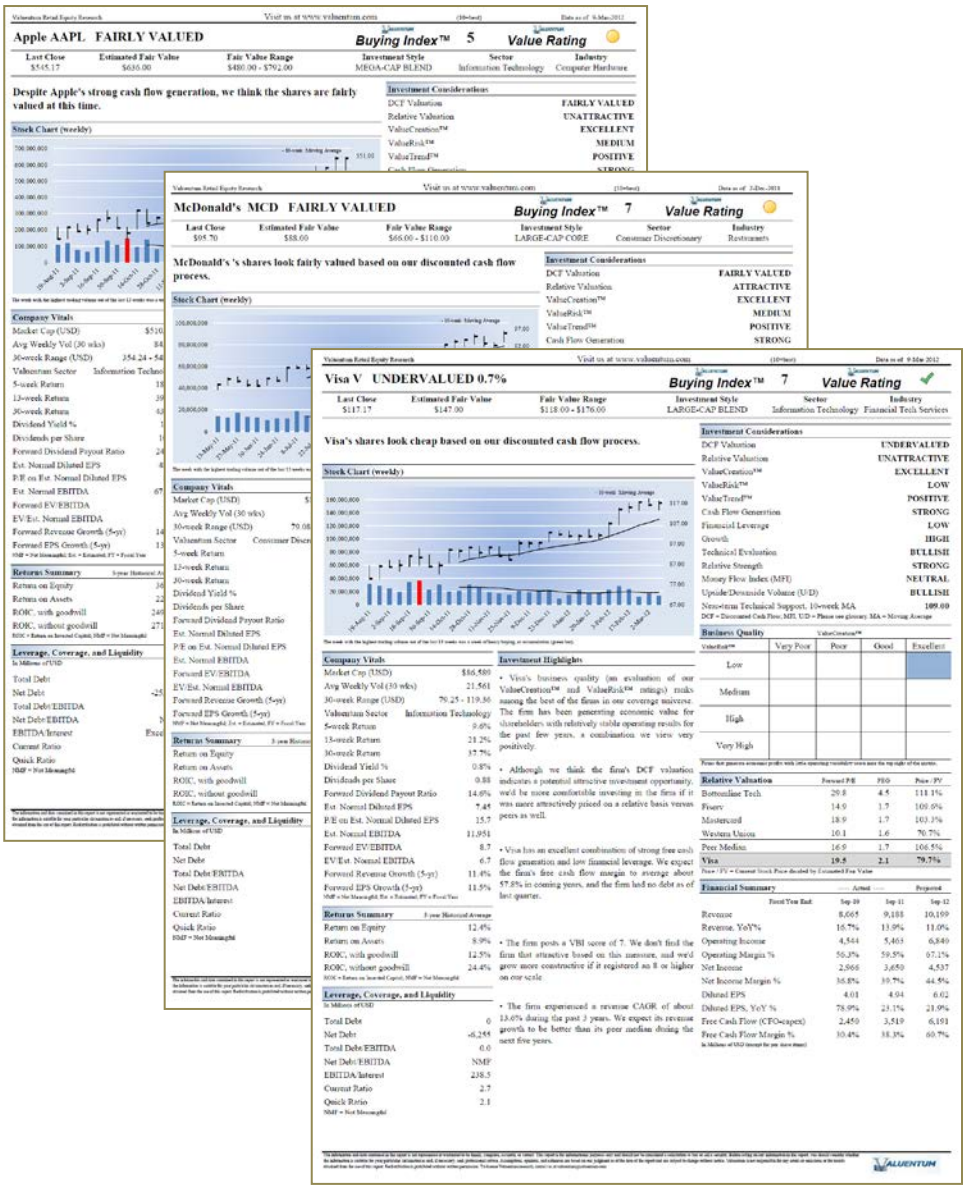
Valuentum *Ideas100*™

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**



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Consumer Discretionary

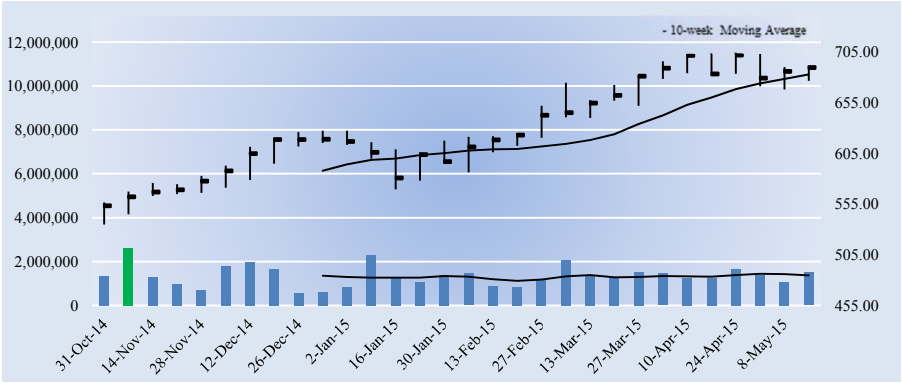
AutoZone AZO OVERVALUED 2%

Buying Index™ 7 **Value Rating** ✕

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$563.00	$450.00 - $676.00	LARGE-CAP CORE	Consumer Discretionary	Specialty Retail - auto

AutoZone has grown revenue roughly 10-fold since 1990.

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)	$23,373
Avg Weekly Vol (30 wks)	1,350
30-week Range (USD)	535.05 - 705
Valuentum Sector	Consumer Discretionary
5-week Return	-1.3%
13-week Return	12.1%
30-week Return	28.4%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	46.81
P/E on Est. Normal Diluted EPS	14.7
Est. Normal EBITDA	2,754
Forward EV/EBITDA	12.1
EV/Est. Normal EBITDA	10.0
Forward Revenue Growth (5-yr)	5.0%
Forward EPS Growth (5-yr)	13.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	-64.6%
Return on Assets	15.2%
ROIC, with goodwill	40.1%
ROIC, without goodwill	45.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,380
Net Debt	4,256
Total Debt/EBITDA	2.1
Net Debt/EBITDA	2.1
EBITDA/Interest	12.2
Current Ratio	0.8
Quick Ratio	0.1

NMF = Not Meaningful

Investment Highlights

• 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 peers such as Advance Auto and Pep Boys. Its US retail business is its #1 priority. The company was founded in 1979 and is based in Tennessee.

• 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.

• 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.

• AutoZone perhaps is the poster child for aggressive share buybacks, and its stockholders have been handsomely rewarded by its friendly activities. Since 1998, the firm's share repurchase program has witnessed nearly $16 billion in authorizations.

• It's difficult to beat the consistency of AutoZone's performance. The company has put up more than 30 consecutive quarters of double-digit earnings per share expansion. Inventory availability initiatives remain key to its success.

Investment Considerations

DCF Valuation	**OVERVALUED**
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	**683.00**

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
AutoNation	15.0	1.7	100.5%
CarMax	23.5	1.7	104.7%
O'Reilly Automotive	25.4	1.8	122.6%
Penske	13.5	0.9	97.7%
Peer Median	19.3	1.7	102.6%
AutoZone	**19.0**	**1.7**	**122.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-13	Aug-14	Aug-15
Revenue	9,148	9,475	10,148
Revenue, YoY%	6.3%	3.6%	7.1%
Operating Income	1,773	1,830	2,037
Operating Margin %	19.4%	19.3%	20.1%
Net Income	1,016	1,070	1,203
Net Income Margin %	11.1%	11.3%	11.9%
Diluted EPS	27.79	31.57	36.22
Diluted EPS, YoY %	18.3%	13.6%	14.7%
Free Cash Flow (CFO-capex)	1,001	904	1,118
Free Cash Flow Margin %	10.9%	9.5%	11.0%

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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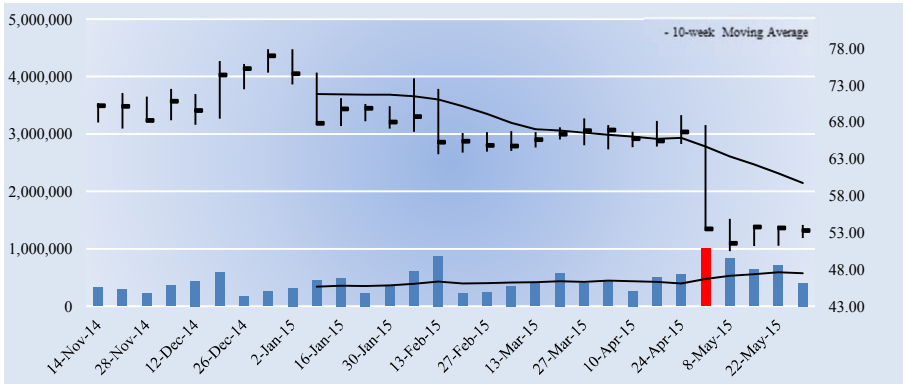
Capella Education CPLA FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$59.00	$38.00 - $80.00	SMALL-CAP VALUE	Consumer Discretionary	Education Services

A healthy dividend, an ongoing share buyback program, strong free cash flow and a pristine balance sheet make Capella a standout.

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**HIGH**
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	**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.

Company Vitals

Market Cap (USD)	$668
Avg Weekly Vol (30 wks)	449
30-week Range (USD)	50.48 - 77.86
Valuentum Sector	Consumer Discretionary
5-week Return	-20.5%
13-week Return	-17.9%
30-week Return	-23.8%
Dividend Yield %	2.8%
Dividends per Share	1.48
Forward Dividend Payout Ratio	43.7%
Est. Normal Diluted EPS	3.85
P/E on Est. Normal Diluted EPS	13.9
Est. Normal EBITDA	106
Forward EV/EBITDA	5.7
EV/Est. Normal EBITDA	5.1
Forward Revenue Growth (5-yr)	3.1%
Forward EPS Growth (5-yr)	6.9%

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

Investment Highlights

• Capella is an online post-secondary education firm and the parent company of Capella University, a regionally accredited online university, and Resource Development Intl, an independent provider of United Kingdom university distance learning qualifications. More than 70% of learners at Capella are enrolled in a master's or doctoral degree program. Our favorite attribute of Capella is that it is primarily online-based, which keeps invested capital low and is largely responsible for its impressive Economic Castle rating. The firm owns the social education platform, Sophia. Capella was founded in 1991.

• Capella's groundbreaking FlexPath program, which offers bachelor's and master's levels degrees based on the competencies a learner can demonstrate rather than on the traditional credit hour model, is quite innovative. Capella was the first institution approved by the DOE and HLC to offer such a program.

• Hands down, Capella has the best business model in the for-profit education space. We're huge fans of its online-based plaform, which keeps investment in check, and the firm is one of the few in its industry actually expanding. Revenue increased more than 3% in the first quarter of 2015.

• A healthy dividend, an ongoing share buyback program, strong free cash flow and a pristine balance sheet make Capella a standout. As of March 2015, the firm had cash and marketable securities of $171.4 million and no debt.

Relative Valuation

	Forward P/E	PEG	Price / FV
Apollo Group	15.1	NMF	82.9%
Career Education	-7.2	NMF	94.3%
DeVry	12.4	12.2	88.4%
Strayer Education	13.8	NMF	75.1%
Peer Median	13.1	12.2	85.6%
Capella Education	**15.7**	**2.6**	**90.3%**

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

Returns Summary

	3-year Historical Average
Return on Equity	21.4%
Return on Assets	16.4%
ROIC, with goodwill	128.9%
ROIC, without goodwill	215.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	416	422	423
Revenue, YoY%	-1.5%	1.5%	0.3%
Operating Income	60	64	70
Operating Margin %	14.4%	15.2%	16.5%
Net Income	35	38	42
Net Income Margin %	8.5%	9.0%	9.9%
Diluted EPS	2.80	3.03	3.38
Diluted EPS, YoY %	1.5%	8.1%	11.8%
Free Cash Flow (CFO-capex)	51	45	50
Free Cash Flow Margin %	12.2%	10.6%	11.8%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-124
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	3.2
Quick Ratio	3.0

NMF = Not Meaningful

Structure of the Education Services Industry — VERY POOR

The higher education industry is fragmented with no single private or public institution garnering significant market share. The for-profit education space competes primarily with traditional four and two-year degree-granting accredited colleges and universities. Industry participants are exposed to significant regulation on both the federal and state level and must maintain institutional accreditation to participate in Title IV programs. Risks to federal student funding aid programs and "gainful employment" challenges pose addition threats to the business. We don't like the significant regulatory risks of the industry.

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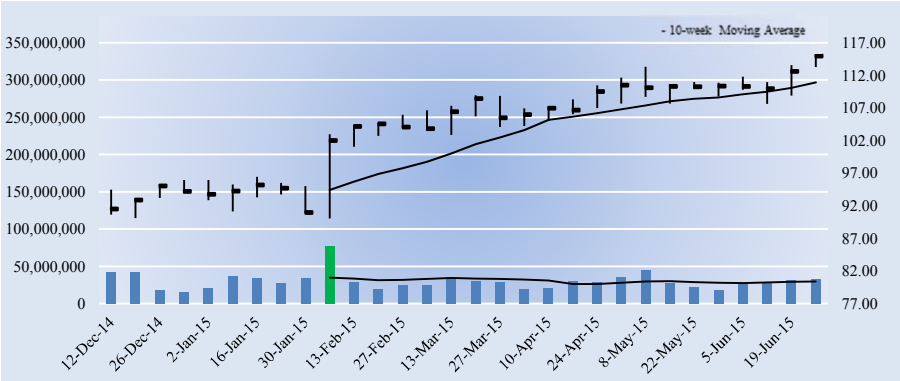
Disney DIS FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$94.00	$73.00 - $115.00	MEGA-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 selling, or distribution (red bar).

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	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week 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.

Company Vitals

Market Cap (USD)	$202,267
Avg Weekly Vol (30 wks)	30,288
30-week Range (USD)	90.06 - 115.28
Valuentum Sector	Consumer Discretionary
5-week Return	4.4%
13-week Return	8.4%
30-week Return	22.1%
Dividend Yield %	1.1%
Dividends per Share	1.32
Forward Dividend Payout Ratio	25.8%
Est. Normal Diluted EPS	6.64
P/E on Est. Normal Diluted EPS	17.3
Est. Normal EBITDA	19,447
Forward EV/EBITDA	13.5
EV/Est. Normal EBITDA	11.0
Forward Revenue Growth (5-yr)	6.8%
Forward EPS Growth (5-yr)	14.3%

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

Investment Highlights

• 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 names.

• We've been extremely generous in our model for Disney. We are builing in high single-digit revenue growth and solid margin expansion, as well as using one of the lowest costs of equity within our coverage universe. Shares are pricey at current levels.

• Disney 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 21% during the past three years.

• 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).

Relative Valuation

	Forward P/E	PEG	Price / FV
IMAX Corp	35.2	2.4	124.9%
Live Nation	134.7	NMF	92.2%
Madison Square Garden	27.2	2.8	164.5%
News Corp	32.7	NMF	95.0%
Peer Median	33.9	2.6	109.9%
Disney	**22.5**	**1.9**	**122.3%**

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

Returns Summary

	3-year Historical Average
Return on Equity	16.4%
Return on Assets	8.9%
ROIC, with goodwill	11.0%
ROIC, without goodwill	21.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-13	Sep-14	Sep-15
Revenue	45,041	48,813	52,572
Revenue, YoY%	6.5%	8.4%	7.7%
Operating Income	9,450	11,540	13,371
Operating Margin %	21.0%	23.6%	25.4%
Net Income	6,136	7,501	8,810
Net Income Margin %	13.6%	15.4%	16.8%
Diluted EPS	3.38	4.26	5.11
Diluted EPS, YoY %	8.3%	26.0%	19.8%
Free Cash Flow (CFO-capex)	6,656	6,469	8,162
Free Cash Flow Margin %	14.8%	13.3%	15.5%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	14,840
Net Debt	11,419
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.8
EBITDA/Interest	47.0
Current Ratio	1.1
Quick Ratio	0.8

NMF = Not Meaningful

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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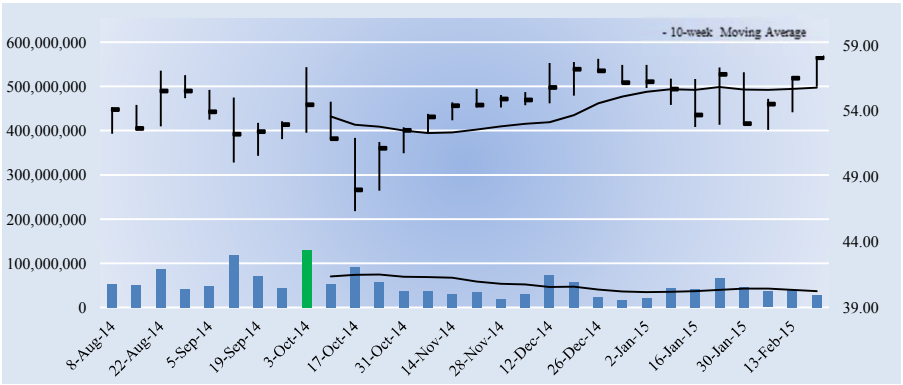
eBay EBAY UNDERVALUED 3.4%

Buying Index™ 7 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$75.00	$60.00 - $90.00	LARGE-CAP BLEND	Consumer Discretionary	Internet & Catalog Retail

eBay will spin off PayPal into a separate publicly-traded company in the second half of 2015.

Stock Chart (weekly)



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

Investment Considerations

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

Company Vitals

Market Cap (USD)	$73,221
Avg Weekly Vol (30 wks)	51,257
30-week Range (USD)	46.34 - 58.05
Valuentum Sector	Consumer Discretionary
5-week Return	7.6%
13-week Return	6.0%
30-week Return	10.7%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	3.93
P/E on Est. Normal Diluted EPS	14.8
Est. Normal EBITDA	9,252
Forward EV/EBITDA	9.3
EV/Est. Normal EBITDA	7.6
Forward Revenue Growth (5-yr)	9.4%
Forward EPS Growth (5-yr)	166.2%

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

Investment Highlights

• eBay'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.

• 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. The firm will spin off PayPal into a separate publicly-traded company in the second half of 2015.

• eBay 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 21.1% in coming years. Total debt-to-EBITDA was 1.3 last year, while debt-to-book capitalization stood at 27.7%.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Amazon.com	NMF	NMF	101.2%
Expedia	23.4	1.5	91.4%
Liberty Interactive	26.3	1.6	100.8%
Priceline.com	20.9	1.5	75.4%
Peer Median	23.4	1.5	96.1%
eBay	**18.5**	**9.6**	**77.4%**

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

Returns Summary

	3-year Historical Average
Return on Equity	8.8%
Return on Assets	5.2%
ROIC, with goodwill	25.7%
ROIC, without goodwill	75.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	16,047	17,902	19,012
Revenue, YoY%	14.0%	11.6%	6.2%
Operating Income	3,371	4,472	6,010
Operating Margin %	21.0%	25.0%	31.6%
Net Income	2,856	46	3,913
Net Income Margin %	17.8%	0.3%	20.6%
Diluted EPS	2.18	0.04	3.14
Diluted EPS, YoY %	9.5%	-98.3%	8517.5%
Free Cash Flow (CFO-capex)	3,745	4,406	4,137
Free Cash Flow Margin %	23.3%	24.6%	21.8%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,627
Net Debt	-2,471
Total Debt/EBITDA	1.3
Net Debt/EBITDA	NMF
EBITDA/Interest	48.5
Current Ratio	1.5
Quick Ratio	1.4

NMF = Not Meaningful

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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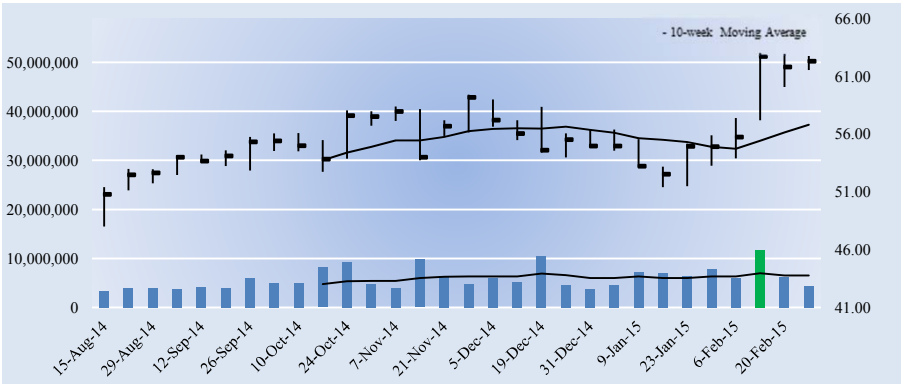
Hasbro HAS FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$66.00	$53.00 - $79.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$8,213
Avg Weekly Vol (30 wks)	5,933
30-week Range (USD)	48.01 - 63.09
Valuentum Sector	Consumer Discretionary
5-week Return	15.9%
13-week Return	9.0%
30-week Return	23.5%
Dividend Yield %	3.0%
Dividends per Share	1.84
Forward Dividend Payout Ratio	58.4%
Est. Normal Diluted EPS	4.00
P/E on Est. Normal Diluted EPS	15.6
Est. Normal EBITDA	1,005
Forward EV/EBITDA	10.4
EV/Est. Normal EBITDA	8.9
Forward Revenue Growth (5-yr)	5.0%
Forward EPS Growth (5-yr)	18.4%

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 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. The company was founded in 1923.

• Though concerns over the demise of physical toys may not be completely unfounded in this digital age, Hasbro is less a toy company than it is a licensing firm. During 2014, high-margin entertainment and licensing revenue advanced 15%, while this segment's operating profit leapt 30%+.

• 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. The firm recently announced intentions to buy back a significant amount of stock.

• Hasbro's new strategic merchandizing relationship with Disney Consumer Products for the Disney Princess and Frozen properties is a huge win, and we expect the company to benefit from the relationship for years to come.

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

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	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**57.00**

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	22.5	1.3	102.3%
Intl Game Technology	18.2	1.6	99.1%
Mattel	17.7	NMF	94.0%
Royal Caribbean	22.5	1.3	109.2%
Peer Median	20.3	1.3	100.7%
Hasbro	**19.8**	**1.6**	**94.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	4,089	4,082	4,280
Revenue, YoY%	-4.6%	-0.2%	4.9%
Operating Income	552	467	612
Operating Margin %	13.5%	11.4%	14.3%
Net Income	336	286	411
Net Income Margin %	8.2%	7.0%	9.6%
Diluted EPS	2.55	2.17	3.15
Diluted EPS, YoY %	-9.7%	-14.7%	45.1%
Free Cash Flow (CFO-capex)	465	529	483
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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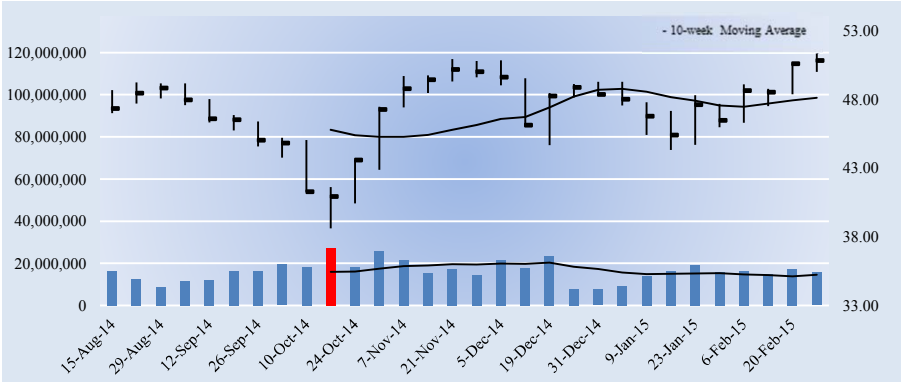
Johnson Controls JCI FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$48.00	$38.00 - $58.00	LARGE-CAP CORE	Consumer Discretionary	Auto Parts Suppliers

Johnson Controls boasts a number of world-class businesses.

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)	$35,018
Avg Weekly Vol (30 wks)	16,294
30-week Range (USD)	38.6 - 51.39
Valuentum Sector	Consumer Discretionary
5-week Return	7.1%
13-week Return	2.7%
30-week Return	4.9%
Dividend Yield %	2.0%
Dividends per Share	1.04
Forward Dividend Payout Ratio	32.6%
Est. Normal Diluted EPS	3.80
P/E on Est. Normal Diluted EPS	13.4
Est. Normal EBITDA	6,137
Forward EV/EBITDA	7.5
EV/Est. Normal EBITDA	6.4
Forward Revenue Growth (5-yr)	0.5%
Forward EPS Growth (5-yr)	20.9%

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 is a major player in building efficiency solutions, automotive batteries, and interior auto systems. It boasts some world-class businesses, and automotive seating and building efficiency are its two largest operations. Planned divestitures will pressure reported top-line numbers, but an EPS range of $3.55-$3.70 during fiscal 2015 is achievable.

• As with many of the executive suites at other firms, management has outlined the Asia Pacific region, led by China, as the most important growth region over the next 2-3 decades. Johnson Controls is overweighting investments in China across its businesses.

• 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.

• Management talks a lot about the Johnson Controls Operating System, the 'Johnson Controls Way.' A strategy that combines excellence in commercial, technical and operations, the system is a key driver of the success in managing such diverse businesses, in our view.

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

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	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week 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	18.9	1.4	96.0%
Cooper Tire & Rubber	15.1	1.5	100.2%
Magna Intl	12.0	1.3	98.2%
Tenneco	12.5	1.2	79.8%
Peer Median	13.8	1.4	97.1%
Johnson Controls	**15.9**	**1.4**	**105.9%**

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	42,830
Revenue, YoY%	2.7%	1.8%	0.2%
Operating Income	1,780	2,813	4,283
Operating Margin %	4.2%	6.6%	10.0%
Net Income	1,226	1,178	2,222
Net Income Margin %	2.9%	2.8%	5.2%
Diluted EPS	1.78	1.71	3.19
Diluted EPS, YoY %	-24.4%	-4.0%	86.7%
Free Cash Flow (CFO-capex)	-272	1,305	2,020
Free Cash Flow Margin %	-0.6%	3.1%	4.7%

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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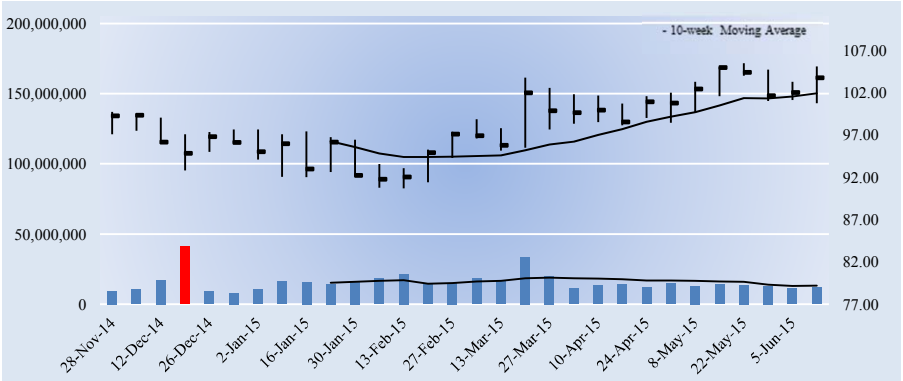
Nike NKE OVERVALUED 8.5%

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$79.00	$63.00 - $95.00	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)	$94,004
Avg Weekly Vol (30 wks)	15,664
30-week Range (USD)	90.69 - 105.5
Valuentum Sector	Consumer Discretionary
5-week Return	1.3%
13-week Return	7.9%
30-week Return	6.1%
Dividend Yield %	1.1%
Dividends per Share	1.12
Forward Dividend Payout Ratio	31.2%
Est. Normal Diluted EPS	4.58
P/E on Est. Normal Diluted EPS	22.7
Est. Normal EBITDA	6,190
Forward EV/EBITDA	18.1
EV/Est. Normal EBITDA	14.6
Forward Revenue Growth (5-yr)	7.0%
Forward EPS Growth (5-yr)	13.8%

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	34.1%
ROIC, without goodwill	34.8%

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 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. The breadth and depth of its product portfolio have translated into consistently strong results.

• 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.

• 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 11% in coming years. Total debt-to-EBITDA was 0.3 last year, while debt-to-book capitalization stood at 11.3%.

• Nike is targeting revenue of $36 billion by fiscal year 2017. 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.

• Nike is a fantastic company, and our forecasts are certainly reasonable. However, readers should be cognizant that we are quite generous with respect to Nike's discount rate in the model. Shares are not cheap.

Investment Considerations

DCF Valuation	**OVERVALUED**
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)	**BEARISH**
Near-term Technical Support, 10-week MA	**102.00**

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	31.6	2.1	139.3%
Philips	23.2	1.1	102.0%
Sony	NMF	NMF	55.6%
VF Corp	23.4	1.8	120.3%
Peer Median	23.4	1.8	111.1%
Nike	**28.9**	**2.5**	**131.4%**

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	30,496
Revenue, YoY%	4.9%	9.8%	9.7%
Operating Income	3,254	3,680	4,286
Operating Margin %	12.9%	13.2%	14.1%
Net Income	2,464	2,693	3,232
Net Income Margin %	9.7%	9.7%	10.6%
Diluted EPS	2.69	2.97	3.59
Diluted EPS, YoY %	13.6%	10.6%	20.6%
Free Cash Flow (CFO-capex)	2,494	2,123	2,832
Free Cash Flow Margin %	9.9%	7.6%	9.3%

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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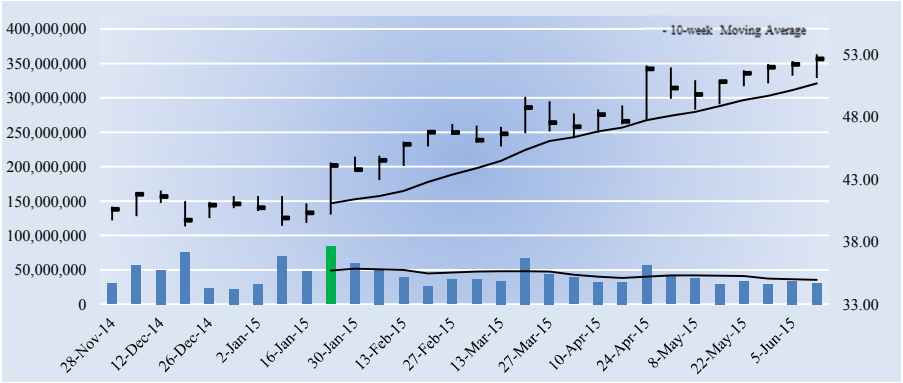
Starbucks SBUX OVERVALUED 8.8%

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$40.00	$32.00 - $48.00	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)	$80,324
Avg Weekly Vol (30 wks)	42,377
30-week Range (USD)	39.22 - 53
Valuentum Sector	Consumer Discretionary
5-week Return	5.9%
13-week Return	12.0%
30-week Return	31.7%
Dividend Yield %	1.2%
Dividends per Share	0.64
Forward Dividend Payout Ratio	40.4%
Est. Normal Diluted EPS	2.23
P/E on Est. Normal Diluted EPS	23.6
Est. Normal EBITDA	6,011
Forward EV/EBITDA	18.5
EV/Est. Normal EBITDA	13.4
Forward Revenue Growth (5-yr)	12.0%
Forward EPS Growth (5-yr)	16.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.9%
Return on Assets	12.1%
ROIC, with goodwill	86.8%
ROIC, without goodwill	111.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,048
Net Debt	205
Total Debt/EBITDA	0.6
Net Debt/EBITDA	0.1
EBITDA/Interest	55.2
Current Ratio	1.4
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• 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 in the mid-to-high single digits per annum during the past few years.

• The challenge with Starbucks as an investment opportunity has nothing to do with the firm on an operational basis, but everything to do with its valuation. We're modeling in some strong top- and bottom-line increases in coming years, and shares aren't cheap.

• 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.

• Starbucks has achievable fiscal 2015 targets. Management expects revenue growth in the range of 16%-18% and global comparable store sales expansion in the mid-single digits. The firm's non-GAAP margin is expected to advance modestly in the year. Non-GAAP EPS is targeted in the range of ~$1.54-$1.57 on a post-split basis.

• 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	**NEUTRAL**
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	**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
Dunkin' Brands	25.6	2.1	111.0%
McDonald's	17.0	3.5	117.3%
Wendy's Co	29.2	2.7	125.5%
Yum! Brands	22.8	1.6	106.5%
Peer Median	24.2	2.4	114.1%
Starbucks	**33.2**	**2.3**	**131.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-13	Sep-14	Sep-15
Revenue	14,892	16,448	19,162
Revenue, YoY%	12.0%	10.4%	16.5%
Operating Income	2,207	2,793	3,480
Operating Margin %	14.8%	17.0%	18.2%
Net Income	8	2,068	2,420
Net Income Margin %	0.1%	12.6%	12.6%
Diluted EPS	0.01	1.36	1.59
Diluted EPS, YoY %	-99.7%	NMF	NMF
Free Cash Flow (CFO-capex)	1,757	-553	2,166
Free Cash Flow Margin %	11.8%	-3.4%	11.3%

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

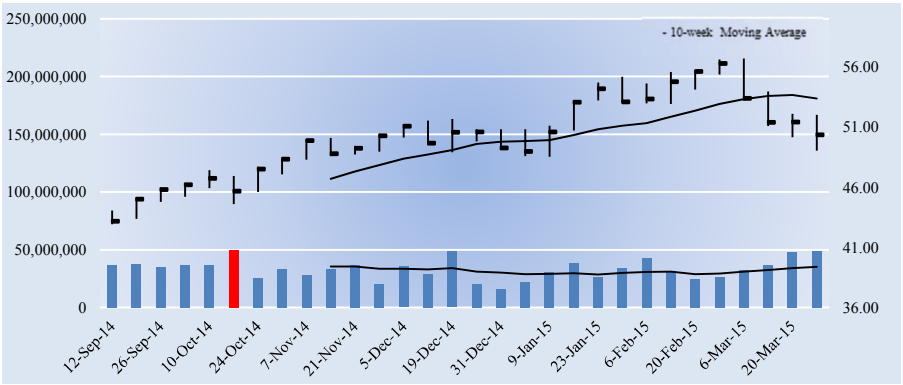
Altria Group MO FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$51.00	$41.00 - $61.00	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)	$99,573
Avg Weekly Vol (30 wks)	33,480
30-week Range (USD)	42.92 - 56.7
Valuentum Sector	Consumer Staples
5-week Return	-9.7%
13-week Return	0.0%
30-week Return	16.0%
Dividend Yield %	4.1%
Dividends per Share	2.08
Forward Dividend Payout Ratio	73.4%
Est. Normal Diluted EPS	3.25
P/E on Est. Normal Diluted EPS	15.5
Est. Normal EBITDA	10,012
Forward EV/EBITDA	12.5
EV/Est. Normal EBITDA	11.1
Forward Revenue Growth (5-yr)	3.0%
Forward EPS Growth (5-yr)	9.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	115.5%
Return on Assets	11.6%
ROIC, with goodwill	28.7%
ROIC, without goodwill	42.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	14,693
Net Debt	11,372
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.4
EBITDA/Interest	9.7
Current Ratio	0.9
Quick Ratio	0.4

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 ranks among the best of the firms in our coverage universe. The firm has been generating economic value for shareholders with relatively stable operating results for the past few years, a combination we view very positively.

• Altria Group 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 37.5% in coming years. Total debt-to-EBITDA was 1.8 last year, while debt-to-book capitalization stood at 83%.

• 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	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
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
Lorillard	18.3	2.0	98.8%
Philip Morris	17.7	1.5	108.2%
Reynolds American	18.4	1.8	113.9%
Vector Group	35.5	3.1	105.8%
Peer Median	18.4	1.9	107.0%
Altria Group	**17.8**	**2.3**	**98.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	17,663	17,945	18,519
Revenue, YoY%	0.9%	1.6%	3.2%
Operating Income	7,253	8,084	8,691
Operating Margin %	41.1%	45.0%	46.9%
Net Income	3,914	4,494	5,550
Net Income Margin %	22.2%	25.0%	30.0%
Diluted EPS	1.96	2.27	2.83
Diluted EPS, YoY %	2.4%	16.0%	24.7%
Free Cash Flow (CFO-capex)	3,623	3,924	6,575
Free Cash Flow Margin %	20.5%	21.9%	35.5%

In Millions of USD (except for per share items)

Structure of the Tobacco Industry — GOOD

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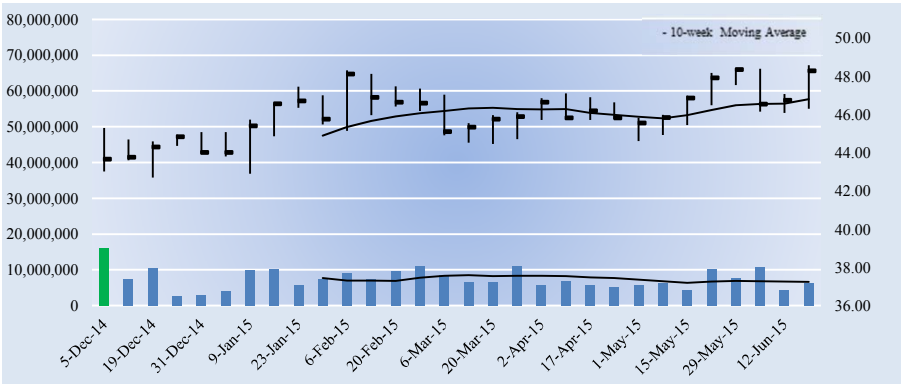
Campbell Soup CPB FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$44.00	$35.00 - $53.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$15,253
Avg Weekly Vol (30 wks)	7,526
30-week Range (USD)	42.7 - 48.57
Valuentum Sector	Consumer Staples
5-week Return	3.4%
13-week Return	5.4%
30-week Return	7.3%
Dividend Yield %	2.6%
Dividends per Share	1.25
Forward Dividend Payout Ratio	52.0%
Est. Normal Diluted EPS	2.89
P/E on Est. Normal Diluted EPS	16.7
Est. Normal EBITDA	1,748
Forward EV/EBITDA	12.5
EV/Est. Normal EBITDA	10.9
Forward Revenue Growth (5-yr)	1.4%
Forward EPS Growth (5-yr)	8.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	64.2%
Return on Assets	9.8%
ROIC, with goodwill	19.0%
ROIC, without goodwill	31.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,015
Net Debt	3,783
Total Debt/EBITDA	2.6
Net Debt/EBITDA	2.4
EBITDA/Interest	12.8
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, and V8 juice, among others.

• 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 11.3% in coming years. Total debt-to-EBITDA was 2.6 last year, while debt-to-book capitalization stood at 71.3%.

• 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™	**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	**47.00**

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	19.6	4.2	122.0%
Kellogg	17.7	1.3	103.8%
Kraft Foods	26.6	1.6	100.2%
Mondelez Intl	23.6	1.6	120.7%
Peer Median	21.6	1.6	112.3%
Campbell Soup	**20.1**	**2.4**	**109.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jul-13	Jul-14	Jul-15
Revenue	8,052	8,268	8,078
Revenue, YoY%	4.5%	2.7%	-2.3%
Operating Income	1,160	1,251	1,222
Operating Margin %	14.4%	15.1%	15.1%
Net Income	689	737	757
Net Income Margin %	8.6%	8.9%	9.4%
Diluted EPS	2.17	2.33	2.40
Diluted EPS, YoY %	-10.4%	7.3%	3.1%
Free Cash Flow (CFO-capex)	914	471	804
Free Cash Flow Margin %	11.4%	5.7%	10.0%

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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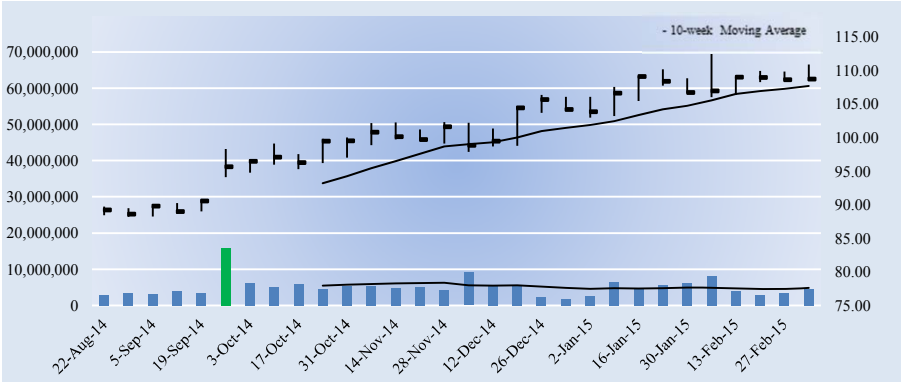
Clorox CLX OVERVALUED 6.2%

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$85.00	$68.00 - $102.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$14,319
Avg Weekly Vol (30 wks)	5,094
30-week Range (USD)	88.18 - 112.44
Valuentum Sector	Consumer Staples
5-week Return	1.9%
13-week Return	9.1%
30-week Return	22.9%
Dividend Yield %	2.7%
Dividends per Share	2.96
Forward Dividend Payout Ratio	65.0%
Est. Normal Diluted EPS	5.59
P/E on Est. Normal Diluted EPS	19.5
Est. Normal EBITDA	1,374
Forward EV/EBITDA	13.8
EV/Est. Normal EBITDA	11.9
Forward Revenue Growth (5-yr)	3.1%
Forward EPS Growth (5-yr)	10.0%

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 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'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

• 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 12.5% 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	**OVERVALUED**
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	**108.00**

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	22.8	2.3	119.4%
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	2.2	102.2%
Clorox	**23.9**	**2.6**	**127.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	5,623	5,591	5,647
Revenue, YoY%	2.8%	-0.6%	1.0%
Operating Income	975	966	997
Operating Margin %	17.3%	17.3%	17.7%
Net Income	574	562	594
Net Income Margin %	10.2%	10.1%	10.5%
Diluted EPS	4.32	4.27	4.56
Diluted EPS, YoY %	5.2%	-1.2%	6.8%
Free Cash Flow (CFO-capex)	583	633	660
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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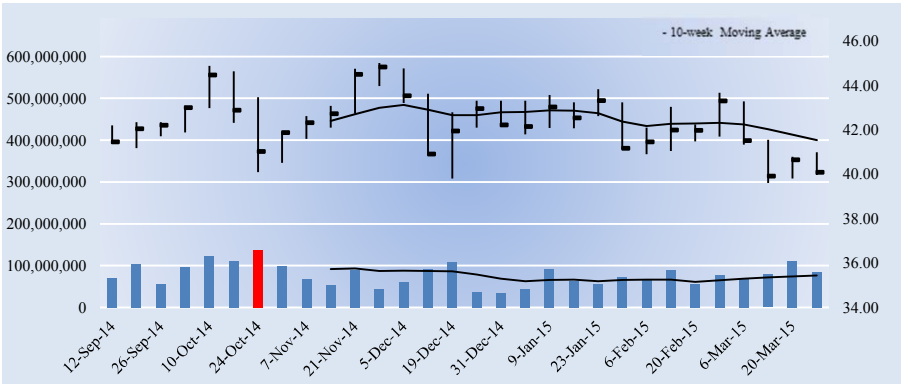
Coca-Cola KO FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$43.00	$34.00 - $52.00	LARGE-CAP VALUE	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).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
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)	**DETERIORATING**
Near-term Technical Resistance, 10-wk 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.

Company Vitals

Market Cap (USD)	$178,356
Avg Weekly Vol (30 wks)	78,144
30-week Range (USD)	39.61 - 45
Valuentum Sector	Consumer Staples
5-week Return	-3.9%
13-week Return	-6.7%
30-week Return	-3.8%
Dividend Yield %	3.3%
Dividends per Share	1.32
Forward Dividend Payout Ratio	66.0%
Est. Normal Diluted EPS	2.44
P/E on Est. Normal Diluted EPS	16.4
Est. Normal EBITDA	14,761
Forward EV/EBITDA	15.9
EV/Est. Normal EBITDA	13.4
Forward Revenue Growth (5-yr)	2.4%
Forward EPS Growth (5-yr)	13.4%

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

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 over $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. Investors, however, should be cognizant of the generosity embedded in its fair value estimate, originating from a low discount rate and elevated expected growth.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dr Pepper Snapple	20.1	2.3	127.3%
Monster Beverage	40.5	2.6	140.8%
National Beverage	21.3	2.3	133.9%
PepsiCo	20.4	2.3	112.9%
Peer Median	20.9	2.3	130.6%
Coca-Cola	**20.0**	**1.9**	**93.2%**

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

Returns Summary

	3-year Historical Average
Return on Equity	25.6%
Return on Assets	9.5%
ROIC, with goodwill	19.5%
ROIC, without goodwill	27.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	46,854	45,998	45,262
Revenue, YoY%	-2.4%	-1.8%	-1.6%
Operating Income	10,228	9,708	10,521
Operating Margin %	21.8%	21.1%	23.2%
Net Income	8,584	7,098	8,810
Net Income Margin %	18.3%	15.4%	19.5%
Diluted EPS	1.90	1.60	2.00
Diluted EPS, YoY %	-3.2%	-16.2%	25.4%
Free Cash Flow (CFO-capex)	7,992	8,209	10,365
Free Cash Flow Margin %	17.1%	17.8%	22.9%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	41,745
Net Debt	20,070
Total Debt/EBITDA	3.6
Net Debt/EBITDA	1.7
EBITDA/Interest	24.2
Current Ratio	1.0
Quick Ratio	0.8

NMF = Not Meaningful

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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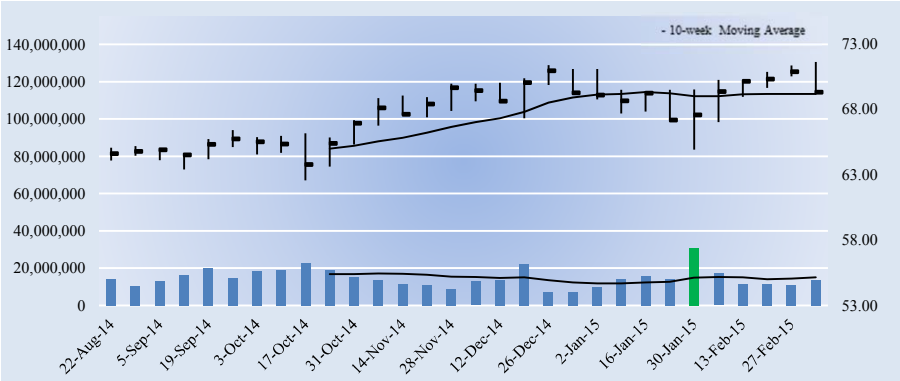
Colgate-Palmolive CL FAIRLY VALUED

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	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$64,008
Avg Weekly Vol (30 wks)	14,724
30-week Range (USD)	62.53 - 71.56
Valuentum Sector	Consumer Staples
5-week Return	2.8%
13-week Return	0.9%
30-week Return	7.6%
Dividend Yield %	2.2%
Dividends per Share	1.52
Forward Dividend Payout Ratio	50.0%
Est. Normal Diluted EPS	3.64
P/E on Est. Normal Diluted EPS	19.0
Est. Normal EBITDA	5,659
Forward EV/EBITDA	14.1
EV/Est. Normal EBITDA	12.2
Forward Revenue Growth (5-yr)	3.4%
Forward EPS Growth (5-yr)	12.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	119.4%
Return on Assets	18.3%
ROIC, with goodwill	34.3%
ROIC, without goodwill	49.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,148
Net Debt	5,059
Total Debt/EBITDA	1.4
Net Debt/EBITDA	1.1
EBITDA/Interest	34.9
Current Ratio	1.2
Quick Ratio	0.7

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'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.

• Colgate has raised its dividend every year for the past half century, a remarkable track record. The company launched a $5 billion share-buyback program that it expects to complete over the next 3-4 years. Management is quite shareholder-friendly.

• Though forex will impact reported numbers, management is looking for gross margin expansion and low-single-digit earnings-per-share growth in 2015. Another year of solid organic performance should be expected.

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	**VERY BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**69.00**

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	23.9	2.6	127.9%
Johnson & Johnson	16.0	2.5	90.2%
Kimberly-Clark	18.5	1.8	107.9%
Procter & Gamble	20.4	2.3	111.7%
Peer Median	19.4	2.4	109.8%
Colgate-Palmolive	**22.8**	**2.3**	**119.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	17,420	17,277	16,897
Revenue, YoY%	2.0%	-0.8%	-2.2%
Operating Income	3,946	4,095	4,466
Operating Margin %	22.7%	23.7%	26.4%
Net Income	2,241	2,180	2,782
Net Income Margin %	12.9%	12.6%	16.5%
Diluted EPS	2.38	2.36	3.04
Diluted EPS, YoY %	-7.4%	-1.1%	28.9%
Free Cash Flow (CFO-capex)	2,534	2,541	3,076
Free Cash Flow Margin %	14.5%	14.7%	18.2%

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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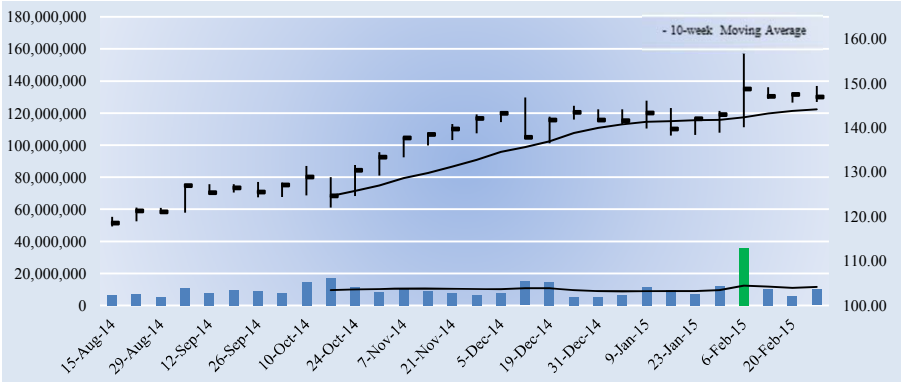
Costco COST FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$143.00	$114.00 - $172.00	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)	$65,028
Avg Weekly Vol (30 wks)	10,219
30-week Range (USD)	117.78 - 156.85
Valuentum Sector	Consumer Staples
5-week Return	3.7%
13-week Return	2.7%
30-week Return	23.1%
Dividend Yield %	1.0%
Dividends per Share	1.42
Forward Dividend Payout Ratio	26.9%
Est. Normal Diluted EPS	6.99
P/E on Est. Normal Diluted EPS	21.0
Est. Normal EBITDA	6,162
Forward EV/EBITDA	13.1
EV/Est. Normal EBITDA	10.2
Forward Revenue Growth (5-yr)	7.4%
Forward EPS Growth (5-yr)	14.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.8%
Return on Assets	6.8%
ROIC, with goodwill	21.6%
ROIC, without goodwill	21.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,093
Net Debt	-2,222
Total Debt/EBITDA	1.2
Net Debt/EBITDA	NMF
EBITDA/Interest	37.6
Current Ratio	1.2
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• 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 reported same-store sales can be impacted by gasoline price deflation and foreign exchange, but underlying core performance is solid. In fact, as of late, it can be considered impressive. Total comparable store sales, for example, leapt 8% during the 12 weeks ended February 15, 2015.

• 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 that enjoy the higher-than-average pay, great merchandise, and a treasure-hunt atmosphere that consumers love. Its image speaks of quality, and the public often uses Costco as an example for excellent employee relations.

• Bog box retailers have been holding the line quite well in the face of burgeoning online competition. We think Costco has staying power, and the firm continues to resonate with all of its stakeholders.

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	**144.00**

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	18.5	1.6	106.2%
Target	16.6	1.3	106.7%
Walgreens Boots Alliance	22.8	1.6	108.5%
Wal-Mart	17.0	1.8	106.2%
Peer Median	17.7	1.6	106.5%
Costco	**27.9**	**2.2**	**102.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-13	Aug-14	Aug-15
Revenue	105,156	112,640	119,398
Revenue, YoY%	6.1%	7.1%	6.0%
Operating Income	3,053	3,220	3,695
Operating Margin %	2.9%	2.9%	3.1%
Net Income	2,039	2,058	2,343
Net Income Margin %	1.9%	1.8%	2.0%
Diluted EPS	4.63	4.65	5.27
Diluted EPS, YoY %	19.0%	0.5%	13.4%
Free Cash Flow (CFO-capex)	1,354	1,991	1,873
Free Cash Flow Margin %	1.3%	1.8%	1.6%

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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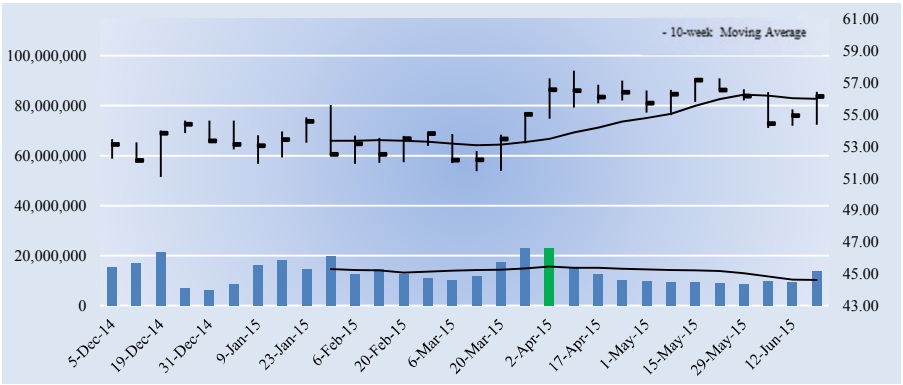
General Mills GIS OVERVALUED 2%

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$46.00	$37.00 - $55.00	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 buying, or accumulation (green bar).

Investment Considerations

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

Company Vitals

Market Cap (USD)	$37,360
Avg Weekly Vol (30 wks)	13,318
30-week Range (USD)	51.08 - 57.73
Valuentum Sector	Consumer Staples
5-week Return	-1.4%
13-week Return	5.0%
30-week Return	6.9%
Dividend Yield %	3.1%
Dividends per Share	1.76
Forward Dividend Payout Ratio	61.6%
Est. Normal Diluted EPS	3.15
P/E on Est. Normal Diluted EPS	17.8
Est. Normal EBITDA	4,044
Forward EV/EBITDA	12.1
EV/Est. Normal EBITDA	11.2
Forward Revenue Growth (5-yr)	1.1%
Forward EPS Growth (5-yr)	4.9%

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

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 11.4% 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Campbell Soup	20.1	2.4	109.7%
Kellogg	17.7	1.3	103.8%
Kraft Foods	26.6	1.6	100.2%
Mondelez Intl	23.6	1.6	120.7%
Peer Median	21.9	1.6	106.8%
General Mills	**19.6**	**4.2**	**122.0%**

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

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-13	May-14	May-15
Revenue	17,774	17,910	17,856
Revenue, YoY%	6.7%	0.8%	-0.3%
Operating Income	2,872	2,896	3,162
Operating Margin %	16.2%	16.2%	17.7%
Net Income	1,855	1,824	1,902
Net Income Margin %	10.4%	10.2%	10.7%
Diluted EPS	2.79	2.74	2.86
Diluted EPS, YoY %	18.6%	-1.7%	4.3%
Free Cash Flow (CFO-capex)	2,312	1,878	1,856
Free Cash Flow Margin %	13.0%	10.5%	10.4%

In Millions of USD (except for per share items)

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

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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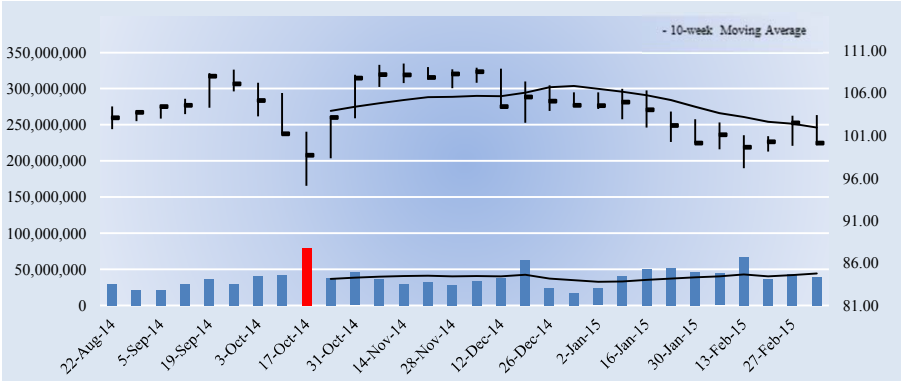
Johnson & Johnson JNJ FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$111.00	$89.00 - $133.00	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)	$286,705
Avg Weekly Vol (30 wks)	38,747
30-week Range (USD)	95.1 - 109.49
Valuentum Sector	Consumer Staples
5-week Return	-0.4%
13-week Return	-4.4%
30-week Return	-1.8%
Dividend Yield %	2.8%
Dividends per Share	2.80
Forward Dividend Payout Ratio	44.8%
Est. Normal Diluted EPS	7.06
P/E on Est. Normal Diluted EPS	14.2
Est. Normal EBITDA	28,017
Forward EV/EBITDA	10.8
EV/Est. Normal EBITDA	9.7
Forward Revenue Growth (5-yr)	2.5%
Forward EPS Growth (5-yr)	7.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.0%
Return on Assets	10.3%
ROIC, with goodwill	24.6%
ROIC, without goodwill	34.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	18,760
Net Debt	-14,329
Total Debt/EBITDA	0.8
Net Debt/EBITDA	NMF
EBITDA/Interest	46.6
Current Ratio	2.4
Quick Ratio	1.8

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 26% in coming years. Total debt-to-EBITDA was 0.8 last year, while debt-to-book capitalization stood at 21.2%. 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 pipeline 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™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**NEUTRAL**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**OVERSOLD**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**102.00**

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	23.9	2.6	127.9%
Colgate-Palmolive	22.8	2.3	119.4%
Kimberly-Clark	18.5	1.8	107.9%
Procter & Gamble	20.4	2.3	111.7%
Peer Median	21.6	2.3	115.5%
Johnson & Johnson	**16.0**	**2.5**	**90.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	71,312	74,331	72,844
Revenue, YoY%	6.1%	4.2%	-2.0%
Operating Income	18,957	20,959	21,435
Operating Margin %	26.6%	28.2%	29.4%
Net Income	13,251	16,323	17,823
Net Income Margin %	18.6%	22.0%	24.5%
Diluted EPS	4.61	5.70	6.25
Diluted EPS, YoY %	33.7%	23.7%	9.7%
Free Cash Flow (CFO-capex)	13,656	17,140	18,254
Free Cash Flow Margin %	19.1%	23.1%	25.1%

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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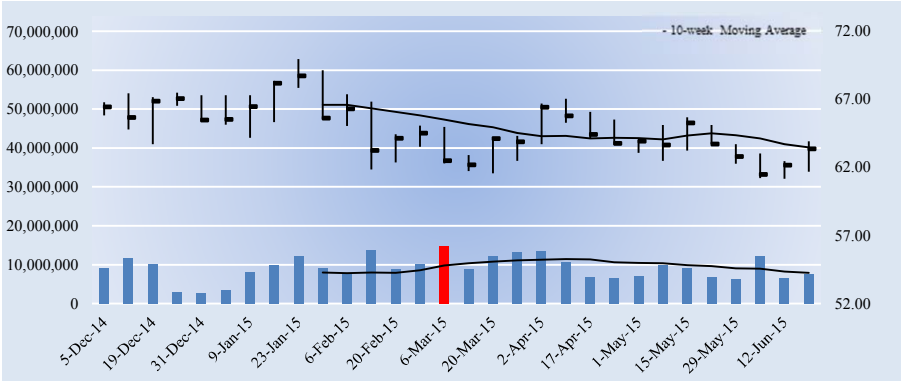
Kellogg K FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$61.00	$49.00 - $73.00	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 buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
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	**63.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$22,802
Avg Weekly Vol (30 wks)	9,097
30-week Range (USD)	61.13 - 69.89
Valuentum Sector	Consumer Staples
5-week Return	-2.7%
13-week Return	-0.9%
30-week Return	-3.8%
Dividend Yield %	3.1%
Dividends per Share	1.96
Forward Dividend Payout Ratio	54.7%
Est. Normal Diluted EPS	4.62
P/E on Est. Normal Diluted EPS	13.7
Est. Normal EBITDA	2,792
Forward EV/EBITDA	12.7
EV/Est. Normal EBITDA	10.6
Forward Revenue Growth (5-yr)	0.8%
Forward EPS Growth (5-yr)	28.0%

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

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.

• 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. It's hard not to like the transaction.

• 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.

• As with many of its global peers, currency will pose a stiff headwind in the near term. But even adjusting for such a factor, currency-neutral comparable sales are falling modestly, which isn't helping operating profit.

Relative Valuation

	Forward P/E	PEG	Price / FV
Campbell Soup	20.1	2.4	109.7%
General Mills	19.6	4.2	122.0%
Kraft Foods	26.6	1.6	100.2%
Mondelez Intl	23.6	1.6	120.7%
Peer Median	21.9	2.0	115.2%
Kellogg	**17.7**	**1.3**	**103.8%**

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

Returns Summary

	3-year Historical Average
Return on Equity	42.2%
Return on Assets	7.7%
ROIC, with goodwill	12.6%
ROIC, without goodwill	22.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	14,792	14,580	13,909
Revenue, YoY%	4.2%	-1.4%	-4.6%
Operating Income	2,837	1,024	1,864
Operating Margin %	19.2%	7.0%	13.4%
Net Income	1,807	632	1,278
Net Income Margin %	12.2%	4.3%	9.2%
Diluted EPS	4.95	1.76	3.59
Diluted EPS, YoY %	85.5%	-64.5%	104.2%
Free Cash Flow (CFO-capex)	1,170	1,211	1,212
Free Cash Flow Margin %	7.9%	8.3%	8.7%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,370
Net Debt	6,927
Total Debt/EBITDA	4.8
Net Debt/EBITDA	4.5
EBITDA/Interest	7.3
Current Ratio	0.8
Quick Ratio	0.4

NMF = Not Meaningful

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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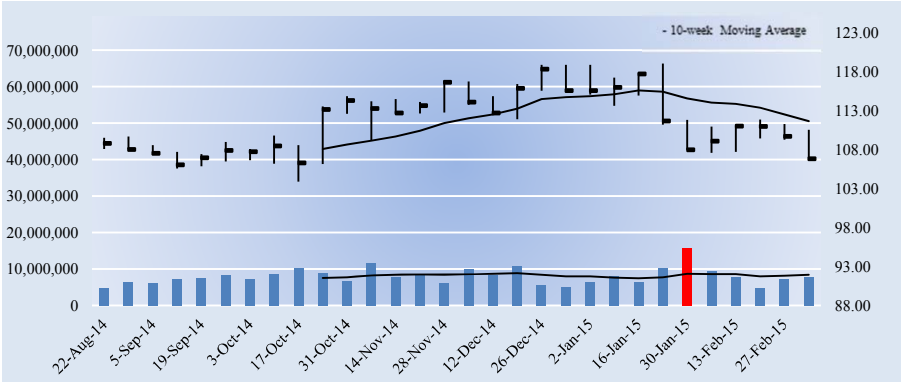
Kimberly-Clark KMB FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$99.00	$79.00 - $119.00	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)	$40,314
Avg Weekly Vol (30 wks)	8,008
30-week Range (USD)	103.88 - 119.01
Valuentum Sector	Consumer Staples
5-week Return	-1.0%
13-week Return	-5.2%
30-week Return	-1.4%
Dividend Yield %	3.3%
Dividends per Share	3.52
Forward Dividend Payout Ratio	60.9%
Est. Normal Diluted EPS	6.77
P/E on Est. Normal Diluted EPS	15.8
Est. Normal EBITDA	5,194
Forward EV/EBITDA	10.2
EV/Est. Normal EBITDA	9.0
Forward Revenue Growth (5-yr)	2.8%
Forward EPS Growth (5-yr)	14.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	45.4%
Return on Assets	9.9%
ROIC, with goodwill	18.3%
ROIC, without goodwill	24.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,956
Net Debt	6,167
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.6
EBITDA/Interest	13.5
Current Ratio	0.9
Quick Ratio	0.5

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. The company recently spun-off its KC-Health Care operations into Halyard Health (HYH).

• 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 is expecting to have a busy 2015. Investors can count on organic sales growth, substantial cost savings, and volatile forex rates. The firm is looking for full-year adjusted earnings per share in the range of $5.60-$5.80.

• Kimberly-Clark has raised its dividend in each of the past 40+ years, and its Dividend Cushion ratio indicates future dividend increases are in store for investors. Still, the firm's valuation should never be ignored.

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)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**112.00**

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	23.9	2.6	127.9%
Colgate-Palmolive	22.8	2.3	119.4%
Johnson & Johnson	16.0	2.5	90.2%
Procter & Gamble	20.4	2.3	111.7%
Peer Median	21.6	2.4	115.5%
Kimberly-Clark	**18.5**	**1.8**	**107.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	21,152	19,724	19,093
Revenue, YoY%	0.4%	-6.8%	-3.2%
Operating Income	3,212	2,974	3,745
Operating Margin %	15.2%	15.1%	19.6%
Net Income	2,142	1,476	2,169
Net Income Margin %	10.1%	7.5%	11.4%
Diluted EPS	5.53	3.91	5.78
Diluted EPS, YoY %	25.2%	-29.3%	47.7%
Free Cash Flow (CFO-capex)	2,087	1,756	2,107
Free Cash Flow Margin %	9.9%	8.9%	11.0%

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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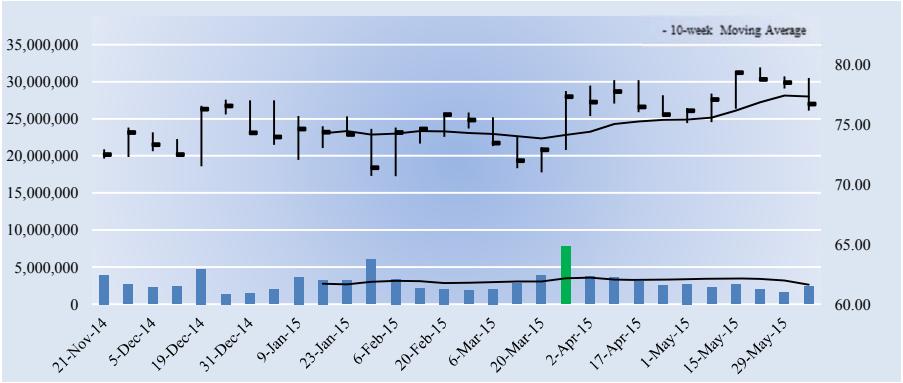
McCormick MKC FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$66.00	$53.00 - $79.00	LARGE-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).

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	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**77.00**

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

Business Quality

ValueRisk™ \ ValueCreation™	Very Poor	Poor	Good	Excellent
Low				
Medium				
High				
Very High				

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

Company Vitals

Market Cap (USD)	$10,050
Avg Weekly Vol (30 wks)	2,974
30-week Range (USD)	70.7 - 79.76
Valuentum Sector	Consumer Staples
5-week Return	1.0%
13-week Return	4.4%
30-week Return	5.8%
Dividend Yield %	2.1%
Dividends per Share	1.60
Forward Dividend Payout Ratio	45.4%
Est. Normal Diluted EPS	4.37
P/E on Est. Normal Diluted EPS	17.5
Est. Normal EBITDA	893
Forward EV/EBITDA	14.7
EV/Est. Normal EBITDA	12.6
Forward Revenue Growth (5-yr)	4.0%
Forward EPS Growth (5-yr)	11.9%

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

Investment Highlights

• 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. Shareholders are rewarded by the firm's strong free cash flow distributed as dividends and repurchases. It was founded in 1889 and is based in Maryland.

• Despite difficult competition, 2015 should be a decent year for McCormick. New products and a relaunch of its gourmet line will help performance. Increased demand for snack seasonings and strong growth from fast-food restaurants across the globe are other key drivers.

• 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.

• 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%, but has been picking up as of late.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dean Foods	19.2	NMF	94.1%
Hormel Foods	21.9	1.9	114.8%
Smucker	20.8	1.0	99.4%
Tyson Foods	11.8	1.1	99.9%
Peer Median	20.0	1.1	99.6%
McCormick	**21.8**	**2.1**	**116.2%**

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

Returns Summary

	3-year Historical Average
Return on Equity	21.9%
Return on Assets	9.0%
ROIC, with goodwill	15.0%
ROIC, without goodwill	34.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Nov-13	Nov-14	Nov-15
Revenue	4,123	4,243	4,273
Revenue, YoY%	2.7%	2.9%	0.7%
Operating Income	591	608	664
Operating Margin %	14.3%	14.3%	15.5%
Net Income	365	409	453
Net Income Margin %	8.8%	9.6%	10.6%
Diluted EPS	2.73	3.12	3.52
Diluted EPS, YoY %	-5.1%	14.3%	13.0%
Free Cash Flow (CFO-capex)	342	342	432
Free Cash Flow Margin %	8.3%	8.0%	10.1%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,285
Net Debt	1,208
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.7
EBITDA/Interest	14.3
Current Ratio	1.3
Quick Ratio	0.5

NMF = Not Meaningful

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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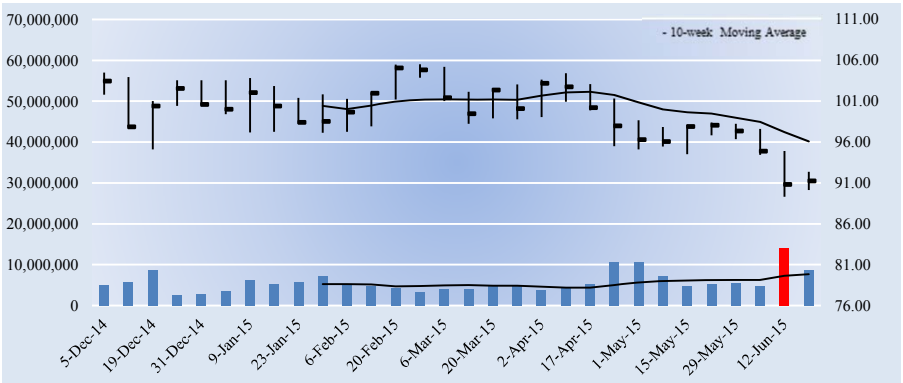
Mead Johnson MJN FAIRLY VALUED

Buying Index™ 3 **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	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 selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$18,486
Avg Weekly Vol (30 wks)	5,791
30-week Range (USD)	89.26 - 105.45
Valuentum Sector	Consumer Staples
5-week Return	-6.6%
13-week Return	-11.1%
30-week Return	-11.9%
Dividend Yield %	1.8%
Dividends per Share	1.65
Forward Dividend Payout Ratio	41.5%
Est. Normal Diluted EPS	5.04
P/E on Est. Normal Diluted EPS	18.1
Est. Normal EBITDA	1,471
Forward EV/EBITDA	15.7
EV/Est. Normal EBITDA	12.7
Forward Revenue Growth (5-yr)	5.2%
Forward EPS Growth (5-yr)	12.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	-57.8%
Return on Assets	20.0%
ROIC, with goodwill	84.3%
ROIC, without goodwill	108.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,508
Net Debt	210
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.2
EBITDA/Interest	15.3
Current Ratio	2.0
Quick Ratio	1.4

NMF = Not Meaningful

Investment Highlights

• 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. Danone had been looking to purchase Mead Johnson, but the former opted to buy Chinese infant milk maker Yashili instead.

• Mead Johnson'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.

• Mead 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 19.7% in coming years. Total debt-to-EBITDA was 1.4 last year, while debt-to-book capitalization stood at 72.4%. Pricing dynamics and dairy costs should be watched closely.

• The firm's growth in Asia remains strong across most markets, including its biggest business in China/Hong Kong. Rivalries are increasing, but Mead Johnson's North America/Europe segment also continues to show nice expansion. The firm is targeting non-GAAP EPS in 2015 in the range of $3.90-$4.00 on ~7% constant-current top-line growth.

• 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 that won't go away.

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	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**96.00**

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	19.6	4.2	122.0%
Kellogg	17.7	1.3	103.8%
Kraft Foods	26.6	1.6	100.2%
Mondelez Intl	23.6	1.6	120.7%
Peer Median	21.6	1.6	112.3%
Mead Johnson	**22.9**	**2.1**	**102.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	4,201	4,409	4,449
Revenue, YoY%	7.7%	5.0%	0.9%
Operating Income	1,002	976	1,097
Operating Margin %	23.9%	22.1%	24.7%
Net Income	650	720	805
Net Income Margin %	15.5%	16.3%	18.1%
Diluted EPS	3.20	3.55	3.98
Diluted EPS, YoY %	7.7%	11.0%	12.1%
Free Cash Flow (CFO-capex)	566	607	753
Free Cash Flow Margin %	13.5%	13.8%	16.9%

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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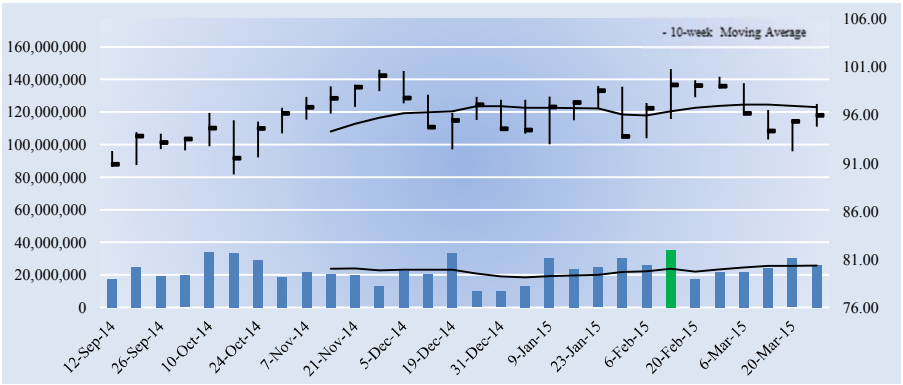
PepsiCo PEP FAIRLY VALUED

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 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)	$146,516
Avg Weekly Vol (30 wks)	23,076
30-week Range (USD)	89.82 - 100.76
Valuentum Sector	Consumer Staples
5-week Return	-3.2%
13-week Return	-1.2%
30-week Return	4.9%
Dividend Yield %	2.7%
Dividends per Share	2.62
Forward Dividend Payout Ratio	55.8%
Est. Normal Diluted EPS	5.66
P/E on Est. Normal Diluted EPS	16.9
Est. Normal EBITDA	15,196
Forward EV/EBITDA	12.8
EV/Est. Normal EBITDA	11.0
Forward Revenue Growth (5-yr)	2.6%
Forward EPS Growth (5-yr)	9.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.9%
Return on Assets	8.7%
ROIC, with goodwill	13.6%
ROIC, without goodwill	20.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	28,897
Net Debt	20,171
Total Debt/EBITDA	2.4
Net Debt/EBITDA	1.7
EBITDA/Interest	13.4
Current Ratio	1.1
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• 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'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.

• Activist investor Nelson Peltz wants to break Pepsi into two separate firms: a snacks business and a soda business. Recently, H.J. Heinz, which is owned by Warren Buffett and 3G Capital, bought Kraft, and additional consolidation in the industry could spark interest in Pepsi's snacks operations.

• We're huge fans of Pepsi's brand portfolio, but 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 scale advantage in North America, however. It has nineteen $1 billion global brands sold in the US.

• Pepsi's Dividend Cushion ratio 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	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**97.00**

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
Coca-Cola	20.0	1.9	93.2%
Dr Pepper Snapple	20.1	2.3	127.3%
Monster Beverage	40.5	2.6	140.8%
National Beverage	21.3	2.3	133.9%
Peer Median	20.7	2.3	130.6%
PepsiCo	**20.4**	**2.3**	**112.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	66,415	66,683	64,749
Revenue, YoY%	1.4%	0.4%	-2.9%
Operating Income	9,705	9,581	10,460
Operating Margin %	14.6%	14.4%	16.2%
Net Income	6,740	6,513	7,172
Net Income Margin %	10.1%	9.8%	11.1%
Diluted EPS	4.32	4.27	4.70
Diluted EPS, YoY %	10.1%	-1.3%	10.1%
Free Cash Flow (CFO-capex)	6,893	7,647	6,850
Free Cash Flow Margin %	10.4%	11.5%	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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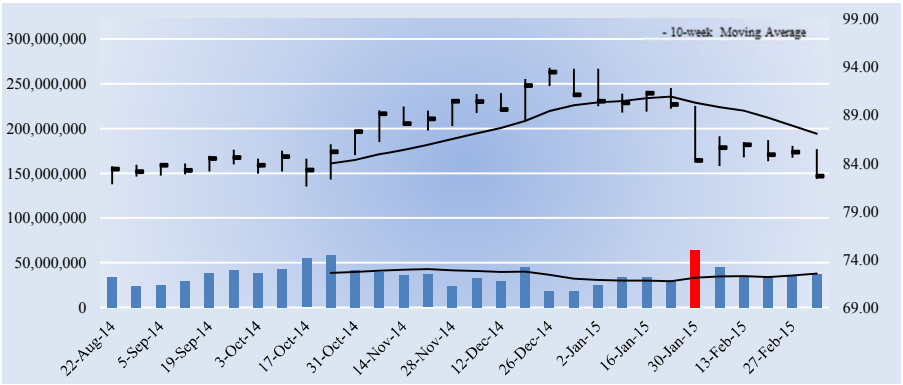
Procter & Gamble PG FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$74.00	$59.00 - $89.00	MEGA-CAP CORE	Consumer Staples	Household Products

We've reduced our fair value estimate of Procter & Gamble on the basis of lower top-line 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).

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)	**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.

Company Vitals

Market Cap (USD)	$240,103
Avg Weekly Vol (30 wks)	36,347
30-week Range (USD)	81.57 - 93.89
Valuentum Sector	Consumer Staples
5-week Return	-2.3%
13-week Return	-7.8%
30-week Return	0.8%
Dividend Yield %	3.1%
Dividends per Share	2.57
Forward Dividend Payout Ratio	63.5%
Est. Normal Diluted EPS	4.98
P/E on Est. Normal Diluted EPS	16.6
Est. Normal EBITDA	21,812
Forward EV/EBITDA	14.2
EV/Est. Normal EBITDA	12.1
Forward Revenue Growth (5-yr)	1.3%
Forward EPS Growth (5-yr)	9.0%

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

Investment Highlights

• 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. P&G may spin-off several of its brands in a value-creating IPO in coming quarters.

• Procter & Gamble'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.

• 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, 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clorox	23.9	2.6	127.9%
Colgate-Palmolive	22.8	2.3	119.4%
Johnson & Johnson	16.0	2.5	90.2%
Kimberly-Clark	18.5	1.8	107.9%
Peer Median	20.6	2.4	113.6%
Procter & Gamble	**20.4**	**2.3**	**111.7%**

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

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	84,167	83,062	78,577
Revenue, YoY%	0.6%	-1.3%	-5.4%
Operating Income	14,789	15,288	15,615
Operating Margin %	17.6%	18.4%	19.9%
Net Income	11,312	11,565	11,660
Net Income Margin %	13.4%	13.9%	14.8%
Diluted EPS	3.86	3.98	4.05
Diluted EPS, YoY %	23.8%	3.1%	1.7%
Free Cash Flow (CFO-capex)	10,865	10,032	11,619
Free Cash Flow Margin %	12.9%	12.1%	14.8%

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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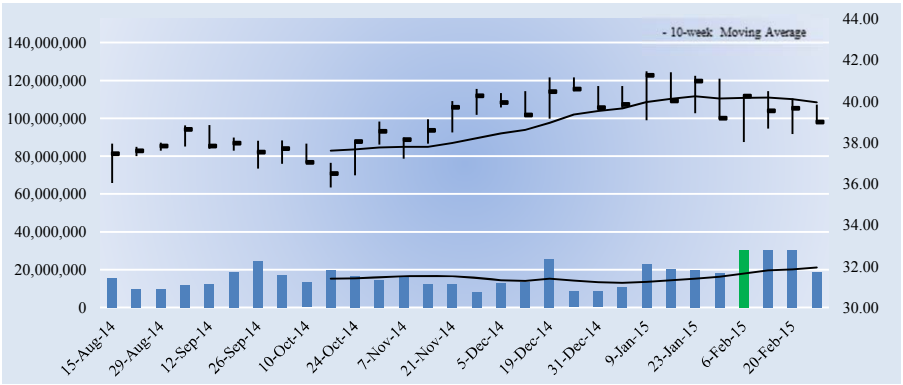
Sysco SYY FAIRLY VALUED

Buying Index™ 3 **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).

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	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
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.

Company Vitals

Market Cap (USD)	$23,013
Avg Weekly Vol (30 wks)	16,837
30-week Range (USD)	35.82 - 41.45
Valuentum Sector	Consumer Staples
5-week Return	-4.7%
13-week Return	-2.4%
30-week Return	7.9%
Dividend Yield %	3.1%
Dividends per Share	1.20
Forward Dividend Payout Ratio	62.9%
Est. Normal Diluted EPS	2.71
P/E on Est. Normal Diluted EPS	14.4
Est. Normal EBITDA	3,318
Forward EV/EBITDA	10.2
EV/Est. Normal EBITDA	7.6
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.

• 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. Sysco has staying power.

• Sysco wants to get bigger. The company has taken a gigantic leap forward and has sealed the deal with peer US Food's management regarding a merger. Regulators have sued to block the transaction, but we don't think we've seen the end of this saga yet.

• Very few firms have the competitive strengths and cash flow dynamics of Sysco. Both of these qualities translate into one of the strongest dividends on the market today. Its Dividend Cushion ratio speaks of safety.

Relative Valuation

	Forward P/E	PEG	Price / FV
Costco	27.9	2.2	102.8%
Kroger	18.5	1.6	106.2%
Target	16.6	1.3	106.7%
Wal-Mart	17.0	1.8	106.2%
Peer Median	17.7	1.7	106.2%
Sysco	**20.4**	**1.3**	**95.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	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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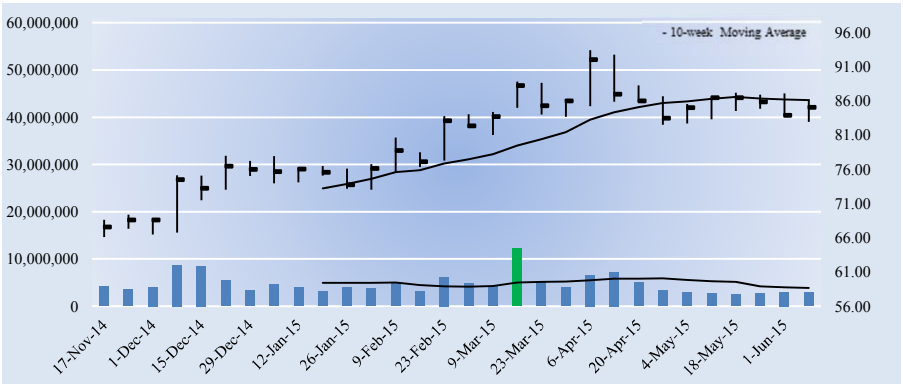
Walgreens Boots Alliance WBA FAIRLY VALUED

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 GROWTH	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 buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**HIGH**
Growth	**HIGH**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**86.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$82,100
Avg Weekly Vol (30 wks)	4,684
30-week Range (USD)	66.1 - 93.42
Valuentum Sector	Consumer Staples
5-week Return	-0.1%
13-week Return	0.1%
30-week Return	27.1%
Dividend Yield %	1.6%
Dividends per Share	1.35
Forward Dividend Payout Ratio	36.1%
Est. Normal Diluted EPS	5.44
P/E on Est. Normal Diluted EPS	15.6
Est. Normal EBITDA	11,530
Forward EV/EBITDA	10.3
EV/Est. Normal EBITDA	7.1
Forward Revenue Growth (5-yr)	13.2%
Forward EPS Growth (5-yr)	28.5%

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

Investment Highlights

• 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. The entity also owns Alliance Boots GmbH, a market leader in European retail pharmacy.

• Walgreen's stock has rocketed higher after it abandoned its efforts to pursue a tax-inversion deal. The company is trading well north of 20 times fiscal 2015 earnings expectations, and while we like the company, we don't think it warrants such a high multiple.

• 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.

• Management is still integrating Alliance Boots from an operational standpoint. Through the first quarter of fiscal 2015, management has capitalized on $140 million in synergies and is on track for $650 million for all of fiscal 2015. We think there is upside to that target.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Costco	27.9	2.2	102.8%
Kroger	18.5	1.6	106.2%
Target	16.6	1.3	106.7%
Wal-Mart	17.0	1.8	106.2%
Peer Median	17.7	1.7	106.2%
Walgreens Boots Alliance	**22.8**	**1.5**	**114.9%**

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

Returns Summary

	3-year Historical Average
Return on Equity	12.0%
Return on Assets	6.6%
ROIC, with goodwill	14.8%
ROIC, without goodwill	16.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-13	Aug-14	Aug-15
Revenue	72,217	76,392	95,490
Revenue, YoY%	0.8%	5.8%	25.0%
Operating Income	3,940	4,194	6,379
Operating Margin %	5.5%	5.5%	6.7%
Net Income	2,450	1,932	3,787
Net Income Margin %	3.4%	2.5%	4.0%
Diluted EPS	2.56	2.00	3.74
Diluted EPS, YoY %	6.1%	-22.0%	86.7%
Free Cash Flow (CFO-capex)	3,089	2,787	3,400
Free Cash Flow Margin %	4.3%	3.6%	3.6%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	16,000
Net Debt	311
Total Debt/EBITDA	2.9
Net Debt/EBITDA	0.1
EBITDA/Interest	35.3
Current Ratio	1.4
Quick Ratio	0.7

NMF = Not Meaningful

Structure of the Food Retailers Industry — NEUTRAL

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

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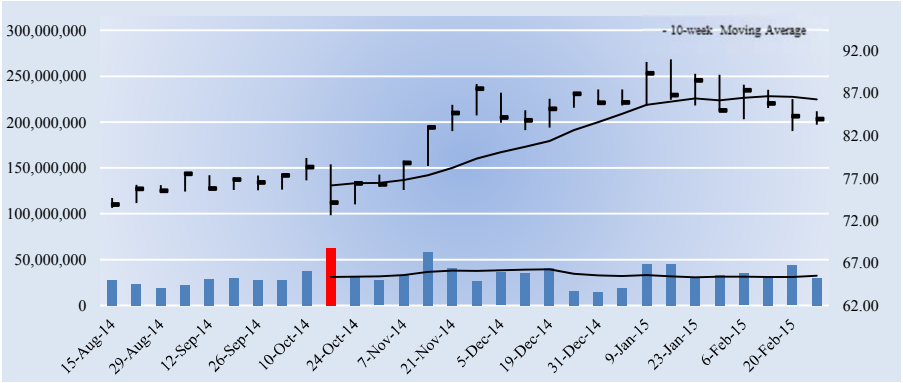
Wal-Mart WMT FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$79.00	$63.00 - $95.00	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).

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	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**86.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$272,185
Avg Weekly Vol (30 wks)	32,719
30-week Range (USD)	72.61 - 90.97
Valuentum Sector	Consumer Staples
5-week Return	-5.0%
13-week Return	-0.3%
30-week Return	13.0%
Dividend Yield %	2.3%
Dividends per Share	1.96
Forward Dividend Payout Ratio	39.7%
Est. Normal Diluted EPS	5.88
P/E on Est. Normal Diluted EPS	14.3
Est. Normal EBITDA	40,777
Forward EV/EBITDA	8.7
EV/Est. Normal EBITDA	7.7
Forward Revenue Growth (5-yr)	3.3%
Forward EPS Growth (5-yr)	7.2%

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

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.

• 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 has staying power.

• 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. A spin-off of Sam's Club would be a huge catalyst for shares.

• Taking a page out of Costco's playbook, Walmart is increasing its minimum employee wages in an effort to reduce training costs. We think the move will bear fruit, as it incidentally increases entry barriers.

Relative Valuation

	Forward P/E	PEG	Price / FV
Costco	27.9	2.2	102.8%
Kroger	18.5	1.6	106.2%
Target	16.6	1.3	106.7%
Walgreens Boots Alliance	22.8	1.6	108.5%
Peer Median	20.7	1.6	106.5%
Wal-Mart	**17.0**	**1.8**	**106.2%**

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

Returns Summary

	3-year Historical Average
Return on Equity	22.4%
Return on Assets	8.4%
ROIC, with goodwill	14.1%
ROIC, without goodwill	16.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jan-14	Jan-15	Jan-16
Revenue	476,294	485,651	497,307
Revenue, YoY%	1.5%	2.0%	2.4%
Operating Income	26,872	27,147	26,821
Operating Margin %	5.6%	5.6%	5.4%
Net Income	15,878	16,078	15,857
Net Income Margin %	3.3%	3.3%	3.2%
Diluted EPS	4.84	4.96	4.94
Diluted EPS, YoY %	-3.6%	2.5%	-0.4%
Free Cash Flow (CFO-capex)	9,998	16,105	13,865
Free Cash Flow Margin %	2.1%	3.3%	2.8%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	50,381
Net Debt	41,246
Total Debt/EBITDA	1.4
Net Debt/EBITDA	1.1
EBITDA/Interest	14.8
Current Ratio	1.0
Quick Ratio	0.2

NMF = Not Meaningful

Structure of the Food Retailers Industry — NEUTRAL

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

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Energy

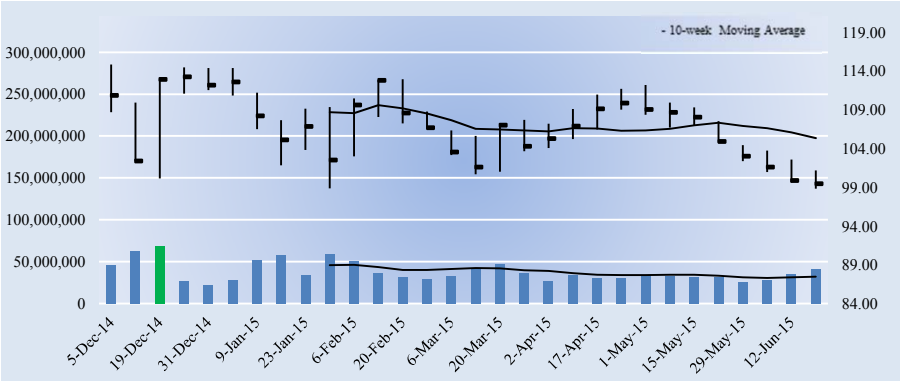
Chevron CVX FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$102.00	$82.00 - $122.00	LARGE-CAP VALUE	Energy	Major Oil & Gas

Chevron has suspended share buybacks and is reducing capital expenditures to support the dividend.

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)	$188,794
Avg Weekly Vol (30 wks)	38,125
30-week Range (USD)	98.81 - 114.82
Valuentum Sector	Energy
5-week Return	-7.5%
13-week Return	-7.5%
30-week Return	-9.1%
Dividend Yield %	4.3%
Dividends per Share	4.28
Forward Dividend Payout Ratio	108.4%
Est. Normal Diluted EPS	7.82
P/E on Est. Normal Diluted EPS	12.7
Est. Normal EBITDA	37,837
Forward EV/EBITDA	8.6
EV/Est. Normal EBITDA	5.4
Forward Revenue Growth (5-yr)	-1.4%
Forward EPS Growth (5-yr)	2.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.1%
Return on Assets	9.4%
ROIC, with goodwill	9.7%
ROIC, without goodwill	10.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	27,818
Net Debt	14,603
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.4
EBITDA/Interest	Excellent
Current Ratio	1.3
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• 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. The company was founded in 1879 and is headquartered in California.

• Chevron is a fantastic company and one that we have included in the Dividend Growth portfolio in the past. However, its Dividend Cushion ratio has soured as of late and so have our views on the pace of dividend expansion.

• 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.

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

• Chevron's downstream performance should help buoy earnings that have suffered as a result of crude-oil price declines. Deliberate actions to lower its cost structure in the face of potentially permanently lower energy prices have become the norm.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**WEAK**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**105.00**

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
BP	16.9	1.1	85.7%
ConocoPhillips	131.3	0.1	103.9%
Exxon Mobil	19.5	0.6	101.4%
PetroChina	18.3	0.4	103.5%
Peer Median	18.9	0.5	102.5%
Chevron	**25.2**	**0.3**	**97.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	228,848	211,970	144,140
Revenue, YoY%	-5.4%	-7.4%	-32.0%
Operating Income	28,378	19,726	12,223
Operating Margin %	12.4%	9.3%	8.5%
Net Income	21,423	19,241	7,495
Net Income Margin %	9.4%	9.1%	5.2%
Diluted EPS	11.09	10.14	3.95
Diluted EPS, YoY %	-17.4%	-8.6%	-61.0%
Free Cash Flow (CFO-capex)	-2,983	-3,932	-13,261
Free Cash Flow Margin %	-1.3%	-1.9%	-9.2%

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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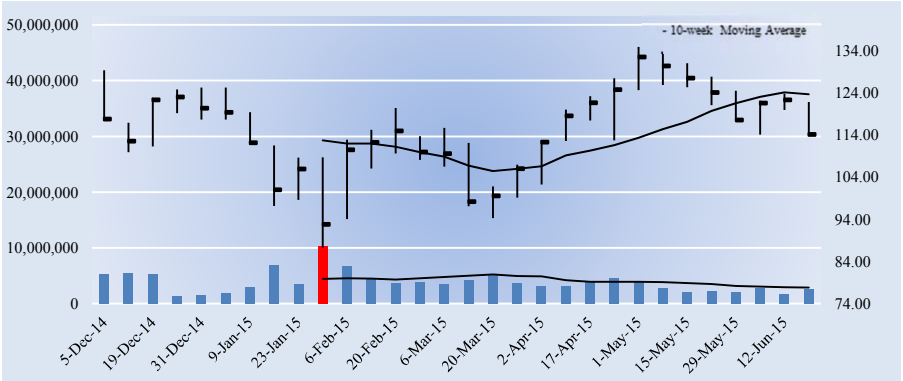
Core Labs CLB FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$128.00	$102.00 - $154.00	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).

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	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**124.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$5,090
Avg Weekly Vol (30 wks)	3,820
30-week Range (USD)	87.27 - 134.87
Valuentum Sector	Energy
5-week Return	-10.2%
13-week Return	14.7%
30-week Return	-10.8%
Dividend Yield %	1.9%
Dividends per Share	2.20
Forward Dividend Payout Ratio	65.2%
Est. Normal Diluted EPS	5.28
P/E on Est. Normal Diluted EPS	21.6
Est. Normal EBITDA	338
Forward EV/EBITDA	23.8
EV/Est. Normal EBITDA	16.0
Forward Revenue Growth (5-yr)	2.7%
Forward EPS Growth (5-yr)	5.9%

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

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 23.9% in coming years. Total debt-to-EBITDA was 0.9 last year, while debt-to-book capitalization stood at 80.3%. 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Helmerich & Payne	24.1	NMF	109.2%
Oceaneering Intl	16.0	1.1	89.7%
Oil States Intl	51.0	0.3	104.4%
Superior Energy	-31.7	NMF	104.0%
Peer Median	20.1	0.7	104.2%
Core Labs	**33.8**	**0.9**	**89.2%**

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

Returns Summary

	3-year Historical Average
Return on Equity	155.7%
Return on Assets	37.0%
ROIC, with goodwill	59.4%
ROIC, without goodwill	93.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	1,074	1,085	822
Revenue, YoY%	9.4%	1.1%	-24.3%
Operating Income	333	348	206
Operating Margin %	31.0%	32.0%	25.1%
Net Income	243	257	150
Net Income Margin %	22.6%	23.7%	18.2%
Diluted EPS	5.28	5.77	3.37
Diluted EPS, YoY %	16.2%	9.4%	-41.6%
Free Cash Flow (CFO-capex)	260	267	193
Free Cash Flow Margin %	24.3%	24.6%	23.5%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	356
Net Debt	333
Total Debt/EBITDA	0.9
Net Debt/EBITDA	0.9
EBITDA/Interest	35.4
Current Ratio	2.3
Quick Ratio	1.8

NMF = Not Meaningful

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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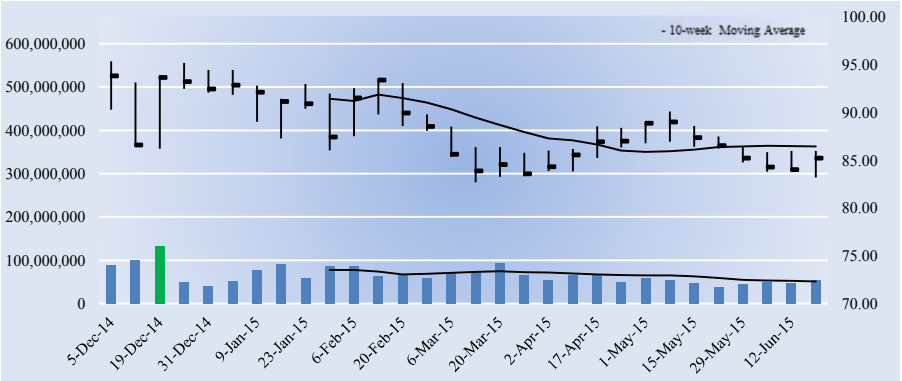
Exxon Mobil XOM FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$84.00	$67.00 - $101.00	MEGA-CAP CORE	Energy	Major Oil & Gas

Exxon has only recently become our favorite oil and gas major.

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)	$364,869
Avg Weekly Vol (30 wks)	66,255
30-week Range (USD)	82.68 - 95.33
Valuentum Sector	Energy
5-week Return	-2.4%
13-week Return	0.2%
30-week Return	-5.7%
Dividend Yield %	3.4%
Dividends per Share	2.92
Forward Dividend Payout Ratio	66.8%
Est. Normal Diluted EPS	6.69
P/E on Est. Normal Diluted EPS	12.7
Est. Normal EBITDA	57,083
Forward EV/EBITDA	9.4
EV/Est. Normal EBITDA	6.8
Forward Revenue Growth (5-yr)	-1.7%
Forward EPS Growth (5-yr)	3.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.9%
Return on Assets	11.3%
ROIC, with goodwill	10.6%
ROIC, without goodwill	10.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	29,121
Net Debt	24,463
Total Debt/EBITDA	0.5
Net Debt/EBITDA	0.4
EBITDA/Interest	195.4
Current Ratio	0.8
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• 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. Exxon has 25.3 BOEB of total proved reserves at the end of 2014.

• Though we don't think Exxon deserves its coveted, pristine AAA credit rating, its financial health is still rock-solid. The executive team continues to focus on fundamentals in a lower price environment while selectively investing in potential opportunities.

• We were quite impressed with Exxon Mobil's recent performance. In 2014, return on capital employed was a solid ~16%, 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. The company is best in class.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**86.00**

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	16.9	1.1	85.7%
Chevron	25.2	0.3	97.5%
ConocoPhillips	131.3	0.1	103.9%
PetroChina	18.3	0.4	103.5%
Peer Median	21.8	0.4	100.5%
Exxon Mobil	**19.5**	**0.6**	**101.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	438,255	411,939	271,468
Revenue, YoY%	-9.1%	-6.0%	-34.1%
Operating Income	43,793	38,593	30,155
Operating Margin %	10.0%	9.4%	11.1%
Net Income	32,580	32,520	18,352
Net Income Margin %	7.4%	7.9%	6.8%
Diluted EPS	7.37	7.59	4.37
Diluted EPS, YoY %	-24.0%	3.0%	-42.4%
Free Cash Flow (CFO-capex)	11,245	12,164	2,990
Free Cash Flow Margin %	2.6%	3.0%	1.1%

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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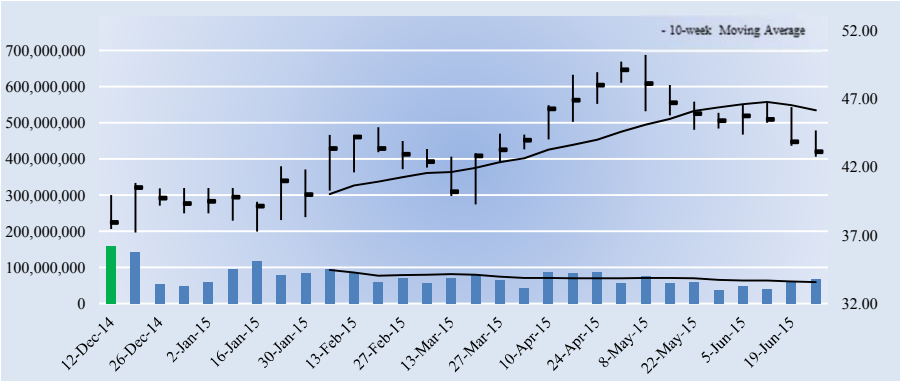
Halliburton HAL FAIRLY VALUED

Buying Index™ 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	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)	$36,738
Avg Weekly Vol (30 wks)	74,198
30-week Range (USD)	37.21 - 50.2
Valuentum Sector	Energy
5-week Return	-4.7%
13-week Return	-0.8%
30-week Return	8.2%
Dividend Yield %	1.7%
Dividends per Share	0.72
Forward Dividend Payout Ratio	50.2%
Est. Normal Diluted EPS	2.59
P/E on Est. Normal Diluted EPS	16.7
Est. Normal EBITDA	4,968
Forward EV/EBITDA	11.7
EV/Est. Normal EBITDA	8.5
Forward Revenue Growth (5-yr)	-1.6%
Forward EPS Growth (5-yr)	-0.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.4%
Return on Assets	9.6%
ROIC, with goodwill	18.9%
ROIC, without goodwill	21.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,840
Net Debt	5,549
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.8
EBITDA/Interest	17.7
Current Ratio	2.6
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• 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 plans to acquire Baker Hughes. The combined entity will make steep job cuts to pursue synergies in a much more challenging environment. Crude oil prices remain under pressure, if not highly volatile, but we don't think such uncertainty will jeapardize the deal.

• Halliburton's cash flow generation and financial leverage aren't much to speak of. The firm's free cash flow margin has averaged about 2.5% 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 recovery. The firm's deepwater revenue continues to grow at a nice clip, however, and Halliburton's mature fields business and unconventionals are also performing well.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**46.00**

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	3064.4	0.1	101.5%
National Oilwell Varco	16.3	NMF	96.9%
Schlumberger	24.7	1.4	114.0%
Weatherford Intl	-112.6	NMF	96.2%
Peer Median	20.5	0.7	99.2%
Halliburton	**30.1**	**NMF**	**105.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	29,402	32,870	24,685
Revenue, YoY%	3.2%	11.8%	-24.9%
Operating Income	4,138	4,902	2,026
Operating Margin %	14.1%	14.9%	8.2%
Net Income	2,106	3,436	1,197
Net Income Margin %	7.2%	10.5%	4.9%
Diluted EPS	2.33	4.03	1.43
Diluted EPS, YoY %	-15.9%	72.7%	-64.4%
Free Cash Flow (CFO-capex)	1,494	715	1,785
Free Cash Flow Margin %	5.1%	2.2%	7.2%

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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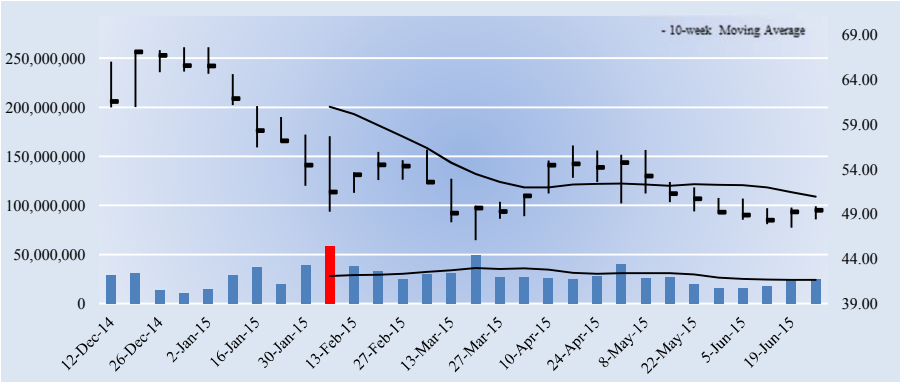
National Oilwell Varco NOV FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$51.00	$41.00 - $61.00	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 buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
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.

Company Vitals

Market Cap (USD)	$21,246
Avg Weekly Vol (30 wks)	27,908
30-week Range (USD)	46.08 - 67.59
Valuentum Sector	Energy
5-week Return	-1.2%
13-week Return	0.4%
30-week Return	-25.1%
Dividend Yield %	3.7%
Dividends per Share	1.84
Forward Dividend Payout Ratio	60.5%
Est. Normal Diluted EPS	3.11
P/E on Est. Normal Diluted EPS	15.9
Est. Normal EBITDA	2,482
Forward EV/EBITDA	8.4
EV/Est. Normal EBITDA	8.4
Forward Revenue Growth (5-yr)	-8.5%
Forward EPS Growth (5-yr)	-7.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	11.8%
Return on Assets	7.6%
ROIC, with goodwill	12.5%
ROIC, without goodwill	19.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,166
Net Debt	-370
Total Debt/EBITDA	0.7
Net Debt/EBITDA	NMF
EBITDA/Interest	42.8
Current Ratio	2.2
Quick Ratio	1.1

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 12.4% in coming years. Total debt-to-EBITDA was 0.7 last year, while debt-to-book capitalization stood at 13.3%.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baker Hughes	3064.4	0.1	101.5%
Halliburton	30.1	NMF	105.2%
Schlumberger	24.7	1.4	114.0%
Weatherford Intl	-112.6	NMF	96.2%
Peer Median	27.4	0.7	103.3%
National Oilwell Varco	**16.3**	**NMF**	**96.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	22,869	21,440	16,166
Revenue, YoY%	14.1%	-6.2%	-24.6%
Operating Income	3,423	3,717	1,905
Operating Margin %	15.0%	17.3%	11.8%
Net Income	2,327	2,450	1,313
Net Income Margin %	10.2%	11.4%	8.1%
Diluted EPS	5.44	5.70	3.04
Diluted EPS, YoY %	-6.8%	4.8%	-46.6%
Free Cash Flow (CFO-capex)	2,728	1,915	2,920
Free Cash Flow Margin %	11.9%	8.9%	18.1%

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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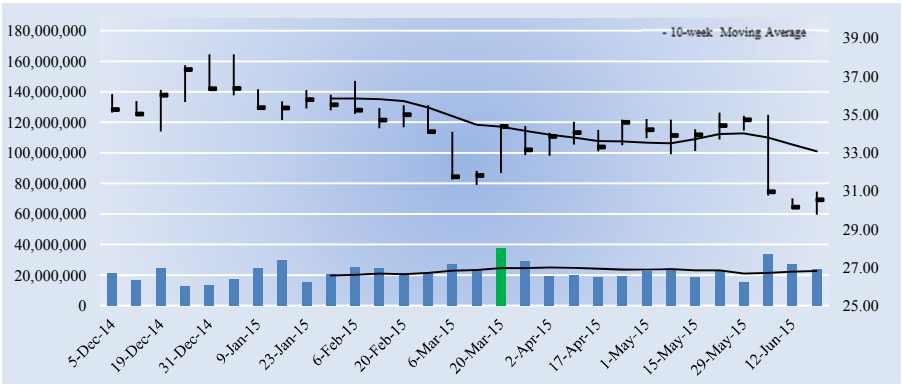
PPL PPL FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$30.00	$24.00 - $36.00	LARGE-CAP CORE	Energy	Utilities - Large

PPL's business 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 selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$20,332
Avg Weekly Vol (30 wks)	22,373
30-week Range (USD)	29.75 - 38.14
Valuentum Sector	Energy
5-week Return	-9.6%
13-week Return	-11.1%
30-week Return	-14.0%
Dividend Yield %	4.9%
Dividends per Share	1.49
Forward Dividend Payout Ratio	68.0%
Est. Normal Diluted EPS	2.44
P/E on Est. Normal Diluted EPS	12.5
Est. Normal EBITDA	4,617
Forward EV/EBITDA	9.5
EV/Est. Normal EBITDA	8.8
Forward Revenue Growth (5-yr)	-4.2%
Forward EPS Growth (5-yr)	2.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.1%
Return on Assets	3.1%
ROIC, with goodwill	6.1%
ROIC, without goodwill	6.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	21,857
Net Debt	20,106
Total Debt/EBITDA	4.6
Net Debt/EBITDA	4.2
EBITDA/Interest	4.6
Current Ratio	0.8
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• PPL's business 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 has been one of our favorite utility companies for some time. We continue to hold shares in the Dividend Growth Newsletter portfolio.

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

• Upon closing, PPL Corp's shareowners now own 65% of Talen Energy and Riverstone owns 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™	**POOR**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**WEAK**
Financial Leverage	**HIGH**
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	**33.00**

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
Duke Energy	15.5	2.1	110.9%
Exelon	13.6	2.3	90.6%
National Grid	15.1	3.8	90.3%
PG&E	14.4	2.2	102.2%
Peer Median	14.7	2.2	96.4%
PPL	**13.9**	**2.4**	**101.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	11,860	11,499	8,015
Revenue, YoY%	-3.5%	-3.0%	-30.3%
Operating Income	3,036	3,272	3,221
Operating Margin %	25.6%	28.5%	40.2%
Net Income	1,128	1,583	1,474
Net Income Margin %	9.5%	13.8%	18.4%
Diluted EPS	1.70	2.38	2.19
Diluted EPS, YoY %	-35.4%	39.7%	-7.8%
Free Cash Flow (CFO-capex)	-1,452	-936	-396
Free Cash Flow Margin %	-12.2%	-8.1%	-4.9%

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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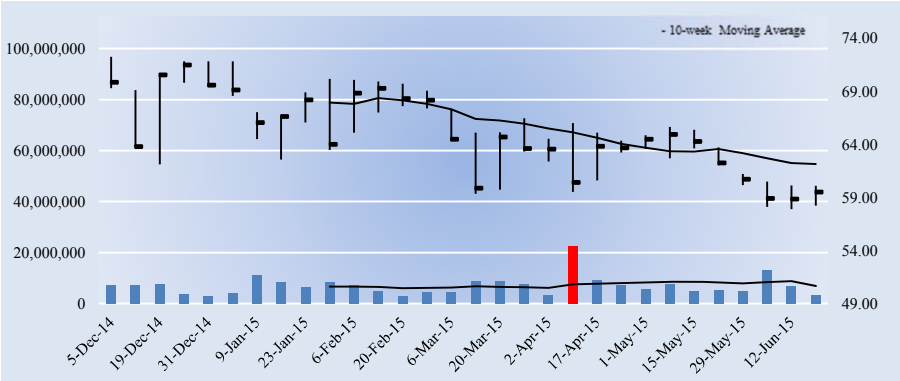
Royal Dutch Shell RDS FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$60.00	$48.00 - $72.00	LARGE-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)	$187,739
Avg Weekly Vol (30 wks)	7,045
30-week Range (USD)	57.89 - 72.22
Valuentum Sector	Energy
5-week Return	-5.8%
13-week Return	-9.8%
30-week Return	-14.4%
Dividend Yield %	6.3%
Dividends per Share per ADR	3.72
Forward Dividend Payout Ratio	156.1%
Est. Normal Diluted EPS	2.63
P/E on Est. Normal Diluted EPS	11.3
Est. Normal EBITDA	47,518
Forward EV/EBITDA	5.0
EV/Est. Normal EBITDA	4.5
Forward Revenue Growth (5-yr)	-1.7%
Forward EPS Growth (5-yr)	4.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.6%
Return on Assets	5.8%
ROIC, with goodwill	16.3%
ROIC, without goodwill	16.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	45,540
Net Debt	23,933
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.4
EBITDA/Interest	30.3
Current Ratio	1.1
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• 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 billions of assets through 2015. Royal Dutch Shell is headquartered in The Hague, the Netherlands.

• Royal Dutch Shell's performance has held up fairly well in the wake of collapsing crude oil prices. The company's refining operations and increased trading contributions helped offset weakness in its upstream business. Cash flow remains resilient.

• 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 buybacks.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk 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
BP	16.9	1.1	85.7%
Chevron	25.2	0.3	97.5%
ConocoPhillips	131.3	0.1	103.9%
Exxon Mobil	19.5	0.6	101.4%
Peer Median	22.3	0.4	99.5%
Royal Dutch Shell	**12.5**	**2.8**	**99.2%**

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

Financial Summary

Fiscal Year End:	----- Actual ----- Dec-13	Dec-14	Dec-15
Revenue	459,599	431,344	301,941
Revenue, YoY%	-4.6%	-6.1%	-30.0%
Operating Income	35,234	30,118	24,795
Operating Margin %	7.7%	7.0%	8.2%
Net Income	16,371	14,874	15,088
Net Income Margin %	3.6%	3.4%	5.0%
Diluted EPS	2.60	2.36	2.38
Diluted EPS, YoY %	-39.0%	-9.4%	1.1%
Free Cash Flow (CFO-capex)	295	13,190	10,244
Free Cash Flow Margin %	0.1%	3.1%	3.4%

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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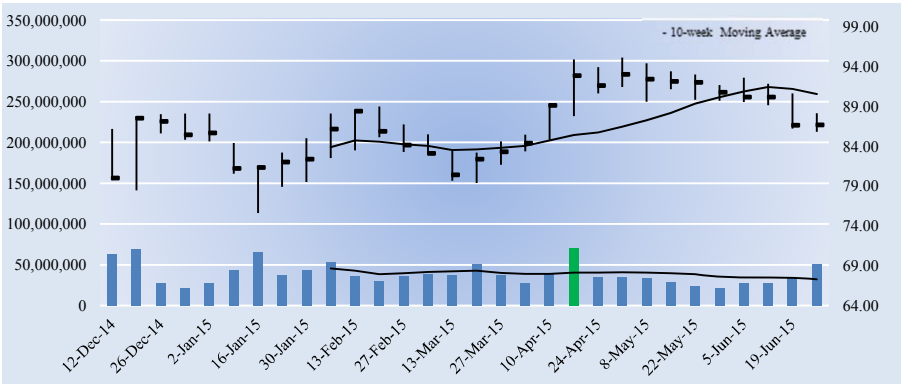
Schlumberger SLB FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$76.00	$61.00 - $91.00	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)	$113,364
Avg Weekly Vol (30 wks)	39,274
30-week Range (USD)	75.6 - 95.13
Valuentum Sector	Energy
5-week Return	-4.9%
13-week Return	3.3%
30-week Return	0.7%
Dividend Yield %	2.3%
Dividends per Share	2.00
Forward Dividend Payout Ratio	56.9%
Est. Normal Diluted EPS	4.58
P/E on Est. Normal Diluted EPS	18.9
Est. Normal EBITDA	11,772
Forward EV/EBITDA	12.5
EV/Est. Normal EBITDA	10.1
Forward Revenue Growth (5-yr)	-0.1%
Forward EPS Growth (5-yr)	6.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	16.6%
Return on Assets	9.5%
ROIC, with goodwill	18.4%
ROIC, without goodwill	28.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	13,330
Net Debt	5,829
Total Debt/EBITDA	1.0
Net Debt/EBITDA	0.4
EBITDA/Interest	36.8
Current Ratio	1.7
Quick Ratio	1.3

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'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.

• 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 13.1% in coming years. Total debt-to-EBITDA was 1 last year, while debt-to-book capitalization stood at 26%.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk MA	**91.00**

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	3064.4	0.1	101.5%
Halliburton	30.1	NMF	105.2%
National Oilwell Varco	16.3	NMF	96.9%
Weatherford Intl	-112.6	NMF	96.2%
Peer Median	23.2	0.1	99.2%
Schlumberger	**24.7**	**1.4**	**114.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	46,459	48,871	38,071
Revenue, YoY%	9.8%	5.2%	-22.1%
Operating Income	9,373	9,490	6,318
Operating Margin %	20.2%	19.4%	16.6%
Net Income	6,801	5,643	4,597
Net Income Margin %	14.6%	11.5%	12.1%
Diluted EPS	5.10	4.31	3.51
Diluted EPS, YoY %	25.6%	-15.4%	-18.5%
Free Cash Flow (CFO-capex)	5,884	7,448	5,336
Free Cash Flow Margin %	12.7%	15.2%	14.0%

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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Financials

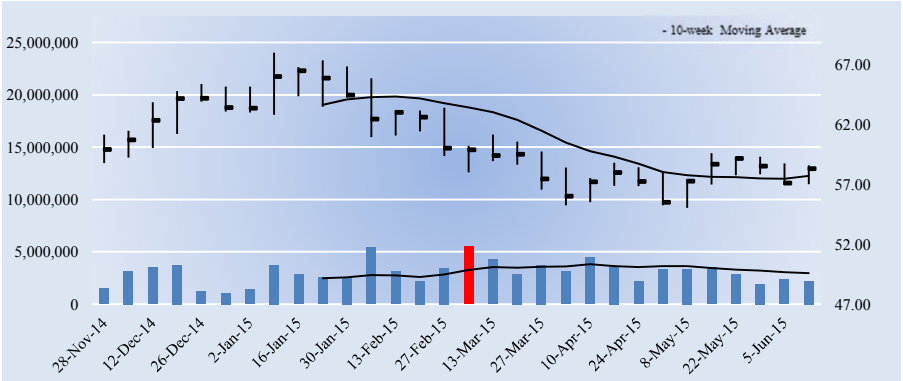
CBOE CBOE FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$50.00	$40.00 - $60.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$4,980
Avg Weekly Vol (30 wks)	3,027
30-week Range (USD)	55.04 - 68
Valuentum Sector	Financials
5-week Return	1.6%
13-week Return	-2.5%
30-week Return	-1.1%
Dividend Yield %	1.4%
Dividends per Share	0.84
Forward Dividend Payout Ratio	39.8%
Est. Normal Diluted EPS	2.80
P/E on Est. Normal Diluted EPS	20.8
Est. Normal EBITDA	433
Forward EV/EBITDA	14.4
EV/Est. Normal EBITDA	11.2
Forward Revenue Growth (5-yr)	5.9%
Forward EPS Growth (5-yr)	9.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	68.1%
Return on Assets	46.1%
ROIC, with goodwill	155.5%
ROIC, without goodwill	155.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-148
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	3.3
Quick Ratio	3.2

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 35.4% 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	**NEUTRAL**
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)	**IMPROVING**
Near-term Technical Support, 10-week MA	**58.00**

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	25.3	3.3	85.8%
IntercontinentalExchange	20.1	2.0	100.2%
KCG	6.0	2.0	94.4%
NASDAQ	15.3	1.8	75.7%
Peer Median	17.7	2.0	90.1%
CBOE	**27.6**	**1.9**	**116.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	572	617	581
Revenue, YoY%	11.7%	7.9%	-5.9%
Operating Income	286	319	297
Operating Margin %	49.9%	51.7%	51.2%
Net Income	176	190	179
Net Income Margin %	30.7%	30.7%	30.9%
Diluted EPS	2.01	2.22	2.11
Diluted EPS, YoY %	12.0%	10.2%	-4.9%
Free Cash Flow (CFO-capex)	196	212	187
Free Cash Flow Margin %	34.2%	34.4%	32.3%

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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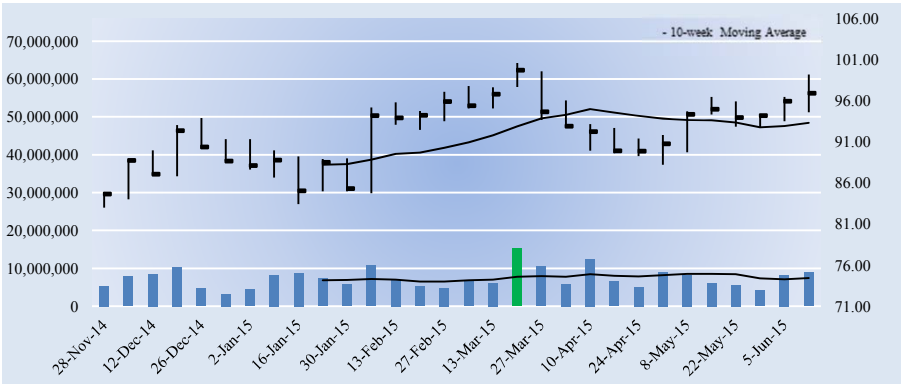
CME Group CME FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$113.00	$90.00 - $136.00	LARGE-CAP VALUE	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 buying, or accumulation (green bar).

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	**93.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$32,575
Avg Weekly Vol (30 wks)	7,373
30-week Range (USD)	83 - 100.61
Valuentum Sector	Financials
5-week Return	2.6%
13-week Return	-0.8%
30-week Return	16.0%
Dividend Yield %	2.1%
Dividends per Share	2.00
Forward Dividend Payout Ratio	52.2%
Est. Normal Diluted EPS	4.55
P/E on Est. Normal Diluted EPS	21.3
Est. Normal EBITDA	2,725
Forward EV/EBITDA	6.1
EV/Est. Normal EBITDA	5.1
Forward Revenue Growth (5-yr)	6.0%
Forward EPS Growth (5-yr)	8.8%

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

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 40% in coming years. Total debt-to-EBITDA was 1 last year, while debt-to-book capitalization stood at 9.2%.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CBOE	27.6	1.9	116.6%
IntercontinentalExchange	20.1	2.0	100.2%
KCG	6.0	2.0	94.4%
NASDAQ	15.3	1.8	75.7%
Peer Median	17.7	1.9	97.3%
CME Group	**25.3**	**3.3**	**85.8%**

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

Returns Summary

	3-year Historical Average
Return on Equity	4.7%
Return on Assets	2.1%
ROIC, with goodwill	13.2%
ROIC, without goodwill	106.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	2,936	3,113	3,305
Revenue, YoY%	0.7%	6.0%	6.2%
Operating Income	1,707	1,840	2,056
Operating Margin %	58.1%	59.1%	62.2%
Net Income	977	1,127	1,286
Net Income Margin %	33.3%	36.2%	38.9%
Diluted EPS	2.92	3.35	3.83
Diluted EPS, YoY %	8.3%	14.8%	14.1%
Free Cash Flow (CFO-capex)	1,155	1,151	1,293
Free Cash Flow Margin %	39.3%	37.0%	39.1%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,108
Net Debt	-18,582
Total Debt/EBITDA	1.0
Net Debt/EBITDA	NMF
EBITDA/Interest	17.4
Current Ratio	1.0
Quick Ratio	0.5

NMF = Not Meaningful

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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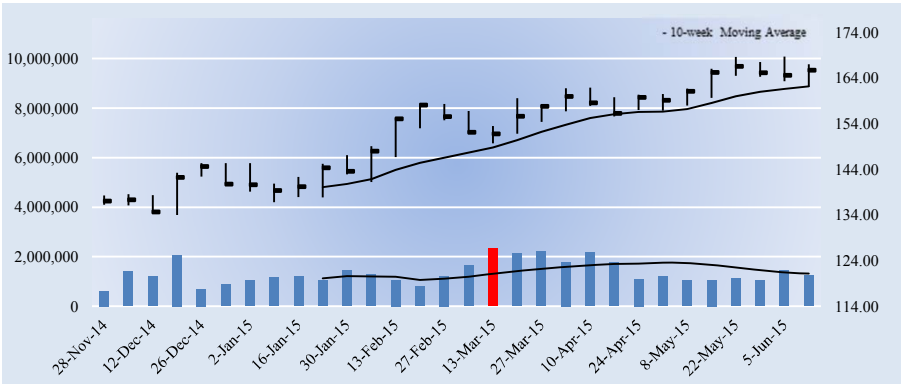
Factset Research FDS OVERVALUED 6.5%

Buying Index™ 4 **Value Rating** ✕

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$129.00	$103.00 - $155.00	MID-CAP CORE	Financials	Securities Research

Recent performance at Factset has been solid.

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)	$7,122
Avg Weekly Vol (30 wks)	1,346
30-week Range (USD)	134.01 - 168.7
Valuentum Sector	Financials
5-week Return	3.0%
13-week Return	9.2%
30-week Return	20.6%
Dividend Yield %	1.1%
Dividends per Share	1.76
Forward Dividend Payout Ratio	31.1%
Est. Normal Diluted EPS	7.62
P/E on Est. Normal Diluted EPS	21.7
Est. Normal EBITDA	506
Forward EV/EBITDA	18.2
EV/Est. Normal EBITDA	13.8
Forward Revenue Growth (5-yr)	8.5%
Forward EPS Growth (5-yr)	15.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	37.3%
Return on Assets	29.3%
ROIC, with goodwill	73.7%
ROIC, without goodwill	224.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-136
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	2.0
Quick Ratio	1.8

NMF = Not Meaningful

Investment Highlights

• Factset Research'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.

• FactSet provides financial information and analytical applications to the investment community. The firm combines content about securities from markets all over the globe into a single online platform of information and analytics. Buy-side clients account for ~80% of 'Annual Subscription Value' (ASV).

• Factset Research 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 28.3% in coming years, and the firm had no debt as of last quarter. The company's capital commitments are minimal.

• Though we like Factset's research product, the market for providing financial information and software solutions to the global investment community is highly competitive. Bloomberg and Thomson Reuters are two competitors, for example. The market appears rational, however, as operating margins remain robust.

• Recent performance has been solid. ASV continues to advance at a mid-single-digit organic pace, and recent quarterly results have revealed the best growth since 2006 as the number of buy-side users expand at a pace not seen since 2004.

Investment Considerations

DCF Valuation	**OVERVALUED**
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	**162.00**

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
McGraw-Hill	22.7	NMF	110.9%
Moody's	23.1	2.4	112.8%
Morningstar	26.0	1.7	123.1%
Thomson Reuters Corp	19.4	1.5	116.1%
Peer Median	22.9	1.7	114.4%
Factset Research	**29.3**	**2.2**	**128.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-13	Aug-14	Aug-15
Revenue	858	920	1,004
Revenue, YoY%	6.5%	7.3%	9.1%
Operating Income	269	302	347
Operating Margin %	31.4%	32.8%	34.5%
Net Income	199	212	242
Net Income Margin %	23.1%	23.0%	24.1%
Diluted EPS	4.45	4.92	5.66
Diluted EPS, YoY %	8.0%	10.6%	14.9%
Free Cash Flow (CFO-capex)	251	247	263
Free Cash Flow Margin %	29.3%	26.9%	26.1%

In Millions of USD (except for per share items)

Structure of the Securities Research Industry — EXCELLENT

The securities research industry has become increasingly competitive, with a large number of rivals in the individual, advisor, and institutional markets. However, barriers to success for new entrants in the individual market are incredibly high, if not impossible, while the advisor market continues to be dominated by entrenched providers with deep ties. The institutional market is shielded to new rivals thanks to talent and capital costs, offering established players an attractive position. Licensed research and data can be a high-return means of generating sustainable, recurring business. We like the group's structure.

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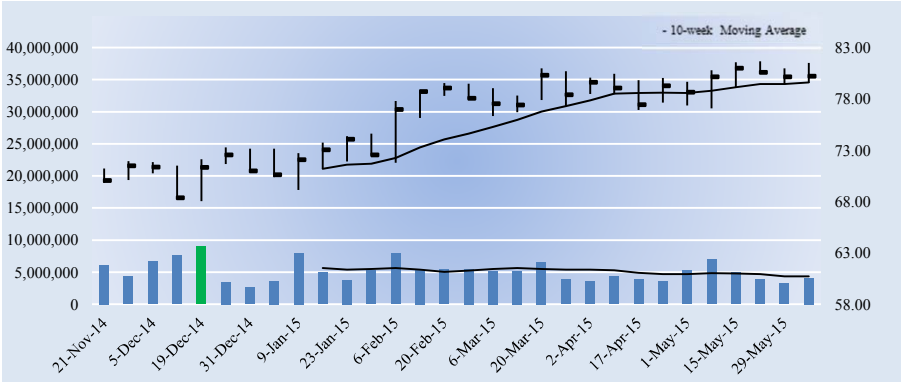
Fiserv FISV FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$69.00	$55.00 - $83.00	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)	$20,272
Avg Weekly Vol (30 wks)	5,130
30-week Range (USD)	68.05 - 81.66
Valuentum Sector	Information Technology
5-week Return	1.9%
13-week Return	3.6%
30-week Return	14.8%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	4.97
P/E on Est. Normal Diluted EPS	16.1
Est. Normal EBITDA	2,415
Forward EV/EBITDA	11.7
EV/Est. Normal EBITDA	9.8
Forward Revenue Growth (5-yr)	5.6%
Forward EPS Growth (5-yr)	16.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.5%
Return on Assets	7.4%
ROIC, with goodwill	10.5%
ROIC, without goodwill	35.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,803
Net Debt	3,509
Total Debt/EBITDA	2.4
Net Debt/EBITDA	2.2
EBITDA/Interest	9.8
Current Ratio	1.0
Quick Ratio	0.7

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. The company has put up nearly 30 consecutive years 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 20.3% in coming years. Total debt-to-EBITDA was 2.4 last year, while debt-to-book capitalization stood at 53.6%. 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™	**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)	**BEARISH**
Near-term Technical Support, 10-week MA	**80.00**

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	18.9	NMF	91.7%
Mastercard	26.6	2.1	95.5%
Visa	26.2	2.0	91.2%
Western Union	13.2	3.8	87.0%
Peer Median	22.6	2.1	91.4%
Fiserv	**20.8**	**1.7**	**116.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	4,814	5,066	5,319
Revenue, YoY%	7.4%	5.2%	5.0%
Operating Income	1,061	1,210	1,601
Operating Margin %	22.0%	23.9%	30.1%
Net Income	650	754	953
Net Income Margin %	13.5%	14.9%	17.9%
Diluted EPS	2.44	2.98	3.85
Diluted EPS, YoY %	12.5%	22.2%	29.0%
Free Cash Flow (CFO-capex)	829	1,014	1,025
Free Cash Flow Margin %	17.2%	20.0%	19.3%

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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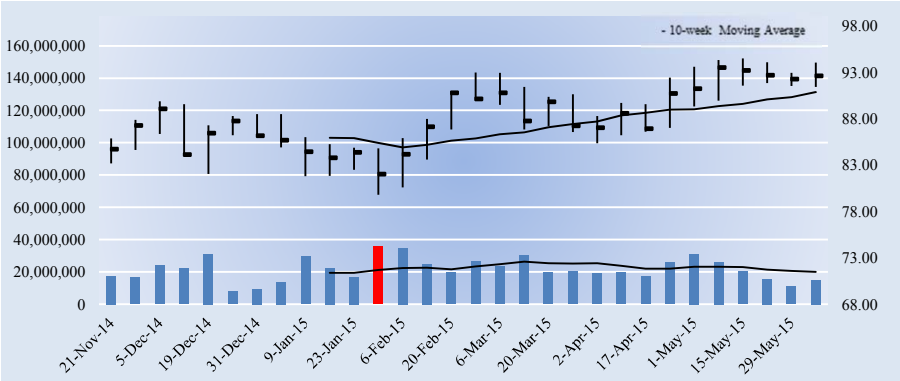
Mastercard MA FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$97.00	$78.00 - $116.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$108,273
Avg Weekly Vol (30 wks)	21,560
30-week Range (USD)	79.82 - 94.5
Valuentum Sector	Information Technology
5-week Return	1.2%
13-week Return	2.3%
30-week Return	10.5%
Dividend Yield %	0.7%
Dividends per Share	0.64
Forward Dividend Payout Ratio	18.4%
Est. Normal Diluted EPS	4.74
P/E on Est. Normal Diluted EPS	19.5
Est. Normal EBITDA	8,262
Forward EV/EBITDA	16.7
EV/Est. Normal EBITDA	12.3
Forward Revenue Growth (5-yr)	11.1%
Forward EPS Growth (5-yr)	14.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	45.7%
Return on Assets	23.9%
ROIC, with goodwill	87.4%
ROIC, without goodwill	123.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,494
Net Debt	-6,301
Total Debt/EBITDA	0.3
Net Debt/EBITDA	NMF
EBITDA/Interest	113.1
Current Ratio	1.8
Quick Ratio	1.6

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 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.

• 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	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**91.00**

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	18.9	NMF	91.7%
Fiserv	20.8	1.7	116.3%
Visa	26.2	2.0	91.2%
Western Union	13.2	3.8	87.0%
Peer Median	19.9	2.0	91.4%
Mastercard	**26.6**	**2.1**	**95.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	8,346	9,473	9,928
Revenue, YoY%	12.9%	13.5%	4.8%
Operating Income	4,503	5,106	5,768
Operating Margin %	54.0%	53.9%	58.1%
Net Income	3,116	3,617	4,073
Net Income Margin %	37.3%	38.2%	41.0%
Diluted EPS	2.56	3.09	3.48
Diluted EPS, YoY %	17.1%	20.6%	12.6%
Free Cash Flow (CFO-capex)	3,980	3,232	4,328
Free Cash Flow Margin %	47.7%	34.1%	43.6%

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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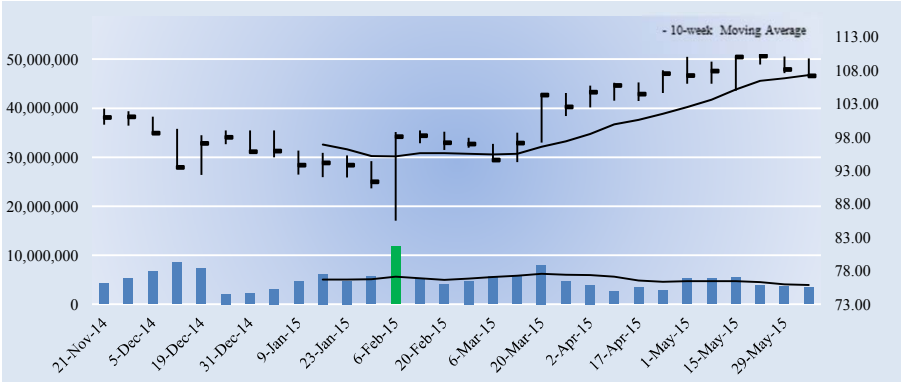
Moody's MCO FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$95.00	$76.00 - $114.00	LARGE-CAP CORE	Financials	Securities Research

Moody's has robust long-term opportunities for growth.

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
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 Resistance, 10-wk MA	**107.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$23,005
Avg Weekly Vol (30 wks)	5,002
30-week Range (USD)	85.5 - 110.51
Valuentum Sector	Financials
5-week Return	-0.5%
13-week Return	13.5%
30-week Return	6.7%
Dividend Yield %	1.3%
Dividends per Share	1.36
Forward Dividend Payout Ratio	29.3%
Est. Normal Diluted EPS	5.91
P/E on Est. Normal Diluted EPS	18.1
Est. Normal EBITDA	2,045
Forward EV/EBITDA	14.2
EV/Est. Normal EBITDA	11.7
Forward Revenue Growth (5-yr)	7.5%
Forward EPS Growth (5-yr)	9.5%

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

Investment Highlights

• Moody'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.

• Moody's provides credit ratings, research, tools and analysis to the financial markets. The firm's ratings and analysis track debt covering more than 115 countries, 10,000 corporate issuers, 22,000 public finance issuers, and 82,000 structured finance obligations.

• Moody's 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 29.6% in coming years. Total debt-to-EBITDA was 1.7 last year, while debt-to-book capitalization stood at 108%. The operating margins on Moody's business are simply fantastic.

• Moody's has robust opportunities for growth: 1) economic activity will drive debt market issuance, 2) disintermediation of credit markets will increase new product demand, and 3) the firm retains pricing power. Management believes low-double-digit average annual growth is sustainable. Historically, rising interest rates have not significantly impacted revenue.

• Moody's has a nice recurring revenue base across much of its portfolio, with Moody's Analytics accounting for the majority of this revenue stream. Recurring revenue has consistently grown at a high-single-digit pace.

Relative Valuation

	Forward P/E	PEG	Price / FV
Factset Research	29.1	2.2	127.6%
McGraw-Hill	22.7	NMF	110.9%
Morningstar	26.0	1.7	123.1%
Thomson Reuters Corp	19.4	1.5	116.1%
Peer Median	24.4	1.7	119.6%
Moody's	**23.1**	**2.4**	**112.8%**

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

Returns Summary

	3-year Historical Average
Return on Equity	740.6%
Return on Assets	20.7%
ROIC, with goodwill	76.7%
ROIC, without goodwill	214.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	2,973	3,334	3,531
Revenue, YoY%	8.9%	12.2%	5.9%
Operating Income	1,235	1,439	1,576
Operating Margin %	41.5%	43.2%	44.6%
Net Income	805	989	988
Net Income Margin %	27.1%	29.7%	28.0%
Diluted EPS	3.60	4.61	4.65
Diluted EPS, YoY %	18.2%	27.9%	0.9%
Free Cash Flow (CFO-capex)	885	944	1,002
Free Cash Flow Margin %	29.8%	28.3%	28.4%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,547
Net Debt	870
Total Debt/EBITDA	1.7
Net Debt/EBITDA	0.6
EBITDA/Interest	12.4
Current Ratio	2.2
Quick Ratio	2.1

NMF = Not Meaningful

Structure of the Securities Research Industry — EXCELLENT

The securities research industry has become increasingly competitive, with a large number of rivals in the individual, advisor, and institutional markets. However, barriers to success for new entrants in the individual market are incredibly high, if not impossible, while the advisor market continues to be dominated by entrenched providers with deep ties. The institutional market is shielded to new rivals thanks to talent and capital costs, offering established players an attractive position. Licensed research and data can be a high-return means of generating sustainable, recurring business. We like the group's structure.

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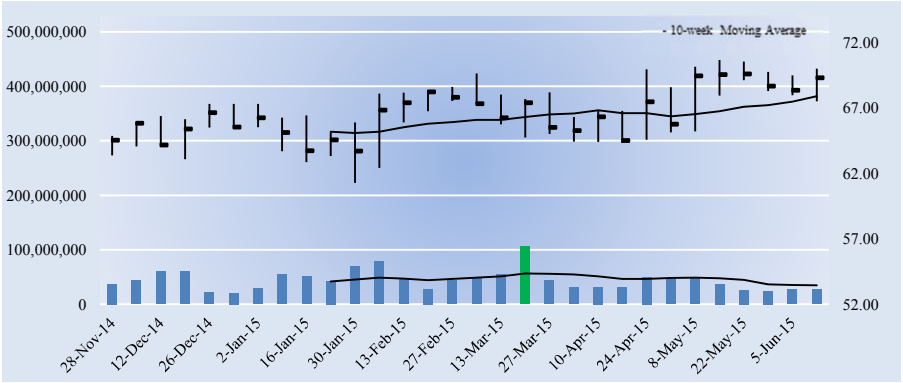
Visa V FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$75.00	$60.00 - $90.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$174,989
Avg Weekly Vol (30 wks)	43,757
30-week Range (USD)	61.292 - 70.69
Valuentum Sector	Information Technology
5-week Return	0.0%
13-week Return	3.9%
30-week Return	8.8%
Dividend Yield %	0.7%
Dividends per Share	0.48
Forward Dividend Payout Ratio	18.4%
Est. Normal Diluted EPS	3.52
P/E on Est. Normal Diluted EPS	19.7
Est. Normal EBITDA	12,499
Forward EV/EBITDA	16.8
EV/Est. Normal EBITDA	13.5
Forward Revenue Growth (5-yr)	11.2%
Forward EPS Growth (5-yr)	16.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	15.4%
Return on Assets	11.1%
ROIC, with goodwill	39.7%
ROIC, without goodwill	81.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-6,409
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	1.6
Quick Ratio	1.3

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 59.5% 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™	**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	**68.00**

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	18.9	NMF	91.7%
Fiserv	20.8	1.7	116.3%
Mastercard	26.6	2.1	95.5%
Western Union	13.2	3.8	87.0%
Peer Median	19.9	2.1	93.6%
Visa	**26.6**	**2.0**	**92.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-13	Sep-14	Sep-15
Revenue	11,778	12,702	13,883
Revenue, YoY%	13.0%	7.8%	9.3%
Operating Income	7,242	8,150	9,581
Operating Margin %	61.5%	64.2%	69.0%
Net Income	4,980	5,438	6,445
Net Income Margin %	42.3%	42.8%	46.4%
Diluted EPS	1.90	2.15	2.61
Diluted EPS, YoY %	-40.0%	13.5%	20.9%
Free Cash Flow (CFO-capex)	2,551	6,652	8,320
Free Cash Flow Margin %	21.7%	52.4%	59.9%

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

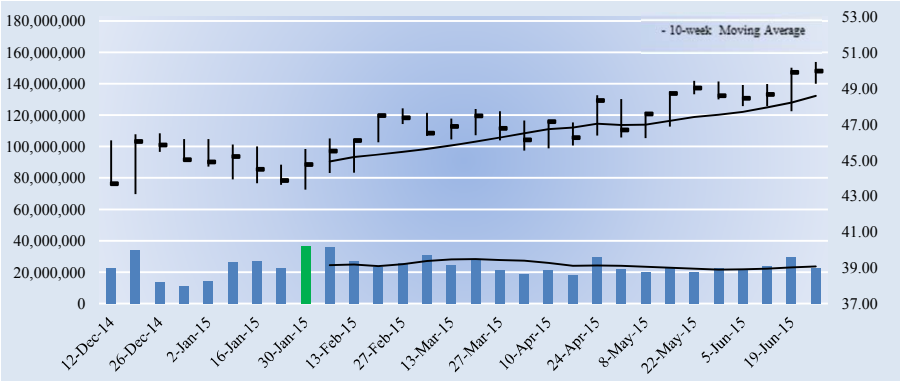
Abbott ABT FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$45.00	$36.00 - $54.00	LARGE-CAP CORE	Health Care	Pharmaceuticals - Big

More than 40% of the world's population will be 50 or older by 2050, offering tremendous opportunities across Abbott's 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).

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 Support, 10-week MA	**49.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$76,304
Avg Weekly Vol (30 wks)	24,021
30-week Range (USD)	43.1 - 50.47
Valuentum Sector	Health Care
5-week Return	1.8%
13-week Return	6.3%
30-week Return	10.2%
Dividend Yield %	1.9%
Dividends per Share	0.96
Forward Dividend Payout Ratio	44.0%
Est. Normal Diluted EPS	2.75
P/E on Est. Normal Diluted EPS	18.2
Est. Normal EBITDA	7,410
Forward EV/EBITDA	13.1
EV/Est. Normal EBITDA	10.8
Forward Revenue Growth (5-yr)	4.6%
Forward EPS Growth (5-yr)	24.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.9%
Return on Assets	5.8%
ROIC, with goodwill	12.0%
ROIC, without goodwill	19.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,845
Net Debt	3,385
Total Debt/EBITDA	1.9
Net Debt/EBITDA	0.8
EBITDA/Interest	27.6
Current Ratio	1.4
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• The new Abbott isn't much different from the old Abbott, minus the blockbuster drug Humira and other members of its drug lineup like AndroGel and TriCor. It remains aligned with favorable long-term healthcare trends in both developed and developing markets. The company is more than 125 years' old. Roughly 70% of its sales are now outside the US.

• Abbott'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.

• The new Abbott's nutritionals segment is one of the more attractive businesses in the healthcare space. It is home to some well-known brand names such as EAS, Myoplex and ZonePerfect. The division is #1 in adult nutrition and #1 in pediatric nutrition. It's hard not to like its branded generics (#1 in India) and its medical devices (#1 in drug-eluting stents) segments either.

• Abbott's diagnostics segment has some solid products in the pipeline that could kick-start growth, and it remains #1 in immunoassay diagnostics and #1 in blood screening. More than 40% of the world's population will be 50 or older by 2050, offering tremendous opportunities across Abbott's portfolio.

• Abbott 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 20.6% in coming years. Total debt-to-EBITDA was 1.9 last year, while debt-to-book capitalization stood at 26.7%.

Relative Valuation

	Forward P/E	PEG	Price / FV
AbbVie	16.5	1.6	97.9%
Eli Lilly	26.9	1.7	122.6%
Merck	16.8	2.0	108.3%
Pfizer	16.5	1.5	94.2%
Peer Median	16.6	1.6	103.1%
Abbott	**22.9**	**1.8**	**111.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	21,848	20,247	20,713
Revenue, YoY%	-45.2%	-7.3%	2.3%
Operating Income	2,629	2,599	4,515
Operating Margin %	12.0%	12.8%	21.8%
Net Income	2,383	1,721	3,331
Net Income Margin %	10.9%	8.5%	16.1%
Diluted EPS	1.51	1.13	2.18
Diluted EPS, YoY %	-57.5%	-25.6%	93.6%
Free Cash Flow (CFO-capex)	1,986	2,035	4,044
Free Cash Flow Margin %	9.1%	10.1%	19.5%

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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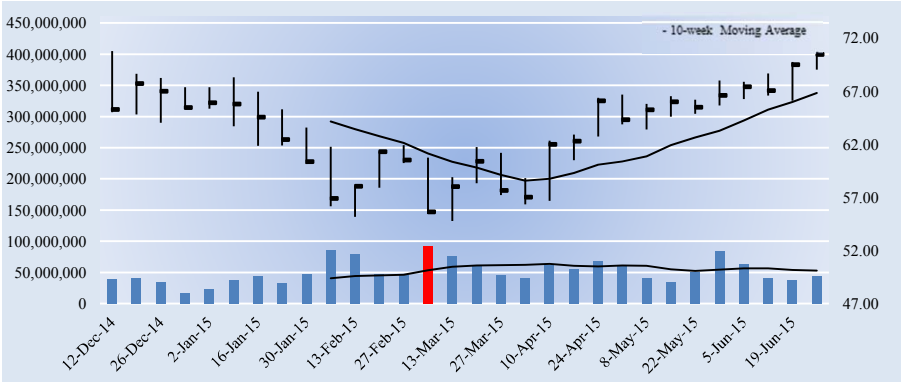
AbbVie ABBV FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$72.00	$58.00 - $86.00	LARGE-CAP BLEND	Health Care	Pharmaceuticals - Big

We're big fans of AbbVie's Economic Castle rating.

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
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	**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.

Company Vitals

Market Cap (USD)	$113,441
Avg Weekly Vol (30 wks)	51,324
30-week Range (USD)	54.78 - 70.76
Valuentum Sector	Health Care
5-week Return	7.2%
13-week Return	NA
30-week Return	NA
Dividend Yield %	2.9%
Dividends per Share	2.04
Forward Dividend Payout Ratio	47.6%
Est. Normal Diluted EPS	5.38
P/E on Est. Normal Diluted EPS	13.1
Est. Normal EBITDA	13,349
Forward EV/EBITDA	11.3
EV/Est. Normal EBITDA	9.0
Forward Revenue Growth (5-yr)	10.3%
Forward EPS Growth (5-yr)	40.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	76.6%
Return on Assets	14.5%
ROIC, with goodwill	40.6%
ROIC, without goodwill	83.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	15,011
Net Debt	6,637
Total Debt/EBITDA	3.0
Net Debt/EBITDA	1.3
EBITDA/Interest	11.5
Current Ratio	1.4
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• AbbVie'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.

• Headlining AbbVie's business is the blockbuster drug Humira. Though originally approved for rheumatoid arthritis in 2003, the drug has been approved to treat Crohn's disease, plaque psoriasis, ulcerative colitis, psoriatic arthritis, and ankylosing spondylitis.

• AbbVie had plans to buy UK-based Shire PLC for $54 billion in a tax-inversion deal. The deal would have increased diversification while reducing the company's reliance on Humira. However, both entities agreed to terminate the deal on account of proposed changes to US tax laws. AbbVie bought Pharmacyclics instead, an equally intriguing combination.

• AbbVie arguably has the strongest late-stage pipeline in the industry (HCV, oncology, immunology, neuroscience). It bumps heads with other drug powerhouses, however, and exclusive negotiations with PBMs could pressure pricing power, to a degree.

• Strong performance from Creon, Synthroid, and Duodopa should also be expected, as each of these products hold leadership positions in their respective markets. The firm's Viekira Pak should gain some traction.

Relative Valuation

	Forward P/E	PEG	Price / FV
Abbott	22.9	1.8	111.0%
Eli Lilly	26.9	1.7	122.6%
Merck	16.8	2.0	108.3%
Pfizer	16.5	1.5	94.2%
Peer Median	19.9	1.8	109.7%
AbbVie	**16.5**	**1.6**	**97.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	18,790	19,960	23,353
Revenue, YoY%	2.2%	6.2%	17.0%
Operating Income	5,664	4,161	9,662
Operating Margin %	30.1%	20.8%	41.4%
Net Income	4,128	1,774	6,943
Net Income Margin %	22.0%	8.9%	29.7%
Diluted EPS	2.57	1.10	4.28
Diluted EPS, YoY %	-23.1%	-57.2%	288.7%
Free Cash Flow (CFO-capex)	5,776	2,937	7,200
Free Cash Flow Margin %	30.7%	14.7%	30.8%

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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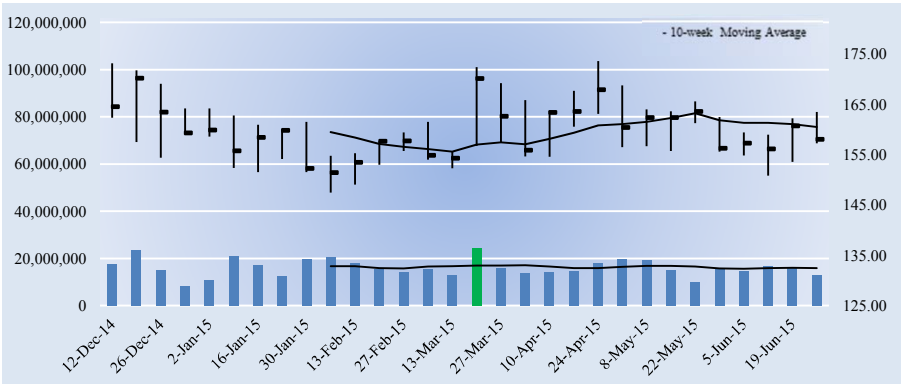
Amgen AMGN FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$154.00	$123.00 - $185.00	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 selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$121,675
Avg Weekly Vol (30 wks)	16,139
30-week Range (USD)	147.42 - 173.6
Valuentum Sector	Health Care
5-week Return	-1.6%
13-week Return	-3.9%
30-week Return	-6.7%
Dividend Yield %	2.0%
Dividends per Share	3.16
Forward Dividend Payout Ratio	32.7%
Est. Normal Diluted EPS	11.24
P/E on Est. Normal Diluted EPS	14.1
Est. Normal EBITDA	12,052
Forward EV/EBITDA	11.6
EV/Est. Normal EBITDA	10.4
Forward Revenue Growth (5-yr)	3.7%
Forward EPS Growth (5-yr)	13.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.0%
Return on Assets	8.2%
ROIC, with goodwill	21.8%
ROIC, without goodwill	43.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	30,715
Net Debt	3,689
Total Debt/EBITDA	3.5
Net Debt/EBITDA	0.4
EBITDA/Interest	14.4
Current Ratio	5.0
Quick Ratio	4.2

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	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
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)	**BULLISH**
Near-term Technical Resistance, 10-wk MA	**160.00**

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	22.9	1.8	111.0%
Eli Lilly	26.9	1.7	122.6%
Merck	16.8	2.0	108.3%
Pfizer	16.5	1.5	94.2%
Peer Median	19.9	1.8	109.7%
Amgen	**16.3**	**1.7**	**102.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	18,676	20,063	21,126
Revenue, YoY%	8.2%	7.4%	5.3%
Operating Income	6,063	6,645	8,592
Operating Margin %	32.5%	33.1%	40.7%
Net Income	5,081	5,158	7,376
Net Income Margin %	27.2%	25.7%	34.9%
Diluted EPS	6.64	6.70	9.68
Diluted EPS, YoY %	20.3%	0.9%	44.4%
Free Cash Flow (CFO-capex)	5,598	7,552	8,541
Free Cash Flow Margin %	30.0%	37.6%	40.4%

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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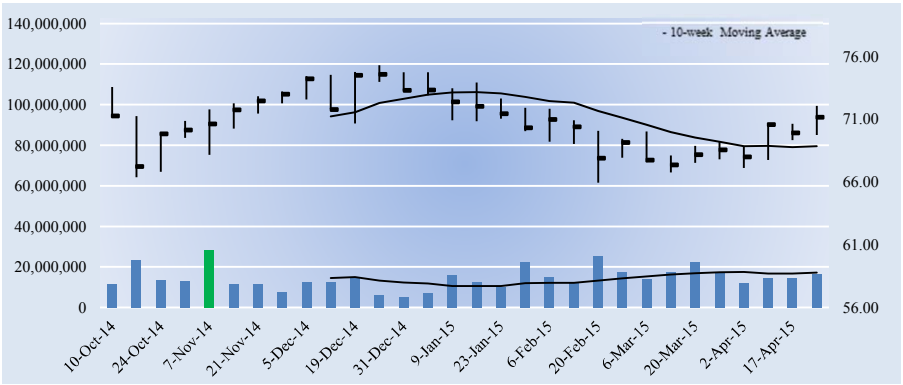
Baxter Intl BAX FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$69.00	$55.00 - $83.00	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)	$38,914
Avg Weekly Vol (30 wks)	14,659
30-week Range (USD)	65.94 - 75.29
Valuentum Sector	Health Care
5-week Return	4.3%
13-week Return	-0.4%
30-week Return	-3.1%
Dividend Yield %	2.9%
Dividends per Share	2.08
Forward Dividend Payout Ratio	50.8%
Est. Normal Diluted EPS	5.00
P/E on Est. Normal Diluted EPS	14.2
Est. Normal EBITDA	4,479
Forward EV/EBITDA	11.7
EV/Est. Normal EBITDA	10.1
Forward Revenue Growth (5-yr)	1.6%
Forward EPS Growth (5-yr)	12.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	28.0%
Return on Assets	9.3%
ROIC, with goodwill	20.5%
ROIC, without goodwill	26.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	9,305
Net Debt	6,380
Total Debt/EBITDA	2.5
Net Debt/EBITDA	1.7
EBITDA/Interest	22.2
Current Ratio	1.7
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• 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.

• The company's decision to split into two leading heathcare companies in 2015 will 'muddy' results a bit. A new biopharmaceutical company Baxalta Incorporated (BXLT) will be generated via a tax-free distribution to Baxter shareholders.

• 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 14.9% in coming years. Total debt-to-EBITDA was 2.5 last year, while debt-to-book capitalization stood at 53.4%. 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 51% 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	**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)	**BEARISH**
Near-term Technical Support, 10-week MA	**69.00**

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
Becton, Dickinson	20.2	1.5	85.4%
Boston Scientific	20.2	NMF	107.9%
Stryker	19.1	1.9	103.1%
Thermo Fisher Scientific	17.6	1.7	115.1%
Peer Median	19.6	1.7	105.5%
Baxter Intl	**17.4**	**1.7**	**103.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	15,259	16,671	15,721
Revenue, YoY%	7.5%	9.3%	-5.7%
Operating Income	2,668	2,707	2,921
Operating Margin %	17.5%	16.2%	18.6%
Net Income	2,012	1,946	2,215
Net Income Margin %	13.2%	11.7%	14.1%
Diluted EPS	3.66	3.56	4.09
Diluted EPS, YoY %	-12.4%	-2.9%	15.0%
Free Cash Flow (CFO-capex)	1,673	766	1,950
Free Cash Flow Margin %	11.0%	4.6%	12.4%

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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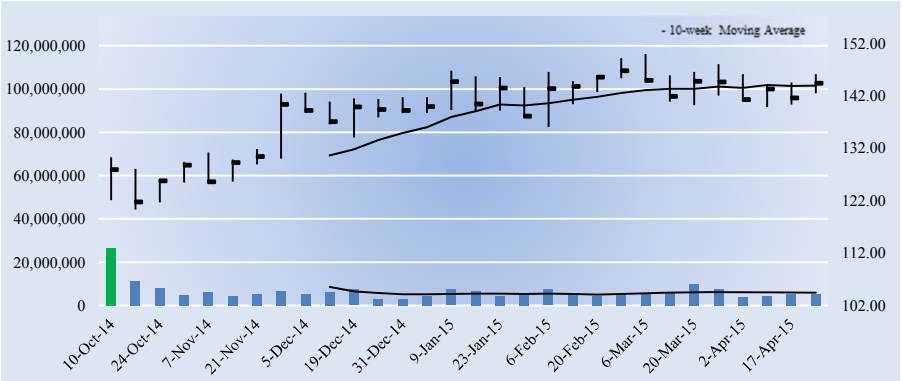
Becton, Dickinson BDX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$169.00	$135.00 - $203.00	LARGE-CAP BLEND	Health Care	Medical Instruments

Beckton, Dickinson's results will be bolstered in coming years by its $12 billion acquisition of CareFusion.

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)	$28,535
Avg Weekly Vol (30 wks)	6,591
30-week Range (USD)	120.29 - 149.98
Valuentum Sector	Health Care
5-week Return	-0.4%
13-week Return	1.1%
30-week Return	15.9%
Dividend Yield %	1.7%
Dividends per Share	2.40
Forward Dividend Payout Ratio	33.6%
Est. Normal Diluted EPS	10.06
P/E on Est. Normal Diluted EPS	14.3
Est. Normal EBITDA	3,631
Forward EV/EBITDA	11.5
EV/Est. Normal EBITDA	8.2
Forward Revenue Growth (5-yr)	17.0%
Forward EPS Growth (5-yr)	16.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	22.8%
Return on Assets	9.2%
ROIC, with goodwill	14.7%
ROIC, without goodwill	17.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,971
Net Debt	1,226
Total Debt/EBITDA	1.8
Net Debt/EBITDA	0.6
EBITDA/Interest	16.1
Current Ratio	2.7
Quick Ratio	1.8

NMF = Not Meaningful

Investment Highlights

• 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 remainder of revenue is generated from its BD Biosciences division, which sells applications associated with cellular analysis.

• Beckton, Dickinson's results will be bolstered in coming years by its $12 billion acquisition of CareFusion, a maker of infusion pumps and IV sets. Revenue for fiscal year 2015 is expected to increase more than 20% on a reported basis and nearly 30% on a currency-neutral basis. Adjusted earnings per share for the year is expected in the range of $7-$7.10.

• 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. Forex could pose headwinds, however.

• New product revenue will continue to be a key driver for the company and is expected to be as much as ~20% of sales by fiscal year 2015 (about 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™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**AGGRESSIVE**
Technical Evaluation	**VERY BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**144.00**

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
Baxter Intl	17.4	1.7	103.1%
Boston Scientific	20.2	NMF	107.9%
Stryker	19.1	1.9	103.1%
Thermo Fisher Scientific	17.6	1.7	115.1%
Peer Median	18.3	1.7	105.5%
Becton, Dickinson	**20.2**	**1.5**	**85.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-13	Sep-14	Sep-15
Revenue	8,054	8,446	10,372
Revenue, YoY%	4.5%	4.9%	22.8%
Operating Income	1,255	1,606	1,902
Operating Margin %	15.6%	19.0%	18.3%
Net Income	929	1,185	1,412
Net Income Margin %	11.5%	14.0%	13.6%
Diluted EPS	4.76	5.99	7.14
Diluted EPS, YoY %	-10.3%	25.9%	19.1%
Free Cash Flow (CFO-capex)	553	1,093	1,144
Free Cash Flow Margin %	6.9%	12.9%	11.0%

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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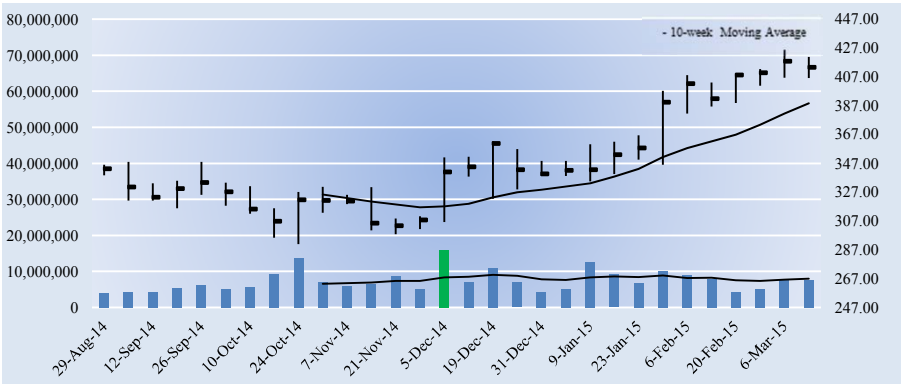
Biogen BIIB FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$397.00	$278.00 - $516.00	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).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
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	**388.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$98,037
Avg Weekly Vol (30 wks)	7,403
30-week Range (USD)	290.85 - 425.7
Valuentum Sector	Health Care
5-week Return	3.8%
13-week Return	17.4%
30-week Return	20.7%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	22.90
P/E on Est. Normal Diluted EPS	18.0
Est. Normal EBITDA	8,202
Forward EV/EBITDA	15.5
EV/Est. Normal EBITDA	11.8
Forward Revenue Growth (5-yr)	12.0%
Forward EPS Growth (5-yr)	18.3%

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

Investment Highlights

• 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. It recently bought Convergence Pharma.

• 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.

• The company announced March 2015 that it observed positive interim results from early trials (Phase 1b) of its investigational Alzheimer's disease treatment aducanumab (BIIB037) in patients with prodromal or mild Alzheimer's disease. Though the drug is still in testing, the opportunity for Biogen is tremendous.

• 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.

• 2015 looks to be another fantastic year for Biogen. Revenue and earnings growth will be solid, and the company continues to bolster its R&D capabilities. Recent collaborations with Columbia University and San Raffaele Hospital in Italy are just two developments.

Relative Valuation

	Forward P/E	PEG	Price / FV
Alexion Pharma	29.7	1.8	82.3%
BioMarin Pharma	-53.4	NMF	176.5%
Celgene	24.1	1.5	76.9%
Regeneron	38.9	3.1	120.3%
Peer Median	26.9	1.8	101.3%
Biogen	**24.0**	**1.8**	**104.1%**

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

Returns Summary

	3-year Historical Average
Return on Equity	24.9%
Return on Assets	17.9%
ROIC, with goodwill	21.3%
ROIC, without goodwill	26.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	6,932	9,703	11,217
Revenue, YoY%	25.7%	40.0%	15.6%
Operating Income	1,364	2,721	5,459
Operating Margin %	19.7%	28.0%	48.7%
Net Income	1,862	2,935	4,065
Net Income Margin %	26.9%	30.2%	36.2%
Diluted EPS	7.81	12.37	17.20
Diluted EPS, YoY %	35.8%	58.3%	39.0%
Free Cash Flow (CFO-capex)	-1,164	2,654	4,794
Free Cash Flow Margin %	-16.8%	27.4%	42.7%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	585
Net Debt	-1,260
Total Debt/EBITDA	0.2
Net Debt/EBITDA	NMF
EBITDA/Interest	115.6
Current Ratio	2.1
Quick Ratio	1.5

NMF = Not Meaningful

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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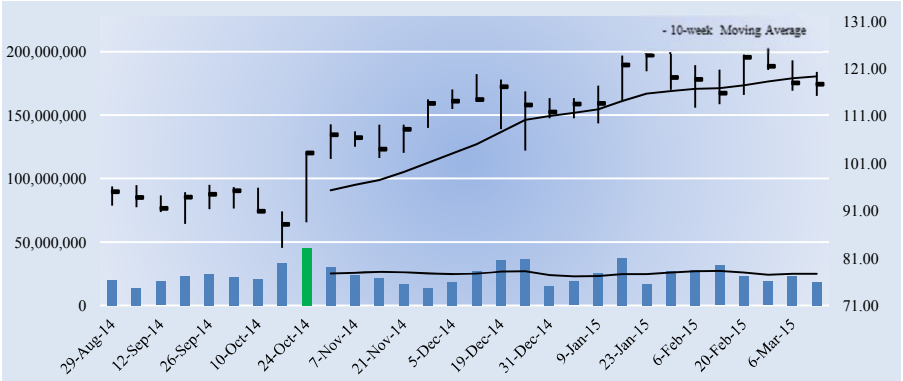
Celgene CELG FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$153.00	$115.00 - $191.00	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 buying, or accumulation (green bar).

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	**VERY BEARISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**119.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$98,422
Avg Weekly Vol (30 wks)	24,393
30-week Range (USD)	83.16 - 125.45
Valuentum Sector	Health Care
5-week Return	-0.6%
13-week Return	4.5%
30-week Return	27.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	7.58
P/E on Est. Normal Diluted EPS	15.5
Est. Normal EBITDA	7,931
Forward EV/EBITDA	18.4
EV/Est. Normal EBITDA	12.3
Forward Revenue Growth (5-yr)	17.6%
Forward EPS Growth (5-yr)	33.4%

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

Investment Highlights

• 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. Revlimid, a treatment for multiple myeloma, accounts for more than half of sales.

• 2014 was a great year for Celgene, and 2015 is expected to be even better. The company's total net product sales will reach the range of $9-$9.5 billion this year, more than a 20% increase, with strong growth across the portfolio. Adjusted diluted EPS is expected to be $4.60-$4.75.

• Though the firm is facing lower sales of Vidaza, worldside sales of Celgene's Revlimid and Abraxane (treatment for breast cancer) continue to grow at a fast clip. Abraxane's net sales, for example, are expected to grow by more than 30% in 2015. The firm's prospects were enhanced by the approval of Otezla (psoriatic athritis). Celgene continues to advance its pipeline.

• It's great to see Celgene's management focus on the long haul. The company's 2017 financial targets are encouraging: $13-$14 billion in net sales and adjusted diluted EPS of ~$7.50. For 2020, management is looking for $20+ billion in sales and adjusted diluted EPS of $12.50+. Its hematology franchise is the key driver.

• As for risks, 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).

Relative Valuation

	Forward P/E	PEG	Price / FV
Alexion Pharma	29.7	1.8	82.3%
Biogen	24.0	1.8	104.1%
BioMarin Pharma	-53.4	NMF	176.5%
Regeneron	38.9	3.1	120.3%
Peer Median	26.9	1.8	112.2%
Celgene	**24.1**	**1.5**	**76.9%**

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

Returns Summary

	3-year Historical Average
Return on Equity	28.2%
Return on Assets	12.7%
ROIC, with goodwill	39.2%
ROIC, without goodwill	58.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	6,494	7,670	9,335
Revenue, YoY%	17.9%	18.1%	21.7%
Operating Income	1,980	2,568	4,847
Operating Margin %	30.5%	33.5%	51.9%
Net Income	1,450	2,000	4,037
Net Income Margin %	22.3%	26.1%	43.3%
Diluted EPS	1.68	2.39	4.88
Diluted EPS, YoY %	2.0%	42.0%	103.9%
Free Cash Flow (CFO-capex)	2,087	2,631	4,153
Free Cash Flow Margin %	32.1%	34.3%	44.5%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,872
Net Debt	-675
Total Debt/EBITDA	2.3
Net Debt/EBITDA	NMF
EBITDA/Interest	16.7
Current Ratio	4.6
Quick Ratio	4.1

NMF = Not Meaningful

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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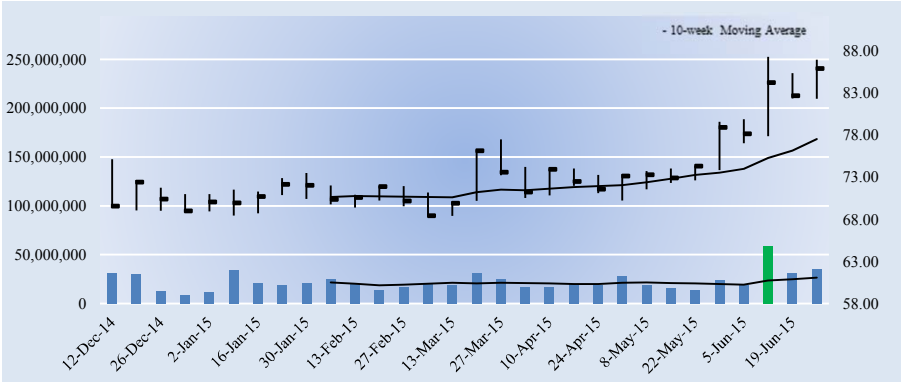
Eli Lilly LLY OVERVALUED 2.2%

Buying Index™ 2 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$70.00	$56.00 - $84.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$92,227
Avg Weekly Vol (30 wks)	22,683
30-week Range (USD)	68.31 - 87.24
Valuentum Sector	Health Care
5-week Return	16.1%
13-week Return	16.0%
30-week Return	19.3%
Dividend Yield %	2.3%
Dividends per Share	2.00
Forward Dividend Payout Ratio	62.7%
Est. Normal Diluted EPS	4.50
P/E on Est. Normal Diluted EPS	19.1
Est. Normal EBITDA	7,485
Forward EV/EBITDA	16.8
EV/Est. Normal EBITDA	12.8
Forward Revenue Growth (5-yr)	5.6%
Forward EPS Growth (5-yr)	22.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.0%
Return on Assets	10.6%
ROIC, with goodwill	29.1%
ROIC, without goodwill	33.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,056
Net Debt	3,229
Total Debt/EBITDA	1.7
Net Debt/EBITDA	0.7
EBITDA/Interest	31.6
Current Ratio	1.1
Quick Ratio	0.8

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 in 2015 and beyond 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 20.2% in coming years. Total debt-to-EBITDA was 1.7 last year, while debt-to-book capitalization stood at 34.4%.

• Eli Lilly is bouncing back after facing substantial revenue and earnings pressure from the expiration of its patents on Zeprexa and Cymbalta. Cymbalta sales, for example, fell ~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 2.3%. We expect the firm to pay out about 63% 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	**OVERVALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
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	**77.00**

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	22.9	1.8	111.0%
AbbVie	16.5	1.6	97.9%
Merck	16.8	2.0	108.3%
Pfizer	16.5	1.5	94.2%
Peer Median	16.6	1.7	103.1%
Eli Lilly	**26.9**	**1.7**	**122.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	23,113	19,616	19,753
Revenue, YoY%	2.3%	-15.1%	0.7%
Operating Income	5,548	3,329	4,288
Operating Margin %	24.0%	17.0%	21.7%
Net Income	4,628	2,391	3,394
Net Income Margin %	20.0%	12.2%	17.2%
Diluted EPS	4.27	2.23	3.19
Diluted EPS, YoY %	16.6%	-47.8%	43.4%
Free Cash Flow (CFO-capex)	4,585	2,896	3,477
Free Cash Flow Margin %	19.8%	14.8%	17.6%

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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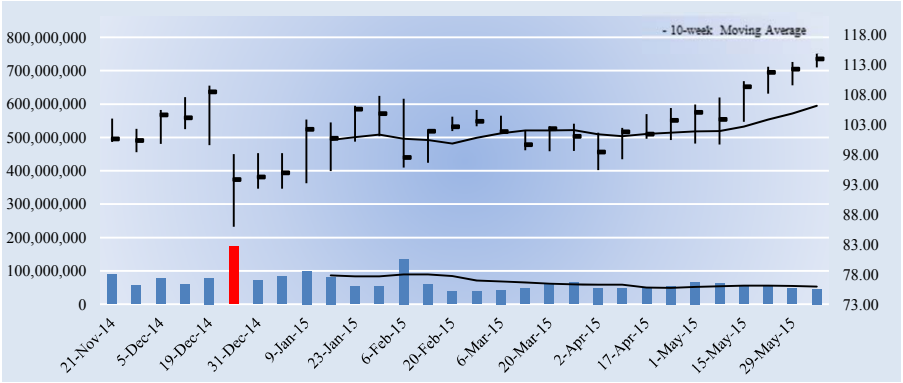
Gilead Sciences GILD UNDERVALUED 14.1%

Buying Index™ 9 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$162.00	$130.00 - $194.00	LARGE-CAP VALUE	Health Care	Pharma - Generic/Other

We think Gilead is operating in a rational oligopoly in the HCV market.

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**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)	**BULLISH**
Near-term Technical Support, 10-week MA	**106.00**

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

Business Quality

ValueRisk™ \ ValueCreation™	Very Poor	Poor	Good	Excellent
Low				
Medium				
High				
Very High				

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

Company Vitals

Market Cap (USD)	$187,692
Avg Weekly Vol (30 wks)	66,379
30-week Range (USD)	85.95 - 114.93
Valuentum Sector	Health Care
5-week Return	7.9%
13-week Return	12.2%
30-week Return	12.7%
Dividend Yield %	1.5%
Dividends per Share	1.72
Forward Dividend Payout Ratio	15.9%
Est. Normal Diluted EPS	11.76
P/E on Est. Normal Diluted EPS	9.7
Est. Normal EBITDA	25,357
Forward EV/EBITDA	8.1
EV/Est. Normal EBITDA	7.5
Forward Revenue Growth (5-yr)	7.7%
Forward EPS Growth (5-yr)	12.1%

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

Investment Highlights

• Gilead's primary areas of focus include HIV/AIDS, hepatitis B and C, serious cardiovascular/metabolic and respiratory conditions. The firm's drug Sovaldi and its successor Harvoni, a once-daily oral treatment of HCV infection, are its primary product drivers and comprise a large portion of antiviral product sales. Complera/Eviplera and Stribild--single tablet regimens for HIV--are also experiencing nice sales expansion. Sovaldi, Complera/Eviplera and Stribild were launched in 2012/2013, 2012/2013 and 2011, respectively, and Harvoni was approved in October 2014. Gilead's pipeline also offers tremendous opportunities.

• According to the World Health Organization, 130-150 million people globally have chronic hepatitis C infection, and a significant number of those who are chronically infected will develop liver cirrhosis or liver cancer, with as many as 350,000-500,000 people dying each year from hepatitis C-related liver diseases. The HCV market is vastly underserved, providing long-term opportunities for Gilead.

• Harvoni's efficacy, by combining the NS5A inhibitor ledipasvir with the nucleotide analog polymerase inhibitor sofosbuvir (Solvadi), is so impressive that it can achieve HCV cure rates in the range of 94%-99%. This efficacy will be difficult for any competing therapy to better.

• Though we think Gilead is operating in a rational oligopoly in the HCV market, revenue erosion is a key risk. Janssen's Olysio and AbbVie's Viekira Pak are two rivals in the HCV market, and Express Scripts continues to pressure drug providers on price. This can't be ignored.

Relative Valuation

	Forward P/E	PEG	Price / FV
Actavis	19.5	NMF	100.6%
Allergan	33.9	1.9	98.4%
Teva Pharma	11.1	1.7	85.9%
Zoetis	28.6	2.0	142.7%
Peer Median	24.1	1.9	99.5%
Gilead Sciences	**10.5**	**1.3**	**70.3%**

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

Returns Summary

	3-year Historical Average
Return on Equity	50.6%
Return on Assets	23.2%
ROIC, with goodwill	47.0%
ROIC, without goodwill	52.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	11,202	24,890	30,216
Revenue, YoY%	15.5%	122.2%	21.4%
Operating Income	4,524	15,265	22,150
Operating Margin %	40.4%	61.3%	73.3%
Net Income	3,075	12,101	17,687
Net Income Margin %	27.4%	48.6%	58.5%
Diluted EPS	1.81	7.35	10.85
Diluted EPS, YoY %	10.8%	305.0%	47.6%
Free Cash Flow (CFO-capex)	2,914	12,261	17,357
Free Cash Flow Margin %	26.0%	49.3%	57.4%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	12,404
Net Debt	2,276
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.1
EBITDA/Interest	39.6
Current Ratio	3.1
Quick Ratio	2.6

NMF = Not Meaningful

Structure of the Pharma - Generic/Other - Industry — GOOD

The pharma (generic/other) industry is composed of makers of both brand and generic drugs. Intellectual property protection remains vital to the successful commercialization of safe/effective medicines and offers brand firms competitive advantages over the life of such patents. However, when brand drugs lose market exclusivity, makers of generic pharmaceuticals generate intense price competition. Long-term success for brand pharma companies depends on a strong drug pipeline, while cost-efficiency and being first-to-market are drivers of generic firms' success. We generally like the group.

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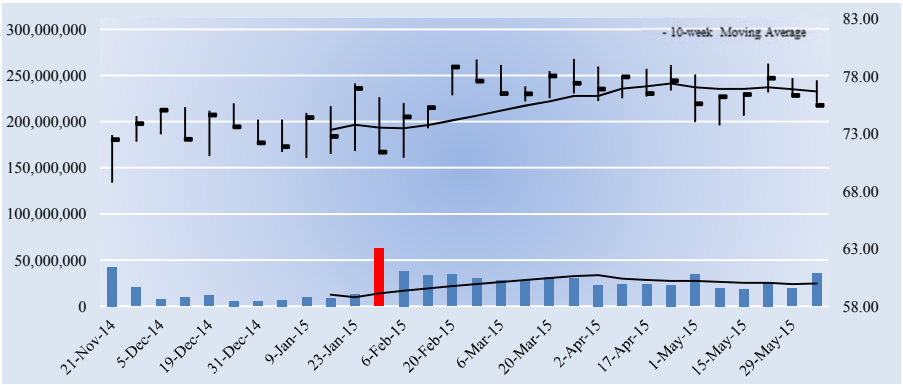
Medtronic MDT FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$72.00	$58.00 - $86.00	LARGE-CAP GROWTH	Health Care	Medical Devices

Medtronic bought 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 selling, or distribution (red bar).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**HIGH**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**77.00**

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

Business Quality

ValueRisk™ \ ValueCreation™	Very Poor	Poor	Good	Excellent
Low				
Medium				
High				
Very High				

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

Company Vitals

Market Cap (USD)	$83,685
Avg Weekly Vol (30 wks)	23,356
30-week Range (USD)	68.73 - 79.5
Valuentum Sector	Health Care
5-week Return	-0.7%
13-week Return	-1.4%
30-week Return	9.7%
Dividend Yield %	1.6%
Dividends per Share	1.22
Forward Dividend Payout Ratio	27.6%
Est. Normal Diluted EPS	5.20
P/E on Est. Normal Diluted EPS	14.5
Est. Normal EBITDA	9,706
Forward EV/EBITDA	12.3
EV/Est. Normal EBITDA	10.3
Forward Revenue Growth (5-yr)	11.5%
Forward EPS Growth (5-yr)	19.4%

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

Investment Highlights

• 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 recently bought Covidien in a tax-inversion deal. It is a Dividend Aristocrat.

• The integration of Covidien may steal the headlines in coming quarters, but all three of Medtronic's legacy businesses are performing well. Its innovation capabilities have made it a partner of choice for hospitals.

• Medtronic's baseline, organic expectations are achievable. Over the long haul, the company expects to deliver consistent mid-single-digit revenue growth, consistently grow earnings per share 200-400 basis points faster than revenue, and return 50% of free cash flow to shareholders. The deal with Covidien will generate significant synergies and may change these targets, however.

• The company's emerging market business should be a strong source of growth. On a pre-Covidien basis, Medtronic is targeting a 20% CAGR in emerging markets, and expects emerging markets to represent 20% of its legacy revenue mix by mid-decade (it had currently been ~12%).

• Medtronic is one of the most exciting companies in the medical devices industry. It is targeting 4%-6% operational revenue growth for fiscal 2016 and diluted cash earnings per share in the range of $4.30-$4.40, which includes a hefty currency headwind.

Relative Valuation

	Forward P/E	PEG	Price / FV
Intuitive Surgical	28.1	1.9	104.3%
Varian Medical Systems	21.8	1.9	113.9%
Waters	21.1	2.3	109.0%
Zimmer	18.4	2.0	117.4%
Peer Median	21.5	2.0	111.4%
Medtronic	**17.1**	**1.6**	**104.8%**

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

Returns Summary

	3-year Historical Average
Return on Equity	14.3%
Return on Assets	7.4%
ROIC, with goodwill	19.6%
ROIC, without goodwill	42.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	36,186
Net Debt	16,706
Total Debt/EBITDA	6.0
Net Debt/EBITDA	2.8
EBITDA/Interest	9.1
Current Ratio	3.4
Quick Ratio	2.8

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Apr-14	Apr-15	Apr-16
Revenue	17,005	20,261	29,581
Revenue, YoY%	2.5%	19.1%	46.0%
Operating Income	4,999	4,675	6,167
Operating Margin %	29.4%	23.1%	20.8%
Net Income	3,065	2,675	5,004
Net Income Margin %	18.0%	13.2%	16.9%
Diluted EPS	3.02	2.41	4.42
Diluted EPS, YoY %	-10.4%	-20.2%	83.4%
Free Cash Flow (CFO-capex)	4,563	4,331	4,448
Free Cash Flow Margin %	26.8%	21.4%	15.0%

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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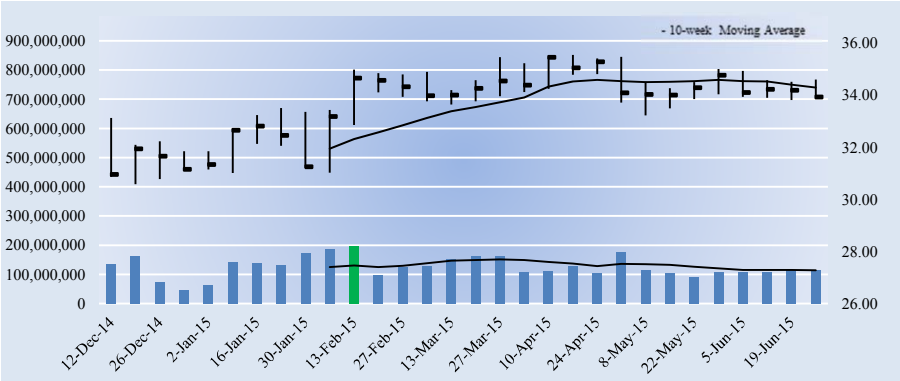
Pfizer PFE FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$36.00	$29.00 - $43.00	MEGA-CAP VALUE	Health Care	Pharmaceuticals - Big

Pfizer has faced pressure from the loss of exclusivity of Lipitor, but we remain encouraged by potential new therapies in its 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).

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)	**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.

Company Vitals

Market Cap (USD)	$217,902
Avg Weekly Vol (30 wks)	125,396
30-week Range (USD)	30.58 - 35.53
Valuentum Sector	Health Care
5-week Return	-0.8%
13-week Return	-2.0%
30-week Return	6.7%
Dividend Yield %	3.3%
Dividends per Share	1.12
Forward Dividend Payout Ratio	54.4%
Est. Normal Diluted EPS	2.58
P/E on Est. Normal Diluted EPS	13.1
Est. Normal EBITDA	23,183
Forward EV/EBITDA	11.3
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	4.4%
Forward EPS Growth (5-yr)	16.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.8%
Return on Assets	5.6%
ROIC, with goodwill	10.6%
ROIC, without goodwill	18.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	36,682
Net Debt	560
Total Debt/EBITDA	2.4
Net Debt/EBITDA	0.0
EBITDA/Interest	Excellent
Current Ratio	2.7
Quick Ratio	2.1

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 31.7% in coming years. Total debt-to-EBITDA was 2.4 last year, while debt-to-book capitalization stood at 34%. 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Abbott	22.9	1.8	111.0%
AbbVie	16.5	1.6	97.9%
Eli Lilly	26.9	1.7	122.6%
Merck	16.8	2.0	108.3%
Peer Median	19.9	1.8	109.7%
Pfizer	**16.5**	**1.5**	**94.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	51,584	49,605	45,934
Revenue, YoY%	-12.5%	-3.8%	-7.4%
Operating Income	16,366	13,499	17,453
Operating Margin %	31.7%	27.2%	38.0%
Net Income	11,341	9,087	12,971
Net Income Margin %	22.0%	18.3%	28.2%
Diluted EPS	1.64	1.41	2.06
Diluted EPS, YoY %	30.1%	-14.0%	45.7%
Free Cash Flow (CFO-capex)	5,638	18,202	16,594
Free Cash Flow Margin %	10.9%	36.7%	36.1%

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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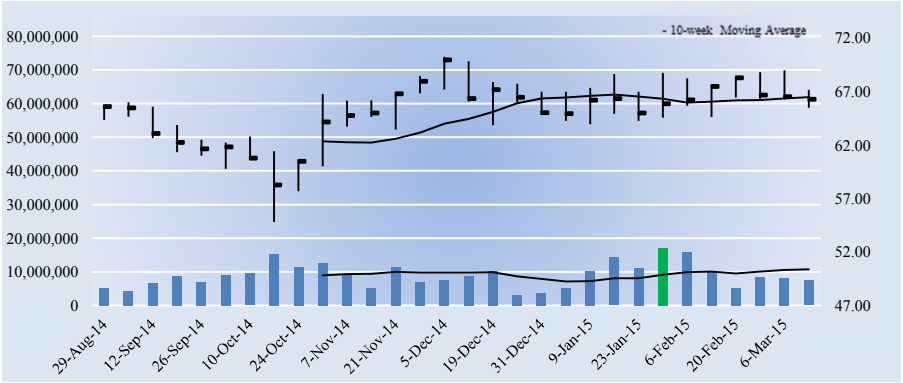
St. Jude STJ FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$67.00	$54.00 - $80.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$19,201
Avg Weekly Vol (30 wks)	8,950
30-week Range (USD)	54.8 - 70.24
Valuentum Sector	Health Care
5-week Return	0.8%
13-week Return	-1.4%
30-week Return	2.3%
Dividend Yield %	1.8%
Dividends per Share	1.16
Forward Dividend Payout Ratio	29.0%
Est. Normal Diluted EPS	4.97
P/E on Est. Normal Diluted EPS	13.3
Est. Normal EBITDA	1,922
Forward EV/EBITDA	13.4
EV/Est. Normal EBITDA	11.3
Forward Revenue Growth (5-yr)	3.2%
Forward EPS Growth (5-yr)	12.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	18.9%
Return on Assets	8.2%
ROIC, with goodwill	21.1%
ROIC, without goodwill	40.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,866
Net Debt	2,424
Total Debt/EBITDA	2.4
Net Debt/EBITDA	1.5
EBITDA/Interest	19.3
Current Ratio	1.5
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• St. Jude'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.

• 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 23.8% in coming years. Total debt-to-EBITDA was 2.4 last year, while debt-to-book capitalization stood at 47.9%. 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™	**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 Resistance, 10-wk 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
Intuitive Surgical	28.1	1.9	104.3%
Varian Medical Systems	21.8	1.9	113.9%
Waters	21.1	2.3	109.0%
Zimmer	18.4	2.0	117.4%
Peer Median	21.5	2.0	111.4%
St. Jude	**16.6**	**1.6**	**98.9%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	5,501	5,622	5,538
Revenue, YoY%	0.0%	2.2%	-1.5%
Operating Income	1,352	1,332	1,310
Operating Margin %	24.6%	23.7%	23.7%
Net Income	723	1,002	1,147
Net Income Margin %	13.1%	17.8%	20.7%
Diluted EPS	2.49	3.46	4.00
Diluted EPS, YoY %	4.2%	39.0%	15.6%
Free Cash Flow (CFO-capex)	739	1,114	1,317
Free Cash Flow Margin %	13.4%	19.8%	23.8%

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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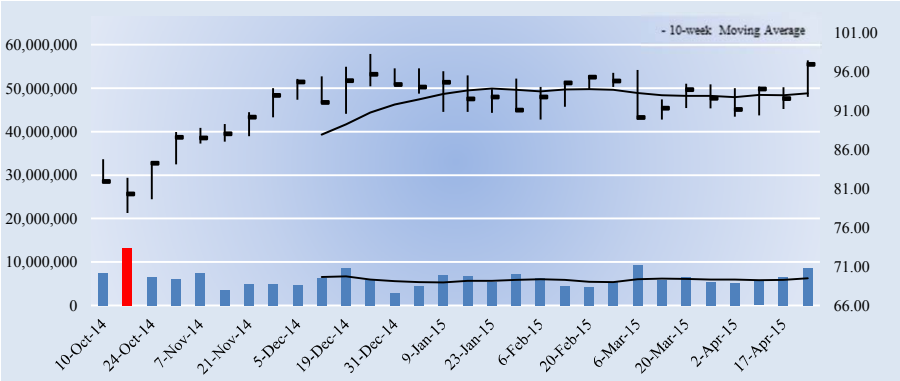
Stryker SYK FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$94.00	$75.00 - $113.00	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)	$37,093
Avg Weekly Vol (30 wks)	6,241
30-week Range (USD)	77.87 - 98.24
Valuentum Sector	Health Care
5-week Return	3.6%
13-week Return	4.8%
30-week Return	16.6%
Dividend Yield %	1.4%
Dividends per Share	1.38
Forward Dividend Payout Ratio	27.2%
Est. Normal Diluted EPS	5.90
P/E on Est. Normal Diluted EPS	16.4
Est. Normal EBITDA	3,914
Forward EV/EBITDA	10.6
EV/Est. Normal EBITDA	9.2
Forward Revenue Growth (5-yr)	5.0%
Forward EPS Growth (5-yr)	37.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	11.1%
Return on Assets	6.7%
ROIC, with goodwill	18.5%
ROIC, without goodwill	31.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,973
Net Debt	-1,027
Total Debt/EBITDA	2.4
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	2.2
Quick Ratio	1.5

NMF = Not Meaningful

Investment Highlights

• 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. Stryker owns 5,200 patents globally. It was founded in 1941.

• On an organic basis, investors should expect mid-single-digit organic annual sales increases and high-single-digit adjusted diluted earnings-per-share growth. This is solid performance, something Stryker investors have grown accustomed to.

• Stryker 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 22% in coming years. Total debt-to-EBITDA was 2.4 last year, while debt-to-book capitalization stood at 31.6%.

• 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.

• Management continues to have a high level of conviction regarding the long-term growth potential for robotics in orthopedics, and MAKO continues to be a standout. We're expecting big things.

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	**93.00**

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
Baxter Intl	17.4	1.7	103.1%
Becton, Dickinson	20.2	1.5	85.4%
Boston Scientific	20.2	NMF	107.9%
Thermo Fisher Scientific	17.6	1.7	115.1%
Peer Median	18.9	1.7	105.5%
Stryker	**19.1**	**1.9**	**103.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	9,021	9,675	10,120
Revenue, YoY%	4.2%	7.2%	4.6%
Operating Income	1,304	1,246	2,992
Operating Margin %	14.5%	12.9%	29.6%
Net Income	1,006	515	1,945
Net Income Margin %	11.2%	5.3%	19.2%
Diluted EPS	2.63	1.35	5.08
Diluted EPS, YoY %	-22.3%	-48.9%	277.6%
Free Cash Flow (CFO-capex)	1,691	1,549	2,217
Free Cash Flow Margin %	18.7%	16.0%	21.9%

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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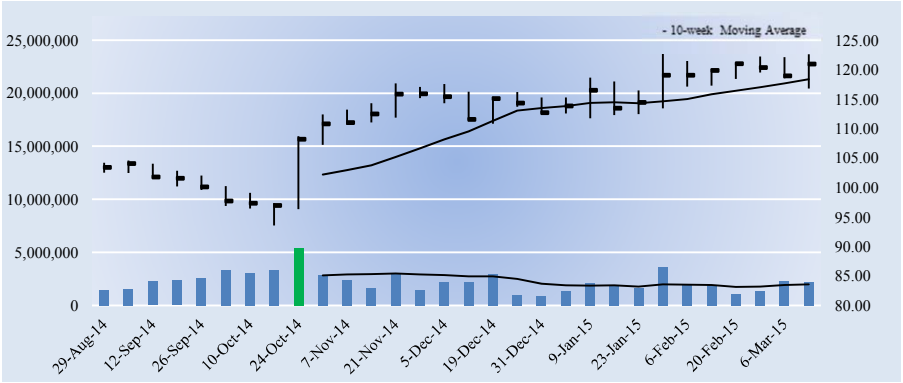
Waters WAT FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$111.00	$89.00 - $133.00	LARGE-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).

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	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**118.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$10,299
Avg Weekly Vol (30 wks)	2,245
30-week Range (USD)	93.56 - 122.8
Valuentum Sector	Health Care
5-week Return	1.9%
13-week Return	5.0%
30-week Return	16.7%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	6.93
P/E on Est. Normal Diluted EPS	17.5
Est. Normal EBITDA	776
Forward EV/EBITDA	14.5
EV/Est. Normal EBITDA	12.5
Forward Revenue Growth (5-yr)	4.4%
Forward EPS Growth (5-yr)	10.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	28.3%
Return on Assets	13.4%
ROIC, with goodwill	41.5%
ROIC, without goodwill	56.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,465
Net Debt	-590
Total Debt/EBITDA	2.3
Net Debt/EBITDA	NMF
EBITDA/Interest	18.4
Current Ratio	4.9
Quick Ratio	4.3

NMF = Not Meaningful

Investment Highlights

• Waters'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.

• 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 26.2% in coming years. Total debt-to-EBITDA was 2.3 last year, while debt-to-book capitalization stood at 43.6%.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Intuitive Surgical	28.1	1.9	104.3%
Medtronic	17.2	1.9	106.2%
Varian Medical Systems	21.8	1.9	113.9%
Zimmer	18.4	2.0	117.4%
Peer Median	20.1	1.9	110.1%
Waters	**21.1**	**2.3**	**109.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	1,904	1,989	2,015
Revenue, YoY%	3.3%	4.5%	1.3%
Operating Income	517	533	576
Operating Margin %	27.2%	26.8%	28.6%
Net Income	450	416	480
Net Income Margin %	23.6%	20.9%	23.8%
Diluted EPS	5.20	4.89	5.73
Diluted EPS, YoY %	0.3%	-6.0%	17.2%
Free Cash Flow (CFO-capex)	366	390	516
Free Cash Flow Margin %	19.2%	19.6%	25.6%

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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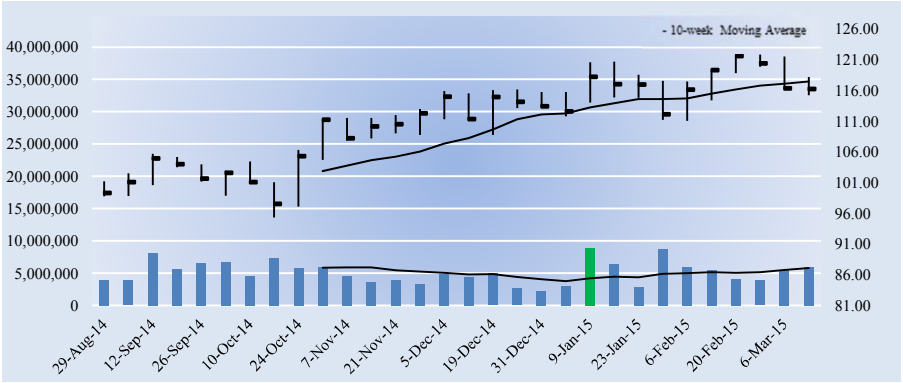
Zimmer ZMH FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$99.00	$79.00 - $119.00	LARGE-CAP CORE	Health Care	Medical Devices

Zimmer's deal for Biomet is a big one.

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)	$19,960
Avg Weekly Vol (30 wks)	5,131
30-week Range (USD)	95.33 - 121.84
Valuentum Sector	Health Care
5-week Return	0.9%
13-week Return	1.0%
30-week Return	16.0%
Dividend Yield %	0.8%
Dividends per Share	0.88
Forward Dividend Payout Ratio	13.9%
Est. Normal Diluted EPS	7.15
P/E on Est. Normal Diluted EPS	16.3
Est. Normal EBITDA	2,063
Forward EV/EBITDA	10.6
EV/Est. Normal EBITDA	9.5
Forward Revenue Growth (5-yr)	2.8%
Forward EPS Growth (5-yr)	13.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.3%
Return on Assets	8.1%
ROIC, with goodwill	18.8%
ROIC, without goodwill	33.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,426
Net Debt	-270
Total Debt/EBITDA	0.8
Net Debt/EBITDA	NMF
EBITDA/Interest	28.0
Current Ratio	4.1
Quick Ratio	2.5

NMF = Not Meaningful

Investment Highlights

• 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. Persona is Zimmer's flagship knee offering, and the firm has been around for more than 85 years.

• 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. The division is much smaller than knees and hips, however.

• 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's deal for Biomet is a big one. The combined entity will offer one of the most comprehensive and diversified musculoskeletal portfolios. Operational synergies should also be expected, and pricing power will be enhanced across areas of overlap.

• Zimmer's adjusted earnings per share has expanded steadily from the $3.94 mark in 2009. The company has demographic trends in its favor, and the firm's global position as a leader in musculoskeletal health is only strengthening.

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	**VERY BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**117.00**

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	28.1	1.9	104.3%
Medtronic	17.2	1.9	106.2%
Varian Medical Systems	21.8	1.9	113.9%
Waters	21.1	2.3	109.0%
Peer Median	21.5	1.9	107.6%
Zimmer	**18.4**	**2.0**	**117.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	4,623	4,673	4,631
Revenue, YoY%	3.4%	1.1%	-0.9%
Operating Income	1,252	1,391	1,477
Operating Margin %	27.1%	29.8%	31.9%
Net Income	761	720	1,087
Net Income Margin %	16.5%	15.4%	23.5%
Diluted EPS	4.43	4.19	6.33
Diluted EPS, YoY %	0.9%	-5.4%	51.0%
Free Cash Flow (CFO-capex)	670	711	1,153
Free Cash Flow Margin %	14.5%	15.2%	24.9%

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

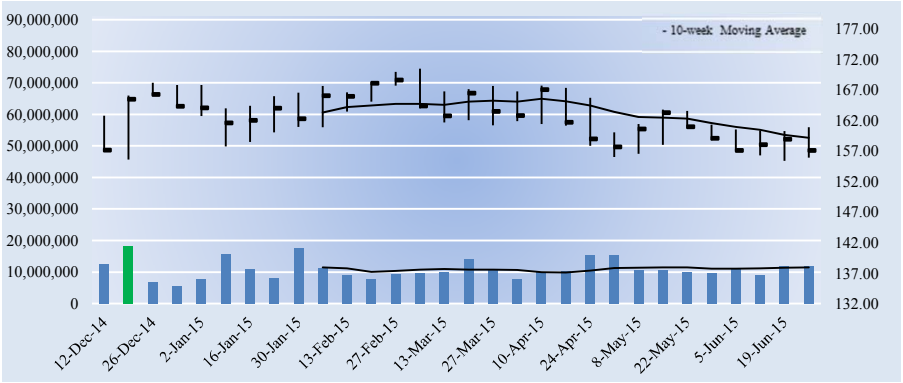
3M MMM FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$130.00	$99.00 - $161.00	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)	$103,994
Avg Weekly Vol (30 wks)	10,954
30-week Range (USD)	155.37 - 170.5
Valuentum Sector	Industrials
5-week Return	-2.4%
13-week Return	-4.3%
30-week Return	-3.1%
Dividend Yield %	2.6%
Dividends per Share	4.10
Forward Dividend Payout Ratio	51.3%
Est. Normal Diluted EPS	9.47
P/E on Est. Normal Diluted EPS	16.6
Est. Normal EBITDA	10,392
Forward EV/EBITDA	12.1
EV/Est. Normal EBITDA	10.4
Forward Revenue Growth (5-yr)	3.2%
Forward EPS Growth (5-yr)	7.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	29.0%
Return on Assets	14.4%
ROIC, with goodwill	22.2%
ROIC, without goodwill	33.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,896
Net Debt	4,373
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.5
EBITDA/Interest	60.2
Current Ratio	2.0
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• 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 recently agreed to acquire fall protection equipment provider Capital Safety from KKR for $2.5 billion, expected to close in the third quarter of 2015. Management believes the deal better positions the firm to take advantage of the rapidly growing, regulatory driven market of workplace safety.

• 3M 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 41% from 38.6% during the next two years.

• 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™	**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	**159.00**

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	19.8	2.4	108.6%
Honeywell	16.8	2.0	110.1%
Tyco Intl	17.4	1.9	112.5%
United Technologies	16.1	2.2	106.1%
Peer Median	17.1	2.1	109.4%
3M	**19.6**	**2.7**	**120.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	30,871	31,821	31,471
Revenue, YoY%	3.2%	3.1%	-1.1%
Operating Income	6,666	7,135	7,582
Operating Margin %	21.6%	22.4%	24.1%
Net Income	4,659	4,956	5,274
Net Income Margin %	15.1%	15.6%	16.8%
Diluted EPS	6.72	7.49	8.00
Diluted EPS, YoY %	6.3%	11.5%	6.8%
Free Cash Flow (CFO-capex)	4,152	5,133	5,245
Free Cash Flow Margin %	13.4%	16.1%	16.7%

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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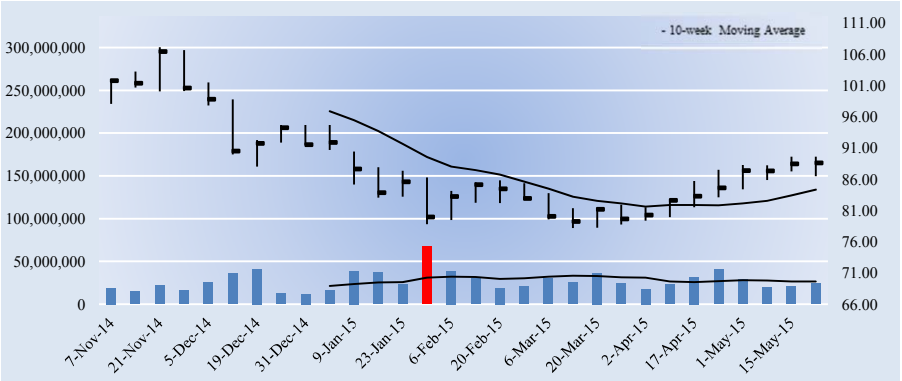
Caterpillar CAT FAIRLY VALUED

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	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).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**DECLINING**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
Near-term Technical Support, 10-week MA	**84.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$55,739
Avg Weekly Vol (30 wks)	27,080
30-week Range (USD)	78.19 - 107.12
Valuentum Sector	Industrials
5-week Return	5.6%
13-week Return	5.6%
30-week Return	-12.8%
Dividend Yield %	3.2%
Dividends per Share	2.80
Forward Dividend Payout Ratio	55.7%
Est. Normal Diluted EPS	5.43
P/E on Est. Normal Diluted EPS	16.3
Est. Normal EBITDA	8,501
Forward EV/EBITDA	8.3
EV/Est. Normal EBITDA	8.0
Forward Revenue Growth (5-yr)	-1.7%
Forward EPS Growth (5-yr)	1.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.7%
Return on Assets	5.1%
ROIC, with goodwill	21.1%
ROIC, without goodwill	26.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	19,923
Net Debt	12,582
Total Debt/EBITDA	1.9
Net Debt/EBITDA	1.2
EBITDA/Interest	9.7
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.

• 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. Total mining capital expenditures fell ~20% in 2014 from 2013 levels, which were ~10% below 2012 spending. Mining equipment sales remain tied to expectations of commodity prices.

• Nobody can argue that Cat's results aren't cyclical, but the executive suite is quite effective at managing costs through the course of the economic cycle. We like the focus on driving strong inventory turns.

Relative Valuation

	Forward P/E	PEG	Price / FV
AGCO Corp	17.6	1.1	103.7%
Deere	16.4	NMF	94.3%
Joy Global	16.2	1.7	103.1%
Manitowoc	20.4	0.9	92.9%
Peer Median	17.0	1.1	98.7%
Caterpillar	**17.6**	**2.4**	**106.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	55,656	55,184	49,334
Revenue, YoY%	-15.5%	-0.8%	-10.6%
Operating Income	7,336	7,585	5,382
Operating Margin %	13.2%	13.7%	10.9%
Net Income	3,789	3,695	3,147
Net Income Margin %	6.8%	6.7%	6.4%
Diluted EPS	5.75	5.88	5.03
Diluted EPS, YoY %	-32.2%	2.1%	-14.4%
Free Cash Flow (CFO-capex)	8,335	6,213	6,063
Free Cash Flow Margin %	15.0%	11.3%	12.3%

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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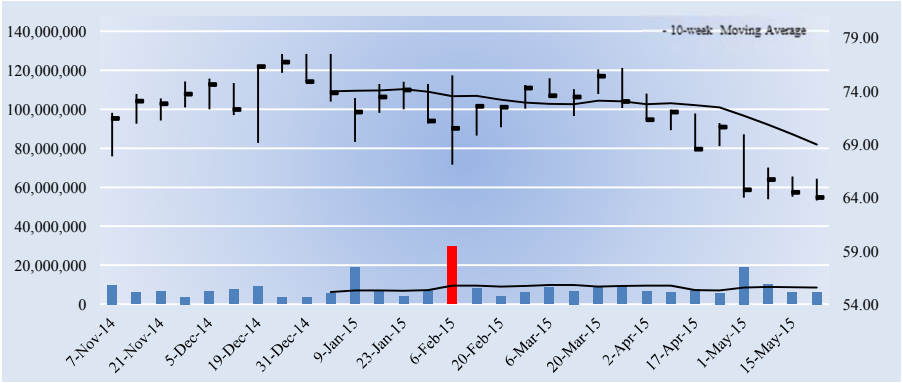
CH Robinson CHRW FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$62.00	$50.00 - $74.00	MID-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 selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$9,447
Avg Weekly Vol (30 wks)	8,245
30-week Range (USD)	63.74 - 77.49
Valuentum Sector	Industrials
5-week Return	-7.3%
13-week Return	-11.7%
30-week Return	-7.6%
Dividend Yield %	2.4%
Dividends per Share	1.52
Forward Dividend Payout Ratio	45.5%
Est. Normal Diluted EPS	4.24
P/E on Est. Normal Diluted EPS	15.1
Est. Normal EBITDA	1,067
Forward EV/EBITDA	11.6
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	6.2%
Forward EPS Growth (5-yr)	11.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	40.8%
Return on Assets	17.9%
ROIC, with goodwill	25.0%
ROIC, without goodwill	48.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,105
Net Debt	617
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.8
EBITDA/Interest	32.2
Current Ratio	1.3
Quick Ratio	1.3

NMF = Not Meaningful

Investment Highlights

• 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. CH Robinson was founded in 1905 and is headquartered in Minnesota.

• 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

• 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™	**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)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**69.00**

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
Expeditors Intl	20.9	1.7	101.8%
FedEx	19.4	1.3	101.8%
United Parcel Service	19.3	1.5	102.5%
Uti Worldwide	-59.4	NMF	80.0%
Peer Median	19.4	1.5	101.8%
CH Robinson	**19.2**	**1.8**	**103.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	12,752	13,470	14,292
Revenue, YoY%	12.3%	5.6%	6.1%
Operating Income	683	748	811
Operating Margin %	5.4%	5.6%	5.7%
Net Income	416	450	488
Net Income Margin %	3.3%	3.3%	3.4%
Diluted EPS	2.65	3.05	3.34
Diluted EPS, YoY %	-27.8%	15.1%	9.7%
Free Cash Flow (CFO-capex)	300	484	504
Free Cash Flow Margin %	2.3%	3.6%	3.5%

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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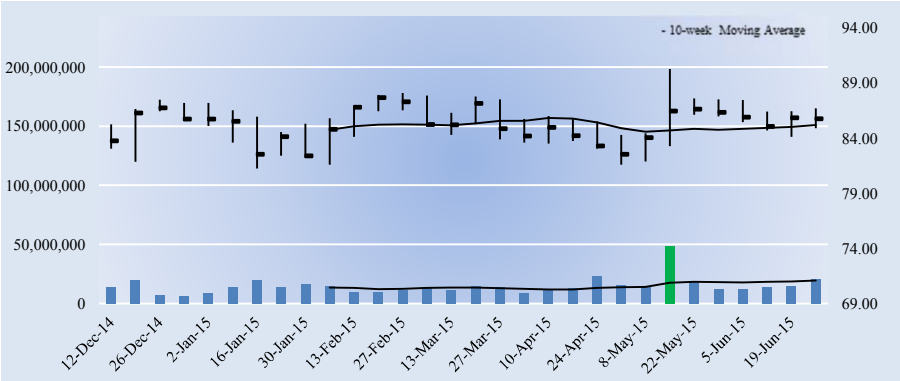
Danaher DHR FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$79.00	$63.00 - $95.00	LARGE-CAP CORE	Industrials	Conglomerates

Danaher is one of our favorite industrial firms.

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	**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)	**IMPROVING**
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.

Company Vitals

Market Cap (USD)	$61,413
Avg Weekly Vol (30 wks)	14,987
30-week Range (USD)	81.25 - 90.25
Valuentum Sector	Industrials
5-week Return	-0.9%
13-week Return	0.9%
30-week Return	1.2%
Dividend Yield %	0.6%
Dividends per Share	0.54
Forward Dividend Payout Ratio	12.5%
Est. Normal Diluted EPS	5.13
P/E on Est. Normal Diluted EPS	16.7
Est. Normal EBITDA	6,259
Forward EV/EBITDA	11.8
EV/Est. Normal EBITDA	9.9
Forward Revenue Growth (5-yr)	5.7%
Forward EPS Growth (5-yr)	10.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.4%
Return on Assets	7.5%
ROIC, with goodwill	9.3%
ROIC, without goodwill	23.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,473
Net Debt	468
Total Debt/EBITDA	0.8
Net Debt/EBITDA	0.1
EBITDA/Interest	35.6
Current Ratio	1.7
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• Danaher recently announced its acquisition of Pall Corp. for a 28% premium. Following the merger, the firm will separate into two independent, publicly traded companies, one being a science and technology company that will include Pall and operate under the Danaher name. The other will be a diversified industrial growth business.

• 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'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.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
3M	19.6	2.7	120.8%
Honeywell	16.8	2.0	110.1%
Tyco Intl	17.4	1.9	112.5%
United Technologies	16.1	2.2	106.1%
Peer Median	17.1	2.1	111.3%
Danaher	**19.8**	**2.4**	**108.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	19,118	19,914	20,690
Revenue, YoY%	4.7%	4.2%	3.9%
Operating Income	3,275	3,431	4,284
Operating Margin %	17.1%	17.2%	20.7%
Net Income	2,695	2,598	3,118
Net Income Margin %	14.1%	13.0%	15.1%
Diluted EPS	3.79	3.63	4.32
Diluted EPS, YoY %	17.6%	-4.3%	19.1%
Free Cash Flow (CFO-capex)	3,034	3,161	3,283
Free Cash Flow Margin %	15.9%	15.9%	15.9%

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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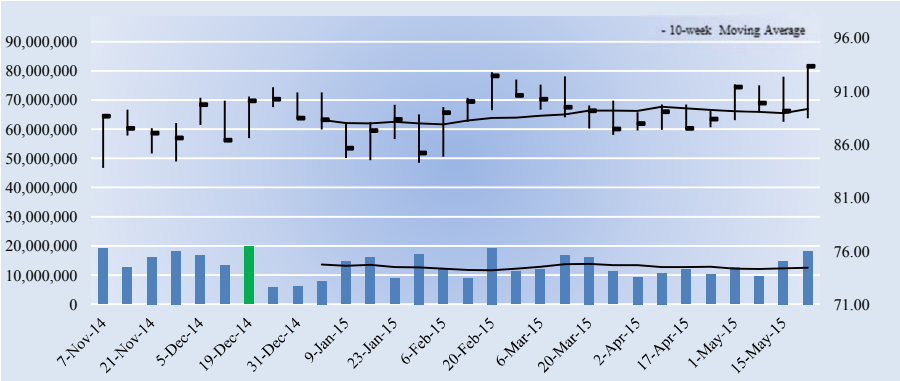
Deere DE FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$99.00	$79.00 - $119.00	LARGE-CAP VALUE	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$34,175
Avg Weekly Vol (30 wks)	13,239
30-week Range (USD)	83.8 - 93.54
Valuentum Sector	Industrials
5-week Return	5.8%
13-week Return	1.4%
30-week Return	9.2%
Dividend Yield %	2.6%
Dividends per Share	2.40
Forward Dividend Payout Ratio	42.1%
Est. Normal Diluted EPS	5.68
P/E on Est. Normal Diluted EPS	16.4
Est. Normal EBITDA	4,824
Forward EV/EBITDA	9.1
EV/Est. Normal EBITDA	9.4
Forward Revenue Growth (5-yr)	-3.5%
Forward EPS Growth (5-yr)	-4.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	37.3%
Return on Assets	5.3%
ROIC, with goodwill	48.8%
ROIC, without goodwill	57.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	16,023
Net Debt	11,021
Total Debt/EBITDA	2.5
Net Debt/EBITDA	1.7
EBITDA/Interest	9.7
Current Ratio	2.2
Quick Ratio	2.0

NMF = Not Meaningful; Debt excludes debt associated with the finance sub.

Investment Highlights

• 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.

• 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.

• 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.

• It was very encouraging to see Deere raise its profit forecast for 2015. Despite a weak ag market that will send revenue tumbling almost 20% during the year, net income should be about $1.9 billion. We expect upside.

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	**BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week 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
AGCO Corp	17.6	1.1	103.7%
Caterpillar	17.6	2.4	106.8%
Joy Global	16.2	1.7	103.1%
Manitowoc	20.4	0.9	92.9%
Peer Median	17.6	1.4	103.4%
Deere	**16.4**	**NMF**	**94.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Oct-13	Oct-14	Oct-15
Revenue	37,795	36,067	29,322
Revenue, YoY%	4.5%	-4.6%	-18.7%
Operating Income	6,019	5,102	3,900
Operating Margin %	15.9%	14.1%	13.3%
Net Income	3,247	2,803	2,046
Net Income Margin %	8.6%	7.8%	7.0%
Diluted EPS	8.34	7.66	5.70
Diluted EPS, YoY %	14.5%	-8.2%	-25.5%
Free Cash Flow (CFO-capex)	589	508	5,520
Free Cash Flow Margin %	1.6%	1.4%	18.8%

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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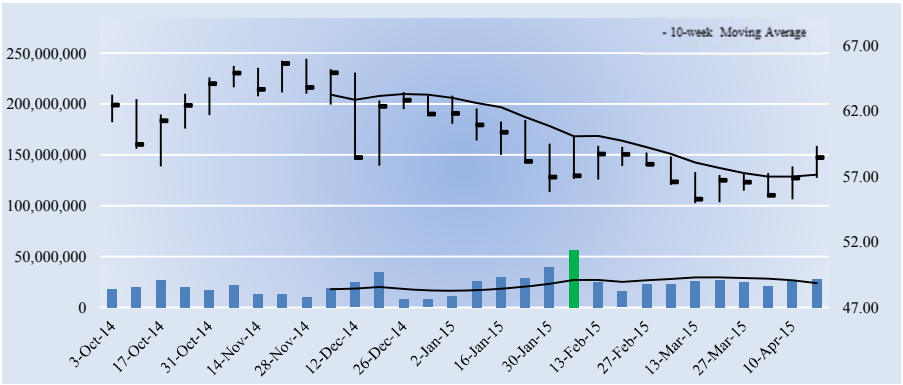
Emerson Electric EMR FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$59.00	$47.00 - $71.00	LARGE-CAP VALUE	Industrials	Electrical Equipment

Reported top-line numbers aren't too indicative of the strength of Emerson's core business.

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**DECLINING**
Technical Evaluation	**VERY BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**57.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$41,141
Avg Weekly Vol (30 wks)	22,989
30-week Range (USD)	54.94 - 65.94
Valuentum Sector	Industrials
5-week Return	5.3%
13-week Return	-3.8%
30-week Return	-6.2%
Dividend Yield %	3.2%
Dividends per Share	1.88
Forward Dividend Payout Ratio	50.7%
Est. Normal Diluted EPS	4.14
P/E on Est. Normal Diluted EPS	14.1
Est. Normal EBITDA	5,374
Forward EV/EBITDA	8.8
EV/Est. Normal EBITDA	8.2
Forward Revenue Growth (5-yr)	-0.3%
Forward EPS Growth (5-yr)	9.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.1%
Return on Assets	8.6%
ROIC, with goodwill	22.7%
ROIC, without goodwill	47.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,024
Net Debt	2,875
Total Debt/EBITDA	1.1
Net Debt/EBITDA	0.5
EBITDA/Interest	24.2
Current Ratio	1.3
Quick Ratio	1.0

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. The company was founded in 1890.

• Emerson continues to experience solid underlying revenue expansion in Latin America, Canada, and the Middle East/Africa. International expansion should continue to outpace growth in the US, though currency can pose headwinds. The firm also remains well-positioned for a rebound in residential construction in North America, and regulatory changes can offer short-term boosts in demand.

• Reported top-line numbers aren't too indicative of the strength of Emerson's core business. For example, in the first quarter of 2015, reported net sales were essentially unchanged at $5.6 billion, but underlying sales expansion was 6% in the period. Currency and divestitures are impacting performance.

• You can't talk about Emerson without mentioning its fantastic dividend growth profile. The firm's dividend yield and Dividend Cushion ratio offer an excellent combination. It is a former holding in the Dividend Growth portfolio.

Relative Valuation

	Forward P/E	PEG	Price / FV
Barnes Group	15.8	2.2	105.2%
Parker-Hannifin	15.2	2.4	105.6%
Pentair	16.7	2.1	107.8%
Roper Industries	24.1	2.7	126.6%
Peer Median	16.3	2.3	106.7%
Emerson Electric	**15.8**	**2.1**	**99.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-13	Sep-14	Sep-15
Revenue	24,669	24,537	23,187
Revenue, YoY%	1.1%	-0.5%	-5.5%
Operating Income	4,304	4,443	4,212
Operating Margin %	17.4%	18.1%	18.2%
Net Income	2,004	2,147	2,584
Net Income Margin %	8.1%	8.8%	11.1%
Diluted EPS	2.77	3.05	3.71
Diluted EPS, YoY %	3.5%	10.0%	21.6%
Free Cash Flow (CFO-capex)	2,971	2,925	3,125
Free Cash Flow Margin %	12.0%	11.9%	13.5%

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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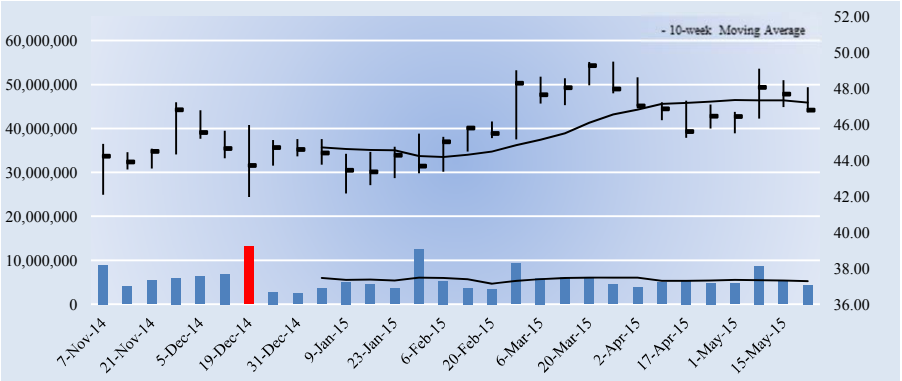
Expeditors Intl EXPD FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$46.00	$37.00 - $55.00	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)	$9,211
Avg Weekly Vol (30 wks)	5,715
30-week Range (USD)	41.97 - 49.5
Valuentum Sector	Industrials
5-week Return	2.0%
13-week Return	2.9%
30-week Return	9.7%
Dividend Yield %	1.5%
Dividends per Share	0.72
Forward Dividend Payout Ratio	32.1%
Est. Normal Diluted EPS	2.94
P/E on Est. Normal Diluted EPS	15.9
Est. Normal EBITDA	928
Forward EV/EBITDA	11.1
EV/Est. Normal EBITDA	8.9
Forward Revenue Growth (5-yr)	7.1%
Forward EPS Growth (5-yr)	14.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	17.6%
Return on Assets	12.0%
ROIC, with goodwill	56.9%
ROIC, without goodwill	56.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-967
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	2.3
Quick Ratio	2.2

NMF = Not Meaningful

Investment Highlights

• 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. The company was founded in 1979 and is headquartered in Seattle, Washington.

• 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.

• Things are going great at Expeditors. The company's operating prowess was on display during the first quarter of 2015, where its operating income as a percentage of net revenue ratio grew to 32%. This led to a 25% increase in operating income, the biggest in four years. March 2015 was its most profitable month in history.

• Management's primary goal is to return the company to sustainable double-digit expansion, and we like what we see thus far in 2015. The executive suite understands the challenges of the global economy, however, even as 'everything seems to be firing on all cylinders' at the moment.

• 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	**BEARISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**47.00**

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	19.2	1.8	103.3%
FedEx	19.4	1.3	101.8%
United Parcel Service	19.3	1.5	102.5%
Uti Worldwide	-59.4	NMF	80.0%
Peer Median	19.3	1.5	102.2%
Expeditors Intl	**20.9**	**1.7**	**101.8%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	6,080	6,565	7,096
Revenue, YoY%	1.7%	8.0%	8.1%
Operating Income	671	726	689
Operating Margin %	11.0%	11.1%	9.7%
Net Income	349	377	432
Net Income Margin %	5.7%	5.7%	6.1%
Diluted EPS	1.68	1.92	2.24
Diluted EPS, YoY %	7.1%	13.7%	17.1%
Free Cash Flow (CFO-capex)	354	357	452
Free Cash Flow Margin %	5.8%	5.4%	6.4%

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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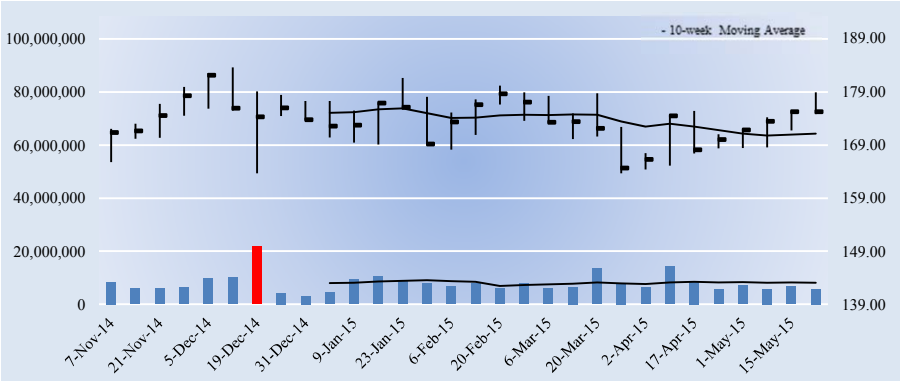
FedEx FDX FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$172.00	$138.00 - $206.00	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)	$54,306
Avg Weekly Vol (30 wks)	7,941
30-week Range (USD)	163.57 - 183.51
Valuentum Sector	Industrials
5-week Return	4.1%
13-week Return	-1.9%
30-week Return	4.8%
Dividend Yield %	0.5%
Dividends per Share	0.80
Forward Dividend Payout Ratio	8.9%
Est. Normal Diluted EPS	12.55
P/E on Est. Normal Diluted EPS	14.0
Est. Normal EBITDA	9,170
Forward EV/EBITDA	7.7
EV/Est. Normal EBITDA	6.1
Forward Revenue Growth (5-yr)	5.0%
Forward EPS Growth (5-yr)	19.5%

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	11.3%
ROIC, without goodwill	12.8%

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	37.7
Current Ratio	1.8
Quick Ratio	1.6

NMF = Not Meaningful

Investment Highlights

• 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. It was founded in 1971 and is based in Memphis.

• We like the company's decision to acquire TNT Express, though the latter continues to struggle. FedEx will gain access to the firm's European distribution network, while TNT will be able to capitalize on FedEx's global one. Expected to close in 2016, it's a €4.4 billion deal.

• An investment in FedEx is not without risks. 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, however, a nice balance.

• 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, especially on ROIC.

• 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	**NEUTRAL**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**MEDIUM**
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	**171.00**

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	19.2	1.8	103.3%
Expeditors Intl	20.9	1.7	101.8%
United Parcel Service	19.3	1.5	102.5%
Uti Worldwide	-59.4	NMF	80.0%
Peer Median	19.3	1.7	102.1%
FedEx	**19.4**	**1.3**	**101.8%**

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	47,663
Revenue, YoY%	3.8%	2.9%	4.6%
Operating Income	2,551	3,446	4,547
Operating Margin %	5.8%	7.6%	9.5%
Net Income	1,561	2,079	2,779
Net Income Margin %	3.5%	4.6%	5.8%
Diluted EPS	4.92	6.71	9.03
Diluted EPS, YoY %	-23.2%	36.2%	34.6%
Free Cash Flow (CFO-capex)	1,313	713	2,015
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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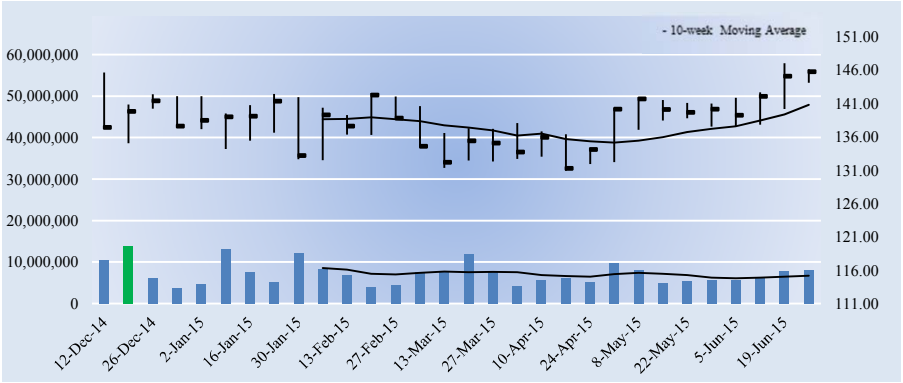
General Dynamics GD FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$123.00	$98.00 - $148.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$49,746
Avg Weekly Vol (30 wks)	7,297
30-week Range (USD)	130.91 - 147.03
Valuentum Sector	Industrials
5-week Return	4.5%
13-week Return	7.4%
30-week Return	0.3%
Dividend Yield %	1.9%
Dividends per Share	2.76
Forward Dividend Payout Ratio	31.8%
Est. Normal Diluted EPS	10.24
P/E on Est. Normal Diluted EPS	14.2
Est. Normal EBITDA	5,438
Forward EV/EBITDA	10.3
EV/Est. Normal EBITDA	9.1
Forward Revenue Growth (5-yr)	2.7%
Forward EPS Growth (5-yr)	8.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.3%
Return on Assets	4.6%
ROIC, with goodwill	18.9%
ROIC, without goodwill	61.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,911
Net Debt	-477
Total Debt/EBITDA	0.9
Net Debt/EBITDA	NMF
EBITDA/Interest	42.6
Current Ratio	1.3
Quick Ratio	0.6

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.

• At the end of 2014, the firm's backlog of unfulfilled business orders was ~$72 billion, a 58% increase from 2013. This positions the defense contractor for growth through 2016, and represents a bucking of the downtrend in this metric in recent years.

• 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.

• Although we think there may be a better time to dabble in the firm's shares based on our DCF process, the firm's stock has outperformed the market benchmark during the past quarter, indicating increased investor interest in the company.

• The firm raised its dividend for the 18th consecutive year. An impressive jump in free cash flow from operations and a focus on return on invested capital will make continued increases safe.

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	**141.00**

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	16.5	1.5	101.0%
Lockheed Martin	16.7	2.3	115.0%
Northrop Grumman	16.7	2.1	110.0%
Raytheon	14.3	2.1	105.2%
Peer Median	16.6	2.1	107.6%
General Dynamics	**16.8**	**2.1**	**118.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	31,218	30,852	31,747
Revenue, YoY%	-0.9%	-1.2%	2.9%
Operating Income	3,685	3,889	4,256
Operating Margin %	11.8%	12.6%	13.4%
Net Income	2,486	2,673	2,932
Net Income Margin %	8.0%	8.7%	9.2%
Diluted EPS	7.03	7.83	8.68
Diluted EPS, YoY %	-848.4%	11.4%	10.8%
Free Cash Flow (CFO-capex)	2,786	3,383	2,848
Free Cash Flow Margin %	8.9%	11.0%	9.0%

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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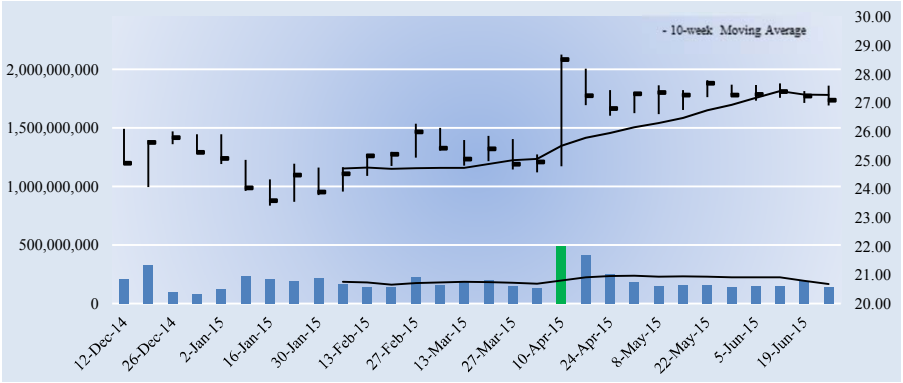
General Electric GE FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$29.00	$25.00 - $33.00	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 buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**DECLINING**
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	**27.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$274,232
Avg Weekly Vol (30 wks)	192,558
30-week Range (USD)	23.41 - 28.68
Valuentum Sector	Industrials
5-week Return	-1.6%
13-week Return	8.4%
30-week Return	4.7%
Dividend Yield %	3.4%
Dividends per Share	0.92
Forward Dividend Payout Ratio	70.6%
Est. Normal Diluted EPS	1.80
P/E on Est. Normal Diluted EPS	15.0
Est. Normal EBITDA	38,666
Forward EV/EBITDA	13.3
EV/Est. Normal EBITDA	11.3
Forward Revenue Growth (5-yr)	-0.2%
Forward EPS Growth (5-yr)	8.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	12.2%
Return on Assets	4.1%
ROIC, with goodwill	23.7%
ROIC, without goodwill	58.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	302,141
Net Debt	164,026
Total Debt/EBITDA	8.8
Net Debt/EBITDA	4.8
EBITDA/Interest	3.6
Current Ratio	0.7
Quick Ratio	0.7

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.

Relative Valuation

	Forward P/E	PEG	Price / FV
3M	19.6	2.7	120.8%
Honeywell	16.8	2.0	110.1%
Tyco Intl	17.4	1.9	112.5%
United Technologies	16.1	2.2	106.1%
Peer Median	17.1	2.1	111.3%
General Electric	**20.8**	**1.2**	**93.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	146,045	148,589	127,044
Revenue, YoY%	-0.9%	1.7%	-14.5%
Operating Income	23,159	25,076	24,898
Operating Margin %	15.9%	16.9%	19.6%
Net Income	15,177	15,345	12,991
Net Income Margin %	10.4%	10.3%	10.2%
Diluted EPS	1.48	1.52	1.30
Diluted EPS, YoY %	6.2%	2.8%	-14.0%
Free Cash Flow (CFO-capex)	17,241	14,095	5,324
Free Cash Flow Margin %	11.8%	9.5%	4.2%

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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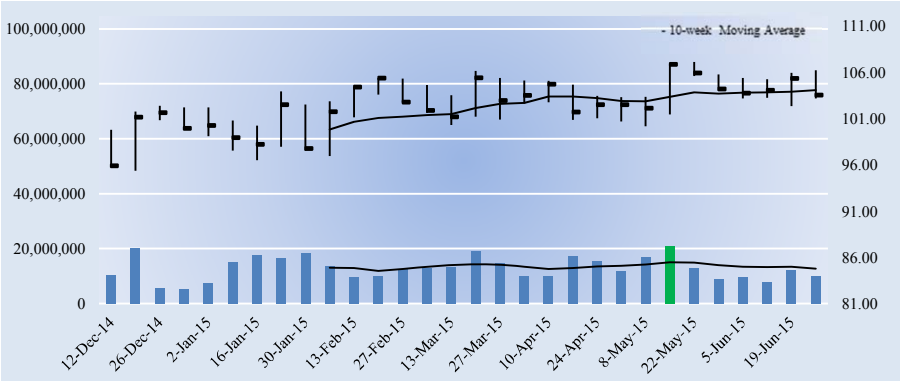
Honeywell HON FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$94.00	$75.00 - $113.00	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)	$82,335
Avg Weekly Vol (30 wks)	12,912
30-week Range (USD)	95.37 - 107.1
Valuentum Sector	Industrials
5-week Return	-1.9%
13-week Return	-0.2%
30-week Return	4.2%
Dividend Yield %	2.0%
Dividends per Share	2.07
Forward Dividend Payout Ratio	33.7%
Est. Normal Diluted EPS	7.29
P/E on Est. Normal Diluted EPS	14.2
Est. Normal EBITDA	9,048
Forward EV/EBITDA	10.7
EV/Est. Normal EBITDA	9.3
Forward Revenue Growth (5-yr)	3.5%
Forward EPS Growth (5-yr)	9.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.1%
Return on Assets	8.6%
ROIC, with goodwill	15.7%
ROIC, without goodwill	35.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	8,683
Net Debt	1,724
Total Debt/EBITDA	1.3
Net Debt/EBITDA	0.3
EBITDA/Interest	21.2
Current Ratio	1.5
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• 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 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.

• 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 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 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 12.3% in coming years. Total debt-to-EBITDA was 1.3 last year, while debt-to-book capitalization stood at 33%.

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	**VERY BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**104.00**

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	19.6	2.7	120.8%
Danaher	19.8	2.4	108.6%
Tyco Intl	17.4	1.9	112.5%
United Technologies	16.1	2.2	106.1%
Peer Median	18.5	2.3	110.5%
Honeywell	**16.8**	**2.0**	**110.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	39,055	40,306	39,782
Revenue, YoY%	3.7%	3.2%	-1.3%
Operating Income	5,501	5,831	6,914
Operating Margin %	14.1%	14.5%	17.4%
Net Income	3,924	4,239	4,867
Net Income Margin %	10.0%	10.5%	12.2%
Diluted EPS	4.92	5.33	6.15
Diluted EPS, YoY %	33.2%	8.3%	15.4%
Free Cash Flow (CFO-capex)	3,426	4,020	4,575
Free Cash Flow Margin %	8.8%	10.0%	11.5%

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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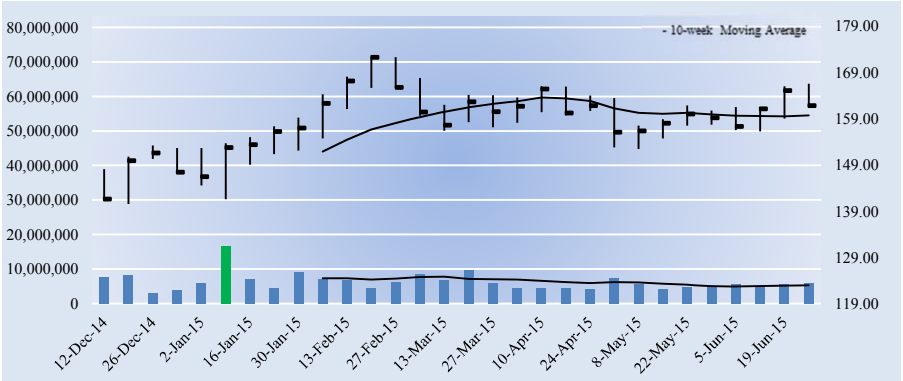
Northrop Grumman NOC FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$147.00	$118.00 - $176.00	LARGE-CAP CORE	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)	$34,311
Avg Weekly Vol (30 wks)	6,314
30-week Range (USD)	140.52 - 172.3
Valuentum Sector	Industrials
5-week Return	1.2%
13-week Return	0.4%
30-week Return	9.5%
Dividend Yield %	2.0%
Dividends per Share	3.20
Forward Dividend Payout Ratio	33.0%
Est. Normal Diluted EPS	11.45
P/E on Est. Normal Diluted EPS	14.1
Est. Normal EBITDA	4,096
Forward EV/EBITDA	10.0
EV/Est. Normal EBITDA	8.9
Forward Revenue Growth (5-yr)	1.4%
Forward EPS Growth (5-yr)	6.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.8%
Return on Assets	7.6%
ROIC, with goodwill	15.5%
ROIC, without goodwill	95.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,925
Net Debt	2,062
Total Debt/EBITDA	1.6
Net Debt/EBITDA	0.6
EBITDA/Interest	13.0
Current Ratio	1.4
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• 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.

• Though recent top-line trends have not been positive, the firm's focus on margins has led to solid EPS and operating margin growth. In 2014, EPS grew ~17%, and the company realized a record pension-adjusted operating margin despite a decline in revenue.

• 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.

• 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	**UNATTRACTIVE**
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)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**160.00**

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	16.5	1.5	101.0%
General Dynamics	16.8	2.1	118.5%
Lockheed Martin	16.7	2.3	115.0%
Raytheon	14.3	2.1	105.2%
Peer Median	16.6	2.1	110.1%
Northrop Grumman	**16.7**	**2.1**	**110.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	24,661	23,979	23,739
Revenue, YoY%	-2.2%	-2.8%	-1.0%
Operating Income	3,123	3,196	3,175
Operating Margin %	12.7%	13.3%	13.4%
Net Income	1,952	2,069	2,038
Net Income Margin %	7.9%	8.6%	8.6%
Diluted EPS	8.35	9.75	9.71
Diluted EPS, YoY %	6.9%	16.9%	-0.5%
Free Cash Flow (CFO-capex)	2,119	2,032	1,799
Free Cash Flow Margin %	8.6%	8.5%	7.6%

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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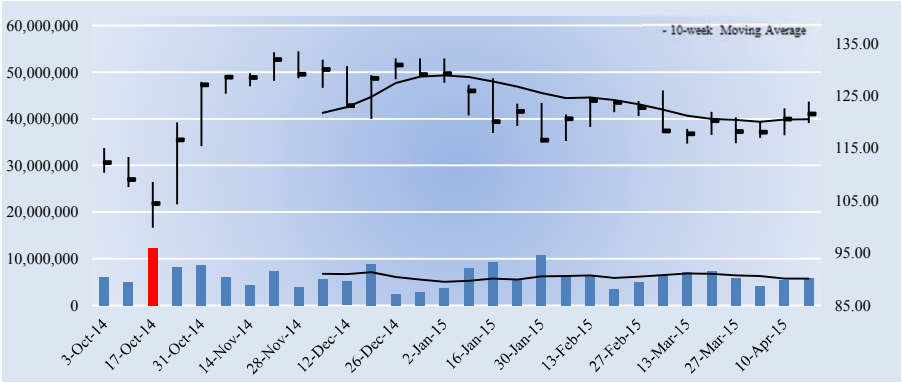
Parker-Hannifin PH FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$115.00	$92.00 - $138.00	LARGE-CAP CORE	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)	$18,396
Avg Weekly Vol (30 wks)	6,277
30-week Range (USD)	99.82 - 133.41
Valuentum Sector	Industrials
5-week Return	2.7%
13-week Return	1.0%
30-week Return	7.9%
Dividend Yield %	2.1%
Dividends per Share	2.52
Forward Dividend Payout Ratio	31.5%
Est. Normal Diluted EPS	8.93
P/E on Est. Normal Diluted EPS	13.6
Est. Normal EBITDA	2,386
Forward EV/EBITDA	8.4
EV/Est. Normal EBITDA	7.8
Forward Revenue Growth (5-yr)	1.4%
Forward EPS Growth (5-yr)	7.4%

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 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.

• 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. There aren't many companies better positioned.

• 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 9.9% 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.

• Investors should keep a close eye on Parker-Hannifin's operating margins, which have expanded nicely as of late. Segment operating margins north of 14% during the third quarter of fiscal 2015 were quite noteworthy.

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 BULLISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**120.00**

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	2.2	105.2%
Emerson Electric	15.8	2.1	99.0%
Pentair	16.7	2.1	107.8%
Roper Industries	24.1	2.7	126.6%
Peer Median	16.3	2.2	106.5%
Parker-Hannifin	**15.2**	**2.4**	**105.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	13,016	13,216	13,005
Revenue, YoY%	-1.0%	1.5%	-1.6%
Operating Income	1,374	1,394	1,878
Operating Margin %	10.6%	10.5%	14.4%
Net Income	948	1,041	1,201
Net Income Margin %	7.3%	7.9%	9.2%
Diluted EPS	6.26	6.87	8.01
Diluted EPS, YoY %	-16.0%	9.9%	16.5%
Free Cash Flow (CFO-capex)	925	1,172	1,304
Free Cash Flow Margin %	7.1%	8.9%	10.0%

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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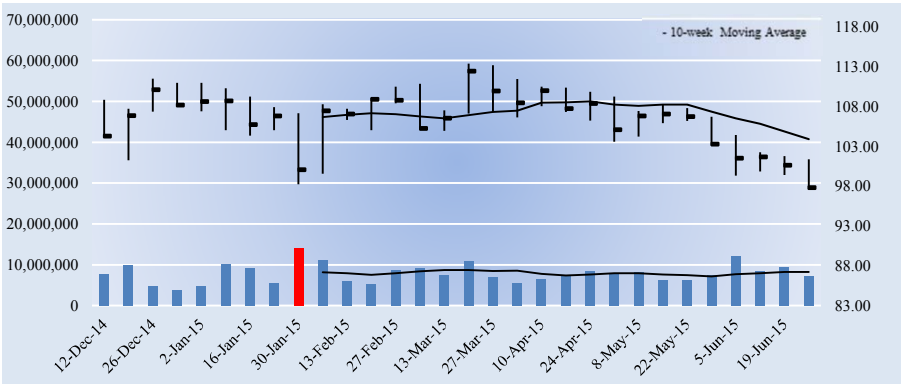
Raytheon RTN FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$93.00	$74.00 - $112.00	LARGE-CAP CORE	Industrials	A&D Prime

Raytheon has one of the highest rated Economic Castles in our coverage.

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)	$30,569
Avg Weekly Vol (30 wks)	7,917
30-week Range (USD)	97.58 - 113.36
Valuentum Sector	Industrials
5-week Return	-8.3%
13-week Return	-11.3%
30-week Return	-9.2%
Dividend Yield %	2.7%
Dividends per Share	2.62
Forward Dividend Payout Ratio	38.3%
Est. Normal Diluted EPS	7.73
P/E on Est. Normal Diluted EPS	12.6
Est. Normal EBITDA	3,860
Forward EV/EBITDA	8.8
EV/Est. Normal EBITDA	8.1
Forward Revenue Growth (5-yr)	1.5%
Forward EPS Growth (5-yr)	4.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.7%
Return on Assets	7.6%
ROIC, with goodwill	15.1%
ROIC, without goodwill	90.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,330
Net Debt	611
Total Debt/EBITDA	1.5
Net Debt/EBITDA	0.2
EBITDA/Interest	17.0
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 is well-positioned to take advantage of its growing international market. The firm is expecting international bookings to make up 30%-35% of 2015 orders, and it raised its EPS guidance after realizing stronger than expected first-quarter results.

• 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.

• In April 2015, the firm announced the acquisition of cybersecurity firm Websense from Vista Equity Partners for $1.9 billion. Raytheon will combine Websense with its exisitng cybersecurity unit, and Vista will invest ~$335 million in the company for a ~20% stake.

• The firm sports a very nice dividend yield of 2.7%. We expect the firm to pay out about 38% 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™	**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	**104.00**

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	16.5	1.5	101.0%
General Dynamics	16.8	2.1	118.5%
Lockheed Martin	16.7	2.3	115.0%
Northrop Grumman	16.7	2.1	110.0%
Peer Median	16.7	2.1	112.5%
Raytheon	**14.3**	**2.1**	**105.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	23,706	22,826	22,621
Revenue, YoY%	-2.9%	-3.7%	-0.9%
Operating Income	2,938	3,179	3,105
Operating Margin %	12.4%	13.9%	13.7%
Net Income	1,932	2,179	2,119
Net Income Margin %	8.1%	9.5%	9.4%
Diluted EPS	5.96	6.97	6.85
Diluted EPS, YoY %	5.4%	17.0%	-1.8%
Free Cash Flow (CFO-capex)	1,985	1,793	2,295
Free Cash Flow Margin %	8.4%	7.9%	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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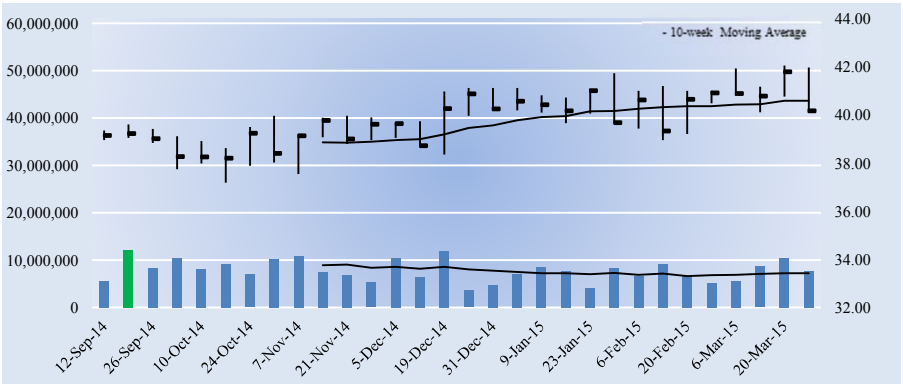
Republic Services RSG FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$39.00	$31.00 - $47.00	LARGE-CAP CORE	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)	$14,385
Avg Weekly Vol (30 wks)	7,812
30-week Range (USD)	37.18 - 42.05
Valuentum Sector	Industrials
5-week Return	-1.2%
13-week Return	-1.7%
30-week Return	2.4%
Dividend Yield %	2.8%
Dividends per Share	1.12
Forward Dividend Payout Ratio	55.2%
Est. Normal Diluted EPS	2.47
P/E on Est. Normal Diluted EPS	16.3
Est. Normal EBITDA	2,887
Forward EV/EBITDA	8.2
EV/Est. Normal EBITDA	7.4
Forward Revenue Growth (5-yr)	3.5%
Forward EPS Growth (5-yr)	14.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	7.3%
Return on Assets	2.9%
ROIC, with goodwill	6.4%
ROIC, without goodwill	16.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,061
Net Debt	6,986
Total Debt/EBITDA	3.0
Net Debt/EBITDA	3.0
EBITDA/Interest	6.6
Current Ratio	0.8
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• 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'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. It may be the crown jewel in the waste industry.

• 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.

• Looking ahead to 2015, Republic Services expects revenue to advance at a 2.5%-3.5% pace and diluted EPS in the range of $1.98-$2.04. Management plans to hit the range in adjusted free cash flow of $710-$740 million, which compares to reported levels of ~$670 million during 2014 and 2013, respectively.

• 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	**VERY BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**41.00**

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	30.3	NMF	88.8%
Stericycle	29.5	2.4	107.7%
Waste Connections	22.7	2.4	117.0%
Waste Management	22.4	2.1	98.9%
Peer Median	26.1	2.4	103.3%
Republic Services	**19.8**	**1.9**	**103.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	8,417	8,788	9,087
Revenue, YoY%	3.7%	4.4%	3.4%
Operating Income	1,375	1,255	1,506
Operating Margin %	16.3%	14.3%	16.6%
Net Income	589	548	716
Net Income Margin %	7.0%	6.2%	7.9%
Diluted EPS	1.62	1.53	2.03
Diluted EPS, YoY %	4.3%	-5.6%	32.8%
Free Cash Flow (CFO-capex)	667	667	723
Free Cash Flow Margin %	7.9%	7.6%	8.0%

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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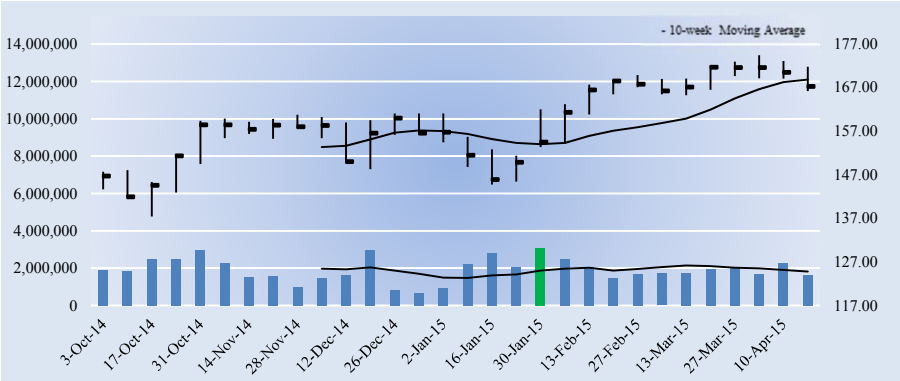
Roper Industries ROP OVERVALUED 5.4%

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$132.00	$106.00 - $158.00	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)	$16,856
Avg Weekly Vol (30 wks)	1,919
30-week Range (USD)	137.34 - 174.19
Valuentum Sector	Industrials
5-week Return	-0.6%
13-week Return	13.6%
30-week Return	14.9%
Dividend Yield %	0.6%
Dividends per Share	1.00
Forward Dividend Payout Ratio	14.4%
Est. Normal Diluted EPS	8.41
P/E on Est. Normal Diluted EPS	19.9
Est. Normal EBITDA	1,365
Forward EV/EBITDA	16.4
EV/Est. Normal EBITDA	13.5
Forward Revenue Growth (5-yr)	6.5%
Forward EPS Growth (5-yr)	9.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.0%
Return on Assets	7.5%
ROIC, with goodwill	10.5%
ROIC, without goodwill	29.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2,214
Net Debt	1,604
Total Debt/EBITDA	2.1
Net Debt/EBITDA	1.5
EBITDA/Interest	13.2
Current Ratio	2.4
Quick Ratio	1.9

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 20.4% in coming years. Total debt-to-EBITDA was 2.1 last year, while debt-to-book capitalization stood at 31.8%.

• 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 disciplined 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	**OVERVALUED**
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)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**169.00**

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
Barnes Group	15.8	2.2	105.2%
Emerson Electric	15.8	2.1	99.0%
Parker-Hannifin	15.2	2.4	105.6%
Pentair	16.7	2.1	107.8%
Peer Median	15.8	2.2	105.4%
Roper Industries	**24.1**	**2.7**	**126.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	3,238	3,549	3,908
Revenue, YoY%	8.2%	9.6%	10.1%
Operating Income	842	999	1,084
Operating Margin %	26.0%	28.2%	27.7%
Net Income	538	646	705
Net Income Margin %	16.6%	18.2%	18.0%
Diluted EPS	5.37	6.40	6.94
Diluted EPS, YoY %	10.6%	19.2%	8.4%
Free Cash Flow (CFO-capex)	605	642	718
Free Cash Flow Margin %	18.7%	18.1%	18.4%

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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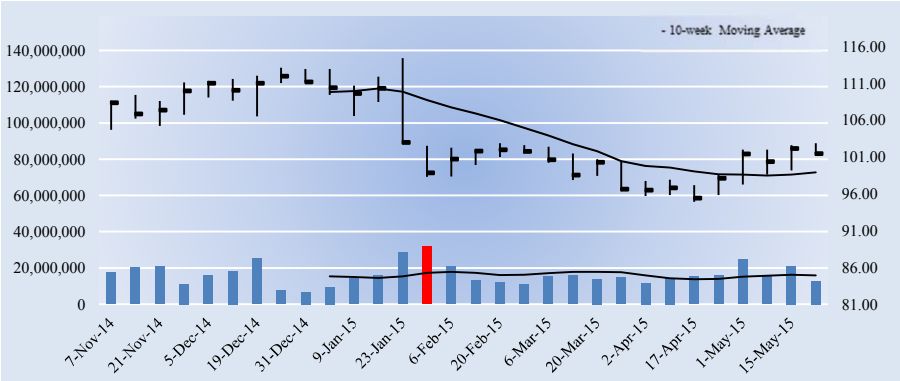
United Parce Service UPS FAIRLY VALUED

Buying Index™ 6 **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	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)	$93,721
Avg Weekly Vol (30 wks)	16,362
30-week Range (USD)	94.88 - 114.4
Valuentum Sector	Industrials
5-week Return	5.9%
13-week Return	-0.6%
30-week Return	-3.3%
Dividend Yield %	2.9%
Dividends per Share	2.92
Forward Dividend Payout Ratio	55.7%
Est. Normal Diluted EPS	6.65
P/E on Est. Normal Diluted EPS	15.3
Est. Normal EBITDA	11,620
Forward EV/EBITDA	10.5
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	4.1%
Forward EPS Growth (5-yr)	20.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	54.3%
Return on Assets	7.4%
ROIC, with goodwill	34.5%
ROIC, without goodwill	38.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	10,787
Net Debt	7,504
Total Debt/EBITDA	0.9
Net Debt/EBITDA	0.6
EBITDA/Interest	35.3
Current Ratio	1.4
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• 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. Its history dates back to 1907. UPS is headquartered in Atlanta, Georgia.

• 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.

• UPS boasts an industry-leading adjusted operating margin in small packages. In the mid-teens, 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.

• Revenue management initiatives, including pricing, will be key drivers behind expected profit expansion. International shipment growth will also offer a nice tailwind to performance. Management is targeting 6%-12% EPS growth in 2015 over the adjusted 2014 mark of $4.61, to the range of $5.05-$5.30.

• UPS is truly an amazing free cash flow generator. During the first quarter of 2015, for example, the company hauled in $2.4 billion in free cash flow, helping to pay a growing dividend and buy back stock.

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	**99.00**

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	19.2	1.8	103.3%
Expeditors Intl	20.9	1.7	101.8%
FedEx	19.4	1.3	101.8%
Uti Worldwide	-59.4	NMF	80.0%
Peer Median	19.3	1.7	101.8%
United Parcel Service	**19.3**	**1.5**	**102.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	55,438	58,232	59,746
Revenue, YoY%	2.4%	5.0%	2.6%
Operating Income	8,274	10,550	7,686
Operating Margin %	14.9%	18.1%	12.9%
Net Income	4,372	3,032	4,795
Net Income Margin %	7.9%	5.2%	8.0%
Diluted EPS	4.61	3.28	5.24
Diluted EPS, YoY %	453.8%	-28.8%	59.7%
Free Cash Flow (CFO-capex)	5,239	3,398	5,528
Free Cash Flow Margin %	9.5%	5.8%	9.3%

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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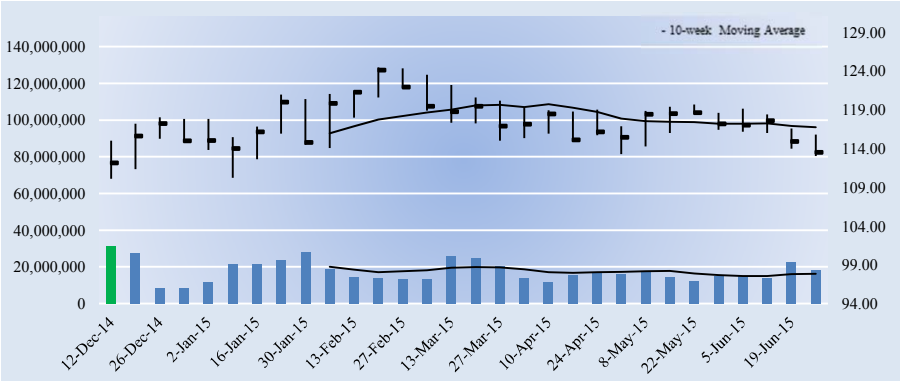
United Technologies UTX FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$107.00	$86.00 - $128.00	LARGE-CAP CORE	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)	$103,485
Avg Weekly Vol (30 wks)	17,739
30-week Range (USD)	110.1 - 124.45
Valuentum Sector	Industrials
5-week Return	-4.2%
13-week Return	-3.5%
30-week Return	1.1%
Dividend Yield %	2.3%
Dividends per Share	2.56
Forward Dividend Payout Ratio	36.3%
Est. Normal Diluted EPS	8.40
P/E on Est. Normal Diluted EPS	13.5
Est. Normal EBITDA	13,837
Forward EV/EBITDA	9.8
EV/Est. Normal EBITDA	8.5
Forward Revenue Growth (5-yr)	3.4%
Forward EPS Growth (5-yr)	7.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.3%
Return on Assets	7.0%
ROIC, with goodwill	10.0%
ROIC, without goodwill	20.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	20,060
Net Debt	14,458
Total Debt/EBITDA	1.9
Net Debt/EBITDA	1.4
EBITDA/Interest	9.5
Current Ratio	1.3
Quick Ratio	0.7

NMF = Not Meaningful

Investment Highlights

• 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 is reviewing its options for its $8 billion aircraft business, Sikorsky. Though firms such as Lockheed Martin, Boeing, and Airbus have expressed interest, the firm is reportedly considering a spin-off or combination with Textron.

• 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.

• 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	**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	**117.00**

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	19.6	2.7	120.8%
Danaher	19.8	2.4	108.6%
Honeywell	16.8	2.0	110.1%
Tyco Intl	17.4	1.9	112.5%
Peer Median	18.5	2.2	111.3%
United Technologies	**16.1**	**2.2**	**106.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	62,626	65,100	64,970
Revenue, YoY%	8.5%	4.0%	-0.2%
Operating Income	8,058	8,518	10,074
Operating Margin %	12.9%	13.1%	15.5%
Net Income	5,686	6,220	6,447
Net Income Margin %	9.1%	9.6%	9.9%
Diluted EPS	6.21	6.82	7.06
Diluted EPS, YoY %	16.4%	9.8%	3.5%
Free Cash Flow (CFO-capex)	5,171	5,435	6,366
Free Cash Flow Margin %	8.3%	8.3%	9.8%

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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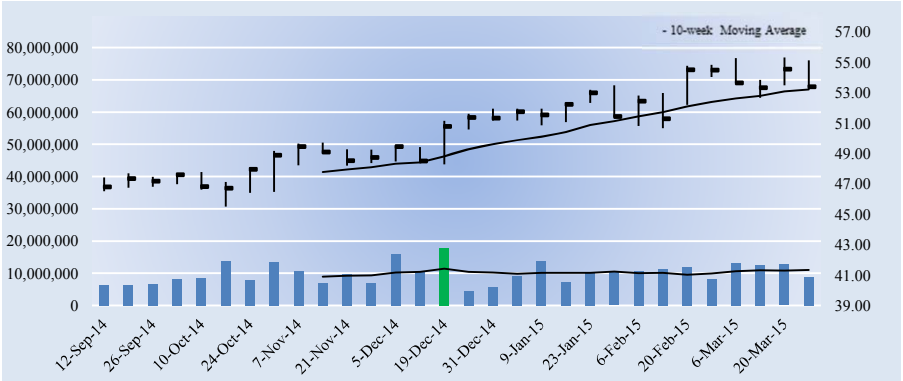
Waste Management WM FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$54.00	$42.00 - $66.00	LARGE-CAP VALUE	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 selling, or distribution (red bar).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**GOOD**
ValueRisk™	**MEDIUM**
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)	**BEARISH**
Near-term Technical Support, 10-week 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.

Company Vitals

Market Cap (USD)	$24,863
Avg Weekly Vol (30 wks)	10,018
30-week Range (USD)	45.5 - 55.31
Valuentum Sector	Industrials
5-week Return	-2.0%
13-week Return	4.0%
30-week Return	13.5%
Dividend Yield %	2.9%
Dividends per Share	1.54
Forward Dividend Payout Ratio	64.6%
Est. Normal Diluted EPS	2.86
P/E on Est. Normal Diluted EPS	18.7
Est. Normal EBITDA	4,162
Forward EV/EBITDA	8.8
EV/Est. Normal EBITDA	7.9
Forward Revenue Growth (5-yr)	1.7%
Forward EPS Growth (5-yr)	3.9%

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

Investment Highlights

• 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.

• Management expects 2015 to be a transition year, maintaining its pricing and cost efforts while redeploying capital for accelerated earnings and free cash flow growth in 2016. Investors should expect the firm to begin repurchasing shares in the second half of 2015.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Clean Harbors	30.3	NMF	88.8%
Republic Services	19.8	1.9	103.0%
Stericycle	29.5	2.4	107.7%
Waste Connections	22.7	2.4	117.0%
Peer Median	26.1	2.4	105.4%
Waste Management	**22.4**	**2.1**	**98.9%**

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

Returns Summary

	3-year Historical Average
Return on Equity	13.0%
Return on Assets	3.5%
ROIC, with goodwill	9.2%
ROIC, without goodwill	13.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	13,983	13,996	13,506
Revenue, YoY%	2.4%	0.1%	-3.5%
Operating Income	2,070	2,221	2,417
Operating Margin %	14.8%	15.9%	17.9%
Net Income	98	1,298	1,099
Net Income Margin %	0.7%	9.3%	8.1%
Diluted EPS	0.21	2.79	2.38
Diluted EPS, YoY %	-88.1%	1236.4%	-14.5%
Free Cash Flow (CFO-capex)	1,184	1,180	1,824
Free Cash Flow Margin %	8.5%	8.4%	13.5%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	9,435
Net Debt	8,128
Total Debt/EBITDA	2.6
Net Debt/EBITDA	2.2
EBITDA/Interest	7.8
Current Ratio	1.0
Quick Ratio	0.9

NMF = Not Meaningful

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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Materials

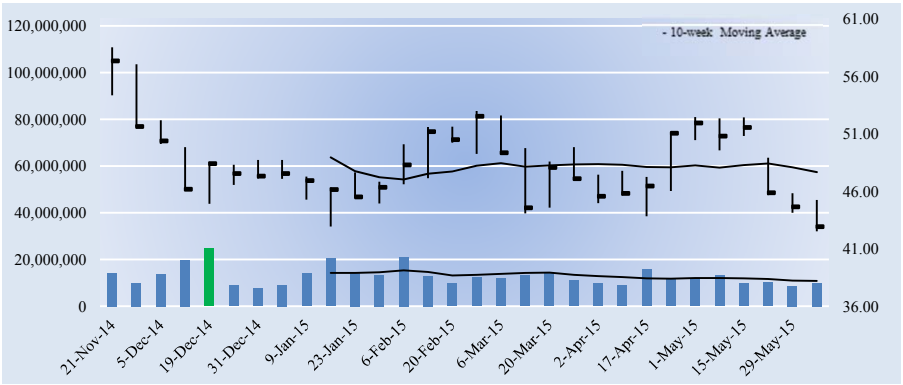
BHP Billiton BHP FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$47.00	$35.00 - $59.00	LARGE-CAP VALUE	Materials	Mining - diversified

BHP boasts a diversified portfolio, but 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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$114,527
Avg Weekly Vol (30 wks)	12,846
30-week Range (USD)	42.51 - 58.52
Valuentum Sector	Materials
5-week Return	-17.8%
13-week Return	-13.6%
30-week Return	-26.7%
Dividend Yield %	5.8%
Dividends per Share	2.48
Forward Dividend Payout Ratio	118.6%
Est. Normal Diluted EPS	1.54
P/E on Est. Normal Diluted EPS	27.9
Est. Normal EBITDA	13,877
Forward EV/EBITDA	8.5
EV/Est. Normal EBITDA	10.1
Forward Revenue Growth (5-yr)	-8.7%
Forward EPS Growth (5-yr)	-20.5%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.6%
Return on Assets	10.7%
ROIC, with goodwill	28.3%
ROIC, without goodwill	29.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	34,589
Net Debt	25,699
Total Debt/EBITDA	1.0
Net Debt/EBITDA	0.8
EBITDA/Interest	56.3
Current Ratio	1.2
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

• 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. The company was founded in 1851 and is headquartered in Melbourne, Australia.

• BHP Billiton's success is tied to growth in China, which has become a significant source of global demand for commodities. Sales to China represent roughly one third of its business. China GDP growth is robust but it is slowing, and the country's housing market is worth watching closely.

• 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 21% in coming years. Total debt-to-EBITDA was 1 last year, while debt-to-book capitalization stood at 30.4%. Capital spending cuts should prop up cash flow.

• BHP's operations are characterized by very high operating margins, and its production execution continues to be excellent. The firm boasts a diversified portfolio, but BHP's performance still remains tied to commodity price swings, which are often unpredictable.

• Falling iron ore prices have been a thorn in BHP's side. Iron ore prices tumbled nearly 50% in 2014, and the supply/demand make-up for 2015 may not spell relief. We may never see $100/ton iron ore prices again. Profits could remain under pressure.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**DECLINING**
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
Cliffs Natural Resources	-29.1	NMF	105.8%
Freeport McMoRan	33.5	NMF	93.6%
Rio Tinto	15.1	1.7	75.2%
Vale	-9.0	NMF	93.0%
Peer Median	3.0	1.7	93.3%
BHP Billiton	**20.5**	**NMF**	**91.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	65,968	67,206	45,633
Revenue, YoY%	-8.7%	1.9%	-32.1%
Operating Income	20,844	24,822	10,678
Operating Margin %	31.6%	36.9%	23.4%
Net Income	10,876	13,832	5,578
Net Income Margin %	16.5%	20.6%	12.2%
Diluted EPS	4.07	5.18	2.09
Diluted EPS, YoY %	-29.4%	27.2%	-59.7%
Free Cash Flow (CFO-capex)	7,050	24,109	6,898
Free Cash Flow Margin %	10.7%	35.9%	15.1%

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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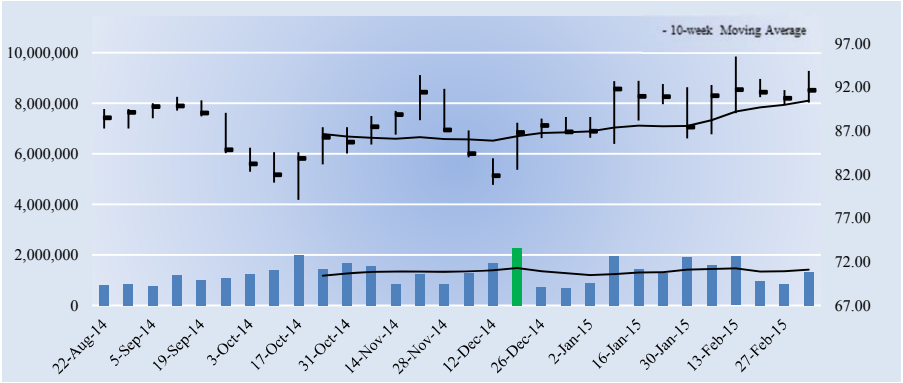
Compass Minerals CMP FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$87.00	$67.00 - $107.00	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 buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
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.

Company Vitals

Market Cap (USD)	$3,076
Avg Weekly Vol (30 wks)	1,294
30-week Range (USD)	79.07 - 95.44
Valuentum Sector	Materials
5-week Return	4.8%
13-week Return	10.4%
30-week Return	4.5%
Dividend Yield %	2.9%
Dividends per Share	2.64
Forward Dividend Payout Ratio	47.7%
Est. Normal Diluted EPS	6.32
P/E on Est. Normal Diluted EPS	14.5
Est. Normal EBITDA	395
Forward EV/EBITDA	9.8
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	3.1%
Forward EPS Growth (5-yr)	1.9%

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

Investment Highlights

• 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 is also the only North American sulfate of potash producer. Its economic returns have been fantastic.

• The 'essential' character of Compass Minerals is that it provides 'essential' minerals. There are thousands of applications of salt, and its plant nutrition focus (sulfate of potash) is exposed to global mega trends. A disproportionate value to end-users and a diverse customer base are key attributes.

• Compass generates some hefty operating margins. In the company's salt segment (~80% of sales), for example, its adjusted operating margin is ~20%. Profitability in the plant nutrition segment is even greater than that. Compass' long-term goal is to surpass $500 million of EBITDA by 2018.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
CF Industries	13.2	1.0	93.1%
Monsanto	20.0	1.9	113.6%
Potash Corp	16.1	1.8	99.6%
Scotts Miracle-Gro	18.2	1.8	105.2%
Peer Median	17.2	1.8	102.4%
Compass Minerals	**16.6**	**2.2**	**105.3%**

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

Returns Summary

	3-year Historical Average
Return on Equity	26.5%
Return on Assets	10.4%
ROIC, with goodwill	16.2%
ROIC, without goodwill	16.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	1,130	1,283	1,297
Revenue, YoY%	19.9%	13.5%	1.1%
Operating Income	186	311	271
Operating Margin %	16.4%	24.2%	20.9%
Net Income	131	218	187
Net Income Margin %	11.6%	17.0%	14.4%
Diluted EPS	3.91	6.49	5.53
Diluted EPS, YoY %	45.9%	65.8%	-14.7%
Free Cash Flow (CFO-capex)	116	118	145
Free Cash Flow Margin %	10.2%	9.2%	11.2%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	626
Net Debt	360
Total Debt/EBITDA	1.6
Net Debt/EBITDA	0.9
EBITDA/Interest	19.4
Current Ratio	3.0
Quick Ratio	2.0

NMF = Not Meaningful

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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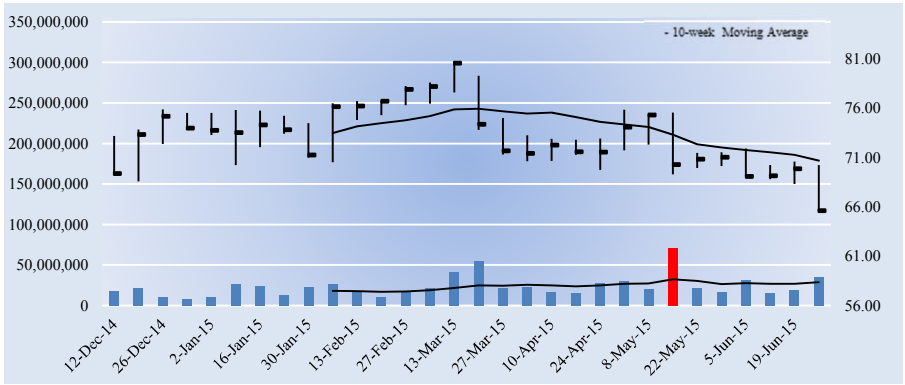
DuPont DD FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$63.00	$50.00 - $76.00	LARGE-CAP CORE	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).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**POOR**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
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)	**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.

Company Vitals

Market Cap (USD)	$60,475
Avg Weekly Vol (30 wks)	23,632
30-week Range (USD)	65.56 - 80.65
Valuentum Sector	Materials
5-week Return	-7.2%
13-week Return	-9.0%
30-week Return	-10.2%
Dividend Yield %	3.0%
Dividends per Share	1.96
Forward Dividend Payout Ratio	49.4%
Est. Normal Diluted EPS	4.80
P/E on Est. Normal Diluted EPS	13.7
Est. Normal EBITDA	7,905
Forward EV/EBITDA	9.4
EV/Est. Normal EBITDA	8.1
Forward Revenue Growth (5-yr)	1.6%
Forward EPS Growth (5-yr)	7.4%

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

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 3%. We expect the firm to pay out about 49% of next year's earnings to shareholders as dividends. Its strong Dividend Cushion ratio and above-average annual yield make for a good combination.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dow Chemical	17.1	1.6	112.1%
Ecolab	25.4	2.0	116.9%
PPG Industries	20.4	1.4	104.4%
Praxair	20.0	1.7	110.5%
Peer Median	20.2	1.7	111.3%
DuPont	**16.5**	**2.3**	**104.1%**

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

Returns Summary

	3-year Historical Average
Return on Equity	24.6%
Return on Assets	6.0%
ROIC, with goodwill	8.2%
ROIC, without goodwill	9.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	36,144	36,046	33,955
Revenue, YoY%	2.4%	-0.3%	-5.8%
Operating Income	3,755	5,746	5,282
Operating Margin %	10.4%	15.9%	15.6%
Net Income	2,849	3,610	3,641
Net Income Margin %	7.9%	10.0%	10.7%
Diluted EPS	3.05	3.92	3.97
Diluted EPS, YoY %	16.6%	28.3%	1.4%
Free Cash Flow (CFO-capex)	-702	1,677	3,742
Free Cash Flow Margin %	-1.9%	4.7%	11.0%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	10,694
Net Debt	3,660
Total Debt/EBITDA	1.5
Net Debt/EBITDA	0.5
EBITDA/Interest	19.5
Current Ratio	1.7
Quick Ratio	1.0

NMF = Not Meaningful

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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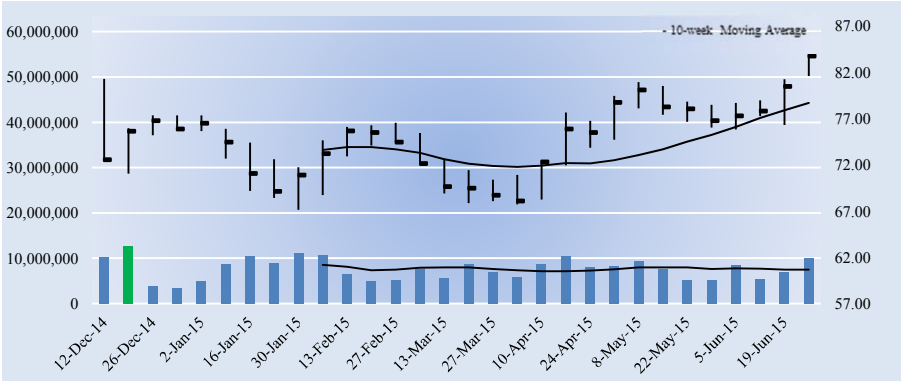
Eastman Chemical EMN FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$104.00	$83.00 - $125.00	LARGE-CAP VALUE	Materials	Chemicals - broad

Eastman Chemical's shares are trading at a bargain.

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
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	**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.

Company Vitals

Market Cap (USD)	$12,378
Avg Weekly Vol (30 wks)	7,699
30-week Range (USD)	67.13 - 83.9
Valuentum Sector	Materials
5-week Return	7.6%
13-week Return	20.7%
30-week Return	3.6%
Dividend Yield %	1.9%
Dividends per Share	1.60
Forward Dividend Payout Ratio	22.0%
Est. Normal Diluted EPS	8.70
P/E on Est. Normal Diluted EPS	9.6
Est. Normal EBITDA	2,406
Forward EV/EBITDA	9.4
EV/Est. Normal EBITDA	8.2
Forward Revenue Growth (5-yr)	4.5%
Forward EPS Growth (5-yr)	15.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.6%
Return on Assets	6.8%
ROIC, with goodwill	11.2%
ROIC, without goodwill	15.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,549
Net Debt	7,335
Total Debt/EBITDA	4.5
Net Debt/EBITDA	4.3
EBITDA/Interest	9.0
Current Ratio	1.6
Quick Ratio	0.7

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'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. 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. 2015 will be the company's sixth consecutive year of EPS growth.

Relative Valuation

	Forward P/E	PEG	Price / FV
Dow Chemical	17.1	1.6	112.1%
DuPont	16.5	2.3	104.1%
Ecolab	25.4	2.0	116.9%
PPG Industries	20.4	1.4	104.4%
Peer Median	18.8	1.8	108.2%
Eastman Chemical	**11.5**	**1.1**	**80.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	9,350	9,527	10,365
Revenue, YoY%	15.4%	1.9%	8.8%
Operating Income	1,938	1,239	1,604
Operating Margin %	20.7%	13.0%	15.5%
Net Income	1,165	749	1,075
Net Income Margin %	12.5%	7.9%	10.4%
Diluted EPS	7.88	5.07	7.27
Diluted EPS, YoY %	426.1%	-35.7%	43.5%
Free Cash Flow (CFO-capex)	814	813	1,096
Free Cash Flow Margin %	8.7%	8.5%	10.6%

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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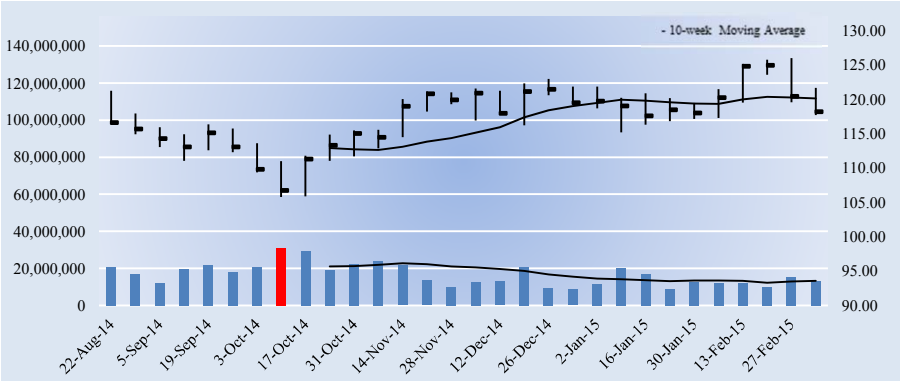
Monsanto MON FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$104.00	$83.00 - $125.00	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)	$62,027
Avg Weekly Vol (30 wks)	16,652
30-week Range (USD)	105.76 - 126
Valuentum Sector	Materials
5-week Return	-0.3%
13-week Return	-0.6%
30-week Return	-1.5%
Dividend Yield %	1.7%
Dividends per Share	1.96
Forward Dividend Payout Ratio	33.2%
Est. Normal Diluted EPS	7.60
P/E on Est. Normal Diluted EPS	15.5
Est. Normal EBITDA	6,432
Forward EV/EBITDA	13.0
EV/Est. Normal EBITDA	10.5
Forward Revenue Growth (5-yr)	5.0%
Forward EPS Growth (5-yr)	12.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	21.8%
Return on Assets	11.9%
ROIC, with goodwill	22.1%
ROIC, without goodwill	31.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	7,761
Net Debt	5,354
Total Debt/EBITDA	1.6
Net Debt/EBITDA	1.1
EBITDA/Interest	19.2
Current Ratio	1.9
Quick Ratio	1.0

NMF = Not Meaningful

Investment Highlights

• Monsanto's seeds, biotechnology trait products, and herbicides provide farmers with solutions that greatly improve productivity. Within germplasm, it boasts the DEKALB (corn), Asgrow (soybeans), Deltapine (cotton), Seminis and De Ruiter (vegetable seeds) brands. Within biotechnology traits, SmartStax, YieldGard, VT Triple, and Roundup are key brands.

• 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.' Competition for the discovery of new traits continues to be heated.

• What differentiates Monsanto from a lot of other smaller players in the industry is its dedication to innovation. For example, during the past several years, corn commodity prices have been highly volatile, but Monsanto has delivered relatively consistent business growth.

• Monsanto is targeting at least a doubling of ongoing earnings per share by fiscal year 2019. A strong US order book, pricing strength in germplasm, new product launches, and ongoing operating expense discipline will be key 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	**VERY BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk 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
CF Industries	13.2	1.0	93.1%
Compass Minerals	16.6	2.2	105.3%
Potash Corp	16.1	1.8	99.6%
Scotts Miracle-Gro	18.2	1.8	105.2%
Peer Median	16.3	1.8	102.4%
Monsanto	**20.0**	**1.9**	**113.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-13	Aug-14	Aug-15
Revenue	14,861	15,855	16,093
Revenue, YoY%	10.0%	6.7%	1.5%
Operating Income	3,570	4,075	4,465
Operating Margin %	24.0%	25.7%	27.7%
Net Income	2,471	2,727	3,081
Net Income Margin %	16.6%	17.2%	19.1%
Diluted EPS	4.58	5.20	5.90
Diluted EPS, YoY %	21.3%	13.5%	13.5%
Free Cash Flow (CFO-capex)	1,900	1,633	2,493
Free Cash Flow Margin %	12.8%	10.3%	15.5%

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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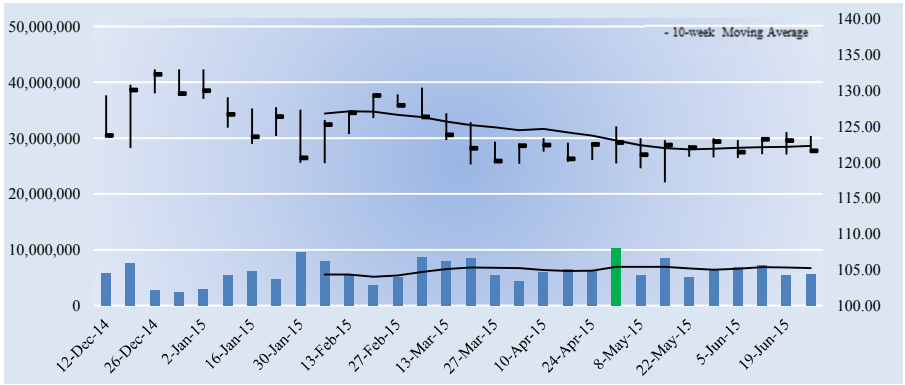
Praxair PX FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$110.00	$88.00 - $132.00	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 buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**GOOD**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**MODEST**
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	**122.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$35,940
Avg Weekly Vol (30 wks)	6,178
30-week Range (USD)	117.19 - 132.95
Valuentum Sector	Materials
5-week Return	0.3%
13-week Return	0.5%
30-week Return	-6.0%
Dividend Yield %	2.4%
Dividends per Share	2.86
Forward Dividend Payout Ratio	47.0%
Est. Normal Diluted EPS	7.96
P/E on Est. Normal Diluted EPS	15.3
Est. Normal EBITDA	4,733
Forward EV/EBITDA	11.7
EV/Est. Normal EBITDA	9.5
Forward Revenue Growth (5-yr)	3.9%
Forward EPS Growth (5-yr)	12.4%

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

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 13.9% during the past three years.

• Praxair is the largest industrial gas company in the Americas 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 coatings.

• 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 15.7% in coming years. Total debt-to-EBITDA was 2.4 last year, while debt-to-book capitalization stood at 62.2%.

• 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).

Relative Valuation

	Forward P/E	PEG	Price / FV
Dow Chemical	17.1	1.6	112.1%
DuPont	16.5	2.3	104.1%
Ecolab	25.4	2.0	116.9%
PPG Industries	20.4	1.4	104.4%
Peer Median	18.8	1.8	108.2%
Praxair	**20.0**	**1.7**	**110.5%**

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

Returns Summary

	3-year Historical Average
Return on Equity	29.2%
Return on Assets	9.5%
ROIC, with goodwill	11.4%
ROIC, without goodwill	13.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	11,925	12,273	11,537
Revenue, YoY%	6.2%	2.9%	-6.0%
Operating Income	2,625	2,737	2,746
Operating Margin %	22.0%	22.3%	23.8%
Net Income	1,755	1,694	1,788
Net Income Margin %	14.7%	13.8%	15.5%
Diluted EPS	5.87	5.73	6.08
Diluted EPS, YoY %	4.7%	-2.4%	6.1%
Free Cash Flow (CFO-capex)	897	1,179	1,422
Free Cash Flow Margin %	7.5%	9.6%	12.3%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	9,258
Net Debt	9,132
Total Debt/EBITDA	2.4
Net Debt/EBITDA	2.3
EBITDA/Interest	22.1
Current Ratio	1.1
Quick Ratio	0.8

NMF = Not Meaningful

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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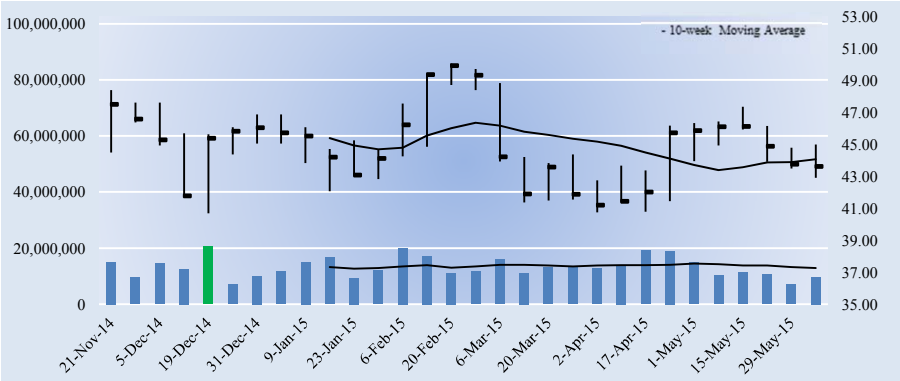
Rio Tinto RIO UNDERVALUED 0.8%

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$58.00	$44.00 - $73.00	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$81,095
Avg Weekly Vol (30 wks)	13,192
30-week Range (USD)	40.7 - 50.07
Valuentum Sector	Materials
5-week Return	-5.1%
13-week Return	-0.9%
30-week Return	-9.4%
Dividend Yield %	5.3%
Dividends per Share	2.32
Forward Dividend Payout Ratio	80.0%
Est. Normal Diluted EPS	3.46
P/E on Est. Normal Diluted EPS	12.6
Est. Normal EBITDA	13,309
Forward EV/EBITDA	8.2
EV/Est. Normal EBITDA	7.0
Forward Revenue Growth (5-yr)	1.1%
Forward EPS Growth (5-yr)	2.1%

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

Returns Summary

	3-year Historical Average
Return on Equity	3.5%
Return on Assets	1.5%
ROIC, with goodwill	18.3%
ROIC, without goodwill	18.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	25,219
Net Debt	12,639
Total Debt/EBITDA	1.4
Net Debt/EBITDA	0.7
EBITDA/Interest	27.5
Current Ratio	1.7
Quick Ratio	1.3

NMF = Not Meaningful

Investment Highlights

• 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. Rio is based in London, the United Kingdom.

• 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. Rio's operational focus is noteworthy.

• 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. Rio's net debt position isn't great at ~$13 billion, but it has fallen from ~$22 billion in mid-2013.

• 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.

• Iron ore and copper prices have been under pressure as of late, and Rio Tinto has not been spared the pain. However, the company has been preparing for such a downswing for some time, and it is better positioned than most of its peers as a result.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**WEAK**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**VERY BEARISH**
Relative Strength	**NEUTRAL**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
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
BHP Billiton	20.5	NMF	91.3%
Cliffs Natural Resources	-29.1	NMF	105.8%
Freeport McMoRan	33.5	NMF	93.6%
Vale	-9.0	NMF	93.0%
Peer Median	5.8	NMF	93.3%
Rio Tinto	**15.1**	**1.7**	**75.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	51,171	47,664	41,182
Revenue, YoY%	0.4%	-6.9%	-13.6%
Operating Income	14,119	13,007	7,181
Operating Margin %	27.6%	27.3%	17.4%
Net Income	3,665	6,471	5,388
Net Income Margin %	7.2%	13.6%	13.1%
Diluted EPS	1.97	3.48	2.90
Diluted EPS, YoY %	-222.3%	76.5%	-16.7%
Free Cash Flow (CFO-capex)	2,077	6,124	5,302
Free Cash Flow Margin %	4.1%	12.8%	12.9%

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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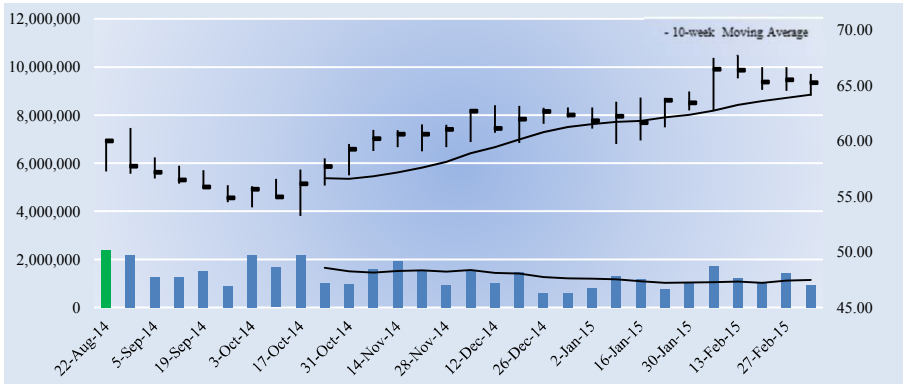
Scotts Miracle-Gro SMG FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$62.00	$48.00 - $76.00	MID-CAP CORE	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)	$4,091
Avg Weekly Vol (30 wks)	1,340
30-week Range (USD)	53.23 - 67.79
Valuentum Sector	Materials
5-week Return	2.3%
13-week Return	6.3%
30-week Return	13.4%
Dividend Yield %	2.8%
Dividends per Share	1.80
Forward Dividend Payout Ratio	50.3%
Est. Normal Diluted EPS	4.30
P/E on Est. Normal Diluted EPS	15.2
Est. Normal EBITDA	539
Forward EV/EBITDA	10.3
EV/Est. Normal EBITDA	8.9
Forward Revenue Growth (5-yr)	3.5%
Forward EPS Growth (5-yr)	13.9%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.4%
Return on Assets	7.3%
ROIC, with goodwill	15.8%
ROIC, without goodwill	20.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	784
Net Debt	695
Total Debt/EBITDA	1.9
Net Debt/EBITDA	1.7
EBITDA/Interest	8.8
Current Ratio	1.7
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• Scotts Miracle-Gro is a leading manufacturer of branded consumer lawn and garden products. Its brands--including Scotts, Songbird, Miracle-Gro, Ortho, Roundup, and Osmocote--benefit from tremendous brand awareness. The company also operates the second-largest residential lawn care service business in the US.

• The company benefits from a number of positive trends. Gardening remains the No. 1 outdoor leisure activity, and younger consumers continue to be interested in the category. Consumer engagement and retailer support play into Scotts Miracle-Gro's favor.

• 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. Though it won't see much adjusted gross margin improvement in the near term, it expects to achieve significant savings by 2016.

• During fiscal 2015, management is looking for company-wide net sales growth in the 4%-5% range thanks primarily to acquisitive expansion. Scotts Miracle-Gro expects adjusted earnings in the range of $3.40-$3.60 per share for the year. We think such ranges are achievable.

• 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 for a large portion of its sales.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
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	**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
CF Industries	13.2	1.0	93.1%
Compass Minerals	16.6	2.2	105.3%
Monsanto	20.0	1.9	113.6%
Potash Corp	16.1	1.8	99.6%
Peer Median	16.3	1.8	102.5%
Scotts Miracle-Gro	**18.2**	**1.8**	**105.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-13	Sep-14	Sep-15
Revenue	2,817	2,841	2,981
Revenue, YoY%	-0.3%	0.9%	4.9%
Operating Income	321	351	395
Operating Margin %	11.4%	12.3%	13.2%
Net Income	161	166	224
Net Income Margin %	5.7%	5.8%	7.5%
Diluted EPS	2.58	2.64	3.58
Diluted EPS, YoY %	41.3%	2.6%	35.3%
Free Cash Flow (CFO-capex)	282	154	230
Free Cash Flow Margin %	10.0%	5.4%	7.7%

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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Technology

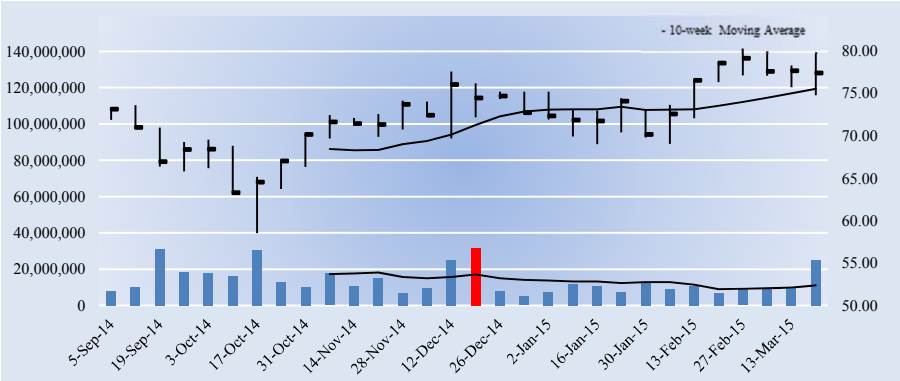
Adobe Systems ADBE FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$82.00	$66.00 - $98.00	LARGE-CAP BLEND	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)	$39,336
Avg Weekly Vol (30 wks)	13,917
30-week Range (USD)	58.51 - 80.3
Valuentum Sector	Information Technology
5-week Return	0.9%
13-week Return	3.5%
30-week Return	7.4%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	3.87
P/E on Est. Normal Diluted EPS	20.0
Est. Normal EBITDA	3,342
Forward EV/EBITDA	19.7
EV/Est. Normal EBITDA	11.1
Forward Revenue Growth (5-yr)	16.8%
Forward EPS Growth (5-yr)	58.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	7.2%
Return on Assets	4.7%
ROIC, with goodwill	16.7%
ROIC, without goodwill	121.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,514
Net Debt	-2,225
Total Debt/EBITDA	2.0
Net Debt/EBITDA	NMF
EBITDA/Interest	12.5
Current Ratio	1.8
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• 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.

• You're not going to find many business models as lucrative as Adobe's. More than 70% of its revenue comes from recurring sources, and the mix continues to increase. Asset-light operations contribute to significant cash-flow generation.

• 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. We love this recurring, subscription-based model.

• The company's cash-rich business model generates excess capital to be used for share repurchases. In January 2015, the firm approved a new buyback program to purchase up to $2 billion of shares through the end of fiscal 2017.

• 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	**MEDIUM**
Growth	**AGGRESSIVE**
Technical Evaluation	**BULLISH**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
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
F5 Networks	18.1	1.5	86.8%
Microsoft	17.8	1.4	76.6%
Oracle	15.3	1.6	85.4%
Salesforce.com	97.1	NMF	102.6%
Peer Median	18.0	1.5	86.1%
Adobe Systems	**36.8**	**2.5**	**94.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Nov-13	Nov-14	Nov-15
Revenue	4,055	4,147	4,927
Revenue, YoY%	-7.9%	2.3%	18.8%
Operating Income	449	433	1,512
Operating Margin %	11.1%	10.4%	30.7%
Net Income	290	268	1,079
Net Income Margin %	7.2%	6.5%	21.9%
Diluted EPS	0.56	0.53	2.10
Diluted EPS, YoY %	-65.9%	-6.5%	298.0%
Free Cash Flow (CFO-capex)	963	1,139	1,467
Free Cash Flow Margin %	23.8%	27.5%	29.8%

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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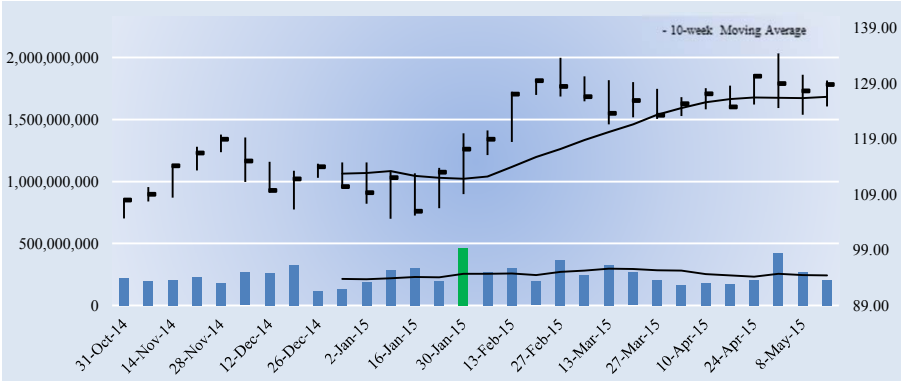
Apple AAPL FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$148.00	$121.00 - $175.00	MEGA-CAP VALUE	Information Technology	Computer Hardware

Apple's equity price continues to defy gravity, and the company is one of the highest-rated Economic Castles 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).

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)	**BEARISH**
Near-term Technical Support, 10-week MA	**127.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$788,415
Avg Weekly Vol (30 wks)	246,536
30-week Range (USD)	104.63 - 134.54
Valuentum Sector	Information Technology
5-week Return	0.3%
13-week Return	1.0%
30-week Return	22.8%
Dividend Yield %	1.6%
Dividends per Share	2.08
Forward Dividend Payout Ratio	22.9%
Est. Normal Diluted EPS	10.54
P/E on Est. Normal Diluted EPS	12.2
Est. Normal EBITDA	91,734
Forward EV/EBITDA	8.1
EV/Est. Normal EBITDA	7.3
Forward Revenue Growth (5-yr)	8.8%
Forward EPS Growth (5-yr)	13.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	35.7%
Return on Assets	22.0%
ROIC, with goodwill	176.6%
ROIC, without goodwill	189.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	35,295
Net Debt	-119,944
Total Debt/EBITDA	0.6
Net Debt/EBITDA	NMF
EBITDA/Interest	157.4
Current Ratio	1.1
Quick Ratio	2.9

NMF = Not Meaningful

Investment Highlights

• 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 we expect it to continue to take market share. International sales account for ~70% of its business.

• Apple's first quarter 2015 results were fantastic. Strength in the iPhone, Mac and App Store drove the company to its best March quarter ever, with revenue and EPS up 27% and 40%, respectively. The firm generated an incredible $19.1 billion in cash flow from operations in the period.

• Apple continues to impress. The firm's rollout of future iterations of the iPhone should propel its fundamentals 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. Perhaps only a dream five years ago, the new Apple Watch should materially boost 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. Activist investor Carl Icahn wants Apple to do more, however, and CEO Tim Cook may oblige.

• Revenue and earnings have been on a tear at Apple, but investors should pay close attention to the firm's gross margin. Though the measure of profitability advanced in the first calendar quarter of 2015, pricing and cost pressures may be unavoidable.

Relative Valuation

	Forward P/E	PEG	Price / FV
BlackBerry	-67.8	NMF	79.0%
Cray	28.5	1.2	122.2%
Hewlett-Packard	9.6	1.7	98.4%
IBM	10.1	2.1	96.3%
Peer Median	9.9	1.7	97.4%
Apple	**14.2**	**1.5**	**87.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-13	Sep-14	Sep-15
Revenue	170,910	182,795	231,601
Revenue, YoY%	9.2%	7.0%	26.7%
Operating Income	48,999	52,503	72,338
Operating Margin %	28.7%	28.7%	31.2%
Net Income	37,037	39,510	54,481
Net Income Margin %	21.7%	21.6%	23.5%
Diluted EPS	5.68	6.45	9.08
Diluted EPS, YoY %	-9.9%	13.6%	40.7%
Free Cash Flow (CFO-capex)	44,590	49,900	59,061
Free Cash Flow Margin %	26.1%	27.3%	25.5%

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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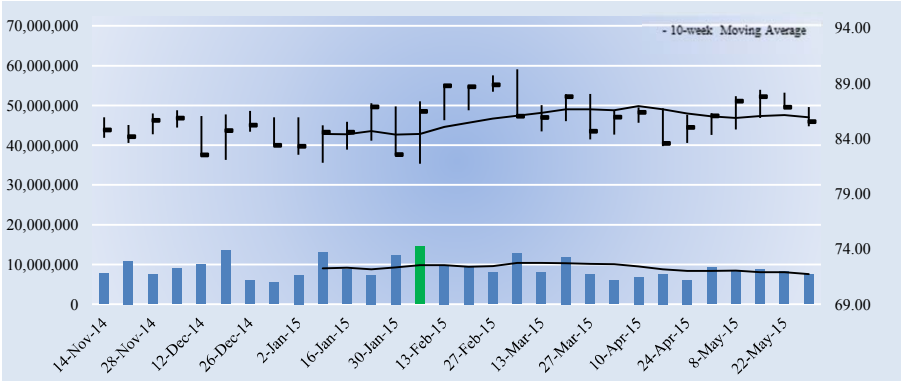
Automatic Data Processing ADP FAIRLY VALUED

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).

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 BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**DETERIORATING**
Near-term Technical Resistance, 10-wk 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.

Company Vitals

Market Cap (USD)	$41,310
Avg Weekly Vol (30 wks)	8,979
30-week Range (USD)	81.71 - 90.23
Valuentum Sector	Information Technology
5-week Return	0.1%
13-week Return	-3.8%
30-week Return	1.4%
Dividend Yield %	2.3%
Dividends per Share	1.96
Forward Dividend Payout Ratio	65.8%
Est. Normal Diluted EPS	3.55
P/E on Est. Normal Diluted EPS	24.1
Est. Normal EBITDA	2,914
Forward EV/EBITDA	8.1
EV/Est. Normal EBITDA	6.9
Forward Revenue Growth (5-yr)	2.7%
Forward EPS Growth (5-yr)	5.2%

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

Investment Highlights

• 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'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.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Insperity	24.5	1.8	99.3%
Korn/Ferry	17.0	2.4	97.2%
Manpower	16.5	2.7	100.8%
Paychex	26.4	3.8	114.9%
Peer Median	20.7	2.5	100.0%
Automatic Data Processing	**28.7**	**3.6**	**91.0%**

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

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	11,310	12,207	11,132
Revenue, YoY%	6.0%	7.9%	-8.8%
Operating Income	1,619	1,849	2,107
Operating Margin %	14.3%	15.1%	18.9%
Net Income	1,364	1,503	1,425
Net Income Margin %	12.1%	12.3%	12.8%
Diluted EPS	2.80	3.11	2.98
Diluted EPS, YoY %	-0.7%	11.1%	-4.2%
Free Cash Flow (CFO-capex)	1,253	1,440	1,402
Free Cash Flow Margin %	11.1%	11.8%	12.6%

In Millions of USD (except for per share items)

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

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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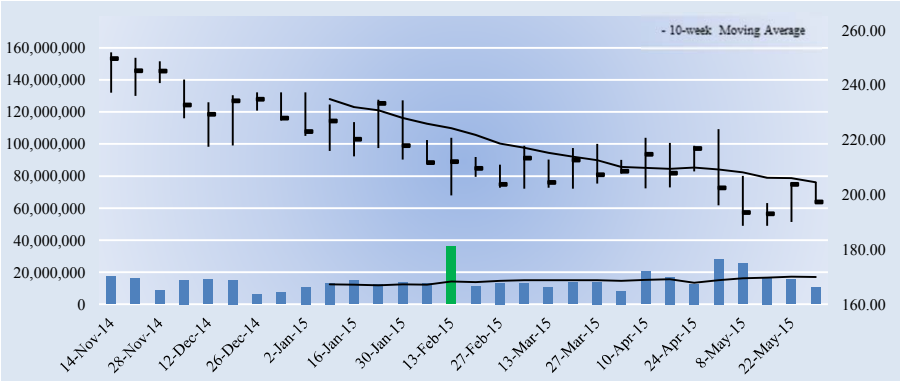
Baidu BIDU UNDERVALUED 2.3%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$253.00	$202.00 - $304.00	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).

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**MEDIUM**
Growth	**AGGRESSIVE**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**205.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$69,482
Avg Weekly Vol (30 wks)	14,824
30-week Range (USD)	188.6 - 251.99
Valuentum Sector	Information Technology
5-week Return	-9.7%
13-week Return	-3.3%
30-week Return	-16.8%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	12.62
P/E on Est. Normal Diluted EPS	15.6
Est. Normal EBITDA	5,897
Forward EV/EBITDA	20.6
EV/Est. Normal EBITDA	10.9
Forward Revenue Growth (5-yr)	25.6%
Forward EPS Growth (5-yr)	25.3%

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

Investment Highlights

• Baidu provides 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 continues to execute on its vast growth opportunities and is investing to carry the momentum forward. The Internet is going mobile, and in the first quarter of 2015, ~50% of the firm's revenue came from mobile (up significantly from previous periods).

• 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.

• Very few management teams are more excited than Baidu's. The executive suite is working on building an ecosystem to drive more 'closed loop transactions.' Exploiting the huge growth potential ahead is a key priority.

Relative Valuation

	Forward P/E	PEG	Price / FV
Facebook	39.2	2.0	76.1%
Google	19.1	1.3	80.3%
WebMD	36.1	2.6	112.0%
Yahoo	54.5	NMF	99.9%
Peer Median	37.6	2.0	90.1%
Baidu	**28.3**	**1.3**	**78.0%**

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

Returns Summary

	3-year Historical Average
Return on Equity	36.6%
Return on Assets	20.8%
ROIC, with goodwill	58.7%
ROIC, without goodwill	103.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	5,271	7,908	10,944
Revenue, YoY%	47.5%	50.0%	38.4%
Operating Income	1,847	2,064	2,516
Operating Margin %	35.0%	26.1%	23.0%
Net Income	1,736	2,126	2,463
Net Income Margin %	32.9%	26.9%	22.5%
Diluted EPS	4.95	6.04	6.98
Diluted EPS, YoY %	3.4%	21.9%	15.6%
Free Cash Flow (CFO-capex)	1,669	2,081	2,115
Free Cash Flow Margin %	31.7%	26.3%	19.3%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,171
Net Debt	-5,192
Total Debt/EBITDA	1.7
Net Debt/EBITDA	NMF
EBITDA/Interest	24.7
Current Ratio	3.2
Quick Ratio	3.0

NMF = Not Meaningful

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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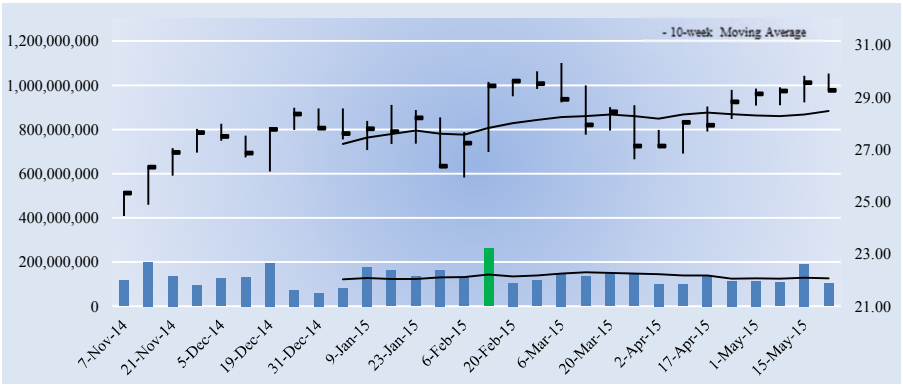
Cisco CSCO FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$36.00	$29.00 - $43.00	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).

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	**28.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$154,522
Avg Weekly Vol (30 wks)	133,581
30-week Range (USD)	24.45 - 30.31
Valuentum Sector	Information Technology
5-week Return	3.9%
13-week Return	-1.2%
30-week Return	19.7%
Dividend Yield %	2.9%
Dividends per Share	0.84
Forward Dividend Payout Ratio	38.2%
Est. Normal Diluted EPS	2.45
P/E on Est. Normal Diluted EPS	12.0
Est. Normal EBITDA	17,760
Forward EV/EBITDA	7.5
EV/Est. Normal EBITDA	6.9
Forward Revenue Growth (5-yr)	3.6%
Forward EPS Growth (5-yr)	12.8%

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

Investment Highlights

• 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. It was founded in 1984 and is headquartered in California.

• Cisco continues to use the same formula that has worked for years: integrate its various products 'in every category into architectures and solutions that deliver real outcomes.' New CEO Chuck Robbins should pick up where long-time CEO John Chambers left off.

• We like that Cisco is aggressively buying back stock. In fact, the firm intends to return a minimum of 50% of annual free cash flow to shareholders via dividends and buybacks. Since its share repurchase program began through the end of April 2015, the company has bought back and retired 4.4 billion shares of stock.

• 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 and meet the changing demands of customers.

• Cisco had an incredible $54.4 billion in cash and cash equivalents at the end of its fiscal third quarter of 2015. Such a cash hoard gives it tremendous financial flexibility to pursue value-creating acquisitions and/or significantly increase the dividend.

Relative Valuation

	Forward P/E	PEG	Price / FV
Finisar	20.4	1.8	94.2%
Juniper Networks	16.1	NMF	89.0%
Nokia	20.4	3.8	80.2%
Riverbed Technology	18.4	1.6	100.0%
Peer Median	19.4	1.8	91.6%
Cisco	**13.3**	**1.5**	**81.3%**

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

Returns Summary

	3-year Historical Average
Return on Equity	16.0%
Return on Assets	9.0%
ROIC, with goodwill	26.4%
ROIC, without goodwill	56.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jul-13	Jul-14	Jul-15
Revenue	48,607	47,142	48,981
Revenue, YoY%	5.5%	-3.0%	3.9%
Operating Income	11,301	9,763	14,011
Operating Margin %	23.2%	20.7%	28.6%
Net Income	9,983	7,853	11,428
Net Income Margin %	20.5%	16.7%	23.3%
Diluted EPS	1.86	1.49	2.20
Diluted EPS, YoY %	24.7%	-19.9%	48.1%
Free Cash Flow (CFO-capex)	11,734	11,057	12,403
Free Cash Flow Margin %	24.1%	23.5%	25.3%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	20,909
Net Debt	-31,165
Total Debt/EBITDA	1.7
Net Debt/EBITDA	NMF
EBITDA/Interest	21.6
Current Ratio	3.4
Quick Ratio	3.1

NMF = Not Meaningful

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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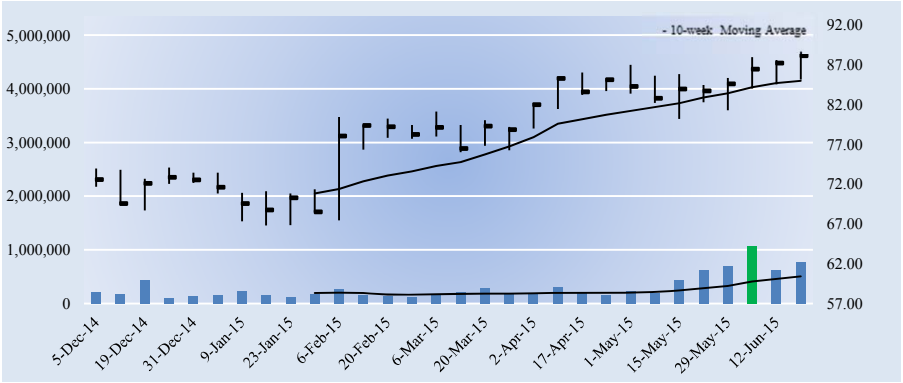
Corporate Executive Board CEB FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$86.00	$69.00 - $103.00	MID-CAP CORE	Information Technology	Management Services

Corporate Executive Board equips senior leaders with insight and solutions.

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)	$2,999
Avg Weekly Vol (30 wks)	302
30-week Range (USD)	66.8 - 88.69
Valuentum Sector	Information Technology
5-week Return	5.4%
13-week Return	11.3%
30-week Return	20.5%
Dividend Yield %	1.7%
Dividends per Share	1.50
Forward Dividend Payout Ratio	40.4%
Est. Normal Diluted EPS	5.06
P/E on Est. Normal Diluted EPS	17.4
Est. Normal EBITDA	402
Forward EV/EBITDA	11.0
EV/Est. Normal EBITDA	8.4
Forward Revenue Growth (5-yr)	8.2%
Forward EPS Growth (5-yr)	34.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	23.3%
Return on Assets	3.0%
ROIC, with goodwill	9.3%
ROIC, without goodwill	16.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	506
Net Debt	391
Total Debt/EBITDA	2.4
Net Debt/EBITDA	1.9
EBITDA/Interest	11.4
Current Ratio	0.7
Quick Ratio	0.6

NMF = Not Meaningful

Investment Highlights

• Corporate Executive Board is a member-based advisory company that combines the best practices of thousands of member companies with research methodologies and human capital analytics to equip senior leaders with insight and solutions. The CEB member network includes 16,000+ executives and the vast majority of top companies globally.

• CEB operates across five advice-dependent functions: CHROs and human resources; CFOs, CPOs, and Finance; GCs and Legal/Compliance; CSOs and Sales/Marketing; CIOs and Information Technology. The Americas accounts for about two thirds of revenue.

• One of the most attractive attributes of Corporate Executive Board is its loyal blue-chip client base. The firm has ~97% of the Fortune 100, ~89% of the Fortune 500, and ~85% of FTSE 100. The top 50 clients account for less than 10% of combined revenue.

• The firm's business model is aligned to key long-term trends, including increasing corporate complexity, rising knowledge work and workers, multiplying information flows, and heightened connectivity and empowerment. Growth continues to be robust.

• CEB has an $8.8+ billion total addressable market opportunity, with most of that coming from the large corporate sector. The company continues to be the most valuable resource for leaders.

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	**NEUTRAL**
Relative Strength	**STRONG**
Money Flow Index (MFI)	**OVERBOUGHT**
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
Booz Allen	15.8	3.2	114.3%
Corrections Corp	12.8	1.5	100.7%
FTI Consulting	20.2	1.5	83.6%
Huron Consulting	18.0	2.0	91.9%
Peer Median	16.9	1.7	96.3%
Corporate Executive Board	**23.7**	**1.7**	**102.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	820	909	960
Revenue, YoY%	31.7%	10.8%	5.6%
Operating Income	125	138	234
Operating Margin %	15.2%	15.2%	24.4%
Net Income	32	51	126
Net Income Margin %	3.9%	5.6%	13.1%
Diluted EPS	0.94	1.50	3.72
Diluted EPS, YoY %	-14.0%	59.6%	147.2%
Free Cash Flow (CFO-capex)	122	147	159
Free Cash Flow Margin %	14.8%	16.2%	16.5%

In Millions of USD (except for per share items)

Structure of the Management Services Industry — GOOD

The management services industry primarily comprises of advisory and consulting firms. The reputation and performance track record of constituents is necessary to drive a high level of repeat/referral business and attract/retain top professionals. Most industry constituents produce consistent cash flows and require very little capital spending to maintain operations. Still, firms remain exposed to capital market changes, including M&A activity and legal/regulatory requirements, which may impact demand for their business and utilization of professionals. We generally like the structure of the group.

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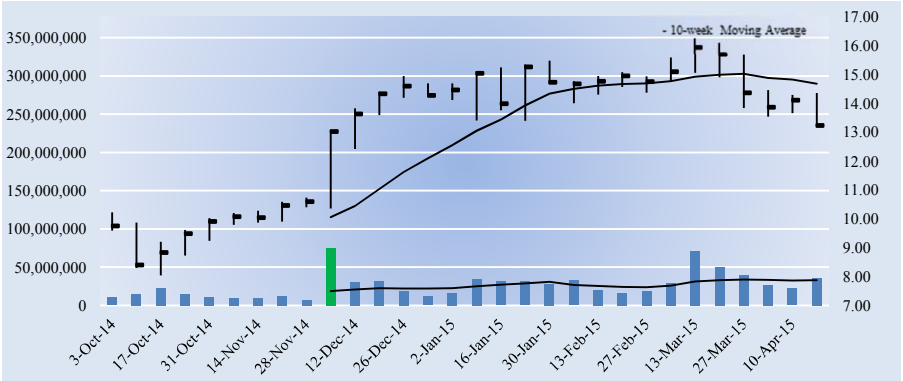
Cypress Semi CY FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$13.00	$9.00 - $17.00	MID-CAP GROWTH	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).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**AGGRESSIVE**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Resistance, 10-wk MA	**15.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$2,237
Avg Weekly Vol (30 wks)	26,240
30-week Range (USD)	8.04 - 16.25
Valuentum Sector	Information Technology
5-week Return	-17.8%
13-week Return	-6.4%
30-week Return	32.4%
Dividend Yield %	3.3%
Dividends per Share	0.44
Forward Dividend Payout Ratio	69.1%
Est. Normal Diluted EPS	1.02
P/E on Est. Normal Diluted EPS	13.0
Est. Normal EBITDA	271
Forward EV/EBITDA	12.9
EV/Est. Normal EBITDA	8.7
Forward Revenue Growth (5-yr)	27.1%
Forward EPS Growth (5-yr)	61.7%

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

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. We expect the firm's return on invested capital (excluding goodwill) to expand to 71.6% from 36.8% during the next two 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Advanced Micro Devices	-10.2	NMF	129.0%
Intel	14.8	1.8	85.4%
STMicroelectronics	22.2	1.5	83.5%
Texas Instruments	21.0	2.4	108.2%
Peer Median	17.9	1.8	96.8%
Cypress Semi	**20.8**	**2.0**	**101.8%**

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

Returns Summary

	3-year Historical Average
Return on Equity	-8.8%
Return on Assets	-2.3%
ROIC, with goodwill	25.0%
ROIC, without goodwill	31.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	723	726	1,749
Revenue, YoY%	-6.1%	0.4%	141.1%
Operating Income	-43	22	130
Operating Margin %	-5.9%	3.0%	7.5%
Net Income	-46	18	108
Net Income Margin %	-6.4%	2.5%	6.2%
Diluted EPS	-0.31	0.11	0.64
Diluted EPS, YoY %	108.3%	-134.0%	500.2%
Free Cash Flow (CFO-capex)	31	82	43
Free Cash Flow Margin %	4.3%	11.4%	2.5%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	243
Net Debt	124
Total Debt/EBITDA	3.6
Net Debt/EBITDA	1.8
EBITDA/Interest	11.9
Current Ratio	1.1
Quick Ratio	0.7

NMF = Not Meaningful

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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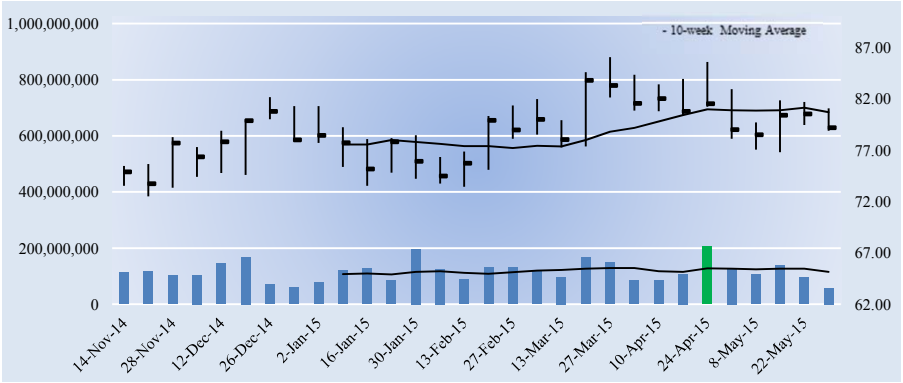
Facebook FB FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$104.00	$78.00 - $130.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

It's simply unfair to lump Facebook in with other social media companies.

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)	$210,962
Avg Weekly Vol (30 wks)	116,604
30-week Range (USD)	72.51 - 86.07
Valuentum Sector	Information Technology
5-week Return	-3.3%
13-week Return	0.2%
30-week Return	5.1%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	3.45
P/E on Est. Normal Diluted EPS	22.9
Est. Normal EBITDA	17,680
Forward EV/EBITDA	19.7
EV/Est. Normal EBITDA	11.3
Forward Revenue Growth (5-yr)	27.6%
Forward EPS Growth (5-yr)	35.3%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.1%
Return on Assets	3.8%
ROIC, with goodwill	13.2%
ROIC, without goodwill	39.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	233
Net Debt	-10,966
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	74.3
Current Ratio	9.6
Quick Ratio	9.0

NMF = Not Meaningful

Investment Highlights

• Facebook's mission is to make the world more open and connected. People use Facebook to stay in touch with friends and family, to learn about current events, and to share and express what matters to them. CEO Mark Zuckerberg is a true visionary, and his genius may not yet be fully on display.

• It's simply unfair to lump Facebook in with other social media companies. Unlike other startups, Facebook is generating billions in revenue and is turning a nice profit as it hauls in free cash flow. Long-term investors are taking notice.

• As global data coverage improves, the number of mobile monthly active users will 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	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**AGGRESSIVE**
Technical Evaluation	**BEARISH**
Relative Strength	**NEUTRAL**
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
Baidu	28.3	1.3	78.0%
Google	19.1	1.3	80.3%
WebMD	36.1	2.6	112.0%
Yahoo	54.5	NMF	99.9%
Peer Median	32.2	1.3	90.1%
Facebook	**39.2**	**2.0**	**76.1%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	7,872	12,466	17,041
Revenue, YoY%	54.7%	58.4%	36.7%
Operating Income	2,804	4,994	8,469
Operating Margin %	35.6%	40.1%	49.7%
Net Income	1,491	2,925	5,435
Net Income Margin %	18.9%	23.5%	31.9%
Diluted EPS	0.59	1.10	2.02
Diluted EPS, YoY %	3909.6%	85.4%	84.0%
Free Cash Flow (CFO-capex)	2,860	3,626	4,941
Free Cash Flow Margin %	36.3%	29.1%	29.0%

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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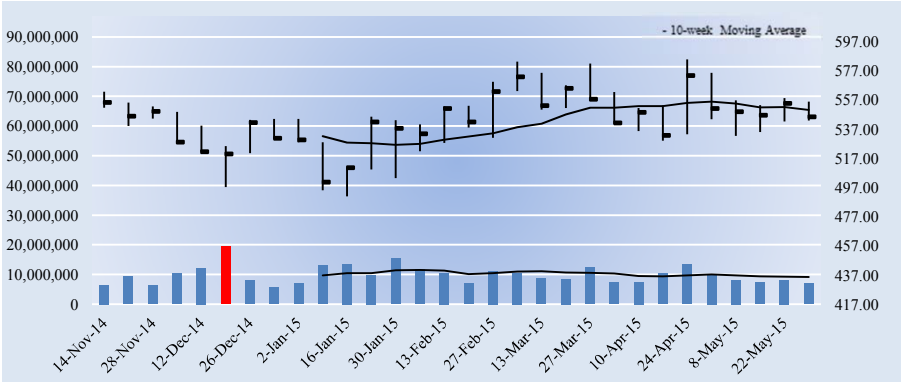
Google GOOG FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$679.00	$543.00 - $815.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

Google is a holding in the portfolio of the Best Ideas Newsletter.

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)	$374,673
Avg Weekly Vol (30 wks)	9,861
30-week Range (USD)	490.91 - 584.7
Valuentum Sector	Information Technology
5-week Return	-4.8%
13-week Return	-3.8%
30-week Return	-1.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	39.89
P/E on Est. Normal Diluted EPS	13.7
Est. Normal EBITDA	41,426
Forward EV/EBITDA	10.6
EV/Est. Normal EBITDA	7.6
Forward Revenue Growth (5-yr)	16.0%
Forward EPS Growth (5-yr)	20.8%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.6%
Return on Assets	11.5%
ROIC, with goodwill	40.7%
ROIC, without goodwill	61.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	5,237
Net Debt	-59,158
Total Debt/EBITDA	0.2
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	4.8
Quick Ratio	4.5

NMF = Not Meaningful

Investment Highlights

• 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 well over $600 each.

• 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.

• Google continues to grow revenue at a healthy pace. The firm is pleased with the momentum it is seeing from its mobile division, particularly within mobile advertising. The mobile Internet space will be key for the company moving forward, but Facebook and Twitter are not backing down.

• Google has a strong future in search—both on the desktop and via mobile devices. The company recently sold 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 has three different stock classes with two different tickers. GOOG represents Class A stock, and GOOGL represents the non-voting Class C stock that was created by a stock split in 2014 in order for Google founders to maintain majority control.

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**AGGRESSIVE**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**IMPROVING**
Near-term Technical Resistance, 10-wk MA	**550.00**

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	28.3	1.3	78.0%
Facebook	39.2	2.0	76.1%
WebMD	36.1	2.6	112.0%
Yahoo	54.5	NMF	99.9%
Peer Median	37.6	2.0	88.9%
Google	**19.1**	**1.3**	**80.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	59,825	66,001	87,055
Revenue, YoY%	19.2%	10.3%	31.9%
Operating Income	13,966	16,496	23,296
Operating Margin %	23.3%	25.0%	26.8%
Net Income	12,027	14,029	19,659
Net Income Margin %	20.1%	21.3%	22.6%
Diluted EPS	17.77	20.42	28.61
Diluted EPS, YoY %	8.6%	14.9%	40.1%
Free Cash Flow (CFO-capex)	10,408	11,002	16,089
Free Cash Flow Margin %	17.4%	16.7%	18.5%

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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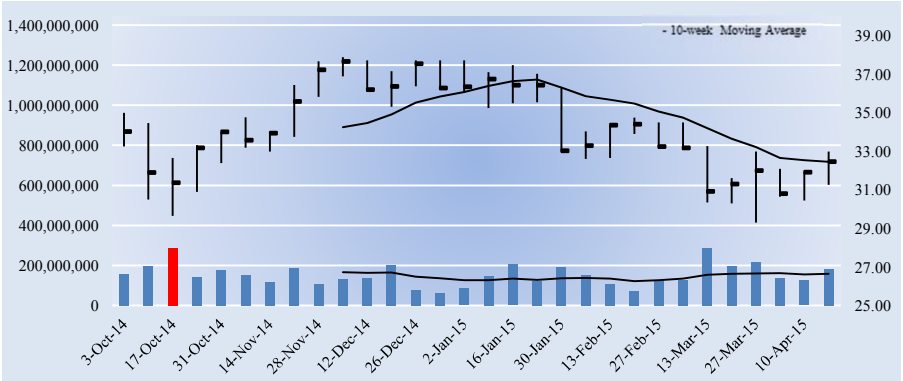
Intel INTC FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$38.00	$30.00 - $46.00	LARGE-CAP VALUE	Information Technology	Broad Line Semiconductors

Intel may be looking to make a big acquisition.

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)	$164,168
Avg Weekly Vol (30 wks)	153,877
30-week Range (USD)	29.31 - 37.9
Valuentum Sector	Information Technology
5-week Return	5.0%
13-week Return	-10.1%
30-week Return	-4.7%
Dividend Yield %	3.0%
Dividends per Share	0.96
Forward Dividend Payout Ratio	43.8%
Est. Normal Diluted EPS	2.60
P/E on Est. Normal Diluted EPS	12.5
Est. Normal EBITDA	25,935
Forward EV/EBITDA	7.2
EV/Est. Normal EBITDA	6.3
Forward Revenue Growth (5-yr)	3.2%
Forward EPS Growth (5-yr)	5.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.3%
Return on Assets	12.6%
ROIC, with goodwill	24.5%
ROIC, without goodwill	31.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	13,711
Net Debt	-343
Total Debt/EBITDA	0.6
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	1.7
Quick Ratio	1.2

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. The company has been rumored to be interested in buying either Altera or Broadcom.

• 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 21.6% in coming years. Total debt-to-EBITDA was 0.6 last year, while debt-to-book capitalization stood at 19.7%. The firm's dividend growth potential is solid, in our opinion.

• 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. Look for the firm to dislodge Qualcomm in a number of new wins.

• Intel recently decided to scale back its capital spending, and we think the move offers nice support to our cash-flow-derived intrinsic value estimate. Its gross margins have been holding up well, and server growth has been solid.

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	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BEARISH**
Near-term Technical Support, 10-week MA	**32.00**

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	-10.2	NMF	129.0%
Avago Tech	14.3	1.9	108.8%
STMicroelectronics	22.2	1.5	83.5%
Texas Instruments	21.0	2.4	108.2%
Peer Median	17.7	1.9	108.5%
Intel	**14.8**	**1.8**	**85.4%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	52,708	55,870	56,038
Revenue, YoY%	-1.2%	6.0%	0.3%
Operating Income	12,531	15,642	14,768
Operating Margin %	23.8%	28.0%	26.4%
Net Income	9,620	11,704	10,970
Net Income Margin %	18.3%	20.9%	19.6%
Diluted EPS	1.89	2.31	2.19
Diluted EPS, YoY %	-11.5%	22.6%	-5.3%
Free Cash Flow (CFO-capex)	10,029	12,113	10,994
Free Cash Flow Margin %	19.0%	21.7%	19.6%

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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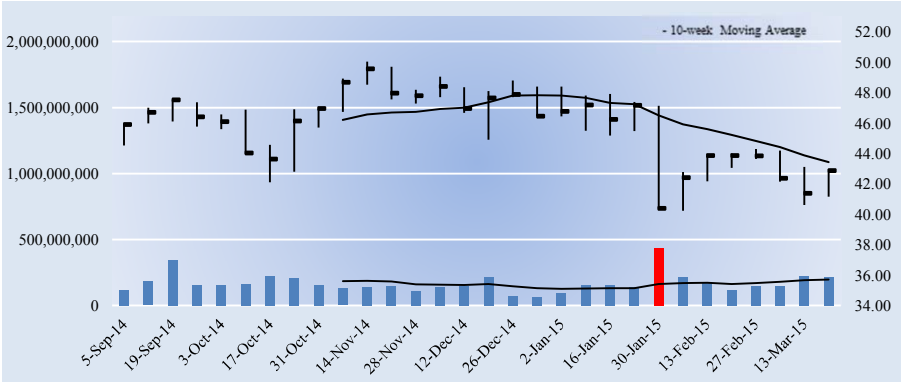
Microsoft MSFT UNDERVALUED 4.9%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$56.00	$45.00 - $67.00	MEGA-CAP VALUE	Information Technology	Software

Microsoft continues to have one of the strongest dividends on the market today.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$360,149
Avg Weekly Vol (30 wks)	170,183
30-week Range (USD)	40.23 - 50.04
Valuentum Sector	Information Technology
5-week Return	-2.5%
13-week Return	-11.4%
30-week Return	-5.6%
Dividend Yield %	2.9%
Dividends per Share	1.24
Forward Dividend Payout Ratio	51.4%
Est. Normal Diluted EPS	3.14
P/E on Est. Normal Diluted EPS	13.7
Est. Normal EBITDA	38,251
Forward EV/EBITDA	9.7
EV/Est. Normal EBITDA	7.8
Forward Revenue Growth (5-yr)	4.9%
Forward EPS Growth (5-yr)	7.2%

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

Returns Summary

	3-year Historical Average
Return on Equity	27.9%
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 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 can't scoop up its own shares fast enough through its massive buyback program. The firm floats debt with the best credit quality (Aaa), and we can't think of another firm with a better financial profile.

• 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 are underappreciated. Shares look cheap at current levels, while providing investors with a fantastic dividend growth opportunity.

• Microsoft is not a tech dinosaur. The company continues to reinvent itself. A case in point is that it will not use the Internet Explorer name for its main browser in Windows 10. We're expecting big things from Project Spartan.

• The firm sports a very nice dividend yield of 2.9%. We expect the firm to pay out about 51% of next year's earnings to shareholders as dividends. Its Dividend Cushion score is a remarkable 3+.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
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	**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
Adobe Systems	36.8	2.5	94.3%
F5 Networks	18.1	1.5	86.8%
Oracle	15.3	1.6	85.4%
Salesforce.com	97.1	NMF	102.6%
Peer Median	27.5	1.6	90.6%
Microsoft	**17.8**	**1.4**	**76.6%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	77,849	86,833	94,648
Revenue, YoY%	5.6%	11.5%	9.0%
Operating Income	26,764	27,886	25,052
Operating Margin %	34.4%	32.1%	26.5%
Net Income	21,863	22,074	20,104
Net Income Margin %	28.1%	25.4%	21.2%
Diluted EPS	2.58	2.63	2.41
Diluted EPS, YoY %	29.3%	1.8%	-8.2%
Free Cash Flow (CFO-capex)	24,576	26,746	22,345
Free Cash Flow Margin %	31.6%	30.8%	23.6%

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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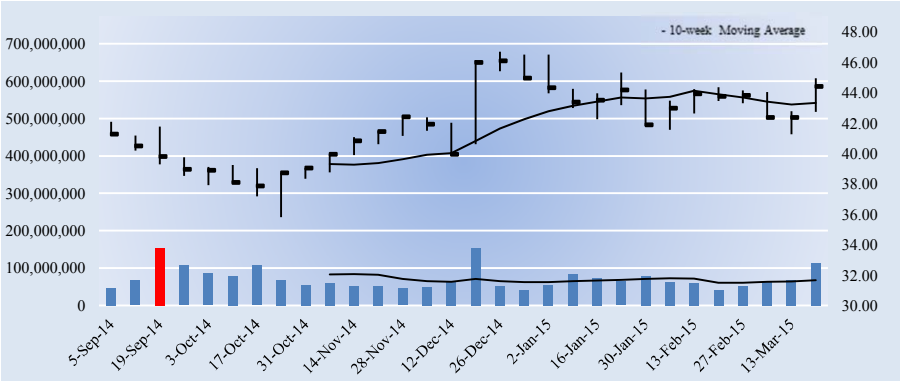
Oracle ORCL FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$52.00	$42.00 - $62.00	MEGA-CAP VALUE	Information Technology	Software

Though revenue growth at Oracle is subdued, free cash flow generation is not.

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)	$204,464
Avg Weekly Vol (30 wks)	71,760
30-week Range (USD)	35.82 - 46.7
Valuentum Sector	Information Technology
5-week Return	1.7%
13-week Return	-3.9%
30-week Return	6.8%
Dividend Yield %	1.4%
Dividends per Share	0.60
Forward Dividend Payout Ratio	20.7%
Est. Normal Diluted EPS	3.45
P/E on Est. Normal Diluted EPS	12.9
Est. Normal EBITDA	22,411
Forward EV/EBITDA	9.5
EV/Est. Normal EBITDA	8.5
Forward Revenue Growth (5-yr)	2.9%
Forward EPS Growth (5-yr)	11.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.2%
Return on Assets	13.2%
ROIC, with goodwill	37.8%
ROIC, without goodwill	167.3%

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 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 account for ~74%, ~14% and ~12% of total revenues, respectively.

• 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.

• 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.

• 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.

• Oracle has positioned itself nicely against Salesforce.com. Oracle is on its way to selling $1 billion of new SaaS and PaaS business in calendar 2015, matching Salesforce.com's target.

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	**VERY BULLISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**BULLISH**
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
Adobe Systems	36.8	2.5	94.3%
F5 Networks	18.1	1.5	86.8%
Microsoft	17.8	1.4	76.6%
Salesforce.com	97.1	NMF	102.6%
Peer Median	27.5	1.5	90.6%
Oracle	**15.3**	**1.6**	**85.4%**

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	38,543
Revenue, YoY%	0.2%	2.9%	0.7%
Operating Income	14,432	14,983	17,012
Operating Margin %	38.8%	39.1%	44.1%
Net Income	10,925	10,955	13,079
Net Income Margin %	29.4%	28.6%	33.9%
Diluted EPS	2.26	2.38	2.90
Diluted EPS, YoY %	15.1%	5.5%	21.8%
Free Cash Flow (CFO-capex)	13,574	14,341	16,246
Free Cash Flow Margin %	36.5%	37.5%	42.2%

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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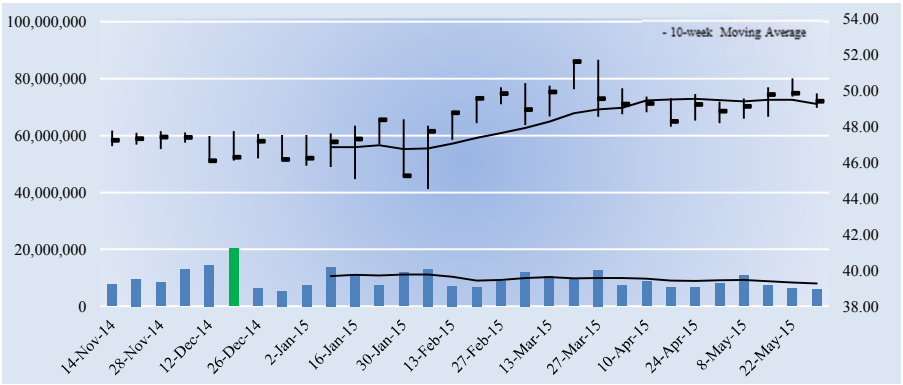
Paychex PAYX FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$43.00	$34.00 - $52.00	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 selling, or distribution (red bar).

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)	**DETERIORATING**
Near-term Technical Support, 10-week MA	**49.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$18,089
Avg Weekly Vol (30 wks)	9,475
30-week Range (USD)	44.52 - 51.72
Valuentum Sector	Information Technology
5-week Return	0.1%
13-week Return	-1.1%
30-week Return	4.1%
Dividend Yield %	3.1%
Dividends per Share	1.52
Forward Dividend Payout Ratio	81.3%
Est. Normal Diluted EPS	2.18
P/E on Est. Normal Diluted EPS	22.7
Est. Normal EBITDA	1,489
Forward EV/EBITDA	10.5
EV/Est. Normal EBITDA	9.0
Forward Revenue Growth (5-yr)	6.8%
Forward EPS Growth (5-yr)	7.6%

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

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 28% in coming years, and the firm had no debt as of last quarter. These two factors give the firm incredible financial flexibility moving forward. The excess cash makes it a candidate for aquisitions or continued dividend growth.

• 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.

Relative Valuation

	Forward P/E	PEG	Price / FV
Automatic Data Processing	28.7	3.6	91.0%
Insperity	24.5	1.8	99.3%
Korn/Ferry	17.0	2.4	97.2%
Manpower	16.5	2.7	100.8%
Peer Median	20.7	2.5	98.3%
Paychex	**26.4**	**3.8**	**114.9%**

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

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	May-13	May-14	May-15
Revenue	2,326	2,519	2,763
Revenue, YoY%	4.3%	8.3%	9.7%
Operating Income	864	942	1,081
Operating Margin %	37.1%	37.4%	39.1%
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	795
Free Cash Flow Margin %	24.8%	31.2%	28.8%

In Millions of USD (except for per share items)

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

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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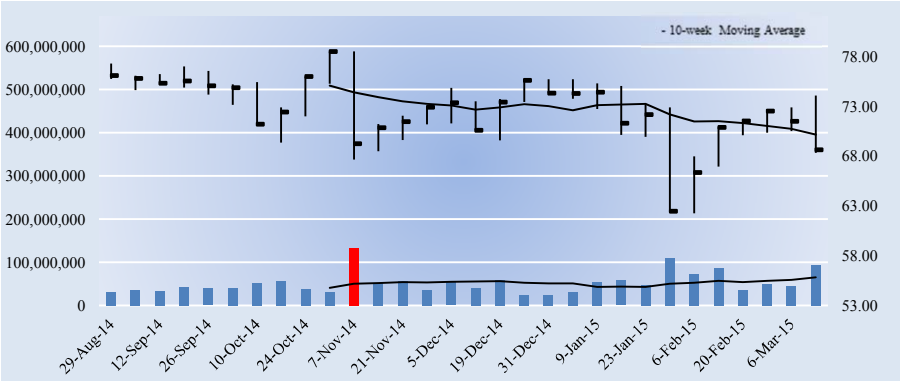
QUALCOMM QCOM UNDERVALUED 13.6%

Buying Index™ 6 **Value Rating** ✓

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$98.00	$78.00 - $118.00	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)	$117,649
Avg Weekly Vol (30 wks)	52,303
30-week Range (USD)	62.26 - 78.53
Valuentum Sector	Information Technology
5-week Return	0.7%
13-week Return	-6.7%
30-week Return	-11.1%
Dividend Yield %	2.8%
Dividends per Share	1.92
Forward Dividend Payout Ratio	37.9%
Est. Normal Diluted EPS	6.19
P/E on Est. Normal Diluted EPS	11.1
Est. Normal EBITDA	12,826
Forward EV/EBITDA	7.7
EV/Est. Normal EBITDA	6.7
Forward Revenue Growth (5-yr)	5.3%
Forward EPS Growth (5-yr)	11.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	19.1%
Return on Assets	19.8%
ROIC, with goodwill	67.1%
ROIC, without goodwill	115.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-32,005
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	3.7
Quick Ratio	5.7

NMF = Not Meaningful

Investment Highlights

• 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. It has one of the highest-rated Economic Castles in our coverage.

• The company holds an impressive amount of cash on its balance sheet. This gives it significant financial flexibility. Dividend hikes and share buybacks should be expected. Share repurchases at prices below intrinsic value are value-creating.

• 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. Investors should expect increasing demand for the firm's chipsets and strong growth in 3G/4G smartphones around the world.

• You know a company's intellectual property is one-of-a-kind when it continues to face antitrust lawsuits. QUALCOMM recently paid a $975 million to China, and South Korea is investigating the firm as well. We view this as evidence of the strength of QUALCOMM's position.

• QUALCOMM has entrenched positions across its portfolio. However, Intel is nipping at its heels. Recent reports have revealed that Intel may have gained traction in Apple's 2016 iPhone units, replacing the firm's Gobi modem.

Investment Considerations

DCF Valuation	**UNDERVALUED**
Relative Valuation	**ATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**LOW**
Growth	**MODEST**
Technical Evaluation	**BEARISH**
Relative Strength	**WEAK**
Money Flow Index (MFI)	**NEUTRAL**
Upside/Downside Volume (U/D)	**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
Alcatel-Lucent	17.6	NMF	78.0%
ARM	36.9	2.4	97.9%
Harris Corp	14.2	3.6	93.4%
JDS Uniphase	25.0	NMF	97.4%
Peer Median	21.3	3.0	95.4%
QUALCOMM	**13.6**	**1.4**	**70.0%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-13	Sep-14	Sep-15
Revenue	24,866	26,487	27,494
Revenue, YoY%	30.0%	6.5%	3.8%
Operating Income	7,561	8,034	9,871
Operating Margin %	30.4%	30.3%	35.9%
Net Income	6,853	7,537	8,475
Net Income Margin %	27.6%	28.5%	30.8%
Diluted EPS	3.91	4.40	5.06
Diluted EPS, YoY %	27.5%	12.5%	15.1%
Free Cash Flow (CFO-capex)	7,715	7,272	8,611
Free Cash Flow Margin %	31.0%	27.5%	31.3%

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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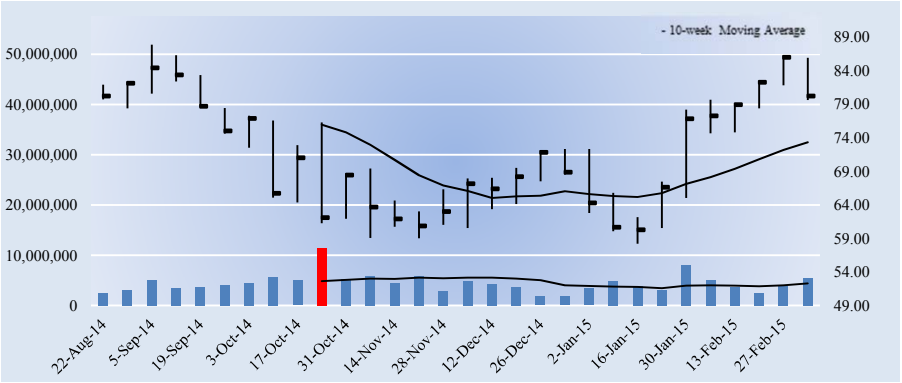
Synaptics SYNA FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$95.00	$76.00 - $114.00	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).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**NEUTRAL**
ValueCreation™	**EXCELLENT**
ValueRisk™	**LOW**
ValueTrend™	**NEGATIVE**
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	**73.00**

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

Business Quality

ValueCreation™

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

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

Company Vitals

Market Cap (USD)	$2,975
Avg Weekly Vol (30 wks)	4,414
30-week Range (USD)	58.22 - 87.85
Valuentum Sector	Information Technology
5-week Return	4.8%
13-week Return	20.0%
30-week Return	-1.1%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	7.03
P/E on Est. Normal Diluted EPS	11.4
Est. Normal EBITDA	462
Forward EV/EBITDA	6.8
EV/Est. Normal EBITDA	5.5
Forward Revenue Growth (5-yr)	21.0%
Forward EPS Growth (5-yr)	43.0%

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

Investment Highlights

• 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. It was founded in 1986 and is headquartered in California.

• Synaptics' acquisition of Renesas SP Drivers is a needle-mover and significantly increases the firm's current addressable market. The deal strengthens relationships with key customers and accelerates its product roadmap.

• 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.

• When you think of what the future might hold for fingerprint (human) identification technology applications, the sky is the limit. Synaptics is heavily exposed to the eventuality of more advanced human interface products, and we think the company is a long-term winner.

• The tablet market represents a brand new opportunity for Synaptics' touchscreen intellectual portfolio. We expect the firm to grow rapidly in this area, and its reputation as a go-to supplier is second-to-none.

Relative Valuation

	Forward P/E	PEG	Price / FV
EMC Corp	13.8	1.4	86.4%
NetApp	13.6	2.2	88.8%
SanDisk	15.2	1.6	93.8%
Western Digital	12.2	4.2	104.6%
Peer Median	13.7	1.9	91.3%
Synaptics	**13.8**	**1.5**	**84.4%**

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

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-13	Jun-14	Jun-15
Revenue	664	948	1,699
Revenue, YoY%	21.0%	42.8%	79.3%
Operating Income	100	142	345
Operating Margin %	15.1%	15.0%	20.3%
Net Income	99	47	217
Net Income Margin %	14.9%	4.9%	12.8%
Diluted EPS	2.89	1.26	5.80
Diluted EPS, YoY %	83.8%	-56.5%	360.7%
Free Cash Flow (CFO-capex)	54	93	143
Free Cash Flow Margin %	8.1%	9.8%	8.4%

In Millions of USD (except for per share items)

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

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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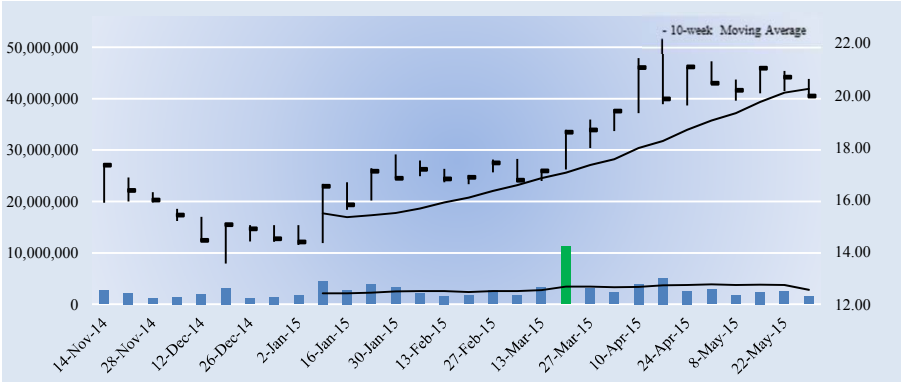
Tencent TCEHY FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$19.00	$15.00 - $23.00	MEGA-CAP GROWTH	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 buying, or accumulation (green bar).

Company Vitals

Market Cap (CNY)	$1,131,093
Avg Weekly Vol (30 wks)	2,768
30-week Range (USD)	13.55 - 22.15
Valuentum Sector	Information Technology
5-week Return	-5.3%
13-week Return	14.4%
30-week Return	23.5%
Dividend Yield %	0.0%
Dividends per Share per ADR	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	4.19
P/E on Est. Normal Diluted EPS	29.5
Est. Normal EBITDA	50,259
Forward EV/EBITDA	34.1
EV/Est. Normal EBITDA	21.9
Forward Revenue Growth (5-yr)	24.1%
Forward EPS Growth (5-yr)	27.6%

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 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.

• In cultivating its increasingly vibrant mobile ecosystem, the firm continues to develop its digital content businesses. It is partnering with content providers such as online literature authors, HBO, the NBA, Sony Music, Warner Music, and YG Entertainment.

• 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 Resistance, 10-wk MA	**20.00**

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	28.3	1.3	78.0%
Facebook	39.2	2.0	76.1%
Google	19.1	1.3	80.3%
Yahoo	54.5	NMF	99.9%
Peer Median	33.7	1.3	79.2%
Tencent	**45.9**	**2.6**	**106.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue (CNY)	43,894	60,437	78,932
Revenue, YoY%	54.0%	37.7%	30.6%
Operating Income (CNY)	15,479	19,194	30,441
Operating Margin %	34.0%	31.8%	38.6%
Net Income (CNY)	12,785	15,563	24,622
Net Income Margin %	29.1%	25.8%	31.2%
Diluted EPS (USD)	1.40	1.70	2.69
Diluted EPS, YoY %	27.2%	21.7%	58.2%
Free Cash Flow (CFO-capex)	15,772	16,054	22,217
Free Cash Flow Margin %	35.9%	26.6%	28.1%

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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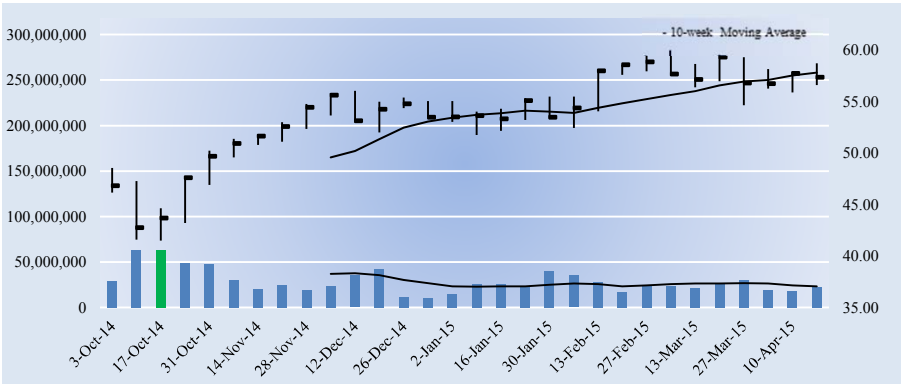
Texas Instruments TXN FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$53.00	$42.00 - $64.00	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)	$61,916
Avg Weekly Vol (30 wks)	28,840
30-week Range (USD)	41.47 - 59.99
Valuentum Sector	Information Technology
5-week Return	-0.3%
13-week Return	7.2%
30-week Return	19.4%
Dividend Yield %	2.4%
Dividends per Share	1.36
Forward Dividend Payout Ratio	49.9%
Est. Normal Diluted EPS	3.35
P/E on Est. Normal Diluted EPS	17.1
Est. Normal EBITDA	6,317
Forward EV/EBITDA	11.8
EV/Est. Normal EBITDA	10.0
Forward Revenue Growth (5-yr)	4.8%
Forward EPS Growth (5-yr)	9.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	20.8%
Return on Assets	11.7%
ROIC, with goodwill	19.4%
ROIC, without goodwill	29.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,642
Net Debt	1,101
Total Debt/EBITDA	0.9
Net Debt/EBITDA	0.2
EBITDA/Interest	58.0
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 25.1% in coming years. Total debt-to-EBITDA was 0.9 last year, while debt-to-book capitalization stood at 30.9%. 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 ratio remains solid.

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 Resistance, 10-wk MA	**58.00**

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	-10.2	NMF	129.0%
Avago Tech	14.3	1.9	108.8%
Intel	14.8	1.8	85.4%
STMicroelectronics	22.2	1.5	83.5%
Peer Median	14.6	1.8	97.1%
Texas Instruments	**21.0**	**2.4**	**108.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	12,205	13,045	13,293
Revenue, YoY%	-4.8%	6.9%	1.9%
Operating Income	2,984	4,226	4,098
Operating Margin %	24.4%	32.4%	30.8%
Net Income	2,162	2,821	2,916
Net Income Margin %	17.7%	21.6%	21.9%
Diluted EPS	1.94	2.61	2.73
Diluted EPS, YoY %	26.6%	34.5%	4.4%
Free Cash Flow (CFO-capex)	2,972	3,507	3,570
Free Cash Flow Margin %	24.4%	26.9%	26.9%

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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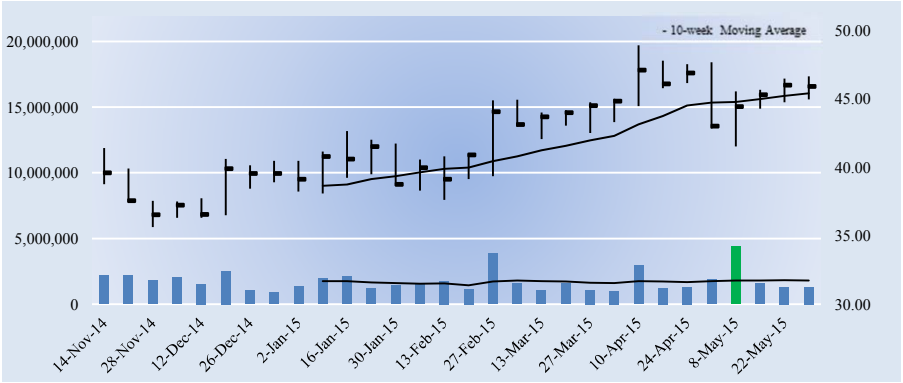
WebMD WBMD FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$41.00	$31.00 - $51.00	MID-CAP CORE	Information Technology	Internet Software & Svcs

WebMD is a leading provider of health information 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).

Investment Considerations

DCF Valuation	**FAIRLY VALUED**
Relative Valuation	**UNATTRACTIVE**
ValueCreation™	**EXCELLENT**
ValueRisk™	**MEDIUM**
ValueTrend™	**POSITIVE**
Cash Flow Generation	**STRONG**
Financial Leverage	**HIGH**
Growth	**MODEST**
Technical Evaluation	**VERY 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.

Company Vitals

Market Cap (USD)	$2,094
Avg Weekly Vol (30 wks)	1,763
30-week Range (USD)	35.64 - 48.91
Valuentum Sector	Information Technology
5-week Return	-2.1%
13-week Return	4.3%
30-week Return	16.8%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	1.71
P/E on Est. Normal Diluted EPS	26.9
Est. Normal EBITDA	190
Forward EV/EBITDA	15.0
EV/Est. Normal EBITDA	12.3
Forward Revenue Growth (5-yr)	7.0%
Forward EPS Growth (5-yr)	19.3%

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

Investment Highlights

• WebMD is a leading provider of health information services to consumers, physicians and other healthcare professionals, employers and health plans through public and private online portals, mobile platforms and health-focused publications.

• Healthcare consumers are increasingly seeking to educate themselves online about health-related issues, motivated in part by the larger share of healthcare costs they are being asked to bear. WebMD is the go-to objective and trusted online source.

• The WebMD Health Network reached ~183 million monthly unique visitors and delivered ~14.25 billion page views in 2014. Both measures are increasing at a nice double-digit clip. Traffic to the firm's online portals averaged ~6.2 million physician sessions per month, advancing at a low-double-digit annual pace.

• WebMD does not charge membership dues or usage fees. The company runs an advertising-based business model, and as a result, is dependent on the ad budgets of companies desiring to reach physicians and other healthcare professionals.

• Innovation continues at WebMD, and the biopharma market remains very healthy. Revenue from biopharma and medical device customers is growing at a 12%-15% clip.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baidu	28.3	1.3	78.0%
Facebook	39.2	2.0	76.1%
Google	19.1	1.3	80.3%
Yahoo	54.5	NMF	99.9%
Peer Median	33.7	1.3	79.2%
WebMD	**36.1**	**2.6**	**112.0%**

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

Returns Summary

	3-year Historical Average
Return on Equity	10.9%
Return on Assets	0.9%
ROIC, with goodwill	27.8%
ROIC, without goodwill	136.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-13	Dec-14	Dec-15
Revenue	515	580	624
Revenue, YoY%	9.7%	12.6%	7.5%
Operating Income	58	96	124
Operating Margin %	11.2%	16.6%	19.9%
Net Income	15	41	57
Net Income Margin %	2.9%	7.1%	9.1%
Diluted EPS	0.31	0.90	1.27
Diluted EPS, YoY %	-168.8%	187.2%	41.8%
Free Cash Flow (CFO-capex)	64	89	93
Free Cash Flow Margin %	12.4%	15.3%	14.9%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	952
Net Debt	245
Total Debt/EBITDA	7.6
Net Debt/EBITDA	1.9
EBITDA/Interest	5.1
Current Ratio	5.4
Quick Ratio	5.2

NMF = Not Meaningful

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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Valuentum Analysts
analysts@valuentum.com

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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