THE NELSON EXCLUSIVE

Confidential

September 2016

BRIAN NELSON, CFA

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September 2016

Dear Valued Member,

How fast a few months goes by! Incredible. Let's get an update on the six ideas that were collectively released in the previous two editions of the Exclusive from July and August.

July

Income: Universal Corp (UVV)
We remain big fans of tobacco leaf supplier Universal, and we didn't see anything in its fiscal first-quarter 2017 report, released August 4, that would change our minds. Shares are up nicely since we highlighted them in the inaugural July edition, and its 3.6% dividend yield remains a head-turner.

Capital Appreciation: Bloomin' Brands (BLMN)
Shares of Outback Steakhouse owner Bloomin' Brands have been on fire since we highlighted it in the July edition of the Exclusive. The company is just downright cheap, and the prospect of a go-private transaction at a huge mark-up is something that offers its equity substantial support, in our view. It may be the most undervalued restaurant entity out there, by a long shot.

Short Consideration: Lands End (LE)
The path of our short considerations will be volatile, for sure. We maintain our view that the long term is ominous at Lands End even as shares have caught a bid for technical reasons as of late. The next downdraft could be the most severe for the entity. The company's second-quarter fiscal 2016 results, released September 1, were more of the same. Net revenue dropped more than 6%, while operating income tumbled ~85%. The company lost money in the quarter versus net profits in the year-ago period.

August

Income: B&G Foods (BGS)
The owner of the *Green Giant* brand has done it again! The executive team has come to market in yet another secondary share issuance, and we're huge fans of the financing strategy. The company can use such capital for debt repayment or for the purchase of another solid packaged food brand. We prefer the former but if the executive team has another deal like the *Green Giant* one in mind, we're all for it. The company should continue to issue equity at current prices or higher, particularly if such actions strengthen its leveraged balance sheet or reinforce the dividend payout.

Capital Appreciation: Healthcare Services Group (HCSG)
This one is in a class by itself – Healthcare Services Group has increased its dividend every quarter for some time now! The last time it upped the payout was in July. The company doesn't have a glamourous business in laundering and dining services, but it does have a good one – and a solid end market at that. We think the

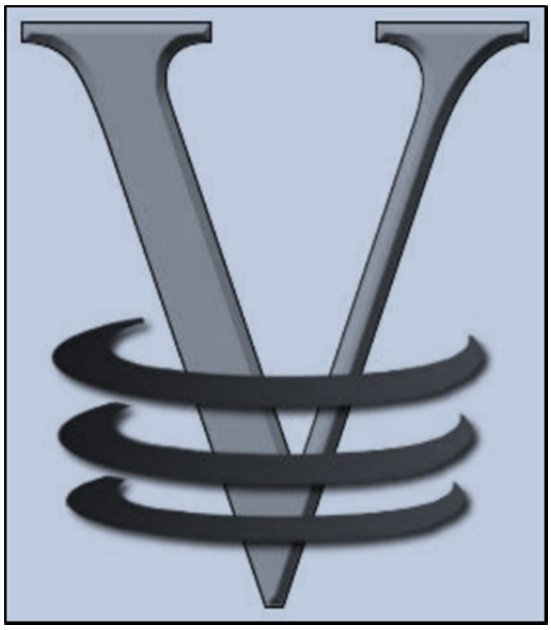
company fits the bill nicely as it relates to the kinds of equities that are working in today's frothy market.

Short Consideration: Vivint Solar (VSLR)
Shorts may get whipped around on this one as small "hedgies" can move the needle on this ~$350 million market cap solar energy provider. Vivint's financials may be the worst we've ever seen, however, and its end market may be among the worst in our coverage universe. Vivint's shares have collapsed considerably since the beginning of the year, but it's likely the company is a $0 before this decade is up. That doesn't mean it can't run to $5 or $10 per share first though. Be mindful of such a possible path.

I hope you enjoyed these brief thoughts on our previous ideas, and most of all I hope you enjoy the next three ideas that make up the September edition of the Nelson Exclusive!

Sincerely,

Brian Nelson, CFA
President, Investment Research & Analysis
Valuentum Securities, Inc.
brian@valuentum.com



About Your Editor

Brian Nelson is the president of equity research and ETF analysis at Valuentum Securities.

He is the architect behind the company's research methodology and processes, developing the Valuentum Buying Index rating system, the Economic Castle rating, and the Dividend Cushion ratio. Mr. Nelson has acted as editor-in-chief of the firm's Best Ideas Newsletter and Dividend Growth Newsletter since their inception.

Before founding Valuentum Securities in early 2011, Brian worked as a director at Morningstar, where he was primarily responsible for training and methodology development within the firm's equity and credit research department. Prior to that position, he served as a senior industrials securities analyst covering aerospace, airlines, construction, and environmental services companies.

Before joining Morningstar, Mr. Nelson worked for a small capitalization fund covering a variety of sectors for an aggressive growth investment management firm in Chicago. He holds a Bachelor's degree in finance and a minor in mathematics, magna cum laude, from Benedictine University. Brian has an MBA from the University of Chicago Booth School of Business and also holds the Chartered Financial Analyst (CFA) designation.

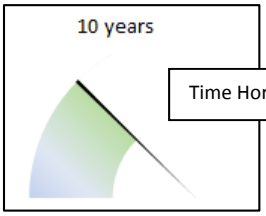
Highlights:

Brian is frequently quoted in the media and has been a frequent guest on Nightly Business Report, Bloomberg TV, CNBC, and the MoneyShow.

Mr. Nelson is very experienced valuing equities, developing discounted cash-flow models used to derive the fair value estimates for companies in the equity coverage universes of two of the largest independent investment research firms.

Brian worked on a small cap fund and a micro-cap fund that were ranked within the top 10th percentile and top 1st percentile within the Small Cap Lipper Growth Universe, respectively, in 2005.

Mr. Nelson led the charge in developing Morningstar's issuer credit ratings, creating and rolling-out one of the firm's proprietary credit metrics, the Cash Flow Cushion.



Maxim Integrated Products (MXIM)

*"As of the end of fiscal 2016, Maxim had a **net cash position** of more than $990 million, giving it ample financial flexibility and a strong cushion to support its dividend. Free cash flow generation averaged just under $638 million over the past three fiscal years (2014-2016), which is more than sufficient in covering annual run-rate cash dividend obligations of ~$342 million. Such **strong free cash flow** coverage of cash dividend obligations coupled with a **healthy balance sheet** gives us confidence in Maxim's ability to continue paying a competitive dividend in coming years." -- inside this article*

Thesis

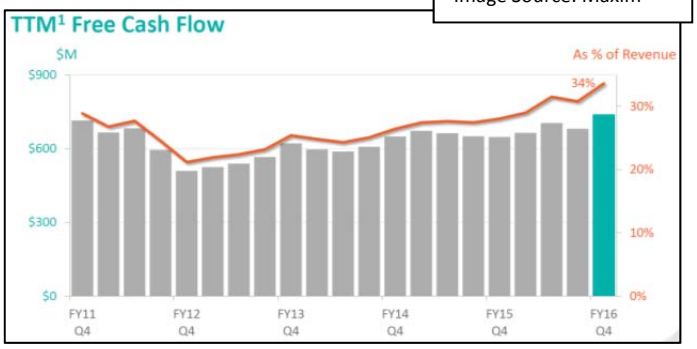
Ah…tech, tech, tech – you may say. Intense competition. Rapid change. Frequent product introductions. Ongoing innovation challenges. Share battles. Pricing pressure. Gross margin risk -- and the list goes on and on. How in the world can we like a technology company when it comes to income generation? Have we lost it? Well, hear us out a bit on Maxim Integrated (MXIM).

Corporate Profile

Maxim Integrated Products designs, develops, manufactures, and markets linear and mixed-signal integrated circuits around the globe. The company also creates varying custom designed high-frequency process technologies and capabilities. It was founded in 1983 and is headquartered in San Jose, California.

Company (ticker)	R&D Spend as a % of Revenue Last 3 Fiscal Years
Analog Devices (ADI)	19.1%
Cirrus Logic (CRUS)	20.7%
Intersil (ISIL)	23.1%
Linear Tech (LLTC)	18.5%
Maxim Integrated (MXIM)	**22.2%**
NXP Semi (NXPI)	13.8%
Semtech Corp (SMTC)	22.6%
Silicon Labs (SLAB)	28.1%
Texas Instruments (TXN)	10.9%
Competitors' Average	19.9%

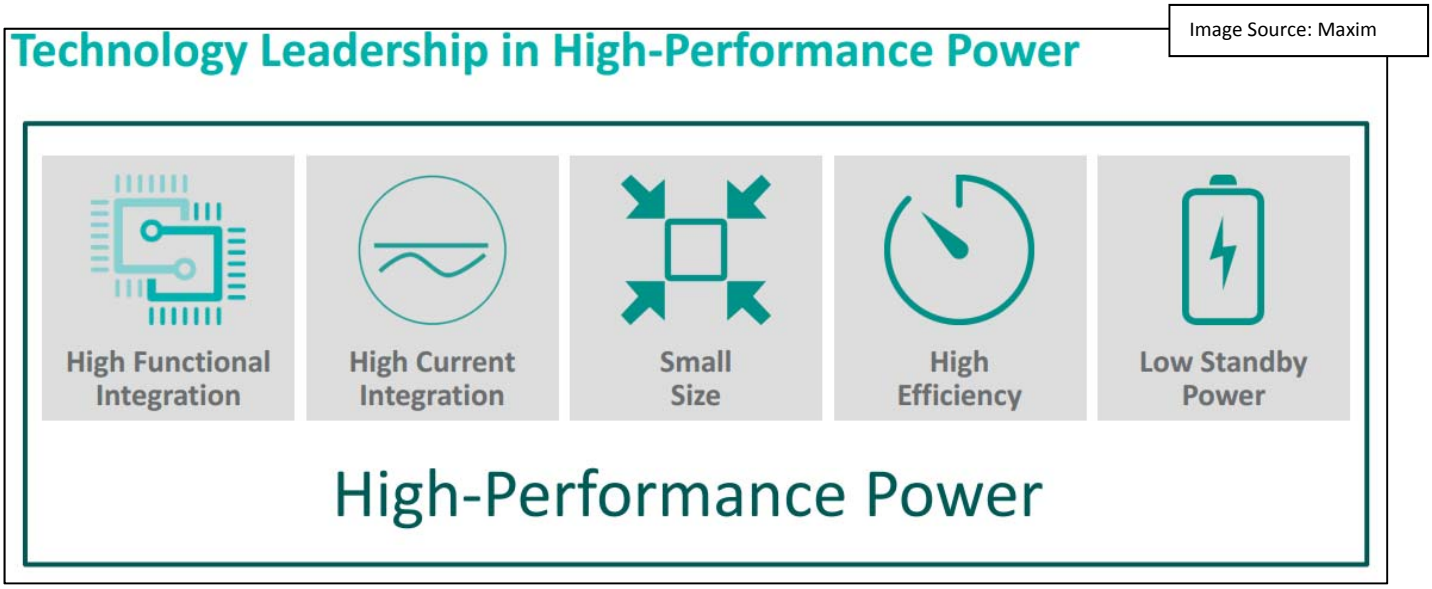
Image Source: Maxim



Maxim may make analog circuits, but the company is probably better described as a R&D, balance sheet cash-rich, free-cash-flow generating powerhouse. It invests more than many of its peers keeping it ahead of the game, but it also holds a solid net cash position and generates gobs of free cash flow well in excess of its dividends--shares offer a very enticing ~3.2% yield! In its most recent trailing twelve months, for example, free cash flow was an *impressive 34% of revenue*. Maxim may be "tech," but its operations spell C-A-S-H.

Key Statistics	
Last Close	$41.12
52-week range	$30.28 - $42.37
Market Cap	$11.66 B
Avg Daily Vol (30 wks)	10,014,147
Annual Dividend Yield	3.21%
Trailing Dividend Payout Ratio	167%
Trailing P/E	52.1
Net Cash (LFY)	$991 M
Net Debt/EBITDA (LFY)	N/A

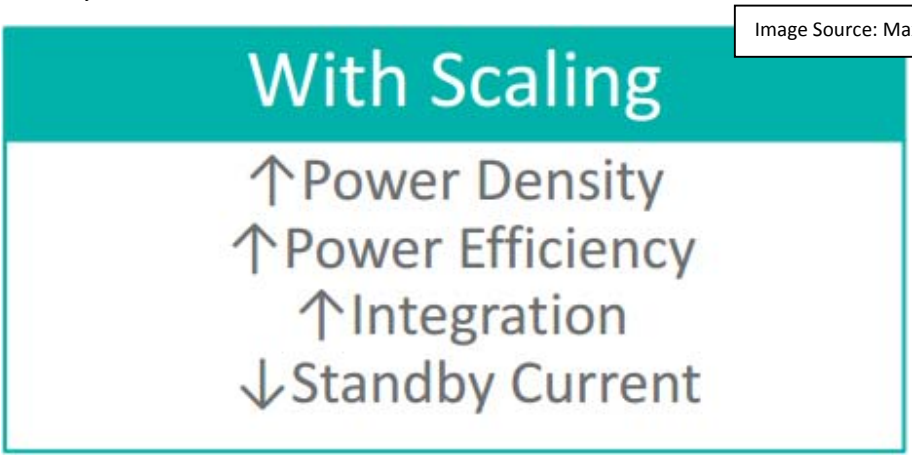
Image Source: Maxim



R&D spending in areas of strength is as important as spending in growth areas. Such is the case with Maxim's focus on investing in its high-performance power products, an area in which it is a market leader thanks in part to its technology and holistic-platform approach. Its high-performance power offerings are differentiated through high functional integration, high current integration, small size, high efficiency, and low standby power. Its Maxim PMIC, for example, has the highest functional integration amongst its competitors as it boasts 14 different power functions on one integrated circuit while providing an attractive option for space constrained modules thanks to its relatively small size.

While the company's highly-integrated circuits and power efficient options are driving adoption of its power products in automotive end markets, the power efficiency and small size of its integrated circuits are increasing its win rate in data centers. Maxim's data center offerings boast the smallest footprint of its competitors (20% higher computational density) with the lowest total cost of ownership. Management estimates energy cost savings to be $20 million for 1 million servers per year. As Maxim's technology and manufacturing processes continue to evolve, it expects scaling benefits in increased power density, power efficiency, and integration while reducing standby current.

Image Source: Maxim



Sensors are another area of R&D focus at Maxim Integrated Products. The secular trend towards increased wellbeing on both a personal and global level will help drive end market demand for Maxim sensors, which are currently used in bio sensing (wearables: personal wellbeing), environmental sensing (emissions: global wellbeing), and food and water quality sensing. The firm also has incubator projects in its R&D pipeline in the form of an integrated voltage regulators project and a software defined battery project, among others.

Image Source: Maxim

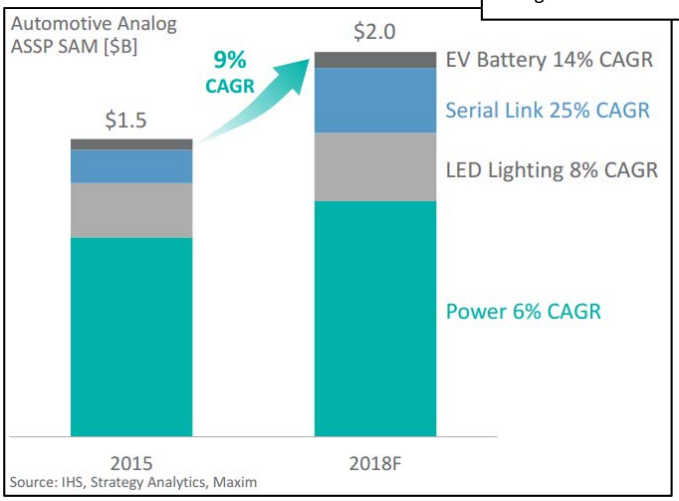
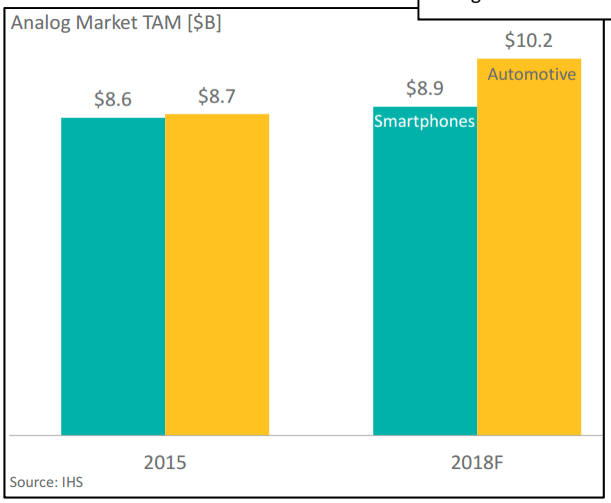
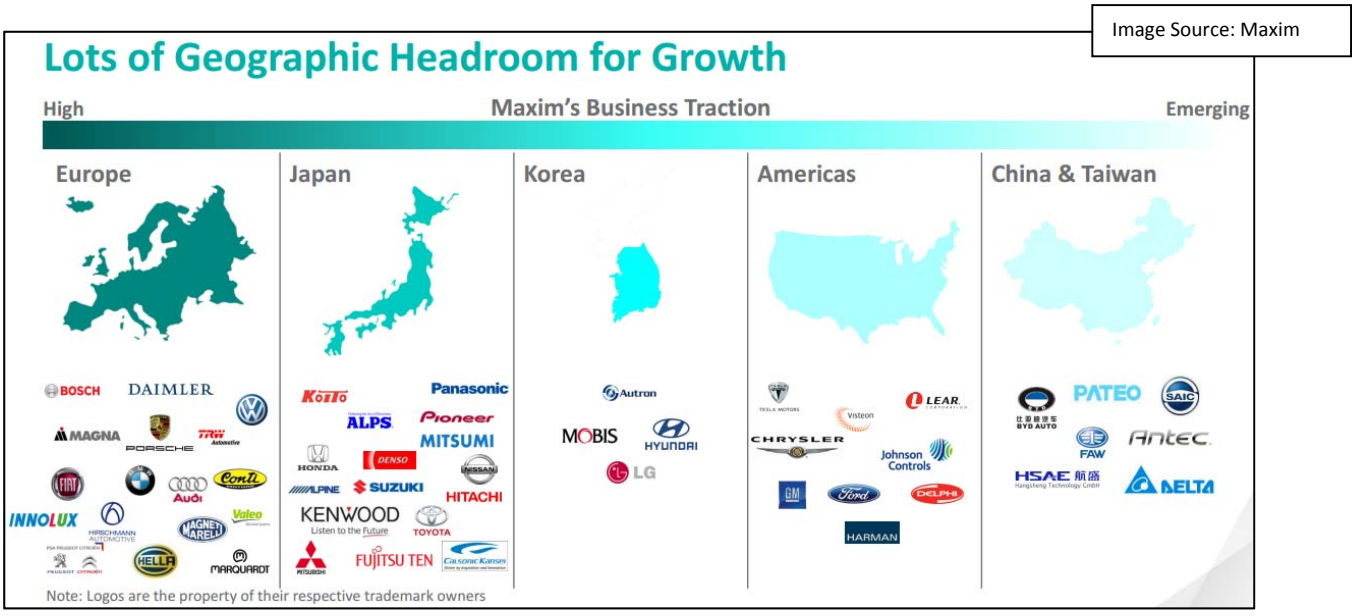


Image Source: Maxim



The company has identified areas within the auto market that are growing twice as fast as the overall auto space in which it is targeting its investments. These rapidly growing areas (EV battery, serial link, LED lighting, power) are becoming increasingly vital to car manufacturers as they are sources of differentiation in vehicles that consumers are beginning to seek in autos. In addition to identifying growth avenues within the automotive end market, Maxim has room for growth in automotive via geographic expansion. The firm's business traction in Europe and Japan are high, while the Americas and China and Taiwan offer areas for potential growth.

Image Source: Maxim



Despite growing traction in automotive, the fastest growing analog market is within the industrial sector, which offers a diversified product and customer base. Factory automation represents 25% of the total addressable market in industrial analog and 40% of Maxim's industrial business. It has been an area of focused investment since 2012, and it has made material progress in its power products for factory automation. The company has grown the functionality while halving the power usage and reducing the size tenfold of its programmable logic controllers. Maxim is also winning in industrial power with its materially cooler chips, which offer 50% lower heat generation than its competition.

Image Source: Maxim

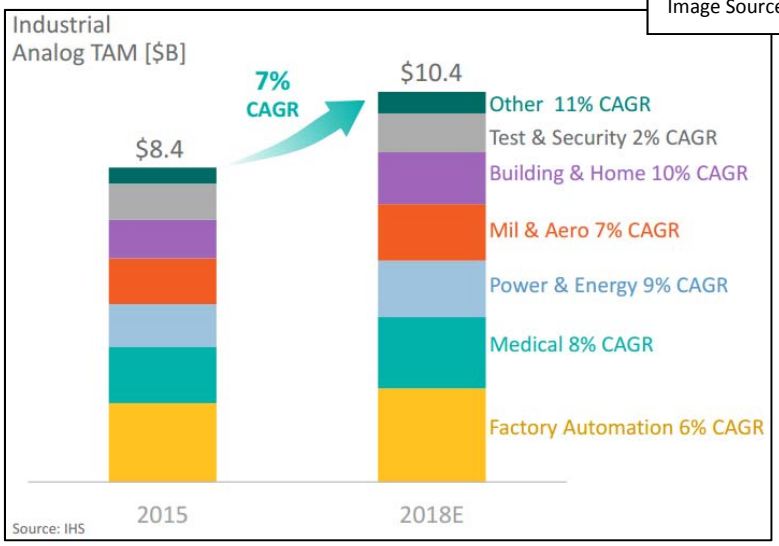
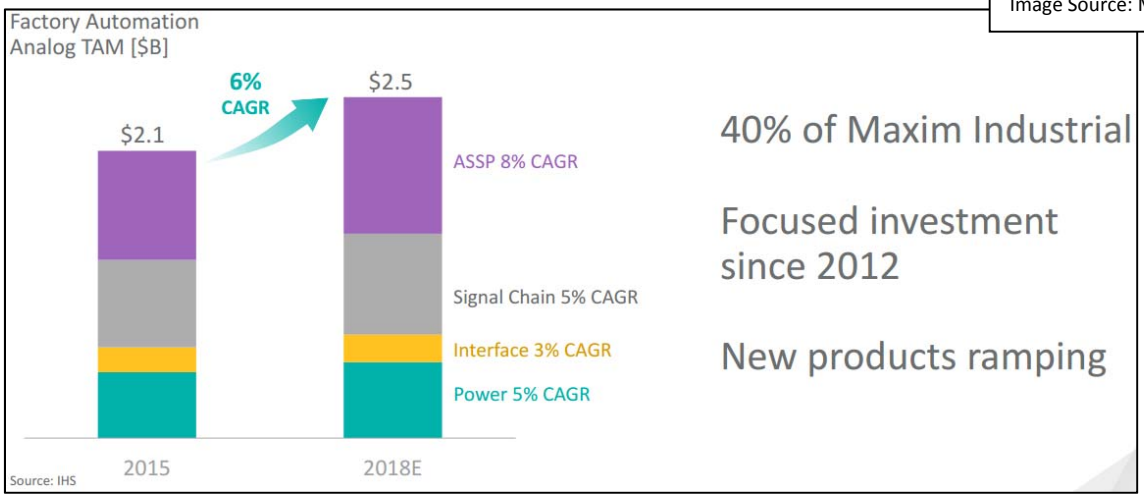


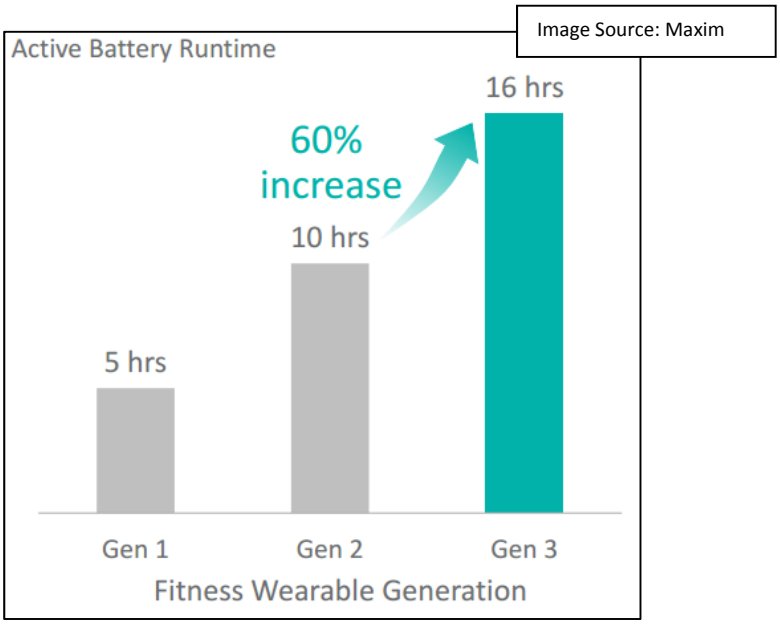
Image Source: Maxim



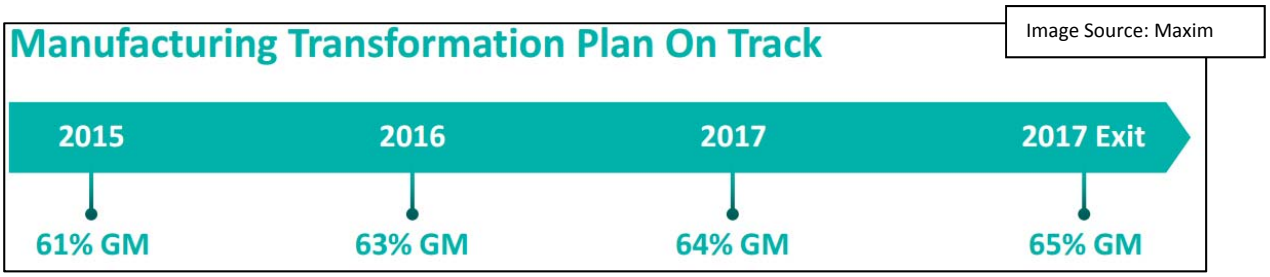
In data center, the ongoing transition to cloud servers from enterprise servers offers opportunity for Maxim. Its solutions for power management offer 33% smaller footprint than conventional solutions, and higher density and lower power consumption in its products are helping drive data center wins. The company's differentiation comes in its proprietary intellectual property for low power and lower heat and cost. Perhaps most importantly, the company is exposed to the right optical customers to win long-term in cloud. Maxim's module customers act as middle men between the firm and its end customers, which include the likes of Facebook (FB), Google (GOOG, GOOGL), Amazon (AMZN) Web Services, Microsoft (MSFT), and Alibaba (BABA).

Image Source: Maxim

Maxim is also working to take advantage of the $12 billion market opportunity it has in mobility and wearables, which is now much more than smartphones. The company is investing in power, audio, and sensors within the space. The wearables market is growing by ~30% annually, and Maxim's products are part of the drive for longer active battery life in wearables. The firm is diversifying its revenue in mobility by growing its presence in tablets and wearables, as well as becoming less dependent on power products by expanding its audio and sensory equipment offerings.

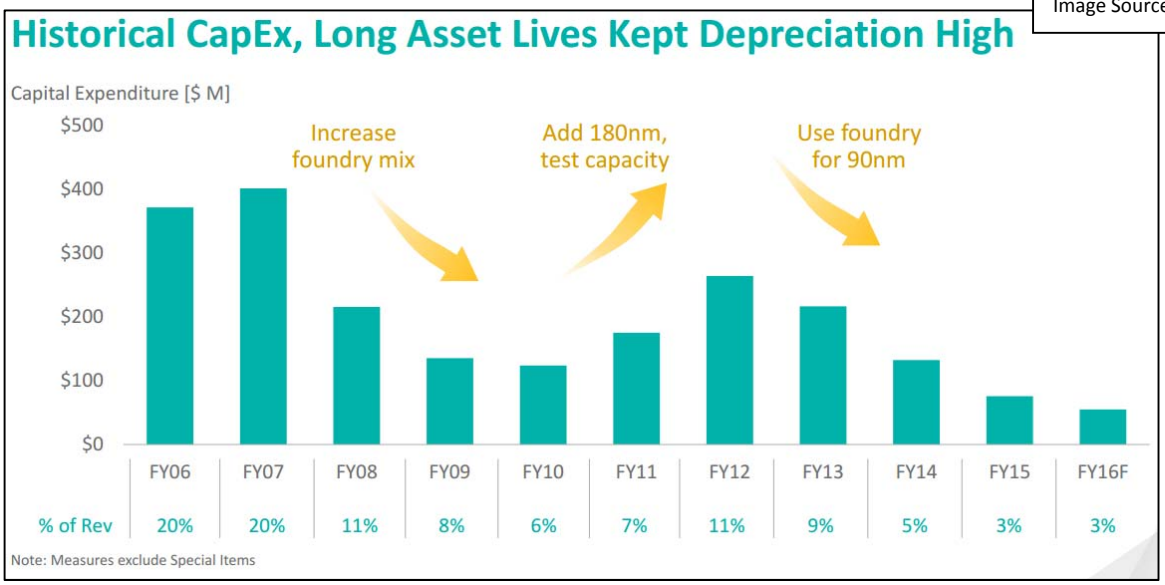


Maxim appears to have its focus trained in the right direction for growth, but its strategy goes deeper than its planned investments and R&D spending. Operational excellence is a standard the firm is embracing, and it is targeting operating expenses to be ~30% of revenue. Such a goal will be made more achievable by its manufacturing transformation that is expected to increase its gross margin to 65% as it exits 2017 from 61% in 2015. A more flexible manufacturing cost structure will provide a boost to margins as well, as the company plans to shift towards a primarily external manufacturing model. This will enable it to combine the advanced foundry capabilities of external manufacturers with Maxim's proprietary processes.



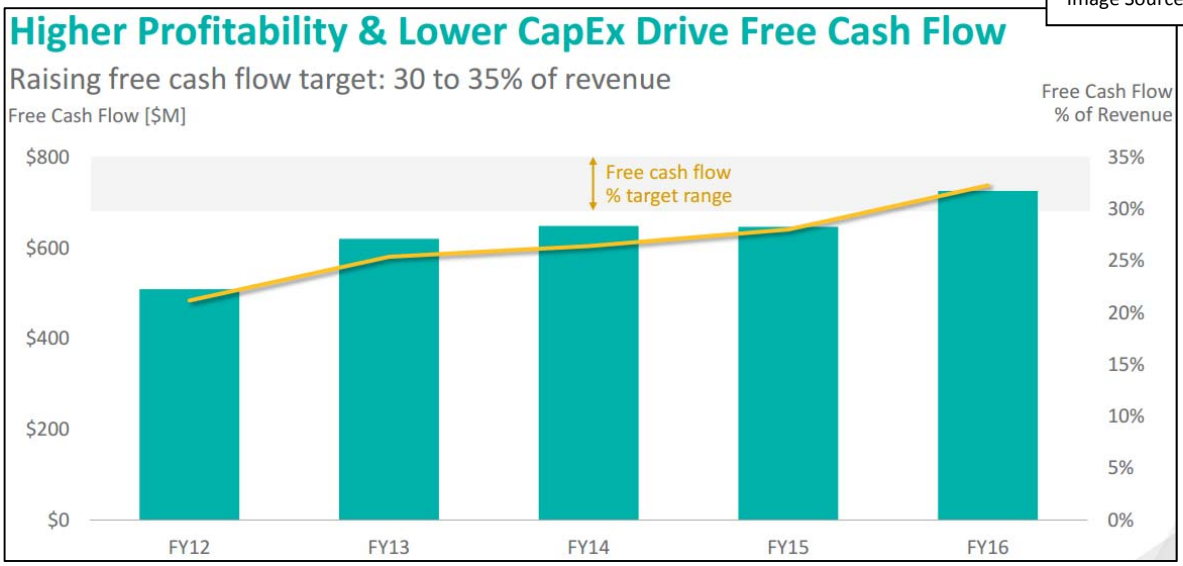
Another benefit of Maxim's manufacturing transformation will be its convergence of capital expenditures and depreciation. Historically, its capital spending has been partially geared towards long lived assets, which kept depreciation levels high, but as the company continues to move toward an external manufacturing model, it expects capital expenditures and depreciation expenses to converge. Moving forward, capital spending is projected to be 1%-3% of revenue, compared to ~20% in fiscal years 2006 and 2007 and 11% as recently as fiscal year 2012.

Image Source: Maxim



Such a reduction in capital spending will inevitably benefit Maxim's free cash flow generation, as will its profitability initiatives. Free cash flow is targeted at 30%-35% of revenue, which will help the firm build upon its free cash flow yield lead against its competitors. The company's growing free cash flow generating potential gives it increased capacity for activity in mergers and acquisitions in its consolidating industry--nearly $160 billion in M&A activity was announced in calendar 2015. Increased capacity for debt via EBITDA expansion gives the firm the possibility to further its scale advantage in the M&A market. In addition, we cannot rule out Maxim being acquired by a larger player in the semiconductor space, which could bring with it a material premium to current share prices.

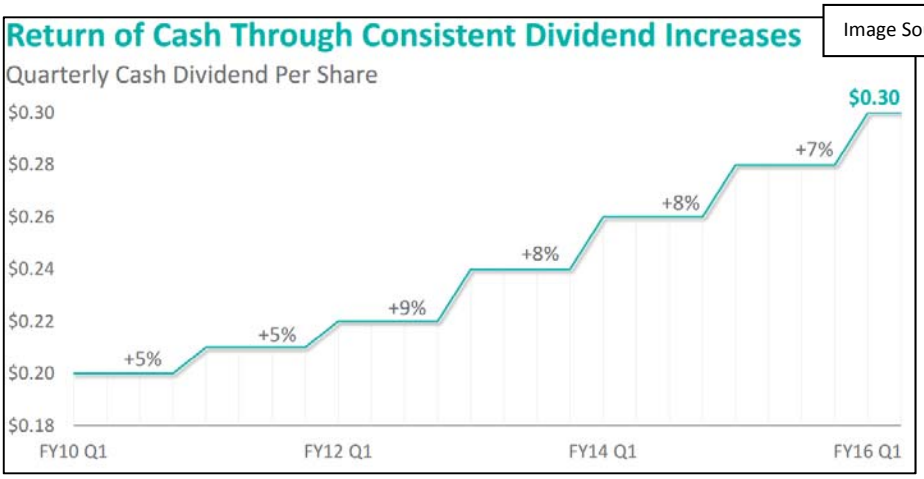
Image Source: Maxim



Improving free cash flow generation will also lead to material returns of capital to shareholders. Since fiscal 2010, we have seen consecutive annual increases in the payout of at least 5%, which has brought Maxim's dividend yield to ~3.2%, a much more competitive level amongst its industry. The firm is targeting the return of 80% of free cash flow to shareholders each year via dividends and share repurchases.

Healthy dividend growth potential is the name of the game in a quality income generation idea. Management seems to be saying and targeting all the right things to build a solid dividend growth payer in the coming years, and we're big fans of its current financial position as it relates to dividend safety and growth potential.

Image Source: Maxim



As of the end of fiscal 2016, Maxim had a net cash position of more than $990 million, giving it ample financial flexibility and a strong cushion to support its dividend. Free cash flow generation averaged just under $638 million over the past three fiscal years (2014-2016), which is more than sufficient in covering annual run-rate cash dividend obligations of ~$342 million. Such strong free cash flow coverage of cash dividend obligations coupled with a healthy balance sheet gives us confidence in Maxim's ability to continue paying a competitive dividend in coming years. The true long-term sustainability of Maxim's dividend is dependent on its ability to successfully achieve the goals of its new long-term target business model, as the firm's financial performance has slipped from fiscal 2012 levels.

Image Source: Maxim

	Fiscal Year Ended				
	June 25, 2016	June 27, 2015	June 28, 2014	June 29, 2013	June 30, 2012
	(in thousands, except percentages and per share data)				
Consolidated Statements of Income Data:					
Net revenues	$ 2,194,719	$ 2,306,864	$ 2,453,663	$ 2,441,459	$ 2,403,529
Cost of goods sold	950,331	1,034,997	1,068,898	944,892	952,677
Gross margin	$ 1,244,388	$ 1,271,867	$ 1,384,765	$ 1,496,567	$ 1,450,852
Gross margin %	56.7%	55.1%	56.4%	61.3%	60.4%
Operating income	$ 313,849	$ 237,280	$ 422,291	$ 588,319	$ 534,797
% of net revenues	14.3%	10.3%	17.2%	24.1%	22.3%
Income from continuing operations	$ 227,475	$ 206,038	$ 354,810	$ 452,309	$ 354,918
Income from discontinued operations, net of tax	—	—	—	2,603	31,809
Net income	$ 227,475	$ 206,038	$ 354,810	$ 454,912	$ 386,727
Earnings per share: Basic					
From continuing operations	$ 0.80	$ 0.73	$ 1.25	$ 1.55	$ 1.21
From discontinued operations	—	—	—	0.01	0.11
Basic net income per share	$ 0.80	$ 0.73	$ 1.25	$ 1.56	$ 1.32
Earnings per share: Diluted					
From continuing operations	$ 0.79	$ 0.71	$ 1.23	$ 1.51	$ 1.18
From discontinued operations	—	—	—	0.01	0.11
Diluted net income per share	$ 0.79	$ 0.71	$ 1.23	$ 1.52	$ 1.29
Shares used in the calculation of earnings per share:					
Basic	285,081	283,675	283,344	291,835	292,810
Diluted	289,479	288,949	289,108	298,596	300,002
Dividends declared and paid per share	$ 1.20	$ 1.12	$ 1.04	$ 0.96	$ 0.88

Image Source: Maxim

Stronger Long-Term Business Model

	Old Model	New Model
Revenue Growth	3 to 5 Points Above Industry	**50% Above Industry**
Gross Margin	61% – 64%	**~65%**
Operating Expenses	Grow < Revenue % Growth	**~30% of revenue**
Operating Margin	30%+ by Q4 FY15	**~35%**
Tax Rate	20%	**20%**
Inventory	~100 Days	**~100 Days**
CapEx	3% – 5% of Revenue	**1% – 3% of Revenue**
Free Cash Flow Margin	25% – 30% of Revenue	**30% – 35% of Revenue**
Total Cash to Shareholders	80% of Free Cash Flow	**80% of Free Cash Flow**

Long-term target: $3 Free Cash Flow per share

Image source: Maxim investor presentation

Management has confidence in its ability to improve upon recent results, as is evident in its long-term business model expectations, shown above. However, in light of 1) the fast-changing industry in which it operates, 2) the trajectory of its business over the past several years, 3) the probability of a significant inflection in said trajectory, and 4) the firm's current financial position, we see this income idea as best suited for an intermediate-term time horizon, likely in the lower end of a five to ten year range.

As it relates to Maxim's valuation, shares are currently changing hands at just under 21 times fiscal 2017 non-GAAP consensus estimates. After backing out net cash per share of ~$3.42 as of the end of fiscal 2016, the firm's current fiscal year non-GAAP P/E ratio comes to a slightly more reasonable 19.1x. Our investment thesis for Maxim is not of a long-term capital appreciation idea. Nevertheless, a company with a quality dividend has a reasonable chance to see its share price benefit from the current low-yield environment, and Maxim has seen a relatively stable climb in its shares since the bottom of the Great Recession.

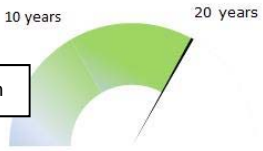
One last thing worth noting-- we're not particularly fond of Maxim's executive team's compensation agreement, as it ties cash bonuses to the year-over-year performance of the firm's stock price. Though it is no guarantee, such a strategy can lead to short-sightedness on the part of management as it hopes to maximize personal earnings potential via long-term value destroying practices that may provide a near-term boost to shares. Such a conflict of interest is a well-known one, however.

Image Source: Maxim

Beneficial Owner	Beneficial Ownership (1) Number of Shares	Percent of Total (%)
5% Shareholders:		
Wellington Management Company, LLP (2)	27,994,409	9.8
Dodge & Cox (3)	25,439,327	8.9
The Vanguard Group (4)	17,680,803	6.2
Capital Research Global Investors (5)	17,435,700	6.1
Capital World Investors (6)	15,716,000	5.5
Directors:		
James R. Bergman, Director (7)	178,223	*
Joseph Bronson, Director (8)	29,700	*
Robert E. Grady, Director (9)	123,975	*
B. Kipling Hagopian, Director (10)	167,333	*
William D. Watkins, Director (11)	57,361	*
A. R. Frank Wazzan, Director (12)	172,382	*
Named Executive Officers:		
Tunç Doluca, President, Chief Executive Officer and Director (13)	1,947,258	*
Bruce E. Kiddoo, Senior Vice President and Chief Financial Officer (14)	235,928	*
Matthew J. Murphy, Executive Vice President, Business Units, Sales, and Marketing (15)	225,744	*
Vivek Jain, Senior Vice President, Technology and Manufacturing Group (16)	123,942	*
Christopher J. Neil, Senior Vice President, New Ventures (17)	404,812	*
All executive officers and directors as a group (15 persons) (18)	4,278,982	1.5

Kris Rosemann contributed to this article.

Time Horizon: Long-term



Grupo Aeroportuario del Sureste (ASR)

*"We hold concessions to operate, maintain and develop nine airports in the southeast region of Mexico for **fifty years** from November 1, 1998. As operators of these airports, we charge airlines, passengers and other users fees for the use of the airports' facilities. We also derive rental and other income from commercial activities conducted at our airports, such as the leasing of space to restaurants and retailers. Our concessions include the concession for **Cancún International Airport**, which was the second busiest airport in Mexico in 2015 in terms of passenger traffic, and the **first busiest** in terms of international passengers in regular service, according to the Dirección General de Aeronáutica Civil, or General Office of Civil Aviation, Mexico's federal authority on aviation. We also hold concessions to operate the airports in Cozumel, Huatulco, Mérida, Minatitlán, Oaxaca, Tapachula, Veracruz and Villahermosa. In addition, our joint venture Aerostar holds a lease to operate, maintain and develop the LMM Airport, in San Juan, Puerto Rico, for forty years from February 27, 2013." – Source: ASUR-Airport-20F*

Thesis

What a long-term investment consideration Grupo Aeroportuario del Sureste (ASR) offers! And a moaty one at that! After all, how many companies can literally lock in operations for 50 years in one of the fastest-growing regions of the world…not many, I'd say. That's why I'm bringing this Mexican airport operator to your attention in the September edition of the Exclusive.

First things first. Grupo Aeroportuario del Sureste is not an airline or tied to commercial aircraft building, but instead reaps the ancillary benefits of the intersection of these dynamics. Unlike the boom and bust airline business or a heavily-cyclical aircraft making operation, Grupo Aeroportuario del Sureste's main line of business is essentially regulated fee collection – airline fees (landing, parking security)

Corporate Profile

Grupo Aeroportuario del Sureste operates airports in in Mexico and the Caribbean. It generates more than 60% of revenue from regulated means (airline fees, passenger fees and the like), and the balance from non-regulated sources (food & beverages, advertising, car parking/rental, etc.). The firm's airport in Cancún accounts for ~80% of its revenue and is the second most frequented in Mexico after only Mexico City.

Each ADS represents 10 Series B shares of Grupo Aeroportuario del Sureste's equity.

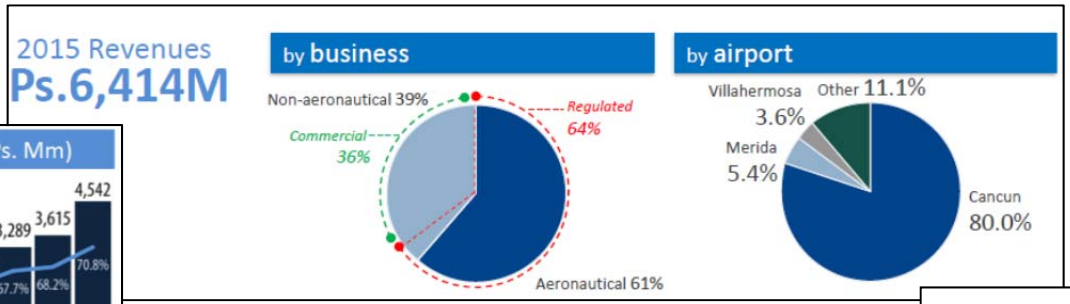


Image Source: ASR

Image Source: ASR

	As of and for the year ended December 31,					
	2011	2012	2013	2014	2015	
			(thousands of Mexican pesos)[1]		(thousands of dollars)[2]	
Income statement data:						
IFRS:						
Revenues:						
Aeronautical services[3]	Ps. 2,498,344	Ps. 2,849,136	Ps. 3,076,737	Ps. 3,319,672	Ps. 3,921,949	U.S.$ 228,086
Non-aeronautical services[4]	1,360,938	1,607,585	1,782,753	1,979,717	2,491,941	144,922
Construction services[5]	714,024	663,170	586,596	579,774	2,580,707	150,085
Total revenues	4,573,306	5,119,891	5,446,086	5,879,163	8,994,597	523,094
Operating expenses:						
Cost of services	(906,929)	(984,495)	(995,157)	(1,081,376)	(1,144,327)	(66,550)
Construction expenses	(714,024)	(663,170)	(586,596)	(579,774)	(2,580,707)	(150,085)
General and administrative expenses	(168,063)	(181,644)	(178,560)	(170,231)	(196,990)	(11,456)
Technical assistance fee[6]	(130,381)	(154,383)	(173,259)	(190,419)	(239,175)	(13,910)
Government concession fee[7]	(178,342)	(204,735)	(223,132)	(242,165)	(291,505)	(16,953)
Depreciation and amortization	(382,740)	(401,545)	(418,273)	(454,265)	(468,996)	(27,275)
Net comprehensive financing	50,692	54,778	18,641	(114,977)	(109,963)	(6,395)
Interest income	66,727	92,075	136,043	121,369	155,718	9,056
Interest expense	(39,420)	(22,363)	(76,291)	(81,814)	(97,017)	(5,642)
Exchange gain	20,724	32,270	150,239	205,798	379,741	22,085
Exchange loss	—	(47,805)	(191,350)	(360,330)	(548,405)	(31,893)
Gains on valuation of financial instruments	2,661	601	—	—	—	—
Participation in the results of joint ventures[8]	—	—	(143,452)	36,448	50,923	2,962
Income before taxes	2,143,519	2,584,697	2,746,298	3,082,404	4,013,857	233,432
Provision for taxes	(552,385)	(509,369)	(449,425)	(798,681)	(1,100,122)	(63,979)
Net income	1,591,134	2,075,328	2,296,873	2,283,723	2,913,735	169,452
Basic and diluted earnings per share[9]	5.31	6.92	7.66	7.61	9.71	0.57
Basic and diluted earnings per ADS[10]	53.04	69.18	76.56	76.12	97.13	5.65
Dividends per share[11]	Ps. 3.00	Ps. 3.60	Ps. 8.40	Ps. —	Ps. 5.10	U.S.$ 0.30

and passenger fees (domestic and international). But that's not all. Grupo Aeroportuario del Sureste also has its hands in non-regulated revenues, too, across nearly 10 business lines from retail (duty free & duty paid) to food & beverages to car rental and parking and beyond. It's quite simple: the more passengers that visit its airports, the more revenue the company generates – on average ~340 Mexican pesos, or ~$20.

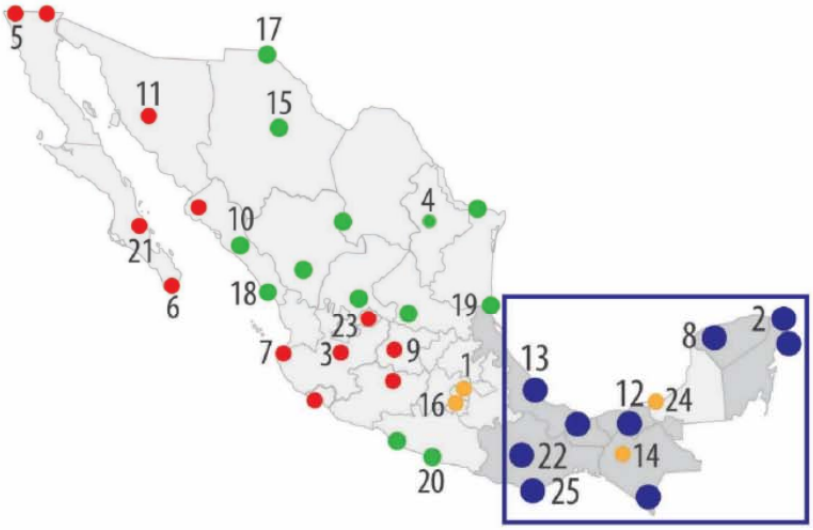
And boy does Grupo Aeroportuario del Sureste have a gem. It operates the second-busiest airport in Mexico in Cancún, which is more than twice as frequented as the third largest in Guadalajara and is more-traveled than the third- and fourth- (Monterrey) airports in Mexico combined! That's impressive – and *it's Cancún*, one of the most renowned tourist destinations in the country (if not the world). Think long-term, sustainable growth.

"Cancún is located in the state of Quintana Roo. Cancún and its surroundings were the most visited international tourism destination in Mexico in 2015, according to the Mexican Ministry of Tourism. According to the Mexican National Trust for Tourist Development, the Cancún area had 30,854 hotel rooms as of December 31, 2015. Although Cancún may be reached by land, sea or air, we believe most tourists arrive by air through Cancún International Airport. By air, Cancún is approximately one and a half to five hours from all major cities in the United States and 10 to 13 hours by air from most major European cities. Cancún is located near beaches, coral reefs, ecological parks and Mayan archeological sites. Cancún International Airport serves travelers visiting the Mayan Riviera, which stretches from Cancún south to the Mayan ruins at Tulum, and includes coastal hotels and resorts in the towns of Playa del Carmen, Tulum and Akumal. According to the Mexican National Trust for Tourism Development, the greater Cancún area (including the Mayan Riviera) was estimated to have an aggregate of 74,615 hotel rooms as of December 31, 2015." – Source: ASUR-Airport-20F

Image Source: ASR

ASUR's airports are among the most frequented in Mexico

Mexican Airports by PAX (thousand PAX)



	2015			Total PAX 06-15 CAGR
	Int PAX	Dom PAX	Total PAX	
ASUR	14,452	11,689	26,141	7.4%
Grupo Aeroportuario del Pacífico	9,553	18,071	27,624	3.4%
OMA	2,371	14,551	16,922	4.1%
All of Mexico [1]	39,433	74,182	113,616	4.7%

[1] According to the Communications and Transport Ministry's website

Source: Company financials, AICM website: Note: Selected airport sample includes ASUR, GAP, OMA and OHL concessions and the Mexico City airport; PAX traffic excludes transit and general aviation PAX

Rank 2015	Group	Airport	Pax ('000s) 2014	Pax ('000s) 2015	Var % 15 vs. 14
1	AICM	Mexico City	34,252	38,430	12.2%
2	ASUR	Cancun	17,455	19,596	12.3%
3	GAP	Guadalajara	8,734	9,791	12.1%
4	OMA	Monterrey	7,129	8,462	18.7%
5	GAP	Tijuana	4,388	4,871	11.0%
6	GAP	Los Cabos	3,285	3,653	11.2%
7	GAP	Puerto Vallarta	3,127	3,594	14.9%
8	ASUR	Merida	1,437	1,664	15.8%
9	GAP	Bajio	1,222	1,492	22.1%
10	OMA	Culiacan	1,308	1,432	9.5%
11	GAP	Hermosillo	1,326	1,349	1.7%
12	ASUR	Villahermosa	1,121	1,273	13.5%
13	ASUR	Veracruz	1,158	1,250	8.0%
14	TGZ	Tuxtla Gtz	928	1,121	20.8%
15	OMA	Chihuahua	962	1,111	15.5%
16	TLC	Toluca	867	865	-0.2%
17	OMA	Cd. Juarez	769	864	12.3%
18	OMA	Mazatlan	789	853	8.1%
19	OMA	Tampico	689	764	10.9%
20	OMA	Acapulco	632	730	15.6%
21	GAP	La Paz	673	682	1.4%
22	ASUR	Oaxaca	542	663	22.3%
23	GAP	Aguascalientes	541	633	17.1%
24	ASA	Cd. Del Carmen	662	623	-5.9%
25	ASUR	Huatulco	520	619	19.1%

Economies in Latin America have had challenges of late, of course, but while Brazilian and Venezuelan business activity is under pressure, Mexico, Panama, Peru and Columbia, on the other hand, remain in pretty good shape. The Latin American region is also notorious for its economic ups and downs, and while the near term may be a bit challenging, an expanding middle class and rising income levels make for a resilient economic base, in our view, and one conducive to long-term air passenger travel demand growth. People love to travel.

A liberalized air-services agreement between Mexico and the United States remains on track for approval, and better connectivity will only pave the way for increased air traffic. Boeing, for one, expects passenger growth in Latin American and the Caribbean to average nearly 6% per year for the next 20 years, with the fastest growth expected within intraregional flows. That's a solid long-term growth rate, and airlines across the region are taking steps to become healthier, too, primarily through consolidation. Several mergers including LAN and TAM, Avianca and TACA Airlines, GOL and Webjet, and others have made operators much more resilient. Lower fuel costs have also helped.

The airports operated by Grupo Aeroportuario del Sureste have boasted an impressive track record of consistent passenger growth themselves, revealing a relatively balanced mix of international and domestic traffic. From 2006-2015, for example, total passenger growth at its airports was 7.4% per annum, with international passengers accounting for ~55% of the mix. Grupo Aeroportuario del Sureste's pace of annual growth has been nearly 3 percentage points greater than Mexico's during that time, a very impressive showing.

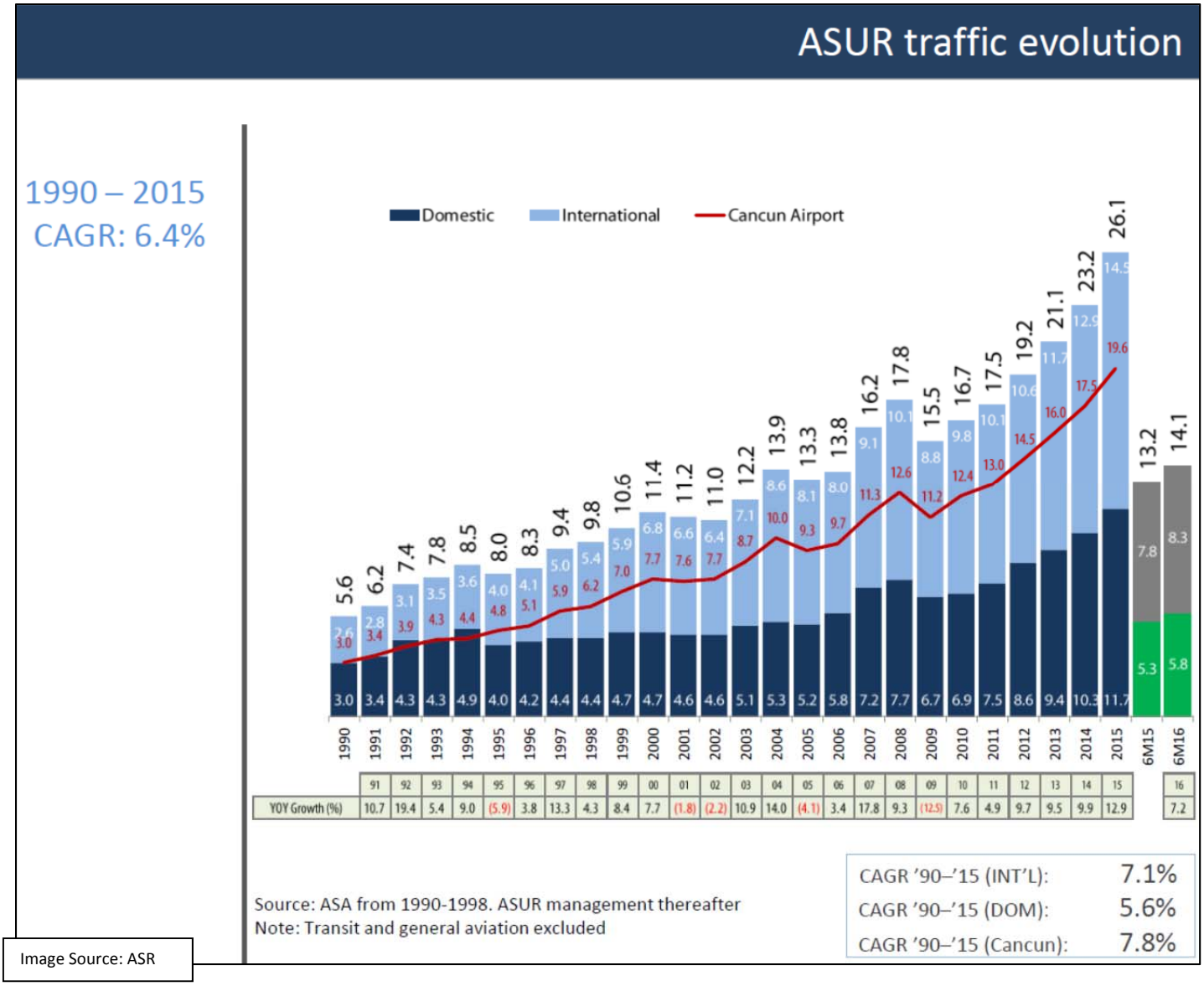


Image Source: ASR

With long-term growth potential a very attractive attribute of Grupo Aeroportuario del Sureste, let's flesh out some numbers to hit home the financial opportunity. Since 2011, revenue has effectively doubled in Mexican pesos, to 9 billion pesos, while income from operations has expanded at a similar pace, to more than 4 billion pesos. Basic and diluted earnings per ADS reached 97.13 pesos per share in 2015, up from 53.04 in 2011, again revealing a fantastic pace of expansion. The company is not only a cash cow, with operating cash flow leaping to 3.65 billion pesos in 2015 from 1.92 billion in 2011, but the company is also consistently free cash flow positive. Its balance sheet is healthy, too, with a negligible net debt position at the end of 2015, and ~2.86 billion Mexican pesos sitting on the books. Rough two thirds of its liabilities are dollar-denominated, however.

Okay, let's get to the fundamental risks. For starters, fluctuations in the exchange rate between the Mexican peso and U.S. dollar *will* impact the market price of its equity. With roughly 60% of its international passengers in its airports originating in or departing to the United States, the economic health of Mexico's neighbor to the north will remain a key driver behind operations. The company's airport in Puerto Rico is not shielded from the economic troubles in its economy either. And then there's the weather -- more specifically hurricanes, which are common in the southeast region of Mexico. In October 2005, for example, Hurricane Wilma not only damaged the company's Cancún and Cozumel airports but also impacted tourist infrastructure, driving passenger traffic more than 30% lower in the fourth quarter of 2005 relative to the prior year. Something to be aware of.

But business has found a way to remain resilient no matter what is thrown at it. From 9/11 to Hurricane Wilma to H1NI scares, the reality is that passenger traffic always bounces back. Look at how far things have come from the devaluation of the peso in December 1994 and the economic crisis in Mexico that ensued! Two of Grupo Aeroportuario del Sureste's top customers, American Airlines (5% of sales) and United Air Lines (~4% of sales), always seem to find a way keep operating through thick and thin, despite their own bouts with the bankruptcy courts, and even a bankruptcy filing by Mexicana in 2010 (then its largest customer by passenger traffic) did little to permanently ground its performance. We like the odds that in the unfortunate likelihood of another exogenous shock to its business, Grupo Aeroportuario del Sureste will come back stronger than ever when the dust settles as it has done time and time before.

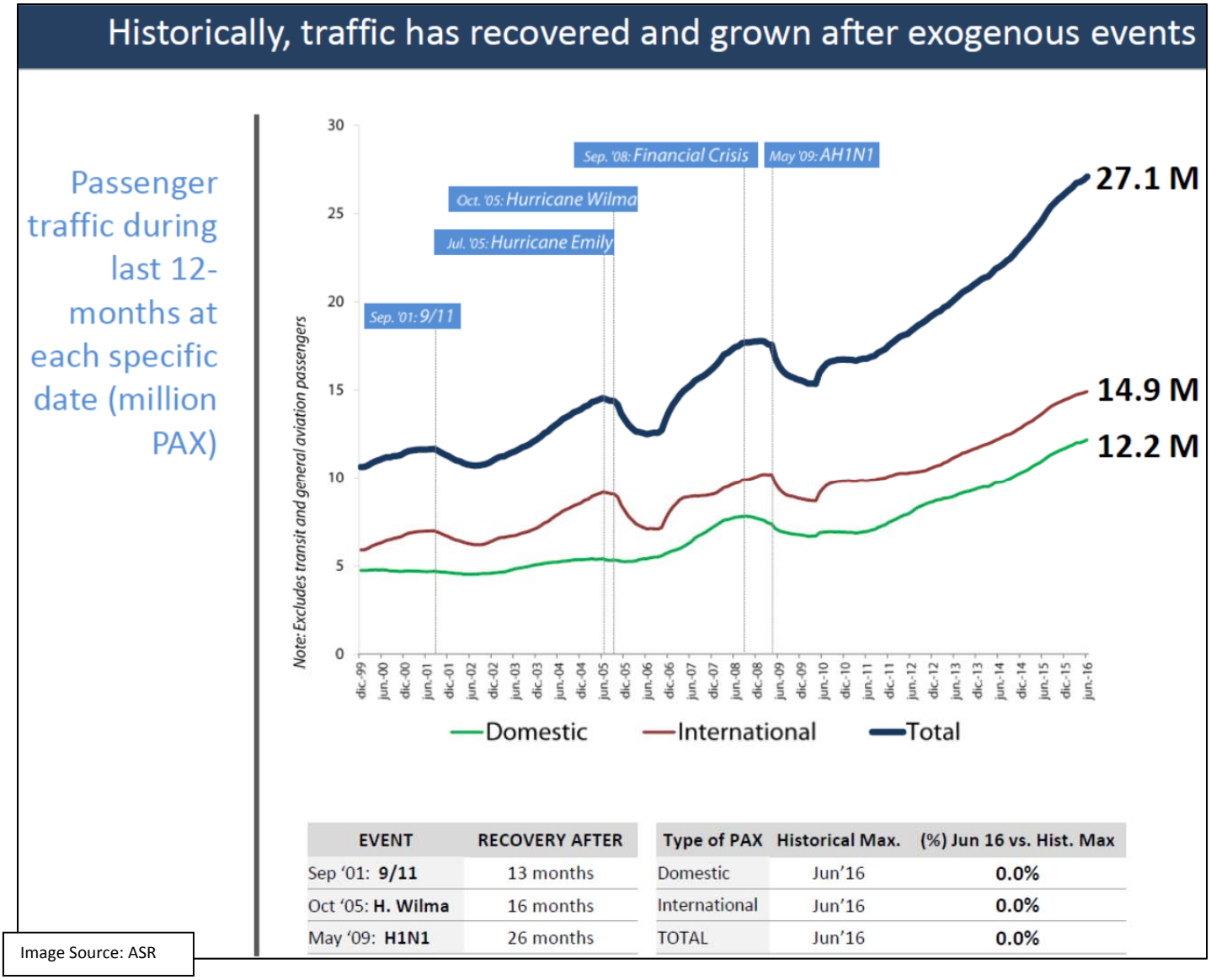


Image Source: ASR

What makes Grupo Aeroportuario del Sureste so attractive also seconds as a key risk, too -- Cancún International Airport. At the very core of the thesis on the firm is that Cancún will continue to be desirable to tourists around the world for the foreseeable future. With the airport accounting for nearly 80% of Grupo Aeroportuario del Sureste's revenue, however, our thesis simply cannot hold should the destination fall out of favor with travelers or the Mexican government grant additional concessions that hurt business at the airport. The perception of the safety of Mexico as a tourist destination has been hurt by media reports of increased drug-related violence, and competing tourist destinations (Acapulco, Puerto Vallarta, and Los Cabos) have slowed the pace of growth, but travel demand to its airports has remained extremely robust regardless.

Image Source: ASR

	Percentage of ASUR Revenues Year ended December 31,		
	2013	2014	2015
Customer			
American Airlines (previously American Airlines and U.S. Airways) [1]	7.0%	6.6%	4.7%
ABC Aerolíneas S.A. de C.V. (Interjet)	5.4%	5.4%	4.6%
United Air Lines, Inc.	4.9%	5.4%	4.2%
Aerovías de México, S.A. de C.V. (Aeroméxico)	5.0%	4.6%	3.3%
Controladora Vuela Compañia de Aviacion S.A.B. de C.V. (Volaris)	3.4%	4.0%	3.5%
Aviation Support S.A. de C.V.	3.6%	3.2%	2.3%
Delta Air Lines, Inc.	2.7%	3.2%	2.6%
Air Canada.	0.6%	0.7%	0.6%
Aviacion Comercial Especializada S.A. de C.V.	1.5%	0.3%	0.1%
Other	65.9%	66.6%	74.1%
Total	**100.0%**	**100.0%**	**100.0%**

In 2010, the Mexican government announced a bidding process for a new airport in the Mayan Riviera, which is served primarily by its Cancún airport. Though it has been years since the bidding process was cancelled, it's uncertain whether the Mexican government will move forward with this project at a later date. Work stoppages from within the company are also a possibility, with more than 35% of its total employees unionized, but we have no reason to believe relations with its labor force are anything but good.

Image Source: ASR

The company's corporate governance isn't the greatest, however. Holders of the company's ADSs aren't entitled to attend shareholders' meetings and can only vote through a depositary. There are also perceived conflicts of interest on the board. Chairman Fernando Chico Pardo is a member on a number of boards of directors, and the executives of Grupo ADO, a bus transportation company, sits on Grupo Aeroportuario del Sureste's board of directors. Pardo and Grupo ADO directly or indirectly own more than 12% of the company's stock, so they are tied to the fate of company, which we do like. We just prefer conflicts of interest to be minimized, however. The company is organized under the laws of Mexico, and rules covering the fiduciary duties of directors aren't as fully developed as those of the United States. We don't give the company very high marks for stewardship.

Name	Title	Director Since
Fernando Chico Pardo[1]	President	April 28, 2005
Ricardo Guajardo Touché[3]	Director	February 28, 2001
Francisco Garza Zambrano[3]	Director	February 28, 2001
Guillermo Ortiz Martínez[3]	Director	April 26, 2010
Roberto Servitje Sendra[3]	Director	April 25, 2008
José Antonio Pérez Anton[2][5][*]	Director	April 26, 2012
Aurelio Pérez Alonso[4][*]	Director	April 26, 2012
Rasmus Christiansen[3]	Director	April 26, 2007
Luis Chico Pardo[4]	Director	April 25, 2008

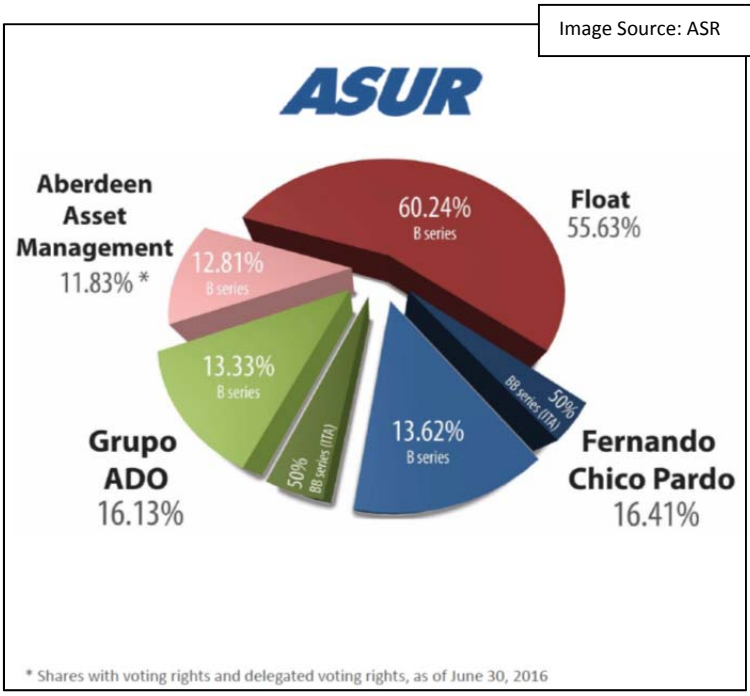
(1) Elected by ITA as holder of Series BB shares, with Federico Chávez Peón Mijares as Alternate. Fernando Chico Pardo is the direct or indirect owner of 50.0% of the shares of ITA and 37,746,297 Series B shares (12.6% of our outstanding shares) as of April 11, 2016.
(2) Elected by ITA as holder of Series BB shares, with Luis Fernando Lozano Bonfil as Alternate.
(3) Independent Director
(4) On April 26, 2012, Aurelio Perez Anton and Luis Chico Pardo were elected as members of the Board of Directors, representing the Series B shares.
(5) On April 26, 2012, Jose Antonio Perez Anton was elected as a member of the Board of Directors, representing the Series BB Shares.
(*) Owner of less than 1.0% of our outstanding shares as of April 15, 2016.

Image Source: ASR

All told, Grupo Aeroportuario del Sureste may be one of the most interesting long-term investment considerations on the market today. The company has "moaty" tendencies with its concession agreements with the Mexican government, has a decent-sized market capitalization with trading volume, and its growth prospects help ease some of the sticker shock related to its valuation.

We're modeling ~$6.50-$7 per ADS for 2016, which puts shares at a rather pricey 22 times current earnings at the high end of the range. However, we think the company will be able to grow into this valuation within the next few years, and for holders with a "long-enough" time horizon, shares may end up being a huge bargain at today's prices.

Image Source: ASR



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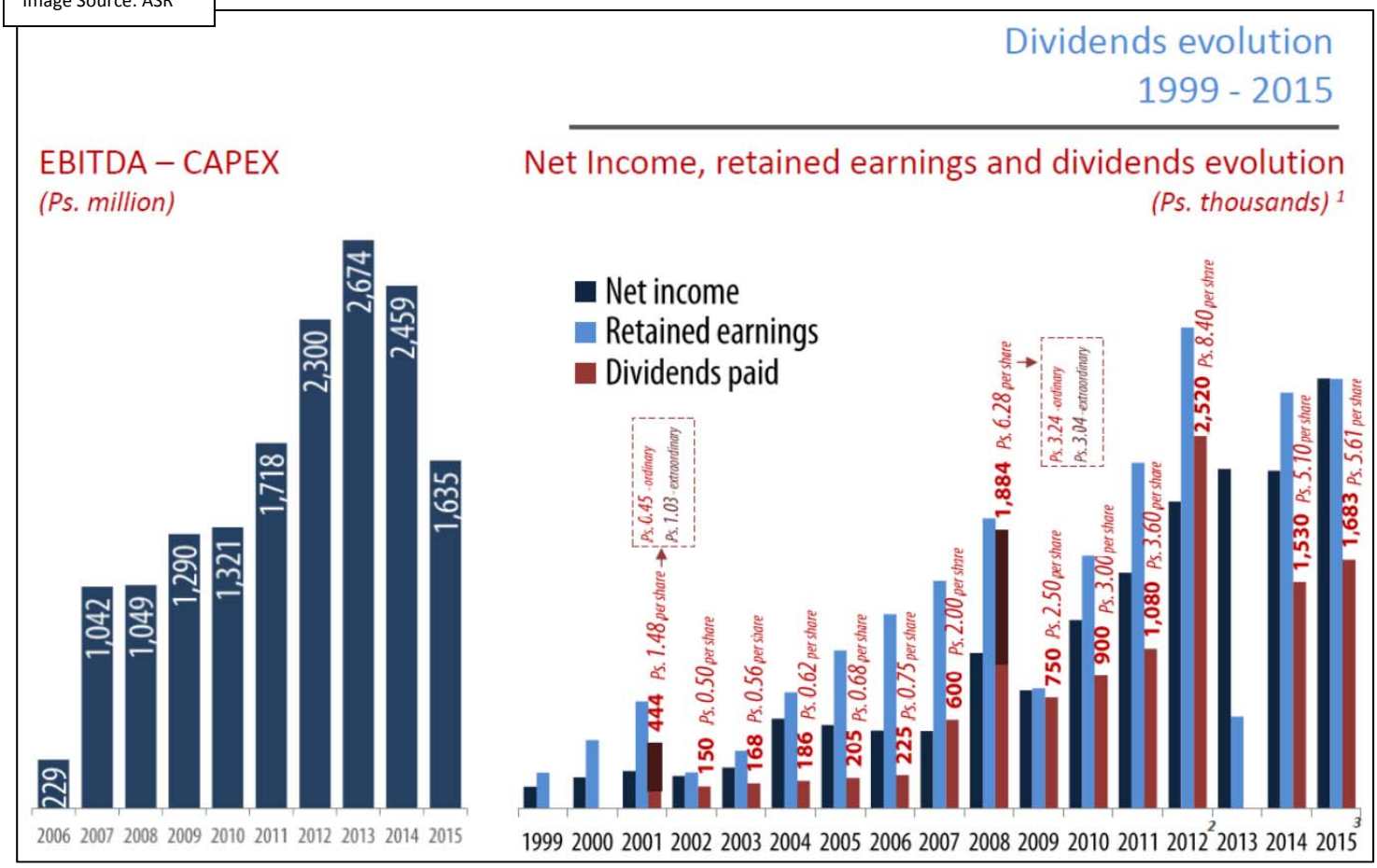

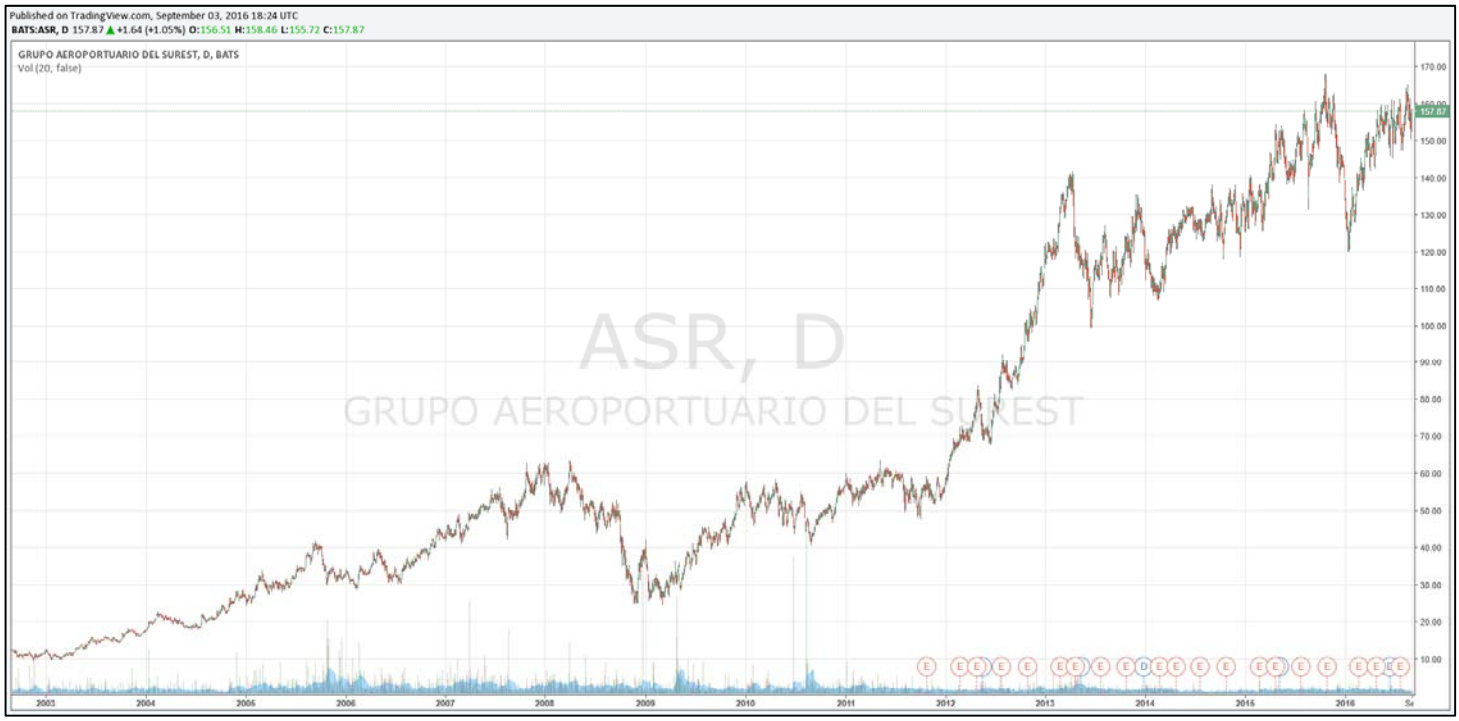
Published on TradingView.com, September 03, 2016 18:24 UTC
BATS:ASR, D 157.87 ▲ +1.64 (+1.05%) O:156.51 H:158.46 L:155.72 C:157.87
GRUPO AEROPORTUARIO DEL SUREST, D, BATS
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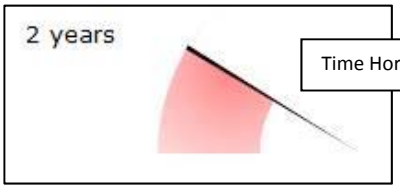
Bonus: Short Consideration



Time Horizon: Near-term

Lloyds Banking Group (LYG)

From the September edition of the Dividend Growth Newsletter

Nelson Not Losing Sight of Still-to-come Implications of Brexit

"It's not over." – Brian Nelson, CFA

If the UK pound hitting 30-year lows wasn't enough to get your attention, the fallout in the hedge fund business as a result of Brexit was material. Bloomberg reported July 5 that "three of the U.K.'s largest real estate funds froze almost 9.1 billion pounds ($12 billion) of assets after…a flurry of redemptions." Three funds—M&G Investments, Aviva Investors and Standard Life Investments—didn't have enough money to repay investors that wanted their money. We believe that we've reached the point where asset sales will be necessary by not only these funds but also others, resulting in what we now anticipate will be accelerated falling asset prices in the UK…eventually ***(perhaps in 6 months time)***.

This is the foundation for the beginning of the cycle downward. Some are even starting to say that "London office-property values may fall by as much as 20 percent within the three years of the country leaving the European Union." Others are saying that "retail property values across the country could fall by 10 percent to 15 percent." Why is this important? Remember George Bailey and the famed Building and Loan. Banks don't keep 100% of deposits, and even conservative banks are sometimes leveraged 5-10 times on an assets-to-equity basis—meaning that a 10%-20% drop in the value of their loan books could obliterate equity holdings, causing forced capital raises and the like.

We've been here before. We've seen this all before during the Financial Crisis. We know what we're looking out for—and widespread redemptions that are causing forced selling are just it. It's still far too early to tell if this will develop into something much larger, but the UK property market is not small potatoes, and the biggest banks in the US are suffering not only from this uncertainty but also a 10-year Treasury yield that has dipped to a record low. You read that correctly -- an all-time record, notching 1.367%, according to the Journal just a few weeks ago. We're not overreacting but our eyes are wide open, and we're looking forward. We don't like what we're seeing, particularly with the US equity markets still near all-time highs.

Stay tuned. Something tells me that this isn't the last we're going to hear about the struggling UK property market, its implications on the UK/European banks, and counterparty risk in America. We hold diversified banking exposure in the Best Ideas Newsletter portfolio (XLF, KBE) in the Best Ideas Newsletter portfolio for reasons just as these. Opportunities for net interest margin expansion at the domestic banks are becoming more and more limited. Banking investors may be in for some surprises in coming months…and not good ones. We don't like bank dividends.

Thesis

…and we like the UK banks even less.

We don't know what the fall out will be in the UK market exactly, but if some estimates prove accurate, a 20% decline in asset prices would put a huge dent in the books of some of the largest banks tied to the UK market -- follow-on implications including damage to the broader economy aside. UK banks that are 10-15 times levered on a total assets to total equity basis may not have adequate capital strength for what might be ahead. Lloyds (LYG) is 17+ times. That's just too high!

Corporate Profile

Lloyds Banking Group handles about one third of all money that flows through the UK economy on any given day. The Group's strategy is to become a low cost, low risk, customer-focused UK retail and commercial bank. It has retail, commercial, insurance and consumer finance operations.

Deceleration in the UK economy anticipated

--- Lloyds

Image Source: Lloyds

Lloyds Banking Group — Annual Report and Accounts 2015

Consolidated balance sheet

at 31 December

	Note	2015 £ million	2014 £ million
Assets			
Cash and balances at central banks		58,417	50,492
Items in the course of collection from banks		697	1,173
Trading and other financial assets at fair value through profit or loss	15	140,536	151,931
Derivative financial instruments	16	29,467	36,128
Loans and receivables:			
Loans and advances to banks	17	25,117	26,155
Loans and advances to customers	18	455,175	482,704
Debt securities		4,191	1,213
		484,483	510,072
Available-for-sale financial assets	22	33,032	56,493
Held-to-maturity investments	23	19,808	–
Goodwill	24	2,016	2,016
Value of in-force business	25	4,596	4,864
Other intangible assets	26	1,838	2,070
Property, plant and equipment	27	12,979	12,544
Current tax recoverable		44	127
Deferred tax assets	38	4,010	4,145
Retirement benefit assets	37	901	1,147
Other assets	28	13,864	21,694
Total assets		806,688	854,896

Lloyds is more than 17 times levered on a total assets to total equity basis…

…on a mark to market basis, it would require unhedged, broad-based asset declines of less than 6% to challenge Lloyds entire equity position.

Image Source: Lloyds

Equity			
Share capital	41	7,146	7,146
Share premium account	42	17,412	17,281
Other reserves	43	12,260	13,216
Retained profits	44	4,416	5,692
Shareholders' equity		41,234	43,335
Other equity instruments	45	5,355	5,355
Total equity excluding non-controlling interests		46,589	48,690
Non-controlling interests		391	1,213
Total equity		46,980	49,903

Image Source: Lloyds

Following the EU referendum the outlook for the UK economy is uncertain

- Deceleration of growth anticipated
- Precise impact depends on a number of factors including political and economic outcomes
- Given sustainable recovery in recent years, the UK enters this period of uncertainty from a position of strength

Data for Citigroup and BofA reflect 2008 numbers.

The risk is there…

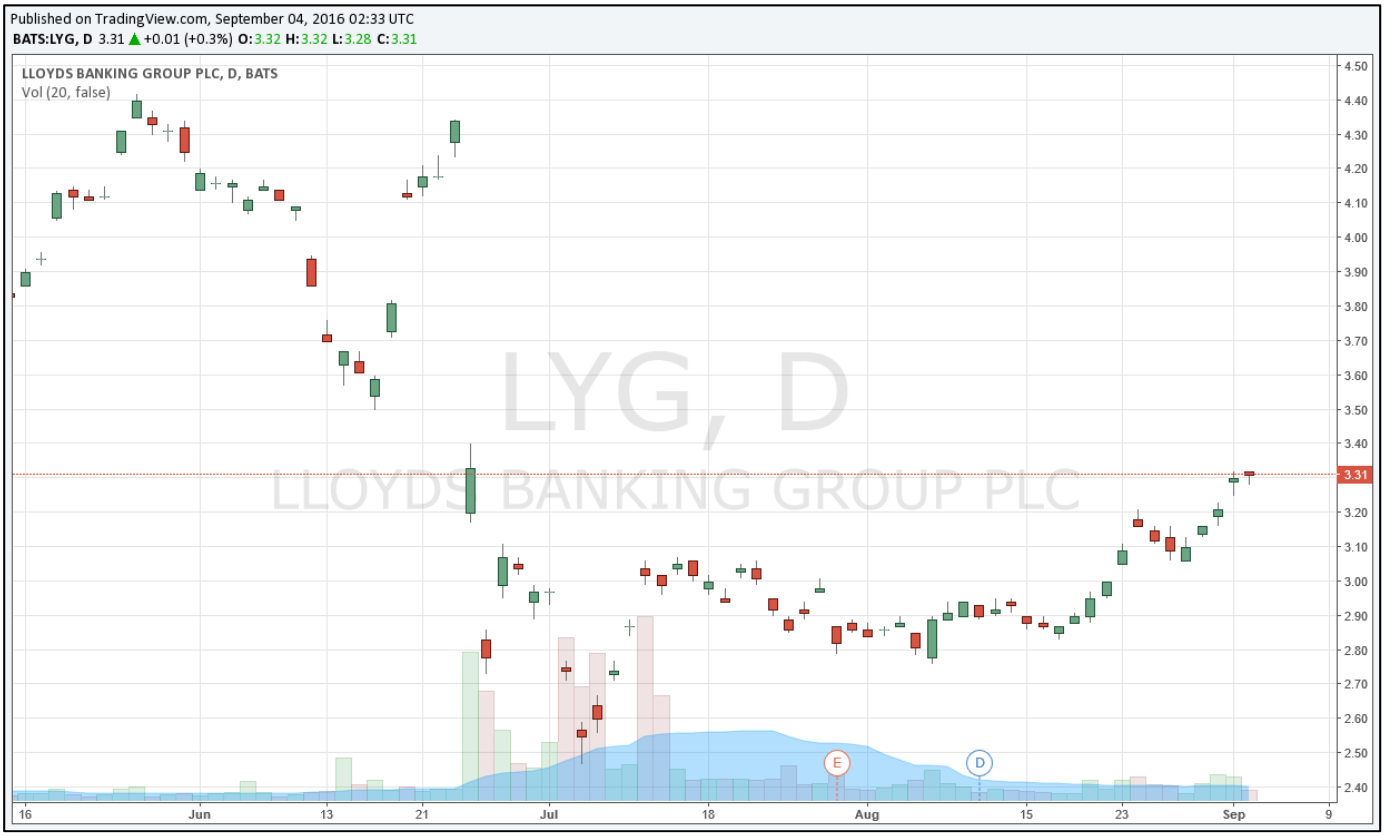
Today, Lloyds, Barclays, and RBS are more levered than Citi and BofA were prior to the Financial Crisis in 2008.

(£ in mil)	Lloyds Banking Group (LYG)	Barclays (BCS)	Royal Bank of Scotland (RBS)	Citigroup (C) [1]	Bank of America (BAC)[1]
Cash, balances at central banks, deposits with banks	58,417	49,711	79,404	192,886	42,427
Federal funds sold & securities borrowed/purchased	-	-	-	222,022	82,478
Items in the course of collection	697	1,011	-	-	-
Trading assets and other financial assets at fair value	140,536	154,178	-	201,460	159,522
Derivatives	29,467	327,709	262,514	58,879	62,252
Loans and receivables	484,483	440,566	364,538	589,105	931,446
Available-for-sale financial assets	33,032	90,267	-	-	31,454
Held-to-maturity financial instruments	19,808	-	-	-	-
Reverse repurchase agreements	-	28,187	-	-	-
Debt securities (aggregated financial instruments)	-	-	82,097	36,213	277,589
Settlement balances	-	-	4,116	-	-
Equity shares (held-for-trading and available-for-sale)	-	-	1,361	46,221	-
Investments (aggregated financial instruments)	-	-	-	306,119	-
Leverage ratio[2]	**17.2**	**17.0**	**15.1**	**12.0**	**10.3**

(1) Data from year ended 12/31/2008, in $ mil
(2) Leverage ratio = assets/equity

So what are we saying? Are we predicting another crisis to happen tomorrow in the UK, in the next few months, or couple years? No. Not exactly.

But we do think there is a strong likelihood that the UK economy is headed south, and frankly, we were downright startled to find that Lloyds holds measures of leverage greater than some of the worst money center banks prior to the Financial Crisis in 2008, namely Citigroup and Bank of America. Lloyds' equity has already reacted aggressively downward following "Brexit," and shares might close the gap upward before the next shoe drops, but in any case, we think the market is severely underestimating its balance sheet risk. How that may impact its equity price in coming periods remains to be seen, but the risk of serious trouble at Lloyds is there…



July 1, 2016

Inaugural Letter to Members

Dear Valued Member,

Welcome! You are one of a very limited number of members that will ever bear witness to the pages that follow.

The launch week of the Nelson Exclusive coincided with news that Britain has voted to leave the European Union. The decision, while sending the European banks tumbling violently, does little to muddy the context setting the background of the inaugural edition of this publication.

Broader stock market valuations are at frothy levels, and interest rates continue to hover near all-time lows. The investment-decision landscape is more complicated today than ever before for all types of investors, from those seeking long-term capital appreciation to those that are targeting certain income goals. Cyclicals today are trading at peak multiples on peak earnings, and even consumer staples equities have reached valuation levels that may be more appropriate for aggressive growth equities, not mature operators. *Said differently, the market has laid down the gauntlet.*

The next few years in the markets may be among the most difficult witnessed since the Great Recession. Even a broader market pullback 20% from current all-time highs wouldn't be abnormal given that the collective market valuation of S&P 500 companies has effectively tripled from the March 2009 panic bottom. The launch of the Nelson Exclusive in such conditions can be considered perilous as broader market performance inevitably will act as ballast to the returns of ideas surfaced. In this spirit, I want to remind you that not all ideas in this publication will be successful, and some that are eventually may encounter tough sledding over extended periods of time. As a swimmer cannot achieve his best time swimming against the current, a stock selector cannot achieve his best performance in a down market. Regardless, the value placed on a steady hand during challenging times is priceless.

Let's first cover what the Exclusive is and then we'll talk about what it is not. As you know, the Valuentum investment coverage universe is vast, and what we're seeking to deliver in this publication is ideas that fall outside its reach. We're breaking down the traditional barriers of equity coverage to identify underfollowed gems across the investing spectrum, delivering in each monthly edition one idea for income investors, one idea for readers seeking long-term capital appreciation, and a bonus idea for those looking for a "short" consideration (1). Underfollowed doesn't mean obscure, however, and the ideas that we're targeting will be investable ones, avoiding thinly-traded instruments and penny stock "traps." We'll clearly define our expected time horizon for each consideration, and where applicable, we'll update our theses in subsequent editions. We'll keep score, tracking performance over time.

Let's talk about what the Exclusive isn't. The Exclusive does not constitute individual investment advice, and the ideas within it are not personal recommendations. Each of you reading should always work with your personal financial advisor who knows your individual goals and risk tolerances. I do not. Only you and your

personal financial advisor know what's best for your life circumstances. The personal financial advising markets and what we do at Valuentum via financial publishing are two different verticals in the same industry, but they are different nonetheless. I just want to be very clear about this because I can never tell you to buy or sell anything at any time, even if this may be what you want. It's not that I don't have conviction in my work – it's the rules of the business.

Within the twelve editions of the Nelson Exclusive each year, we'll be highlighting in total 36 ideas for consideration with varying investment parameters. That's a lot. Depending on the time horizon set forth with each idea, fantastic performance might mean a success rate of 60%, great performance might be 55%, average performance might be 50%, while anything below that mark may constituent a poor showing. Obviously, I'm aiming for a 100% success rate, but I also have to be realistic. The great Joe DiMaggio may have hit safely for 56 consecutive games in the last baseball season before the United States was thrust into World War II, but he "only" hit .357 that year. That season of '41, the great Ted Williams would be the last player to hit .400, meaning that one of the best hitters in baseball…ever…was still called out ~60% of the time.

The greatest investors face a similar paradigm. Stock selection is a process where there will be homeruns and strikeouts. You know me. The Exclusive is not a "get-rich-quick" product, and you should keep a close eye on your wallet if you encounter anyone promising anything of the sort. In the inaugural edition of the Nelson Exclusive, I'm going to take 36 swings – they are going to be hard and through the zone, and I'm not going to pull my shoulder out or take my eye off the ball. Market conditions are expected to be stormy in coming years as "reversion-to-the-mean" dynamics rain down, and a crafty lefthander with great "stuff" may be on the mound, but we're stepping up to the plate and digging in.

Batter up!

Sincerely,

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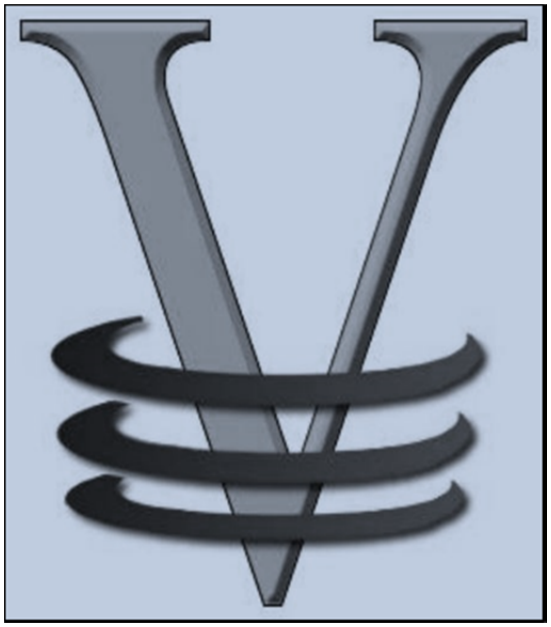

P.S. On a very personal note, I wanted to thank you for your continued support. Without you, neither the Nelson Exclusive publication nor Valuentum would exist. This fact is not lost on me. I thank you deeply.

August 1, 2016

August 2016

Dear Valued Member,

It's a heat wave. I'm not talking about heat advisories issued across most of the United States these past few weeks, but I'm talking about the sizzling stock market and the hot air that continues to inflate its bubbly mass. Times are tough, and investors face challenges like never before. More than half the world is navigating through a negative interest rate environment, and stock market valuations are at nosebleed levels. The least-risky business models in the form of tried-and-true consumer staples entities have become some of the most risky stocks, as valuations stretch, stretch, and stretch some more. Nobody knows for certain what the next few years hold for the stock market, but if a reversion to the mean is in the cards, many are sure to be disappointed.

Launched in this midst of this market "chaos," the Nelson Exclusive seeks to deliver three ideas each month to meet the needs of the discerning investor seeking income generation, capital appreciation, and "short" considerations. Last month, the rubber hit the road with the launch of the first edition – and boy did it not disappoint. The inaugural short idea Lands' End (LE) has fallen 15% in just the past month alone. Big deal – you may say, but this poor performance occurred in an appreciating and bubbly broader equity market. Not only was this short idea swimming against the current, but it reacted directionally right out of the gates. We'll keep monitoring shares, but those that took a liking to the idea are doing pretty good already. Eddie Lampert's pocketbook may be the only thing that could save longs in Lands' End.

Last month's income idea Universal Corp (UVV) has appreciated roughly 5% while going ex-dividend since it was profiled in the July edition of the Exclusive, and we're anxiously awaiting the company's release of first-quarter fiscal 2017 results on August 4. The corporate yields ~3.6%, well above the paltry payout of the average S&P 500 company, or ~2%. I like Universal a lot because it's tied to the tobacco end market, which tends to be more stable than most, and we doubt the firm will put its lengthy dividend growth track record at risk for anything. Universal's net leverage continues to fall, and its free cash flow generation comfortably covers cash dividend obligations. Currency impacts from Brexit and falling unit cigarette consumption are two risks worth watching closely, however.

We're taking the long road with Bloomin' Brands (BLMN). I continue to be impressed with its portfolio of restaurants that include Outback Steakhouse, Carrabba's, Bonefish Grill, and Fleming's. The stock is trading at a very attractive relative multiple, and precedent transactions imply a fair market value from a suitor or private equity at a price at least 50% higher than today's levels. Targeted adjusted diluted earnings per share of ~$1.35 in fiscal 2016 means the company is trading at a mere ~13 times. Bloomin' announced that it will expand more aggressively in the Middle East July 5, reported that it has franchised its South Korean business July 12, and while its fiscal second-quarter numbers, released July 29, came in a little light, we're expecting big things from its Dine Rewards loyalty program and ongoing improvements across its restaurant portfolio.

Traffic across the restaurant industry has hit a snag as of late, but we expect the trend to be short-lived. People love to eat out. Bloomin' looks to be a long-term winner, *once* comp trends turn for the better.

As the months pass and the seasons change as they always do, I'll be updating our thoughts on previously highlighted ideas much like I've done in this August 2016 note. I won't be holding anything back – if things are going the way we intended them as in the case of Lands' End, I'll say it. If we're taking the long road and not paying too much attention to near-term quarterly results as in the case of Bloomin', I'll make sure to emphasize that, too. I like what we've done with the Nelson Exclusive in setting the bar as high as it gets. I hope you enjoy the August edition that follows.

Sincerely,

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The Nelson Exclusive: Volume 1, Issue 3

The Nelson Exclusive is published monthly. Contact us at info@valuentum.com for more information.

(1) A short sale is the sale of a stock that an investor does not own or a sale which is consummated by the delivery of a stock borrowed by, or for the account of, the investor. Short sales are normally settled by the delivery of a security borrowed by or on behalf of the investor. The investor later closes out the position by returning the borrowed security to the stock lender, typically by purchasing securities on the open market.

Investors who sell stock short typically believe the price of the stock will fall and hope to buy the stock at the lower price and make a profit. Short selling is also used by market makers and others to provide liquidity in response to unanticipated demand, or to hedge the risk of an economic long position in the same security or in a related security. If the price of the stock rises, short sellers who buy it at the higher price will incur a loss.

Brokerage firms typically lend stock to customers who engage in short sales, using the firm's own inventory, the margin account of another of the firm's customers, or another lender. As with buying stock on margin, short sellers are subject to the margin rules and other fees and charges may apply (including interest on the stock loan). If the borrowed stock pays a dividend, the short seller is responsible for paying the dividend to the person or firm making the loan (Source: SEC https://www.sec.gov/answers/shortsale.htm)

Short selling is not for all types of investors, and readers should consult their personal financial advisor that understands their individual goals and risk tolerances before considering any investment or any strategy. Potential losses for an investor engaging in a short selling strategy are theoretically infinite.

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